

English Translation of Original Japanese

This is a translation of the original notice in Japanese. In the event of any discrepancy, the original notice in Japanese shall prevail.

Although the consolidated and non-consolidated financial statements in Japanese were audited, their English translation was not audited.

Securities Code No. 8848

June 30, 2020

To Our Shareholders

Bunya Miyao
President and CEO
Leopalace21 Corporation
2-54-11 Honcho, Nakano-ku, Tokyo

Notice of the 47th Ordinary General Shareholders' Meeting

We are pleased to announce that the 47th Ordinary General Shareholders' Meeting of Leopalace21 Corporation ("the Company") will be held as described below.

If you will not be attending the meeting in person you can still exercise your voting rights by either of the following methods. Please exercise your voting rights beforehand by either of the following methods no later than 6:00 p.m. on Tuesday, July 21, 2020.

[Exercising your voting rights by proxy]

The Company's preference is for you to exercise your voting rights by proxy. Please refer to pages 3 to 12 of the Reference Materials for the General Shareholders' Meeting and Reference Materials for the Solicitation of Proxy Voting, indicate "for" or "against" for each proposal shown on the enclosed Proxy Voting Form and return it in time for delivery by the deadline mentioned above.

In addition, if you exercise your voting rights by proxy and also by the Voting Rights Exercise Form or via the Internet, etc., the voting by proxy shall prevail.

In the event that no indication of "for" or "against" has been made, this shall be treated as the intent of approval.

[Exercising your voting rights by the Voting Rights Exercise Form]

Please refer to pages 3 to 12 of the Reference Materials for the General Shareholders' Meeting and Reference Materials for the Solicitation of Proxy Voting, indicate "for" or "against" for each proposal shown on the enclosed Voting Rights Exercise Form and return it in time for delivery by the deadline mentioned above.

In the event that no indication of "for" or "against" has been made, this shall be treated as the intent of approval.

[Exercising your voting rights via the Internet, etc.]

Please access the Voting Rights Exercise Site (<https://www.web54.net>), which is designated by the Company. Enter the "Voting Rights Exercise Code" and "Password" noted on the enclosed Voting Rights Exercise Form, examine the Reference Materials for the General Shareholders' Meeting and Reference Materials for the Solicitation of Proxy Voting on pages 3 to 12 of this document or the reference materials posted on the Company website, which will be accessible via the Voting Rights Exercise Site, follow the

instructions on the screen, and indicate “for” or “against” for each proposal.

In addition, if you exercise your voting rights both by the Voting Rights Exercise Form and via the Internet, etc., the voting via the Internet, etc. shall prevail.

If you exercise your voting rights multiple times via the Internet, etc., the voting exercised last shall prevail.

Details

1. Date and Time: July 22, 2020 (Wednesday), 10:00 a.m. (Reception will open at 9:00 a.m.)
(The Ordinary General Shareholders’ Meeting for this fiscal year was originally scheduled to be held at the end of June. However, due to the delay in the closing of accounts caused by the effects of the novel coronavirus disease (COVID-19), it has been rescheduled to this date.)

2. Place: Conference room, Head Office, Leoplace21 Corporation
2-54-11 Honcho, Nakano-ku, Tokyo
Please note that the venue has changed from last time, so be sure to use the correct address.

3. Agenda for the Meeting

Matters to be reported:

1. Report on the Business Report, Consolidated Financial Statements, and Results of Audit of the Consolidated Financial Statements by the Accounting Auditor and the Audit & Supervisory Board for the 47th Fiscal Term (from April 1, 2019 to March 31, 2020)
2. Report on Non-consolidated Financial Statements for the 47th Fiscal Term (from April 1, 2019 to March 31, 2020)

Matters to be resolved:

- Proposal No. 1:** Election of Nine (9) Directors
Proposal No. 2: Election of Two (2) Audit & Supervisory Board Members
Proposal No. 3: Election of a Substitute Audit & Supervisory Board Member

Note: For those attending the meeting in person, please present the enclosed Voting Rights Exercise Form at the reception desk.

Should any amendments be made to the Reference Materials for the General Shareholders’ Meeting and Reference Materials for the Solicitation of Proxy Voting, the Business Report, Non-consolidated Financial Statements or Consolidated Financial Statements, such amendments will be posted on the Company website (please refer to the URL below).

If you wish your proxy to attend the meeting, the proxy shall be limited to one other shareholder who has the voting right of the Company. In this case, you should submit the letter of attorney and your own Voting Rights Exercise Form evidencing the proxy’s authority to represent. Please note that anyone other than a shareholder (e.g., non-shareholding proxy, person accompanying the shareholder) will not be allowed to attend the meeting.

Trust banks and other nominee shareholders (including standing proxies) who have applied in advance to use the electronic voting platform operated by ICJ, Inc. (a joint-venture company established by Tokyo Stock Exchange, Inc. and others) may use this platform other than voting via the Internet to electronically exercise voting rights for the Company’s General Shareholders’ Meeting.

<https://www.leopalace21.co.jp/ir/stocks/meeting.html>

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| <p>On the day of the General Shareholders’ Meeting, we invite all shareholders to dress casually. Please be advised in advance that no gifts will be distributed to attending shareholders, and no social function will be held after the conclusion of the General Shareholders’ Meeting.</p> |
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Reference Materials for the General Shareholders' Meeting and Reference Materials for the Solicitation of Proxy Voting

1. Solicitor for Proxy Voting

Bunya Miyao
President and CEO
Leopalace21 Corporation

2. Proposals and Matters for Reference

Proposal No. 1: Election of Nine (9) Directors

The term of office of all twelve (12) Directors will expire at the conclusion of this Ordinary General Shareholders' Meeting. In that regard, it is proposed that nine (9) Directors (of which six (6) will be Outside Directors) be elected.

The candidates for Director are as follows:

[Reference] Structure of the Board of Directors after the General Shareholders' Meeting

If all candidates are elected as Directors, the Board of Directors will consist of nine (9) Directors: three (3) Executive Directors and six (6) Outside Directors with the latter being the majority.

Skillset Matrix of the Board of Directors

| | Attribute | | | | | | Expertise, Experience, and Knowledge | | | | | | | | | |
|---|------------------|---|--------------------------|---|-----|--------|--------------------------------------|---|----------------------|---------------------|-------|-----------------------------|---------|----|--------|-------|
| | Name | Executive position | Independency | Nomina-tion and Compensa-tion Committee | Age | Gender | Corporate management | Corporate rehabilitation and business restructuring | Sales and market-ing | Quality manage-ment | Legal | Account-ing and tax affairs | Finance | IR | Global | Audit |
| 1 | Bunya Miyao | President and CEO Chairman of the Board of Directors | | Member | 60 | Male | ○ | | | | | | | ○ | ○ | |
| 2 | Shigeru Ashida | Director and Managing Executive Officer | | | 56 | Male | ○ | | ○ | | | ○ | | | | |
| 3 | Mayumi Hayashima | Director and Executive Officer | | | 47 | Female | ○ | | ○ | | ○ | | | | | |
| 4 | Tadashi Kodama | Director | Lead Independent Outside | Chairman | 72 | Male | ○ | | ○ | | | | | ○ | | |
| 5 | Tetsuji Taya | Director | Independent Outside | Member | 56 | Male | ○ | ○ | | | ○ | ○ | ○ | | ○ | |
| 6 | Hisafumi Koga | Director | Outside | Member | 72 | Male | ○ | | | | | | | ○ | | |
| 7 | Kazuyasu Fujita | Director | Independent Outside | Member | 74 | Male | ○ | ○ | ○ | ○ | | | | ○ | | |
| 8 | Yutaka Nakamura | Director | Independent Outside | Member | 61 | Male | | | | ○ | | | | | | |
| 9 | Akira Watanabe | Director | Independent Outside | Member | 73 | Male | ○ | ○ | | | ○ | | | | | ○ |

| Candidate number | Name (Date of birth) | Career summary, and positions and duties in the Company (Significant concurrent positions) | | Number of the Company's shares held |
|---|---|--|---|-------------------------------------|
| 1 | To be re-elected Bunya Miyao (April 14, 1960) Attendance at the Board of Directors meetings: 33/33 Term of office: 4 years | April 1983 June 1990 September 2000 July 2008 July 2010 July 2012 April 2013 June 2016 May 2017 April 2018 May 2019 June 2019 Significant concurrent positions Director, Leopalace Guam Corporation | Joined Nakamichi Leasing Co., Ltd. Joined Leopalace21 Corporation Deputy Manager of the Financial Department, Leopalace21 Corporation General Manager of the Resort Business Headquarters, Leopalace21 Corporation General Manager of the Management Planning Department, Leopalace21 Corporation Administrative Officer, Leopalace21 Corporation Executive Officer, Leopalace21 Corporation Director and Executive Officer, Leopalace21 Corporation Representative in charge of the Management Planning Department, the Public Relations Department, Leopalace21 Corporation Director and Managing Executive Officer, Leopalace21 Corporation Representative in charge of Management Planning and Investor Relations, Leopalace21 Corporation President and CEO, Leopalace21 Corporation (incumbent) Chief of the Business Operation Headquarters, Leopalace21 Corporation (incumbent) | 7,000 shares |
| <p>Reason for nomination as a candidate for Director</p> <p>Mr. Bunya Miyao is fulfilling an appropriate role as Representative Director by taking important management decisions and supervising business execution, etc. Moreover, he possesses knowledge about the Company's growth strategy and business promotion gained through his experience overseeing the overall business of the Group as President and CEO, and he has strong leadership and decisiveness. It is judged that he can apply these to push through fundamental structural reforms and guide the execution of the Company's business to realize early recovery of its social trust and business performance which were undermined by the problem concerning construction defects. Therefore, the Company has nominated him once more as a candidate for Director.</p> | | | | |
| 2 | To be re-elected Shigeru Ashida (June 16, 1964) Attendance at the Board of Directors meetings: 26/26 Term of office: 1 year | April 1988 November 2003 April 2010 May 2012 April 2013 April 2014 June 2019 Significant concurrent positions President and CEO, Leopalace Power Corporation | Joined Leopalace21 Corporation Deputy Manager of the Financial Department, Leopalace21 Corporation General Manager of the Management Planning Department, Leopalace21 Corporation General Manager of the Business Planning Department, Leopalace21 Corporation Administrative Officer, Leopalace21 Corporation Executive Officer, Leopalace21 Corporation Director and Managing Executive Officer, Leopalace21 Corporation (incumbent) Chief of the Emergency Headquarters for Construction Defects, Leopalace21 Corporation (incumbent) | 13,100 shares |
| <p>Reason for nomination as a candidate for Director</p> <p>Mr. Shigeru Ashida is fulfilling an appropriate role as Director by taking important management decisions and supervising business execution, etc. Moreover, he possesses knowledge about the Company's growth strategy and business promotion and decisiveness, gained through his experience such as overseeing the new business development department and, as Managing Executive Officer, handling the problem concerning construction defects. It is judged that he can apply these to push through fundamental structural reforms and guide the execution of the Company's business to realize early recovery of its social trust and business performance which were undermined by the problem concerning construction defects. Therefore, the Company has nominated him once more as a candidate for Director.</p> | | | | |

| Candidate number | Name (Date of birth) | Career summary, and positions and duties in the Company (Significant concurrent positions) | | Number of the Company's shares held |
|---|---|---|--|-------------------------------------|
| 3 | To be re-elected Mayumi Hayashima (April 26, 1973) Attendance at the Board of Directors meetings: 25/26 Term of office: 1 year | April 1996 | Joined Leopalace21 Corporation | 5,500 shares |
| | April 2009 | Deputy General Manager of the Eastern Japan Corporate Sales Department, Leasing Sales Section 3, Leasing Business Division, Leopalace21 Corporation | | |
| | | July 2010 | General Manager of the Corporate Sales Department, Eastern Japan Section 2, Leasing Business Division, Leopalace21 Corporation | |
| | | April 2014 | General Manager of the Corporate Business Promotion Department, Leopalace21 Corporation | |
| | | April 2015 | Administrative Officer, Leopalace21 Corporation | |
| | | April 2018 | Executive Officer, Leopalace21 Corporation | |
| | | June 2019 | Director and Executive Officer, Leopalace21 Corporation (incumbent) Chief of the Compliance Management Headquarters, Chief Legal Officer (CLO), Leopalace21 Corporation | |
| | | June 2020 | Chief of the Compliance Promotion Headquarters, Chief Legal Officer (CLO), Leopalace21 Corporation (incumbent) | |
| <p>Reason for nomination as a candidate for Director</p> <p>Ms. Mayumi Hayashima is fulfilling an appropriate role as Director by taking important management decisions and supervising business execution, etc. Moreover, she possesses knowledge about the Company's growth strategy, business promotion and compliance gained through her experience conducting cross-sectional measures, overseeing sales departments and, as Executive Officer, overseeing legal compliance department. It is judged that she can apply these to push through fundamental structural reforms and guide the execution of the Company's business to realize early recovery of its social trust and business performance which were undermined by the problem concerning construction defects. Therefore, the Company has nominated her once more as a candidate for Director.</p> | | | | |
| 4 | To be re-elected Outside Director Independent Officer Tadashi Kodama (November 11, 1947) Attendance at the Board of Directors meetings: 30/33 Term of office: 4 years | April 1970 | Joined The Dai-Tokyo Fire & Marine Insurance Co., Ltd. (now Aioi Nissay Dowa Insurance Co., Ltd.) | 10,400 shares |
| | June 2001 | Director, Aioi Insurance Co., Ltd. (now Aioi Nissay Dowa Insurance Co., Ltd.) | | |
| | | April 2002 | Managing Director, Aioi Insurance Co., Ltd. | |
| | | April 2003 | Senior Managing Director, Aioi Insurance Co., Ltd. | |
| | | April 2004 | Representative Director, President, Aioi Insurance Co., Ltd. | |
| | | April 2010 | Representative Director, Vice Chairman of the Board of Directors, Aioi Insurance Co., Ltd. | |
| | | April 2010 | Representative Director, Executive Officer, MS&AD Insurance Group Holdings, Inc. | |
| | | October 2010 | Representative Director, Vice Chairman of the Board of Directors, Aioi Nissay Dowa Insurance Co., Ltd. | |
| | | June 2011 | Director, Vice Chairman of the Board of Directors, Aioi Nissay Dowa Insurance Co., Ltd. | |
| | | June 2012 | Senior Advisor, Aioi Nissay Dowa Insurance Co., Ltd. | |
| | | June 2015 | Retired from Aioi Nissay Dowa Insurance Co., Ltd. | |
| | | June 2016 | Outside Director, Leopalace21 Corporation (incumbent) | |
| <p>Reason for nomination as a candidate for Outside Director</p> <p>Mr. Tadashi Kodama fulfills an appropriate role as Outside Director in supervising the business execution of the Company by actively providing advice from an independent and fair perspective during the Board of Directors meetings and other meetings. He also serves as chairman of the Nomination and Compensation Committee, thereby increasing the transparency and objectivity of officer election and remuneration decision procedures. Moreover, he has served in important positions at a large non-life insurance company, and he possesses keen insight accumulated through his career as a senior manager of a listed company and deep knowledge and experience in corporate management. For this reason, it is judged that he can make a contribution based on his experience and knowledge regarding growth strategy and business promotion in pushing through fundamental structural reforms and in efforts to realize early recovery of the Company's social trust and business performance which were undermined by the problem concerning construction defects, and he can play a role in supervising business execution in the Board of Directors from an independent and fair perspective. Therefore, the Company has nominated him once more as a candidate for Outside Director.</p> | | | | |

| Candidate number | Name (Date of birth) | Career summary, and positions and duties in the Company (Significant concurrent positions) | Number of the Company's shares held |
|---|---|---|-------------------------------------|
| 5 | To be re-elected Outside Director Independent Officer Tetsuji Taya (December 14, 1963) Attendance at the Board of Directors meetings: 30/33 Term of office: 10 years | April 1987 Joined The Fuji Bank, Limited (now Mizuho Bank, Ltd.) June 1998 Joined Merrill Lynch Securities Co., Ltd. April 2003 Managing Director, Industrial Revitalization Corporation of Japan April 2007 Board Member & Managing Director, Industrial Growth Platform, Inc. September 2009 Representative Director, Acting CEO, Industrial Growth Platform, Inc. June 2010 Outside Director, Leopalace21 Corporation (incumbent) March 2011 Board Member & Managing Director, Industrial Growth Platform, Inc. December 2019 Board Member & Managing Director, CFO, Industrial Growth Platform, Inc. (incumbent) Significant concurrent positions Board Member & Managing Director, CFO, Industrial Growth Platform, Inc. | 5,000 shares |
| <p>Reason for nomination as a candidate for Outside Director</p> <p>Mr. Tetsuji Taya fulfills an appropriate role as Outside Director in supervising the business execution of the Company by actively providing advice from an independent and fair perspective during the Board of Directors meetings and other meetings. He also serves as a member of the Nomination and Compensation Committee, thereby increasing the transparency and objectivity of officer election and remuneration decision procedures. Moreover, he has served in important positions, including the Industrial Revitalization Corporation of Japan and the Industrial Growth Platform, Inc., and he possesses keen insight accumulated through his career as senior manager of the said entities and deep knowledge and experience in corporate management. For this reason, it is judged that he can make a contribution based on his experience and knowledge regarding business revitalization, growth strategy, business promotion and finance in pushing through fundamental structural reforms and in efforts to realize early recovery of the Company's social trust and business performance which were undermined by the problem concerning construction defects, and he can play a role in supervising business execution in the Board of Directors from an independent and fair perspective. Therefore, the Company has nominated him once more as a candidate for Outside Director.</p> | | | |
| 6 | To be re-elected Outside Director Hisafumi Koga (October 4, 1947) Attendance at the Board of Directors meetings: 21/26 Term of office: 1 year | April 1971 Joined Kyodo News June 2007 Managing Director, General Manager of Corporate Planning Division and President's Office, Kyodo News June 2010 Senior Managing Director, Kyodo News KK June 2011 President and Representative Director, Kyodo News KK June 2014 Advisor (full-time), Kyodo News KK March 2016 Chairman, Kyodo Public Relations Co., Ltd. (incumbent) June 2019 Outside Director, Leopalace21 Corporation (incumbent) Significant concurrent positions Chairman, Kyodo Public Relations Co., Ltd. | 0 shares |
| <p>Reason for nomination as a candidate for Outside Director</p> <p>Mr. Hisafumi Koga fulfills an appropriate role as Outside Director in supervising the business execution of the Company by actively providing advice from an independent and fair perspective during the Board of Directors meetings and other meetings. He also serves as a member of the Nomination and Compensation Committee, thereby increasing the transparency and objectivity of officer election and remuneration decision procedures. Moreover, he has served in important positions at Kyodo News KK, etc. and he possesses keen insight accumulated through his career as a senior manager of a listed company and deep knowledge and experience in corporate management. For this reason, it is judged that he can make a contribution based on his experience and knowledge regarding reputation risk management, growth strategy and business promotion in pushing through fundamental structural reforms and in efforts to realize early recovery of the Company's social trust and business performance which were undermined by the problem concerning construction defects, and he can play a role in supervising business execution in the Board of Directors from an independent and fair perspective. Therefore, the Company has nominated him once more as a candidate for Outside Director.</p> | | | |

| Candidate number | Name (Date of birth) | Career summary, and positions and duties in the Company (Significant concurrent positions) | | Number of the Company's shares held |
|---|---|--|--|-------------------------------------|
| 7 | To be re-elected Outside Director Independent Officer Kazuyasu Fujita (June 24, 1946) Attendance at the Board of Directors meetings: 3/3 Term of office: 4 months | April 1965 November 1970 October 1999 June 2000 June 2002 April 2006 June 2010 June 2011 September 2011 February 2020 | Joined the Osaka Prefectural Government Joined Toyo Shutter Co., Ltd. Business Administration Manager, Toyo Shutter Co., Ltd. Director of Business Promotion Department and Purchasing Manager, Toyo Shutter Co., Ltd. President and Representative Director, Toyo Shutter Co., Ltd. President and Representative Director and Executive Officer for General Supervision, Toyo Shutter Co., Ltd. Special Adviser, Toyo Shutter Co., Ltd. Resigned from Toyo Shutter Co., Ltd. Established Management Consulting Partners Inc., President and Representative Director, Management Consulting Partner, Inc. (incumbent) Outside Director, Leopalace21 Corporation (incumbent) Significant concurrent positions President and Representative Director, Management Consulting Partner, Inc. | 0 shares |
| <p>Reason for nomination as a candidate for Outside Director</p> <p>Mr. Kazuyasu Fujita fulfills an appropriate role as Outside Director in supervising the business execution of the Company by actively providing advice from an independent and fair perspective during the Board of Directors meetings and other meetings. He also serves as a member of the Nomination and Compensation Committee, thereby increasing the transparency and objectivity of officer election and remuneration decision procedures. Moreover, he possesses keen insight accumulated through his career as a senior manager and deep knowledge and experience in corporate management, most notably of which has been his active involvement in the planning of proposals for rehabilitation plans in accordance with the Private Rehabilitation Guidelines at Toyo Shutter Co., Ltd. along with his implementation of a seven-year reconstruction plan as President and Representative Director of said company where he completed reconstruction in a three-year shorter period. For this reason, it is judged that he can make a contribution based on his experience and knowledge regarding business revitalization and construction and technology in pushing through fundamental structural reforms and in efforts to realize early recovery of the Company's social trust and business performance which were undermined by the problem concerning construction defects, and he can play a role in supervising business execution in the Board of Directors from an independent and fair perspective. Therefore, the Company has nominated him once more as a candidate for Outside Director.</p> | | | | |
| 8 | To be re-elected Outside Director Independent Officer Yutaka Nakamura (September 28, 1958) Attendance at the Board of Directors meetings: 3/3 Term of office: 4 months | April 1981 October 2002 October 2006 April 2011 April 2012 April 2018 March 2019 February 2020 | Joined National Housing Materials Co., Ltd. (now Panasonic Homes Co., Ltd.) Manager of Quality & Environmental Promotion Department, Panasonic Homes Co., Ltd. Manager of Quality, Environment & IT Department, Panasonic Homes Co., Ltd. Councilor and Manager of Corporate Quality & Environmental Division, Panasonic Homes Co., Ltd. Senior Councilor and Manager of Corporate Quality & Environmental Division, Panasonic Homes Co., Ltd. Senior Principal for Quality & Customer Satisfaction, Panasonic Homes Co., Ltd. Resigned from Panasonic Homes Co., Ltd. Outside Director, Leopalace21 Corporation (incumbent) | 0 shares |
| <p>Reason for nomination as a candidate for Outside Director</p> <p>Mr. Yutaka Nakamura fulfills an appropriate role as Outside Director in supervising the business execution of the Company by actively providing advice from an independent and fair perspective during the Board of Directors meetings and other meetings. He also serves as a member of the Nomination and Compensation Committee, thereby increasing the transparency and objectivity of officer election and remuneration decision procedures. After joining Panasonic Homes Co., Ltd, he consistently was involved in quality and environmental management, achieving strong results in lifting that company's quality and environmental management to the top level in the industry. Moreover, he has experience in serving in important positions at multiple organizations in the housing industry. Although he has never participated in the management of a company in the past other than as an Outside Director or Outside Audit & Supervisory Board Member, he possesses keen insight accumulated through the aforementioned careers and deep knowledge and experience in the fields of quality control and environmental management. For this reason, it is judged that he can make a contribution based on his experience and knowledge regarding construction and technology in pushing through fundamental structural reforms and in efforts to realize early recovery of the Company's social trust and business performance which were undermined by the problem concerning construction defects, and he can play a role in supervising business execution in the Board of Directors from an independent and fair perspective. Therefore, the Company has nominated him once more as a candidate for Outside Director.</p> | | | | |

| Candidate number | Name (Date of birth) | Career summary, and positions and duties in the Company (Significant concurrent positions) | Number of the Company's shares held |
|---|---|--|-------------------------------------|
| 9 | To be newly elected Outside Director Independent Officer Akira Watanabe (February 16, 1947) Attendance at the Board of Directors meetings: -/- Term of office: - | <p>April 1973 Registered as an attorney at law</p> <p>November 2006 External Statutory Auditor, FAST RETAILING CO., LTD.</p> <p>June 2007 Outside Director, MAEDA CORPORATION</p> <p>June 2007 Outside Audit & Supervisory Board Member, KADOKAWA GROUP HOLDINGS, INC. (now KADOKAWA CORPORATION) (incumbent)</p> <p>April 2010 Outside Director, MS&AD Insurance Group Holdings, Inc.</p> <p>March 2013 Outside Director, DUNLOP SPORTS CO., LTD.</p> <p>October 2015 Director, ASIA PILE HOLDINGS CORPORATION (incumbent)</p> <p>September 2018 Partner, Comm & Path Law Office (incumbent)</p> <p>June 2019 Outside Director, Maeda Road Construction Co., Ltd. (incumbent)</p> <p>Significant concurrent positions Outside Audit & Supervisory Board Member, KADOKAWA CORPORATION Director, ASIA PILE HOLDINGS CORPORATION Outside Director, Maeda Road Construction Co., Ltd.</p> | 0 shares |
| <p>Reason for nomination as a candidate for Outside Director</p> <p>Mr. Akira Watanabe possesses specialized knowledge as an attorney at law and keen insight accumulated through his career as an outside director of other companies as well as deep knowledge and experience in corporate management. For this reason, it is judged that he can make a contribution based on his experience and knowledge regarding legal compliance in pushing through fundamental structural reforms and in efforts to realize early recovery of the Company's social trust and business performance which were undermined by the problem concerning construction defects, and he can play a role in supervising business execution in the Board of Directors from an independent and fair perspective. Therefore, the Company has nominated him as a candidate for Outside Director.</p> | | | |

- Notes: 1. There is no particular interest between any of the candidates and the Company.
2. Mr. Tadashi Kodama, Mr. Tetsuji Taya, Mr. Hisafumi Koga, Mr. Kazuyasu Fujita, Mr. Yutaka Nakamura and Mr. Akira Watanabe are candidates for Outside Director. Mr. Tadashi Kodama, Mr. Tetsuji Taya, Mr. Kazuyasu Fujita, Mr. Yutaka Nakamura and Mr. Akira Watanabe are candidates for independent officer as stipulated in Article 436-2 of the Securities Listing Regulations of Tokyo Stock Exchange, Inc. As the candidates also satisfy the independence criteria set forth by the Company, the Company deems that the independence of the candidates is also assured. The Company has notified the Tokyo Stock Exchange, Inc. that Mr. Tadashi Kodama, Mr. Tetsuji Taya, Mr. Kazuyasu Fujita and Mr. Yutaka Nakamura of their designation as independent officers, and if Mr. Akira Watanabe assumes the office of Director, the Company plans to notify said exchange of his designation as an independent officer.
3. Mr. Tadashi Kodama has held positions at Aioi Nissay Dowa Insurance Co., Ltd. as Representative Director, Vice Chairman of the Board of Directors, and Senior Advisor. In June 2015 he retired from said company, and in June 2016 he assumed the office of Outside Director of the Company. Although there is a business relationship between said company and the Company, the transaction amount is negligible (accounts for less than 0.1% of said company's and the Company's separate consolidated net sales in the most recent fiscal year) and, therefore, the Company deems that this does not affect his independence.
4. Mr. Tetsuji Taya has held a position at Industrial Growth Platform, Inc. as Board Member & Managing Director, CFO. Although there is a business relationship between said company and the Company, the transaction amount is negligible (accounts for less than 0.1% of said company's and the Company's consolidated net sales in the most recent fiscal year) and, therefore, the Company deems that this does not affect his independence.
5. Mr. Hisafumi Koga has held a position at Kyodo Public Relations Co., Ltd. as Chairman, and there is a business relationship between said company and the Company. The transaction amount accounts for less than 3% of said company's consolidated net sales in the most recent fiscal year. And the transaction amount accounts for less than 0.1% of the Company's consolidated net sales in the most recent fiscal year.
6. Mr. Akira Watanabe has held a position at Maeda Road Construction Co., Ltd. as Outside Director. Although there is a business relationship between said company and the Company, the transaction amount is negligible (accounts for less than 0.1% of said company's and the Company's consolidated net sales in the most recent fiscal year), and therefore, the Company deems that this does not affect his independence.
7. In accordance with the provisions of Article 427, paragraph (1) of the Companies Act, the Company has entered into limited liability agreements with Mr. Tadashi Kodama, Mr. Tetsuji Taya, Mr. Hisafumi Koga, Mr. Kazuyasu Fujita and Mr. Yutaka Nakamura limiting their liability for damages under Article 423, paragraph (1) of the Companies Act, to the minimum limit amount prescribed by laws and regulations. The Company will continue these agreements if their re-election is approved.

8. If the election of Mr. Akira Watanabe is approved, in accordance with the provisions of Article 427, paragraph (1) of the Companies Act, the Company plans to enter into a limited liability agreement with him limiting his liability for damages under Article 423, paragraph (1) of the Companies Act, to the minimum limit amount prescribed by laws and regulations.
9. Ms. Mayumi Hayashima's name on her family register is Mayumi Tsuboi.
10. The attendance at the Board of Directors meetings shows the status of attendance for meetings held after the time of their office, which in the case of Mr. Shigeru Ashida, Ms. Mayumi Hayashima and Mr. Hisafumi Koga was the 46th Ordinary General Shareholders' Meeting held on June 27, 2019, and in the case of Mr. Kazuyasu Fujita and Mr. Yutaka Nakamura was the Extraordinary General Shareholders' Meeting held on February 27, 2020.

Proposal No. 2: Election of Two (2) Audit & Supervisory Board Members

At the conclusion of this Ordinary General Shareholders' Meeting, the term of office of Audit & Supervisory Board Members Mr. Atsunori Nasu and Mr. Masahiko Nakamura will expire. It is therefore proposed that two (2) Audit & Supervisory Board Members be elected.

The Audit & Supervisory Board has already given consent to this proposal. The candidates for Audit & Supervisory Board Member are as follows:

| Candidate number | Name (Date of birth) | Career summary and positions in the Company (Significant concurrent positions) | | Number of the Company's shares held | |
|--|--|--|---|-------------------------------------|--|
| 1 | To be newly elected | April 1984 | Joined Nikkei House Co., Ltd. | 4,700 shares | |
| | Kenichiro Samejima (September 11, 1958) | February 1986 | Joined Leopalace21 Corporation | | |
| | | April 1999 | Department Manager of the Store Management Department, Leopalace World Shinjuku, Leasing Business Division, Leopalace21 Corporation | | |
| | | Attendance at the Audit & Supervisory Board meetings: -/- | October 1999 | | Department Manager of the Planning Department, Head Office, Leasing Business Division, Leopalace21 Corporation |
| | | Attendance at the Board of Directors meetings: -/- | April 2009 | | Executive Officer and Department Manager of the Operations Department, Leasing Business, Leopalace21 Corporation |
| | | February 2010 | Department Manager of the Planning and Operations Department, Leasing Business Division, Leopalace21 Corporation | | |
| | | April 2012 | Department Manager of the Information Systems Department, Leopalace21 Corporation | | |
| | | July 2012 | Administrative Officer, Leopalace21 Corporation | | |
| | | April 2014 | Executive Officer, Leopalace21 Corporation | | |
| | | July 2019 | Management Headquarters, in charge of Information Systems, Leopalace21 Corporation | | |
| June 2020 | | Administrative Officer and Head of Audit & Supervisory Board Members Office, Leopalace21 Corporation (incumbent) | | | |
| <p>Reason for nomination as a candidate for Audit & Supervisory Board Member</p> <p>Mr. Kenichiro Samejima has experienced overseeing the leasing business department of the Company and, as Executive Officer, overseeing the information systems department, and he possesses knowledge about the Company's core business and insight in operational processes. For this reason, it is judged that he can appropriately audit the Company's management based on the insight that he has gained through his experience to date. Therefore, the Company has nominated him as a candidate for Audit & Supervisory Board Member.</p> | | | | | |
| 2 | To be newly elected | April 1972 | Joined Ministry of Finance | 0 shares | |
| | Yoshitaka Murakami (February 12, 1948) | July 1993 | Assistant Regional Commissioner (Management and Coordination), Tokyo Regional Taxation Bureau | | |
| | | July 1998 | Deputy Commissioner (Large Enterprise Examination and Criminal Investigation), National Tax Agency | | |
| | | Attendance at the Audit & Supervisory Board meetings: -/- | June 2000 | | Deputy Commissioner (Taxation), National Tax Agency |
| | | Attendance at the Board of Directors meetings: 25/26 | June 2003 | | First Deputy Commissioner, National Tax Agency |
| | | October 2005 | Senior Managing Director, East Nippon Expressway Company Limited | | |
| | | June 2011 | Full-time Audit & Supervisory Board Member, Credit Saison Co., Ltd. | | |
| | | June 2019 | Outside Director, Leopalace21 Corporation (incumbent) | | |
| <p>Reason for nomination as a candidate for Audit & Supervisory Board Member</p> <p>Mr. Yoshitaka Murakami fulfills an appropriate role in supervising the business execution of the Company to actively provide advice from an independent and fair perspective during the Board of Directors meetings and other meetings as Outside Director. Moreover, his knowledge in finance and accounting gained through his experience serving as First Deputy Commissioner of National Tax Agency and as Full-time Audit & Supervisory Board Member of Credit Saison Co., Ltd. for eight years is consistent with a person who possesses keen insight in finance and accounting recommended as a candidate for Audit & Supervisory Board Member in the Company's corporate governance report. For this reason, it is judged that he can appropriately audit the Company's management based on the insight that he has gained through his professional experience to date. Therefore, the Company has nominated him as a candidate for Audit & Supervisory Board Member.</p> | | | | | |

- Notes: 1. There is no particular interest between any of the candidates and the Company.
2. In accordance with the provisions of Article 427, paragraph (1) of the Companies Act, the Company has entered into a limited liability agreement with Mr. Yoshitaka Murakami, limiting his liability for damages under Article 423, paragraph (1) of the Companies Act, to the minimum limit amount prescribed by laws and regulations.

Proposal No. 3: Election of a Substitute Audit & Supervisory Board Member

The Company requests approval for the election of one (1) substitute Audit & Supervisory Board Member to be ready to fill a vacant position should the number of Outside Audit & Supervisory Board Members fall below the number required by laws and regulations.

The Audit & Supervisory Board has already given consent to this proposal.

The candidate for substitute Audit & Supervisory Board Member is as follows:

| Name (Date of birth) | Career summary and positions in the Company (Significant concurrent positions) | | Number of the Company's shares held |
|--|---|---|---|
| Outside Audit & Supervisory Board Member Independent Officer Nobuo Kawasaki (September 28, 1958) Attendance at the Audit & Supervisory Board meetings: -/- Attendance at the Board of Directors meetings: -/- | April 1982 | Joined Tokyo Regional Taxation Bureau | 0 shares |
| | July 2004 | Deputy Director of Co-ordination Division (Large Enterprise Examination), Second Examination Department, Tokyo Regional Taxation Bureau | |
| | July 2007 | Deputy District Director of Suwa Tax Office, Kanto-Shinetsu Regional Taxation Bureau | |
| | September 2011 | Attached to Minister's Secretariat at the Ministry of Finance, Seconded to the Indonesian Ministry of Finance (Jakarta) | |
| | July 2015 | Director of Co-ordination Division (Large Enterprise Examination), First Examination Department, Tokyo Regional Taxation Bureau | |
| | July 2016 | Director of Management Division (Large Enterprise Examination), First Examination Department, Tokyo Regional Taxation Bureau | |
| | July 2017 | District Director of Hachioji Tax Office, Tokyo Regional Taxation Bureau | |
| | July 2018 | Assistant Regional Commissioner of Fourth Examination Department, Tokyo Regional Taxation Office | |
| | August 2019 | Registered as a certified tax accountant (incumbent) | |
| Reason for nomination as a candidate for substitute Outside Audit & Supervisory Board Member Mr. Nobuo Kawasaki possesses wealth of deep knowledge related to corporate tax affairs based on his experience to date as a public tax official and as a certified tax accountant. Although he has never participated in the management of a company in the past other than as an Outside Director or Outside Audit & Supervisory Board Member, it is judged that he can appropriately supervise the Company's management based on the insight that he has gained through his professional experience to date, and appropriately execute his duties as Outside Audit & Supervisory Board Member. Therefore, to strengthen the Company's audit system, the Company has nominated him as a candidate for substitute Outside Audit & Supervisory Board Member. | | | |

- Notes:
1. There is no particular interest between Mr. Nobuo Kawasaki and the Company.
 2. Mr. Nobuo Kawasaki is a candidate for substitute Outside Audit & Supervisory Board Member. He is a candidate for independent officer as stipulated in Article 436-2 of the Securities Listing Regulations of Tokyo Stock Exchange, Inc. As the candidate also satisfies the independence criteria set forth by the Company, the Company deems that the independence of the candidate is also assured.
 3. If Mr. Nobuo Kawasaki assumes the office of Outside Audit & Supervisory Board Member, the Company will notify the Tokyo Stock Exchange, Inc. of his designation as independent officer.
 4. If Mr. Nobuo Kawasaki assumes the office of Outside Audit & Supervisory Board Member, in accordance with the provisions of Article 427, paragraph (1) of the Companies Act, the Company plans to enter into a limited liability agreement with him limiting his liability for damages under Article 423, paragraph (1) of the Companies Act, to the minimum limit amount prescribed by laws and regulations.

[Reference]

Independence Criteria for the Company's Outside Officers (Directors and Audit & Supervisory Board Members)

When nominating Outside Directors or Outside Audit & Supervisory Board Members of the Company, in order for a nominee to be recognized as independent, the nominee must not fall under any of the criteria set forth below.

- (1) Person who executes business* of the Leopalace21 Group (*person who executes business of a corporation or other organization such as director (excluding outside director), corporate executive (*shikkoyaku*), executive officer, business-executing employee, administrative officer, or other officers or employees)
- (2) Major shareholder* of the Company (*shareholder who directly or indirectly holds 10% or more of the total voting rights) or a person who executes business thereof
- (3) Person who executes business of a corporation of which the Company is a major investor* (*entity who directly or indirectly holds 10% or more of the total voting rights)
- (4) Person for whom the Company is a major transaction counterparty* (*a transaction counterparty who provides the Company with goods or services and whose total amount of transactions to the Company in the most recent fiscal year is at least 2% of the total amount of that party's net sales or gross income) or a person who executes business thereof
- (5) Major transaction counterparty of the Company* (*a transaction counterparty to whom the Company provides goods or services and whose total amount of transactions with the Company in the most recent fiscal year is at least 2% of the total amount of the Company's net sales) or a person who executes business thereof
- (6) Person who executes business of a major financing institution of the Company* (*financing institution from which the Company makes borrowings of an amount in the most recent fiscal year of at least 2% of the total assets of the Company)
- (7) Person who belongs to the audit firm that performs the statutory auditing of the Company
- (8) Accounting specialist such as a certified public accountant, tax specialist such as a certified tax accountant, legal specialist such as an attorney at law or other consultant (hereinafter, collectively, "consultant, etc.") that receives remuneration other than officer remuneration from the Company of an amount in the most recent fiscal year that is at least 10 million yen or 2% of the total net sales or gross income for that person, whichever is higher, or a person who belongs to such entity in the cases where the consultant, etc. is an entity such as a corporation or partnership
- (9) Person who executes business at a company at which a person who executes business of the Company presently serves or within the past three years had served as an outside officer
- (10) In the case of a person/entity who has received a donation from the Company in the most recent fiscal year that is at least 10 million yen or 2% of the total net sales or gross income for that person/entity, whichever is higher, that person or a person who executes business thereof
- (11) Person who fell under any of the above criteria (1) to (10) within the past three years
- (12) Person who is a relative within the second degree of kinship of or who shares living expenses with a person who falls under any of the above criteria (1) to (10) (provided, however, that such "person who executes business" is limited to persons who execute important business, such as directors (excluding outside directors), corporate executives (*shikkoyaku*), executive officers, business-executing employees, administrative officers and chief division officers for the above criteria (2) to (6), (9) and (10) and such "person who belongs" to an entity is limited to a person possessing the specialist qualifications, such as a certified public accountant or attorney at law for the above criteria (7) and (8))
- (13) Other person who can reasonably be judged as having equivalent conflict of interest with shareholders as the persons who fall under the above criteria (1) to (12)

(Attachments)

BUSINESS REPORT (from April 1, 2019 to March 31, 2020)

Items Regarding Status of Group Operations

Overview of Operations

Before explanations concerning overview of operations, we sincerely apologize to our apartment owners, tenants, other parties concerned and all stakeholders for the construction defects related to parting walls, discrepancies of insulation materials in parting walls, noncompliance of exterior wall structures with specifications certified by the Minister of Land, Infrastructure, Transport and Tourism, defects in ceilings and noncompliance of parting walls in fire-proof structure with the specifications certified by the Minister of Land, Infrastructure, Transport and Tourism (hereinafter collectively “Construction Defects such as Parting Walls”) confirmed in certain apartments constructed by the Company.

The Company takes seriously the Construction Defects such as Parting Walls which should not have been caused by a construction company dealing in apartment buildings. We will make every effort to prevent recurrence of such a problem.

During the fiscal year under review, the domestic economy showed gradual recovery supported by continued improvements in employment and personal income environment, however, the economic prospects have become extremely challenging because of significantly restricting economic activities on a global scale due to the impact of COVID-19.

New housing starts of leased units decreased for the third year in succession (down 14.2% year on year), due to tightening of loan conditions by financial institutions. In the rental housing industry in Japan, as the number of vacant units continues to increase and recovery in nationwide demand becomes difficult, we believe that to achieve stable occupancy rates, it is important to ensure the supply of properties is concentrated in areas where occupancy rates are forecasted to remain high in the future, while at the same time following a strategy of differentiation by providing value-added services, using the unique strengths of the Company.

Amid these conditions, the Leopalace21 Group (the “Group”) has been striving to create corporate value and new social value under the basic policy of “Supporting continuous growth of core businesses in ways that further increase corporate value while constructing a base for growth areas” as set forth in the Medium-term Management Plan “Creative Evolution 2020,” and the entire Company has been making a coordinated effort to resolve the problem concerning Construction Defects such as Parting Walls as soon as possible.

As a result, consolidated net sales for the fiscal year under review came to 433,553 million yen (down 14.2% year on year). Consolidated operating loss was 36,473 million yen (operating profit of 7,390 million yen for the previous fiscal year) and consolidated recurring loss was 36,341 million yen (recurring profit of 7,063 million yen for the previous fiscal year). Consolidated net loss attributable to shareholders of the parent was 80,224 million yen (a deterioration of 11,561 million yen from the previous fiscal year). This was mainly due to extraordinary losses of 24,395 million yen recorded as an amount of loss estimated to prepare for repair costs related to Construction Defects such as Parting Walls, 7,620 million yen recorded as an impairment loss for non-current assets and goodwill, and 21,485 million yen recorded as income taxes adjustment (loss) due to a reversal of deferred tax assets.

Leasing Business

In the Leasing Business, to establish stable occupancy, the Group provided abundant value-added services such as “my DIY,” which enables tenants to decorate their rooms, our promotion of the transition to smart apartments, which enables remote control of electrical appliances, door locks, etc., by smartphone, our industry-first electronic rental agreement service, and security services in collaboration with large security companies. The Group also addressed demand for corporate dormitories and corporate housing and enhanced support system for foreign tenants.

In addition, in the ASEAN countries, our subsidiaries are conducting the development and operation of serviced apartments and offices, etc.

Because the completion of repairs and resumption of new tenant recruitment activities were delayed because of prioritization on investigation of all buildings related to Construction Defects such as Parting Walls and delays in improving the construction system, as well as restrained demand from new hires and relocations in the busiest months at the end of the fiscal year because of the impact of COVID-19, the occupancy rate at the end of the fiscal year under review was 83.07% (down 1.26 points from the end of the previous fiscal year), and the average occupancy rate for the period was 80.78% (down 7.56 points year on year). The number of units under management at the end of the fiscal year under review was 575,000 (an increase of 1,000 from the end of the previous fiscal year).

As a result of the above, net sales amounted to 388,939 million yen (down 8.8% year on year), and operating loss was 20,828 million yen (operating profit of 14,987 million yen for the previous fiscal year) due to decrease of rent income and others caused by decrease of the occupancy rate and increase of 3,178 million yen in reserve for apartment vacancy loss.

Development Business

In the Development Business, the Group focused on activities to secure orders in the three major metropolitan areas, where populations continue to increase and high occupancy rates are expected in the future. In addition, the Group expanded construction variations to realize “ideal land use,” while reviewing product prices and supply channels to improve profitability. Also, subsidiary Morizou Co., Ltd. provides construction business of custom-built detached houses made of Kiso hinoki cypress.

However, as a result of orders becoming sluggish mainly due to intensified competition in the metropolitan areas and changes in the environment of apartment loans, in addition to stop taking new orders for apartment construction because of the problems related to Construction Defects such as Parting Walls, orders received during the fiscal year under review were 7,814 million yen (down 87.9% year on year) and the orders received outstanding at the end of the fiscal year under review stood at 27,696 million yen (down 55.6% from the end of the previous fiscal year).

The Company sold all of its shares in Life Living Co., Ltd., which was a consolidated subsidiary, and therefore the orders received and orders received outstanding of Life Living Co., Ltd. are not included due to exclusion of said company from the scope of consolidation.

As a result, net sales came to 23,806 million yen (down 59.6% year on year), and operating loss was 5,181 million yen (a deterioration of 4,185 million yen from the previous fiscal year).

Elderly Care Business

In the Elderly Care Business, which has been designated a growth strategy business, the profitability improved overall due to increases in the occupancy rate of existing facilities, and is steadily transitioning to achieve profitability.

The number of facilities was 87 at the end of the fiscal year under review.

Net sales were 14,620 million yen (up 5.0% year on year), and operating loss was 559 million yen (an improvement of 286 million yen from the previous fiscal year).

Hotels, Resort & Other Businesses

Net sales of the Hotels, Resort & Other Businesses, which operates resort facilities in Guam and hotels in Japan, the travel business, the finance business and other businesses were 6,186 million yen (up 4.5% year on year), and operating loss was 1,000 million yen (an improvement of 346 million yen from the previous fiscal year).

Issues to Be Addressed

The Group has decided to make changes to strategic review for drastic business strategies reconstruction so that the Company should be able to restore the stakeholders' trust and achieve business turnaround as described below.

- Reconstruct business foundation – selective concentration

The Company has shifted its policy from promoting a strategy of business diversification to promoting a strategy to strengthen profitability of the Leasing Business.

- Implement structural reforms

The Company has designated the Leasing Business as a core business and the Elderly Care Business as a strategic business, and has established a policy to transfer or withdraw from non-core and unprofitable businesses, which are the hotels & resort business and the international business.

1. Hotels & Resort Business

(1) Leopalace Guam Corporation

We plan to make early transfer of the Guam company, while observing the global spread of COVID-19 infection and its consequences.

(2) Hotel Leopalace Nagoya

We will transfer the hotel business during the first half of the fiscal year ending March 31, 2021.

2. International Business

We plan to transfer or withdraw from the business by the end of the fiscal year ending March 31, 2021, while observing the global spread of the novel coronavirus and its consequences.

3. Abolition of shareholder benefits

In line with the above-mentioned policy of transferring or withdrawing from the hotels & resort business, we will abolish shareholder benefits.

In addition, we will be offering a voluntary retirement program to respond to the business structure changes based on “selective concentration” with the aim of building an appropriate size of workforce for the future and further reducing fixed costs.

- Restore social trust

Although we are temporarily reducing the scale and organizational setup of repair construction in order to improve business performance and financial position, there is no change in the policy itself in which we regard resolving the Construction Defects such as Parting Walls as a key issue. We will steadily proceed with solving the construction defects problem to restore our trust.

We aim to recover our business performance and restore trust by steadily implementing the above measures. We ask shareholders for your continued understanding and support of these endeavors.

The Group recorded operating loss in the fiscal year under review and net loss attributable to shareholders of the parent as well as negative operating cash flow for two consecutive years due to Construction Defects such as Parting Walls confirmed in properties constructed by the Company.

As the Company's consolidated net assets failed to satisfy the required standard at the end of the previous fiscal year and the Company posted operating loss in the fiscal year under review, there is a relevant item with respect to Leopalace Power Corporation, a subsidiary of the Company and

its loan agreement with a financial institution for which the Company acts as guarantor. The Company does not meet the financial covenant in the loan agreement.

As a result, there are circumstances that raise significant doubts about the Company's going concern assumption.

In order to solve the circumstances, we have been concentrating its management resources on the repair works and accelerate with organizational efforts so that it can resume the tenant recruitment as soon as possible. However, the recovery of business performance is indispensable for stably implementing the support of problems related to Construction Defects such as Parting Walls, and therefore, we decided on reallocating manpower and physical resources including a voluntary retirement program based on "Notice Concerning Implementing Structural Reforms based on Strategic Review Results for Drastic Business Strategies Reconstruction" disclosed on June 5, 2020, and temporarily reduce the scale and system of repair works from July 2020, in order to improve the business performance and restore financial conditions.

With regard to funding, while maintaining a sound financial balance, the Group endeavors to secure stable funds necessary for its business activities including selling assets held and maintain liquidity, thereby securing sufficient funds to meet anticipated demand based on its funding plans.

As to the conflict with the financial covenant, we have obtained agreement from the financial institution that they would not exercise the right of forfeiture of the benefit of time.

As a result of the above, the Group believes that there are no significant uncertainties regarding the going concern assumptions.

Capital Investment

The total amount of capital investment carried out by the Group in the fiscal year under review is 3,744 million yen.

The main components of this were 2,804 million yen for investment in rental properties in connection with the leasing business in Japan, 458 million yen for capital investment in connection with the hotels & resort business, and 129 million yen for investment of an information system in connection with the leasing business.

In addition, the Group sold an amount of non-current assets totaling 32,057 million yen in the fiscal year under review.

The main components of this were 14,403 million yen for sales in rental properties in connection with the leasing business in Japan, 15,539 million yen for sales of domestic hotels.

Financing Activities

Not applicable.

Major Subsidiaries (as of March 31, 2020)

| Company Name | Capital | Voting Rights Ratio | Primary Areas of Business |
|--|----------------------------------|---------------------|---|
| Leopalace Leasing Corporation | 400 million yen | 100.0% | Corporate Housing Management Business Real Estate Brokerage Business |
| Plaza Guarantee Co., Ltd. | 50 million yen | 100.0% | Rent Obligation Guarantee Business |
| Leopalace Power Corporation | 80 million yen | 100.0% | Solar Power Generation Business |
| Leopalace Energy Corporation | 20 million yen | 100.0% (100.0%) | Electricity Retail Business |
| ASUKA SSI | 1,000 million yen | 100.0% | Small-Amount, Short-Term Insurance Business |
| Enplus Inc. | 312 million yen | 98.3% | Relocation Management Business |
| Leopalace21 Business Consulting (Shanghai) Co., Ltd. | 5,359 thousand RMB | 100.0% | Consulting Business |
| LEOPALACE21 VIETNAM CO., LTD. | 96,707 million VND | 100.0% | Serviced Apartments Business Real Estate Agency Business |
| Leopalace21 (Thailand) CO., LTD. | 10,000 thousand THB | 49.0% [51.0%] | Serviced Apartments Business Real Estate Agency Business |
| Leopalace21 (Cambodia) Co., Ltd. | 18,750 thousand USD | 100.0% | Serviced Apartments Business Real Estate Agency Business |
| LEOPALACE21 PHILIPPINES INC. | 262,674 thousand Philippine peso | 100.0% | Serviced Offices Business Real Estate Introduction Business |
| PT. Leopalace Duasatu Realty | 70,893,900 thousand IDR | 100.0% | Real Estate Business |
| Leopalace21 Singapore Pte. Ltd. | 35,749 thousand SGD | 100.0% | Investment Consulting Business |
| Morizou Co., Ltd. | 85 million yen | 88.2% | Construction Business of Custom-Built Detached Houses |
| Azu Life Care Co., Ltd. | 80 million yen | 100.0% | Elderly Care Business |
| Leopalace Guam Corporation | 26,000 thousand USD | 100.0% | Hotels & Resort Business |
| WING MATE CO., LTD. | 40 million yen | 100.0% | Travel Business |
| Leopalace Smile Co., Ltd. | 10 million yen | 100.0% | Clerical Work Outsourcing Service Business |

- Notes:
- The Company has excluded Leopalace Trust Co., Ltd. (now Miraisupport Trust Co., Ltd.), which was a consolidated subsidiary, from the scope of consolidation from the fiscal year under review because the equity ratio attributable to the Company decreased as the result of a capital increase by third-party allotment implemented by said company after the Company sold some of its shares in said company.
 - The Company has excluded Life Living Co., Ltd., which was a consolidated subsidiary, from the scope of consolidation from the fiscal year under review because the Company sold all of its shares in said company.
 - There was no specified wholly-owned subsidiary as of the end of the fiscal year under review.
 - Figures in parenthesis in the voting rights ratio column indicate indirect ownership ratios, and these are included in the total.
 - Figures in square brackets in the voting rights ratio column indicate ownership ratios of a party with a close relationship and a party that gives consent, and these are not included in the total.

Major Areas of Operation (as of March 31, 2020)

| Segment | Areas of Activity |
|-----------------------------------|--|
| Leasing Business | Leasing and management of apartments, etc., repair work, broadband service, rent obligation guarantee business, corporate housing management business, solar power generation business, small-amount, short-term insurance business, relocation management business, serviced apartments business, serviced offices business, real estate brokerage business, etc. |
| Development Business | Contracted construction work for apartments and custom-built detached houses, etc. |
| Elderly Care Business | Operation of elderly care facilities |
| Hotels, Resort & Other Businesses | Operation of hotel and resort facilities, travel businesses, financing business, clerical work outsourcing service business, etc. |

Major Business Locations of the Group (as of March 31, 2020)

The Company

| | |
|-----------------|--|
| Head Office | Nakano-ku, Tokyo |
| Regional | 47 prefectures nationwide |
| Headquarters | (Leopalace centers: 182 branches; construction sales: 29 branches) |
| | Overseas |
| | (Leopalace centers: 7 branches [People's Republic of China: 4 branches; the Republic of Korea: 2 branches; Taiwan: 1 branch]) |
| Hotels | 3 facilities nationwide |
| | (Sapporo, Nagoya, Hakata) |
| Care Facilities | 62 facilities nationwide |
| | (Tokyo: 4 facilities; Chiba Prefecture: 16 facilities; Saitama Prefecture: 22 facilities; Kanagawa Prefecture: 3 facilities; Ibaraki Prefecture: 8 facilities; Tochigi Prefecture: 7 facilities; Gunma Prefecture: 2 facilities) |

Major Subsidiaries

| | |
|--|---|
| Leopalace Leasing Corporation | Nakano-ku, Tokyo |
| Plaza Guarantee Co., Ltd. | Nakano-ku, Tokyo |
| Leopalace Power Corporation | Nakano-ku, Tokyo |
| Leopalace Energy Corporation | Nakano-ku, Tokyo |
| ASUKA SSI | Nakano-ku, Tokyo |
| Enplus Inc. | Chiyoda-ku, Tokyo |
| Leopalace21 Business Consulting (Shanghai) Co., Ltd. | The People's Republic of China |
| LEOPALACE21 VIETNAM CO., LTD. | The Socialist Republic of Vietnam |
| Leopalace21 (Thailand) CO., LTD. | The Kingdom of Thailand |
| Leopalace21 (Cambodia) Co., Ltd. | The Kingdom of Cambodia |
| LEOPALACE21 PHILIPPINES INC. | The Republic of the Philippines |
| PT. Leopalace Duasatu Realty | The Republic of Indonesia |
| Leopalace21 Singapore Pte. Ltd. | The Republic of Singapore |
| Morizou Co., Ltd. | Nakano-ku, Tokyo |
| Azu Life Care Co., Ltd. | Nakano-ku, Tokyo |
| Leopalace Guam Corporation | Guam (a trust territory under the U.S.A.) |
| WING MATE CO., LTD. | Nakano-ku, Tokyo |
| Leopalace Smile Co., Ltd. | Nakano-ku, Tokyo |

Employees of the Group (as of March 31, 2020)**1. Employees of the Group**

| Segment | Number of Employees | |
|-----------------------------------|----------------------------|---------|
| Leasing Business | 3,133 | [336] |
| Development Business | 645 | [25] |
| Elderly Care Business | 1,186 | [1,308] |
| Hotels, Resort & Other Businesses | 535 | [182] |
| All companies (common) | 1,544 | [68] |
| Total | 7,043 | [1,919] |

Notes: 1. The number of employees represents a number of employees at work, and for the number of temporary employees (casual workers and dispatched workers), the average annual number is indicated separately in square brackets.

2. The number of employees indicated as all companies (common) is the number of those belonging to administrative departments.

2. Employees of the Company

| Number of Employees | Change Since Previous FY | Average Age | Average Years of Service |
|----------------------------|---------------------------------|-----------------------|---------------------------------|
| 5,820 [1,517] | -511 | 38 years and 8 months | 10 years and 6 months |

Note: The number of employees represents a number of employees at work, and for the number of temporary employees (casual workers and dispatched workers), the average annual number is indicated separately in square brackets.

Major Lenders (as of March 31, 2020)

| Lender | Loan Balance at End of the Fiscal Year under Review (millions of yen) |
|-------------------------------------|--|
| Mizuho Bank, Ltd. | 12,987 |
| Sumitomo Mitsui Banking Corporation | 5,316 |

Items Regarding Shares of the Company (as of May 28, 2020)

- **Number of shares authorized** 500,000,000 shares
- **Number of shares outstanding** 244,882,515 shares
- **Number of shareholders** 58,902
- **Major shareholders (top 10 shareholders)**

| Shareholder Name | Number of Shares Held (thousands of shares) | Percentage of Outstanding Shares (%) |
|--|--|---|
| Ardisia Investment, Inc. | 48,683 | 19.94 |
| City Index Eleventh Co., Ltd. | 21,904 | 8.97 |
| S-GRANT.CO., LTD. | 16,456 | 6.74 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 7,640 | 3.13 |
| Japan Trustee Services Bank, Ltd. (Trust Account 5) | 5,283 | 2.16 |
| Stockholding Association for Leopalace21's Business Connection | 4,975 | 2.03 |
| JP MORGAN BANK (IRELAND) PLC 380423 | 4,742 | 1.94 |
| Stockholding Association for Leopalace21's Employees | 4,013 | 1.64 |
| UBS AG LONDON A/C IPB SEGREGATED CLIENT ACCOUNT | 3,825 | 1.56 |
| STATE STREET BANK AND TRUST COMPANY 505103 | 3,639 | 1.49 |

Notes: 1. The numbers of shares held in trust operations by The Master Trust Bank of Japan, Ltd. (Trust Account) and Japan Trustee Services Bank, Ltd. (Trust Account 5) as of May 28, 2020 are not presented because the Company cannot identify the details.

2. The above shareholding ratios are calculated excluding treasury stock.

- **Shareholder composition**

| | | |
|--|--------|--------------------------|
| Financial institutions | 12.86% | (31,495 thousand shares) |
| Foreign corporations | 17.06% | (41,780 thousand shares) |
| Treasury stocks | 0.32% | (771 thousand shares) |
| Individuals and other | 29.98% | (73,415 thousand shares) |
| Business corporations and other legal entities | 37.83% | (92,635 thousand shares) |
| Financial instruments business operators | 1.95% | (4,784 thousand shares) |

Share Subscription Rights and Others

1. Share subscription rights delivered as consideration for execution of duties and held by officers of the Company as of the final day of the fiscal year under review

| | | 2nd series share subscription rights | 3rd series share subscription rights | 4th series share subscription rights | |
|---|---|---|---|---|-------------------------------|
| Issuance resolution date | | July 28, 2016 | August 28, 2017 | August 28, 2018 | |
| Amount to be paid in for share subscription rights | | Payment not required | Payment not required | Payment not required | |
| Value of property to be contributed upon exercise of share subscription rights | | 100 yen per 1 share subscription right (1 yen per share) | 100 yen per 1 share subscription right (1 yen per share) | 100 yen per 1 share subscription right (1 yen per share) | |
| Issue price of shares and amount incorporated into capital in case of issuance due to exercise of share subscription rights | | Issue price: 548 yen; amount incorporated into capital: 274 yen | Issue price: 529 yen; amount incorporated into capital: 265 yen | Issue price: 333 yen; amount incorporated into capital: 167 yen | |
| Exercise period | | From August 19, 2016 through August 18, 2046 | From September 15, 2017 through September 14, 2047 | From September 15, 2018 through September 14, 2048 | |
| Status of officers' holdings | Directors (excluding Outside Directors) | Number of share subscription rights | 279 units | 324 units | 334 units |
| | | Number of underlying shares | 27,900 shares of common stock | 32,400 shares of common stock | 33,400 shares of common stock |
| | | Number of holders | 3 persons | 3 persons | 4 persons |
| | Audit & Supervisory Board Members | Number of share subscription rights | — | — | — |
| | | Number of underlying shares | — | — | — |
| | | Number of holders | — | — | — |

2. Share subscription rights delivered as consideration for execution of duties to employees, etc. during the fiscal year under review

Not applicable.

Items Regarding Directors/Audit & Supervisory Board Members of the Company

1. Directors and Audit & Supervisory Board Members (as of March 31, 2020)

| Name | Title | Duties in the Company and Significant Concurrent Positions |
|--------------------|---|--|
| Bunya Miyao | President and CEO | President and CEO/ Chief of the Business Operation Headquarters Director, Leopalace Guam Corporation |
| Shigeru Ashida | Director | Managing Executive Officer/ Chief of the Emergency Headquarters for Construction Defects President and CEO, Leopalace Power Corporation |
| Katsuhiko Nanameki | Director | Managing Executive Officer/ Chief of the Management Headquarters |
| Seishi Okamoto | Director | Managing Executive Officer/ Chief of the Corporate Planning Headquarters |
| Mayumi Hayashima | Director | Executive Officer/ Chief of the Compliance Management Headquarters, Chief Legal Officer (CLO) |
| Tadashi Kodama | Director | |
| Tetsuji Taya | Director | Board Member & Managing Director, CFO, Industrial Growth Platform, Inc. |
| Yoshiko Sasao | Director | Managing Executive Officer, JDC Corporation Outside Director, SANKI SERVICE CORPORATION |
| Yoshitaka Murakami | Director | |
| Hisafumi Koga | Director | Chairman, Kyodo Public Relations Co., Ltd. |
| Kazuyasu Fujita | Director | Representative Director and President, Management Consulting Partner Inc. |
| Yutaka Nakamura | Director | |
| Jiro Yoshino | Standing Audit & Supervisory Board Member | |
| Atsunori Nasu | Standing Audit & Supervisory Board Member | |
| Masahiko Nakamura | Audit & Supervisory Board Member | Representative, Masahiko Nakamura Certified Tax Accountant Office Part-Time Audit & Supervisory Board Member, Japan Management Corp. |
| Takao Yuhara | Audit & Supervisory Board Member | Outside Audit & Supervisory Board Member, KAMEDA SEIKA CO., LTD. Outside Director, T. HASEGAWA CO., LTD. |

- Notes: 1. Mr. Tadashi Kodama, Mr. Tetsuji Taya, Ms. Yoshiko Sasao, Mr. Yoshitaka Murakami, Mr. Hisafumi Koga, Mr. Kazuyasu Fujita and Mr. Yutaka Nakamura serve as Outside Directors of the Company.
2. Mr. Jiro Yoshino, Mr. Masahiko Nakamura and Mr. Takao Yuhara serve as Outside Audit & Supervisory Board Members of the Company.
3. Mr. Masahiko Nakamura, Audit & Supervisory Board Member, is certified as a licensed tax accountant, and possesses considerable finance and accounting knowledge.
4. The Company has designated Outside Directors, Mr. Tadashi Kodama, Mr. Tetsuji Taya, Ms. Yoshiko Sasao, Mr. Yoshitaka Murakami, Mr. Kazuyasu Fujita and Mr. Yutaka Nakamura, and Outside Audit & Supervisory Board Members, Mr. Jiro Yoshino, Mr. Masahiko Nakamura and Mr. Takao Yuhara as independent officers stipulated by Tokyo Stock Exchange, Inc. and has registered with the Stock Exchange accordingly.
5. In accordance with the provisions of Article 427, paragraph (1) of the Companies Act, the Company has entered into a limited liability agreement with each Outside Director and Outside Audit & Supervisory Board Member limiting his/her liability for damages under Article 423, paragraph (1) of the Companies Act, to the minimum limit amount prescribed by laws and regulations.

2. Retired Directors and Audit & Supervisory Board Members during the fiscal year under review

President and CEO, Mr. Eisei Miyama, Directors, Mr. Tadahiro Miyama, Mr. Yuzuru Sekiya, Mr. Hiroshi Takeda, Mr. Kazuto Tajiri, Mr. Hiroyuki Harada and Mr. Hiromi Ito retired at the conclusion of the 46th Ordinary General Shareholders' Meeting held on June 27, 2019, due to the expiry of their terms of office.

3. Directors' and Audit & Supervisory Board Members' Remuneration, Etc.

Total amount of remuneration, etc. in the fiscal year under review

| Category | Number of Persons | Total Amount |
|--|-------------------|-------------------------------------|
| Directors (Outside Directors) | 19 (7) | 188 million yen (57 million yen) |
| Audit & Supervisory Board Members (Outside Audit & Supervisory Board Members) | 4 (3) | 39 million yen (26 million yen) |
| Total (Outside Directors and Audit & Supervisory Board Members) | 23 (10) | 228 million yen (83 million yen) |

Notes: 1. Among the above-mentioned figures, there includes seven Directors who retired on June 27, 2019.

2. The total amount of remuneration, etc. for Directors, includes 10 million yen of expenses related to share subscription rights granted in the previous fiscal year as stock options as stock-based remuneration recorded during the fiscal year under review.

Items Regarding Outside Officers

1. Significant Concurrent Positions of Outside Officers and Their Relationships with the Company

| Title | Name | Significant Concurrent Positions | Relationships with the Company |
|----------------------------------|-------------------|---|--|
| Director | Tetsuji Taya | Board Member & Managing Director, CFO, Industrial Growth Platform, Inc. | There are business transaction relationships between Industrial Growth Platform, Inc. and the Company, however, the transactions are conducted under the same conditions as with other general companies. There are no particular relationships with the Company requiring specific mention. |
| Director | Yoshiko Sasao | Managing Executive Officer, JDC Corporation Outside Director, SANKI SERVICE CORPORATION | There are no particular relationships with the Company requiring specific mention. |
| Director | Hisafumi Koga | Chairman, Kyodo Public Relations Co., Ltd. | There are business transaction relationships between Kyodo Public Relations Co., Ltd. and the Company, however, the transactions are conducted under the same conditions as with other general companies. There are no particular relationships with the Company requiring specific mention. |
| Director | Kazuyasu Fujita | Representative Director and President, Management Consulting Partner Inc. | There are no particular relationships with the Company requiring specific mention. |
| Audit & Supervisory Board Member | Masahiko Nakamura | Representative, Masahiko Nakamura Certified Tax Accountant Office Part-Time Audit & Supervisory Board Member, Japan Management Corp. | There are no particular relationships with the Company requiring specific mention. |
| Audit & Supervisory Board Member | Takao Yuhara | Outside Audit & Supervisory Board Member, KAMEDA SEIKA CO., LTD. Outside Director, T. HASEGAWA CO., LTD. | There are no particular relationships with the Company requiring specific mention. |

2. Key Activities in the Fiscal Year under Review

| Title | Name | Attendance of the Board of Directors Meetings | Attendance of the Audit & Supervisory Board Meetings | Key Activities |
|----------------------------------|--------------------|---|--|---|
| Director | Tadashi Kodama | 30/33 | – | Mr. Kodama uses his abundant insight as a senior manager of a listed company to provide advice on the overall management of the Company and to make comments in order to ensure the reasonableness and appropriateness of decision-making by the Board of Directors. |
| Director | Tetsuji Taya | 30/33 | – | Mr. Taya uses his abundant knowledge and experience as well as his insight as a senior manager to provide advice on the overall management of the Company and to make comments in order to ensure the reasonableness and appropriateness of decision-making by the Board of Directors. |
| Director | Yoshiko Sasao | 33/33 | – | Ms. Sasao uses her abundant knowledge and experience as well as her insight as a senior manager to provide advice on the overall management of the Company and to make comments in order to ensure the reasonableness and appropriateness of decision-making by the Board of Directors. |
| Director | Yoshitaka Murakami | 25/26 | – | Mr. Murakami uses his insight as a senior official of central government agencies and an audit & supervisory board member of a listed company to provide advice on the overall management of the Company and to make comments in order to ensure the reasonableness and appropriateness of decision-making by the Board of Directors. |
| Director | Hisafumi Koga | 21/26 | – | Mr. Koga uses his keen insight as a senior manager of a listed company as well as his deep knowledge and experience in corporate management to provide advice on the overall management of the Company and to make comments in order to ensure the reasonableness and appropriateness of decision-making by the Board of Directors. |
| Director | Kazuyasu Fujita | 3/3 | – | Mr. Fujita uses his deep experience and knowledge in corporate rehabilitation and business reorganization as a senior manager of a listed company to provide advice on the overall management of the Company and to make comments in order to ensure the reasonableness and appropriateness of decision-making by the Board of Directors. |
| Director | Yutaka Nakamura | 3/3 | – | Mr. Nakamura uses his deep experience and knowledge in the field of quality management and environmental management in construction work to provide advice on the overall management of the Company and to make comments in order to ensure the reasonableness and appropriateness of decision-making by the Board of Directors. |
| Audit & Supervisory Board Member | Jiro Yoshino | 33/33 | 13/13 | Mr. Yoshino has abundant experience and expert knowledge as an executive officer and audit & supervisory board member of listed companies. He has objectively conducted proper supervision of the management of the Company. |

| Title | Name | Attendance of the Board of Directors Meetings | Attendance of the Audit & Supervisory Board Meetings | Key Activities |
|----------------------------------|-------------------|--|---|--|
| Audit & Supervisory Board Member | Masahiko Nakamura | 26/33 | 13/13 | Mr. Nakamura has abundant experience and expert knowledge as a certified tax accountant. He has objectively conducted proper supervision of the management of the Company. |
| Audit & Supervisory Board Member | Takao Yuhara | 29/33 | 13/13 | Mr. Yuhara has abundant experience and expert knowledge as an audit & supervisory board member of several companies. He has objectively conducted proper supervision of the management of the Company. |

Note: The records for Outside Directors Mr. Yoshitaka Murakami and Mr. Hisafumi Koga cover the period since they assumed office on June 27, 2019, and the records for Outside Directors Mr. Kazuyasu Fujita and Mr. Yutaka Nakamura cover the period since they assumed office on February 27, 2020.

Status of Accounting Auditor

1. Name of Accounting Auditor

Grant Thornton Taiyo LLC

2. Amount of Remuneration, Etc.

| Segment | Amount Paid |
|--|-----------------|
| Amount of Accounting Auditor remuneration, etc. in the fiscal year under review | 97 million yen |
| Total amount owed to Accounting Auditor by the Company and its subsidiaries in the form of cash or other financial benefit | 110 million yen |

- Notes:
1. In the audit agreement between the Company and the Accounting Auditor, the auditor remuneration pursuant to the Companies Act and the amount of auditor remuneration pursuant to the Financial Instruments and Exchange Act are not separated, and because essentially the two cannot be separated, the above amount of Accounting Auditor remuneration, etc. in the fiscal year under review is the total of the two.
 2. Other than the Accounting Auditor remuneration for the fiscal year under review, the Company paid 8 million yen in the fiscal year under review as an additional remuneration pertaining to the previous fiscal year.
 3. The Audit & Supervisory Board, taking into consideration the “Practical Guidelines for Cooperation with Financial Auditors” released by the Japan Audit & Supervisory Board Members Association, carried out an investigation into the appropriateness of auditing time plans and remuneration amount for the fiscal year under review after comparing the auditing plan and actual results of the previous fiscal year and confirming the trends of the auditing time and the remuneration amount. As a result, the Audit & Supervisory Board gave their consent to the amount of remuneration for the Accounting Auditor in accordance with Article 399, paragraph (1) of the Companies Act.
 4. Of the Company’s major subsidiaries, some of the overseas subsidiaries use the accounting audit services of certified public accountants or audit firms (including those who have equivalent certificates in foreign countries), including member firms of Grant Thornton which belongs to the same network as that of the Company’s Accounting Auditor.

3. Policy Regarding Discharge or Non-re-election of Accounting Auditor

If the Company’s Audit & Supervisory Board determines that any of the provisions of Article 340, paragraph (1) of the Companies Act applies with respect to the Accounting Auditor, it shall dismiss the Accounting Auditor with the unanimous approval of the Audit & Supervisory Board Members. In this case, an Audit & Supervisory Board member appointed by the Audit & Supervisory Board shall present a report stating the purport of the dismissal of the Accounting Auditor and the reasons therefor to the first general shareholders’ meeting convened after the dismissal.

Where the Audit & Supervisory Board deems there are problems with the suitability, independence or reliability, etc., of the Accounting Auditor, it will determine the content of a proposal to a general shareholders’ meeting concerning the dismissal or non-re-election of the Accounting Auditor.

Corporate Structure and Policies

1. Systems to Ensure Appropriate Business Operations

(1) Systems for Execution of Duties by Directors and Employees of the Company as well as Its Subsidiaries to Ensure Compliance with Laws and Regulations and the Articles of Incorporation

- (a) The Company and its subsidiaries (“the Group”) shall conduct business based on its corporate philosophy of “creating new value.” As part of that process, the Company created a Corporate Ethics Charter. The Company shall be determined to establish legal and social compliance be most important policy (compliance-first) in the business execution and as the cornerstone of all of its corporate activities. This is exemplified by the President and CEO of the Company and the Chief of the Compliance Management Headquarters, and concurrently Chief Legal Officer (CLO), whose role is to continuously share the spirit of this charter with all officers and employees of the Group.
- (b) The Company’s Board of Directors, of which independent Outside Directors should consist of at least one third, develops the control environment including compliance system and enhances the function for overseeing the legality of the decision-making and the execution of business of the Board of Directors to ensure the transparency and fairness of management.
- (c) The Company established the Compliance Committee as an advisory body to the Board of Directors and ensured a system related to compliance. The Committee is composed of one of the Outside Directors as the chairman and members including the external experts such as attorneys at law. The Compliance Committee as a part of the Group’s efforts of strengthening governance, plans and implements the measures regarding Group’s compliance framework including reinforcing the training and information management system, and monitors the corporate activities in accordance with the compliance regulations to identify the issues for improvement. In cases of suspected violations of laws and regulations, the Compliance Committee will have the authority to suspend operations.
- (d) The Company established the Compliance Management Headquarters headed by the Chief of the Compliance Management Headquarters, and concurrently Chief Legal Officer (CLO), who manages all the matters related to the legal compliance. The Compliance Management Headquarters is responsible for planning and implementing measures to promote the Group’s compliance as well as improving issues to develop the autonomous corporate culture.
- (e) The Company created, under the Compliance Management Headquarters, the Compliance Management Department, which is responsible for the planning and drafting functions related to compliance promotion within the Group, as well as for the function of checking the legal compliance, which is separated from business departments, particularly for verifying the products such as buildings comply with related laws and regulations. The department is also responsible for the functions of supporting, progress management and monitoring of the compliance-related operations conducted by business departments, as well as legal functions such as confirming contracts and handling lawsuits.

- (f) As a system that does not overlook compliance concerns, the Group assigns compliance coordinators to business sites to publicize compliance measures and report any violations of laws and regulations. The internal reporting system has also been established, and a whistleblowing hotline has been set up both inside and outside the Company to instruct officers and employees of the Group to immediately consult about or report any compliance violations. The Group organizes periodic survey on the employees' awareness with a view to grasp risks at an early stage and to gauge the degree of compliance awareness. The Group provides a clause about the protection of whistleblowers to the Internal Report Regulations to the effect that, if its officers and employees recognized an act, etc., which is doubtful based on laws and regulations and the Articles of Incorporation, the Company shall prohibit treating the employee unfavorably by the reason of consultation and report.
- (g) The Auditing Department, which oversees the internal control function and the internal audit function, shall be established as a department under the direct supervision of the Company's President and CEO. The Auditing Department shall examine the business audit items and implementation methods. In addition, to perform monitoring and risk management of business activities in the Group, as well as to implement governance strengthening and promote creation of the appropriate financial statements and compliance with regulations, enabling the Group to conserve assets and efficiently carry out its business activities. The Company holds Auditing Council to increase the effectiveness of the auditing system.
- (h) The Company works continuously to develop the compliance regulations, related individual regulations, guidelines, manuals, etc. and to periodically organize the compliance-centered training programs in light of hierarchical positions and jobs so that the Company can enhance the compliance awareness by officers and employees in the Group. In addition, in order to instill the concept that promoting compliance enhances corporate value, the performance appraisal system may include the measurement in terms of proactively demonstrating compliance behavior and multi-directional personnel rating method.
- (i) The Company promotes the active dialogues between the management team and all the stakeholders so that it leads to develop the customer-oriented corporate culture by increasing the transparency of management and fostering the mutual understanding.
- (j) Through the establishment of these systems, the Group put as basis development of a firm sense of compliance in the organization, and having in combination the structure that ensures legal compliance in an organizational manner spearheaded by the Compliance Management Headquarters and the structure that does not overlook the illegality assisted by the Auditing Department's audits and internal reporting system, the Group can pursue the concept of "compliance-first."

(2) Systems for Retention and Management of Information on Execution of Duties by Directors

The President and CEO of the Company shall appoint the Chief of the Management Headquarters of the Company as the person generally responsible for the retention and management of information on the execution of the duties of Directors. As to the retention and management of information on the execution of duties of Directors, the information,

which is recorded in documents or electromagnetic record media, shall be organized and retained based on Document Handling Regulations and Information Management Regulations. The Company conducts training with the aim of strengthening the information management system and strictly manages information.

(3) Regulations and Systems Concerning Management of Risk of Loss by the Company as well as Its Subsidiaries

- (a) The Company shall establish a Risk Management Committee as an advisory organ of its Board of Directors to comprehensively identify and manage the Group's various risk. The Risk Management Committee is composed of the Company's President and CEO as the chairman and members including outside experts, such as attorneys at law.
- (b) The Risk Management Committee shall confirm the development and operational status of the Risk Management Regulations, related individual regulations, guidelines, manuals, etc. for the risk management of the Group, and conduct trainings for officers and employees of the Group. The Company's Chief of the Compliance Management Headquarters, and concurrently Chief Legal Officer (CLO) shall submit quarterly reports on risk management of the Group to the Company's Board of Directors.
- (c) The Company's Auditing Department shall audit the conditions for the execution of business for each department of the Group. If an act with a risk of loss was found in business operations, the Auditing Department shall immediately notify the Company's President and CEO, as well as the department in charge of its details of the degree of loss to be thereby incurred.

(4) Systems to Ensure the Efficient Fulfillment of Duties by Directors

- (a) The Company shall set up the Board of Directors to enhance business performance through appropriate and rapid decision-making, responding flexibly to changes in the business and management environment. The Board of Directors shall be composed of a fair and appropriate number of members with diverse background, considers important management functions and hold regular meetings once a month, while extraordinary meetings can be called at any time as required, in order for decisions to be made on critical management matters as well as to monitor the status of business performance.
- (b) As a prior deliberative organ of the Board of Directors, regular meetings of the Corporate Management Council shall be held to discuss business operation policies and its implementation and to consider measures to be taken.
- (c) The Company shall set up a Medium-term Management Plan for the Group, and determine the priority objective and budgetary allocation of the whole group every fiscal year to materialize the relevant plan.
- (d) The progress of income and expenditure plans and other important business plans of each department and subsidiary shall be reviewed monthly or appropriately by the Board of Directors and other bodies, where problems will be extracted and counter measures will be executed.

(5) Systems for Reporting of Matters Concerning Execution of Duties of Directors of the Company's Subsidiaries, and Other Systems to Ensure Appropriate Business Operations in the Group

- (a) The Affiliated Companies Management Regulations shall be applied to subsidiaries of the Company. Each subsidiary shall obtain approval of the Board of Directors or the officers of the Company in charge of the respective subsidiary for important matters of corporate management in accordance with the decision-making standards of the Company and ensure the appropriateness of business operations.
- (b) The management of subsidiaries of the Company shall be supervised by the Chief of the Corporate Planning Headquarters. The Company's Chief of the Corporate Planning Headquarters shall periodically hold a meeting with the affiliated companies liaison committee to smoothly exchange information and promote group activities, and mutually receive reports between the Company and its subsidiaries as necessary.
- (c) The chief of the responsible department shall supervise and manage business conducted by subsidiaries to establish a compliance system, and a risk management system in line with measures based on Management Plans and efficient business execution while respecting the independency of subsidiaries. The chief of the responsible department shall make periodic reports on the condition of progress in the management of subsidiaries by exchanging information in regular and timely manners with the subsidiary to the Board of Directors and the Corporate Management Council.
- (d) The Company's Auditing Department and Audit & Supervisory Board Members shall conduct a regular or special audit of each subsidiary while cooperating with Audit & Supervisory Board Members of subsidiaries and then report to the Company's President and CEO and the Auditing Council.

(6) Matters Concerning Employees when Audit & Supervisory Board Members Request the Secondment of Employees to Assist with Duties, Matters Concerning the Independence of Those Employees from Directors and Matters for Securing Effective Direction of Audit & Supervisory Board Members

- (a) When the Company's Audit & Supervisory Board Member requests to assign an employee to assist with the duties of the Audit & Supervisory Board Member, the Company's Board of Directors shall nominate an employee assisting Audit & Supervisory Board Member from the members of the Company's Auditing Department after consultation with the Company's Audit & Supervisory Board Member.
- (b) In assisting the duties of Audit & Supervisory Board Members of the Company, the right of command over the nominated employee shall be transferred to the Company's Audit & Supervisory Board Members to ensure independence from the Company's Board of Directors. The appointed employee shall submit to the orders of the Audit & Supervisory Board Members when supporting their duties. An evaluation of the support work of Audit & Supervisory Board Member's duties shall be conducted by the Company's Audit & Supervisory Board. The Company's Audit & Supervisory Board Member and the Director in charge of the Human Resources Department shall confer about personnel changes and treatment.

(7) Systems for Directors and Employees, as well as Directors, Audit & Supervisory Board Members, Employees, etc. of Subsidiaries to Report to Audit & Supervisory Board Members, Other Systems of Reporting to Audit & Supervisory Board Members, and Other Systems to Secure Effective Conduct of Audits by Audit & Supervisory Board Members

- (a) Officers and employees of the Group shall make reports on matters possibly causing serious damage and losses to the Group, illegal acts and other necessary important matters to the Company's Audit & Supervisory Board Members as necessary based on laws and regulations, and internal regulations such as the Audit & Supervisory Board Rules and the Auditing Standards for the Audit & Supervisory Board Members. In order to ensure thorough reporting to the Audit & Supervisory Board Members, the relevant system shall be regularly communicated to officers and employees. The Company's Audit & Supervisory Board Members may always require officers and employees to report as necessary.
- (b) The Company's Audit & Supervisory Board Members shall attend the meetings of important committees such as the Board of Directors, the Corporate Management Council, the Compliance Committee, the Risk Management Committee, and affiliated companies liaison committee to understand the process of important decision-making and the conditions of the execution of the duties by Directors of the Group, and may peruse important documents about the fulfillment of such duties, such as circular memos for approval. The Company's Audit & Supervisory Board Members shall periodically exchange opinions with the Company's President and CEO, and monitor and inspect each department of the Group and Audit & Supervisory Board Members of subsidiaries through periodic hearings and on-the-spot audits.
- (c) The Company's Audit & Supervisory Board Members, by the independence and authority based on the Audit & Supervisory Board Rules and the Auditing Standards for the Audit & Supervisory Board Members, shall ensure the effectiveness of the audit, and maintain close cooperation with the Auditing Department and the Accounting Auditors to promote the achievement of their outcomes by receiving reports of audit situation of each group section from the Auditing Department.
- (d) The Group shall prohibit unfavorable treatment of officers and employees of the Group who have reported to the Company's Audit & Supervisory Board Members on the grounds of having made the report, and fully enforce this rule.
- (e) In the case where an Audit & Supervisory Board Member demands payments in advance or redemptions of expenses incurred for duties executed, the subject expenses or liabilities shall immediately be paid or reimbursed, excluding the case where such expenses or the liabilities are not necessary for the execution of the duties of the Company's Audit & Supervisory Board Member.

(8) Systems to Ensure Reliable Financial Reporting

For the purpose of securing reliable financial reporting of the Company and effective and proper submission of internal control reports by the Company as provided in the Financial Instruments and Exchange Act, the Group shall set up a structure to establish and apply a proper internal control system under the command of the Company's President and CEO,

continue to evaluate whether or not the structure will function properly, make necessary corrections, and ensure conformity with the Financial Instruments and Exchange Act and other applicable laws and regulations.

(9) Systems Development to Exclude All Antisocial Forces

- (a) The Group's Corporate Ethics Charter shall clearly set out the Group's determination to "oppose all antisocial forces." The Group is committed to eliminating all ties, and dealing resolutely, with any antisocial forces or organizations posing a threat to public order or safety.
- (b) The Group shall enact detailed regulations for opposing antisocial forces and establish a system that will not yield to unlawful demands from antisocial forces by appointing a person responsible for preventing unlawful demands in all offices and places of business. General Affairs Department of the Company shall be generally responsible for establishing the system, and the system shall be established by consulting with the Compliance Committee, the Risk Management Committee, related departments and external professional organizations.

2. Overview of Operation Status of Systems to Ensure Appropriate Business Operations

(1) Systems for Execution of Duties by Directors and Employees of the Company as well as Its Subsidiaries to Ensure Compliance with Laws and Regulations and the Articles of Incorporation

The compliance system has been fully developed with the establishment of the Corporate Ethics Charter, establishment of the Compliance Committee, election of Outside Directors, establishment of the Auditing Department as well as the Compliance Management Department, and establishment of the internal reporting system and related regulations.

Furthermore, the Company received an investigation report on the problem concerning construction defects from the External Investigation Committee. The Company established recurrence preventive measures on May 29, 2019 and restructured the compliance system under a compliance-first policy.

During the fiscal year under review, by holding 12 meetings of the Compliance Committee and conducting internal audits, the Company ensures compliance with laws and regulations and other rules.

To strengthen the check-and-balance functions of the Company's executive bodies, an Outside Director has been appointed to chair the Compliance Committee and, as a result of a major review of the contents of deliberations and composition of the committee, the discussions have become more lively.

In addition, although the procedures in case of compliance violations by officers had not been clarified, the Company added deliberations of proposals to dismiss officers as a function of the Nomination and Compensation Committee.

However, the authority and responsibilities of the compliance coordinators in charge of promoting compliance at each business site have not been clearly defined, and revising the system of compliance coordinators is a future issue.

(2) Systems for Retention and Management of Information on Execution of Duties by Directors

Systems for retaining and managing information have been fully developed by the management system with the Chief of the Management Headquarters as the person generally responsible for the retention and management, as provided for in Document Management Regulations and Information Management Regulations.

During the fiscal year under review, these existing systems continued to operate and maintained an appropriate state of affairs, but here and there cases have been observed in which the classification did not match the importance of the information. In order to further strengthen information management system, the Company will work to thoroughly inculcate the Information Management Regulations by means of training, etc.

(3) Regulations and Systems Concerning Management of Risk of Loss by the Company as well as Its Subsidiaries

Risk management systems have been fully developed with the establishment of the Risk Management Committee and the management system stipulated by Risk Management Regulations.

During the fiscal year under review, the Company continued to operate the existing systems and conducted risk management taking into account professional insights from outside members of the Risk Management Committee.

Furthermore, the Company received an investigation report on the problem concerning construction defects from the External Investigation Committee. The Company established recurrence preventive measures on May 29, 2019 and will identify and manage potential risks under a compliance-first policy. On July 31, 2019, the Company established additional recurrence preventive measures and built a system for collecting and verifying risk information.

While each business division will identify potential risks based on the recurrence preventive measures, the measures to take are currently being determined and company-wide management of potential risks is a future issue.

In addition, systematic investigations and analyses of specific individual repair requests and other complaints, such as by preparing a complaint handling manual, and building an organizational system that can collect risk information and respond appropriately and promptly are also future issues.

(4) Systems to Ensure the Efficient Fulfillment of Duties by Directors

After preliminary deliberation by the Corporate Management Council, decisions have been made after deliberation at the Board of Directors meetings, as the governing body. On the other hand, to review the progress of business plans, Board of Executive Officers, whose main purpose is reviewing, and affiliated companies liaison committee meetings have been held, in addition to Board of Directors meetings. As such, systems for ensuring the efficient execution of duties have been fully developed.

In addition, Outside Directors and Audit & Supervisory Board Members hold monthly

outside officers meetings at which information is shared and opinions exchanged. Based on this, pertinent opinions will be expressed at the various meetings, beginning with meetings of the Board of Directors, and management supervision of execution of duties by Directors will be made more effective.

During the fiscal year under review, the Company held these meetings on a regular basis, and as needed, and made timely decisions including attendance via a telephone conference system and resolutions in writing to maintain appropriate conditions.

(5) Systems for Reporting of Matters Concerning Execution of Duties of Directors of the Company's Subsidiaries, and Other Systems to Ensure Appropriate Business Operations in the Group

The systems for ensuring appropriate business operations by the Group have been fully developed with a report given to the Board of Directors of the Company in accordance with the Affiliated Companies Management Regulations. In addition, affiliated companies liaison committee meetings have been held periodically to review the progress of business plans and receive the necessary reports from subsidiaries. The Company dispatches Directors to subsidiaries to strengthen monitoring functions and ensure appropriateness of business operations.

Of the systems for ensuring the appropriateness of business operations by each company of the Group, while the Company's Compliance Management Department and Corporate Planning Department oversaw the entire Group comprehensively, the department or section responsible for the Company's subsidiaries supervised and managed the compliance system and the risk management system, and the Auditing Department and the Audit & Supervisory Board Members of the Company audited subsidiaries.

During the fiscal year under review, for enhancing the business audit functions by Audit & Supervisory Board Members, the Company reconsidered the way it elects Audit & Supervisory Board Members of subsidiaries, and conducted changes of the system, including the cooperation with the Company's Audit & Supervisory Board Members and the Auditing Department.

(6) Matters Concerning Employees when Audit & Supervisory Board Members Request the Secondment of Employees to Assist with Duties, Matters Concerning the Independence of Those Employees from Directors and Matters for Securing Effective Direction of Audit & Supervisory Board Members

Rules on the right of command and the authority over personnel issues such as employee evaluations have been stipulated in the Audit & Supervisory Board Rules and the Auditing Standards for employees to assist with the duties of the Audit & Supervisory Board Members.

During the fiscal year under review, an employee was placed to assist Audit & Supervisory Board Members in the execution of their duties.

(7) Systems for Directors and Employees, as well as Directors, Audit & Supervisory Board Members, Employees, etc. of Subsidiaries to Report to Audit & Supervisory Board Members, Other Systems of Reporting to Audit & Supervisory Board Members, and Other Systems to Secure Effective Conduct of Audits by Audit & Supervisory Board Members

The systems to report to Audit & Supervisory Board Members and the systems to secure effective conduct of audits by Audit & Supervisory Board Members have been fully developed by stipulating them in the Audit & Supervisory Board Rules and the Auditing Standards for the Audit & Supervisory Board Members. Audit & Supervisory Board Members cooperate closely with the Auditing Department and the Accounting Auditor.

During the fiscal year under review, Audit & Supervisory Board Members strengthened the effectiveness of audits by Audit & Supervisory Board Members by exchanging opinions with the President and CEO on issues to be addressed by the Company.

Also, in order to allow the systems to report to Audit & Supervisory Board Members to work appropriately, the Audit & Supervisory Board educated the Board of Directors to encourage it to report more promptly.

(8) Systems to Ensure Reliable Financial Reporting

The system has been constructed to evaluate internal controls by the Auditing Department, and an internal control report for the 46th fiscal term was submitted on June 28, 2019.

During the fiscal year under review, the Company continued to evaluate the status of the development and operation of its internal control system.

(9) Systems Development to Exclude All Antisocial Forces

Among systems for excluding antisocial forces, the Company has stipulated the rules for excluding antisocial forces in the Corporate Ethics Charter, etc., and has developed a system therefor.

During the fiscal year under review, the Company implemented corporate activities free from any relationships with antisocial forces.

3. Policy on Determination of Dividends of Surplus and Others

The return of profits to shareholders is positioned as a key management issue for the Company. However, given the current business performance, it is with sincere regret that the Company has decided not to pay a year-end dividend for the fiscal year under review.

Note: The portions of amounts and number of shares stated in this Business Report less than the display unit are omitted (always rounded down).

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET (as of March 31, 2020)

(millions of yen)

| ASSETS | |
|--|----------------|
| Current assets | 88,304 |
| Cash and cash equivalents | 60,501 |
| Trade receivables | 7,260 |
| Accounts receivable for completed projects | 532 |
| Operating loans | 132 |
| Securities | 5,951 |
| Real estate for sale | 1,189 |
| Real estate for sale in progress | 2,797 |
| Payment for construction in progress | 725 |
| Raw materials and supplies | 539 |
| Prepaid expenses | 3,053 |
| Other accounts receivable | 1,242 |
| Others | 4,543 |
| Allowance for doubtful accounts | (164) |
| Non-current assets | 108,424 |
| Property, plant and equipment | 85,534 |
| Buildings and structures | 23,863 |
| Machinery, equipment, and vehicles | 9,798 |
| Land | 36,893 |
| Leased assets | 7,197 |
| Construction in progress | 208 |
| Other | 7,572 |
| Intangible fixed assets | 5,504 |
| Goodwill | 127 |
| Others | 5,376 |
| Investments and other assets | 17,385 |
| Investment securities | 8,163 |
| Long-term loans | 1,025 |
| Bad debts | 225 |
| Long-term prepaid expenses | 2,250 |
| Deferred tax assets | 1,297 |
| Others | 5,328 |
| Allowance for doubtful accounts | (905) |
| Deferred assets | 224 |
| Bond issuance cost | 224 |
| Total assets | 196,953 |

CONSOLIDATED BALANCE SHEET (as of March 31, 2020) (Continued)

(millions of yen)

| | |
|--|----------------|
| LIABILITIES | |
| Current liabilities | 90,006 |
| Electronically recorded obligations - operating | 176 |
| Accounts payable | 3,376 |
| Accounts payable for completed projects | 1,245 |
| Short-term borrowings | 847 |
| Current portion of long-term debt | 2,659 |
| Bonds due within one year | 3,066 |
| Lease obligations | 4,344 |
| Accounts payable—other | 14,935 |
| Accrued income taxes | 840 |
| Advances received | 31,997 |
| Customer advances for projects in progress | 1,783 |
| Reserve for warranty obligations on completed projects | 117 |
| Reserve for fulfillment of guarantees | 1,200 |
| Reserve for losses related to repairs | 8,302 |
| Reserve for apartment vacancy loss | 11,715 |
| Asset retirement obligations | 44 |
| Others | 3,354 |
| Non-current liabilities | 105,357 |
| Bonds | 5,037 |
| Long-term debt | 15,650 |
| Lease obligations | 4,532 |
| Long-term advances received | 9,451 |
| Lease/guarantee deposits received | 6,286 |
| Reserve for losses related to repairs | 47,945 |
| Deferred tax liabilities | 5 |
| Reserve for apartment vacancy loss | 4,191 |
| Liability for retirement benefit | 8,701 |
| Asset retirement obligations | 89 |
| Others | 3,465 |
| Total liabilities | 195,363 |
| NET ASSETS | |
| Shareholders' equity | 1,083 |
| Common stock | 75,282 |
| Capital surplus | 45,148 |
| Retained earnings | (118,874) |
| Treasury stock | (473) |
| Accumulated other comprehensive income | 220 |
| Net unrealized gains on "other securities" | 1,047 |
| Foreign currency translation adjustments | (280) |
| Remeasurements of defined benefit plans | (546) |
| Share subscription rights | 269 |
| Non-controlling interests | 16 |
| Total net assets | 1,589 |
| Total liabilities and net assets | 196,953 |

CONSOLIDATED STATEMENT OF OPERATIONS (from April 1, 2019 to March 31, 2020)
(millions of yen)

| | |
|---|-----------------|
| Net sales | 433,553 |
| Sales from Leasing Business | 388,939 |
| Sales from Development Business | 23,806 |
| Sales from Other Businesses | 20,807 |
| Cost of sales | 408,112 |
| Cost of sales from Leasing Business | 368,094 |
| Cost of sales from Development Business | 19,415 |
| Cost of sales from Other Businesses | 20,601 |
| Gross profit | 25,441 |
| Selling, general and administrative expenses | 61,915 |
| Operating loss | (36,473) |
| Other income | 1,788 |
| Interest income | 146 |
| Dividend income | 181 |
| Investment returns from anonymous associations | 977 |
| Gain on valuation of investment securities | 166 |
| Others | 317 |
| Other expenses | 1,656 |
| Interest expenses | 624 |
| Bond issuance cost | 161 |
| Foreign exchange losses | 157 |
| Share of loss of entities accounted for using equity method | 72 |
| Commission income refund | 255 |
| Others | 384 |
| Recurring loss | (36,341) |
| Extraordinary income | 11,681 |
| Gain on sale of property, plant and equipment | 8,945 |
| Gain on sale of investment securities | 2,368 |
| Gain on reversal of share subscription rights | 17 |
| Gain on cancelling contracts | 350 |
| Extraordinary losses | 33,353 |
| Loss on sale of property, plant and equipment | 972 |
| Loss on retirement of property, plant and equipment | 71 |
| Impairment loss | 7,620 |
| Provision of reserve for losses related to repairs | 21,501 |
| Loss related to repairs | 2,894 |
| Loss on sale of shares in subsidiaries | 2 |
| Special severance allowance | 227 |
| Repair expenses | 63 |
| Loss before income taxes | (58,013) |
| Income taxes—current | 726 |
| Income taxes—deferred | 21,485 |
| Net loss | (80,224) |
| Net loss attributable to non-controlling interests | (0) |
| Net loss attributable to shareholders of the parent | (80,224) |

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(from April 1, 2019 to March 31, 2020)

(millions of yen)

| | Shareholders' equity | | | | |
|---|----------------------|-----------------|-------------------|----------------|----------------------------|
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance as of April 1, 2019 | 75,282 | 45,148 | (38,635) | (655) | 81,140 |
| Change during period | | | | | |
| Net loss attributable to shareholders of the parent | | | (80,224) | | (80,224) |
| Disposal of treasury stock | | | (47) | 181 | 134 |
| Change in the scope of consolidation | | | 33 | | 33 |
| Net change of items other than shareholders' equity | | | | | |
| Total change during period | – | – | (80,238) | 181 | (80,056) |
| Balance as of March 31, 2020 | 75,282 | 45,148 | (118,874) | (473) | 1,083 |

(millions of yen)

| | Accumulated other comprehensive income | | | | Share subscription rights | Non-controlling interests | Total net assets |
|---|--|--|---|--|---------------------------|---------------------------|------------------|
| | Net unrealized gains on "other securities" | Foreign currency translation adjustments | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | | | |
| Balance as of April 1, 2019 | 280 | (176) | (327) | (224) | 404 | 17 | 81,338 |
| Change during period | | | | | | | |
| Net loss attributable to shareholders of the parent | | | | | | | (80,224) |
| Disposal of treasury stock | | | | | | | 134 |
| Change in the scope of consolidation | | | | | | | 33 |
| Net change of items other than shareholders' equity | 766 | (103) | (218) | 444 | (135) | (0) | 309 |
| Total change during period | 766 | (103) | (218) | 444 | (135) | (0) | (79,748) |
| Balance as of March 31, 2020 | 1,047 | (280) | (546) | 220 | 269 | 16 | 1,589 |

Notes to Consolidated Financial Statements

1. Important Items That Form the Basis of Preparing Consolidated Financial Statements, etc.

(1) Scope of consolidation

(a) Number of consolidated subsidiaries and names of principal consolidated subsidiaries of Leopalace21 Corporation (the “Company”)

| | |
|--------------------------------------|---|
| Number of consolidated subsidiaries: | 24 |
| Principal consolidated subsidiaries: | Leopalace Leasing Corporation Plaza Guarantee Co., Ltd. Leopalace Power Corporation Leopalace Energy Corporation ASUKA SSI Enplus Inc. Leopalace21 Business Consulting (Shanghai) Co., Ltd. LEOPALACE21 VIETNAM CO., LTD. Leopalace21 (Thailand) CO., LTD. Leopalace21 (Cambodia) Co., Ltd. LEOPALACE21 PHILIPPINES INC. PT. Leopalace Duasatu Realty Leopalace21 Singapore Pte. Ltd. Morizou Co., Ltd. Azu Life Care Co., Ltd. Leopalace Guam Corporation WING MATE CO., LTD. Leopalace Smile Co., Ltd. |

(b) Status of non-consolidated subsidiaries

Name of non-consolidated subsidiary: TRUMAN HOLDING LIMITED

Reason for exclusion from scope of consolidation:

The non-consolidated subsidiary is excluded from the scope of consolidation because the total assets, net sales, net income or loss (corresponding to the ownership held by the Company) and retained earnings (corresponding to the ownership held by the Company) of the non-consolidated subsidiary have no material impact on the consolidated financial statements.

(2) Application of equity method

(a) Numbers of non-consolidated subsidiaries and affiliates accounted for by the equity method and names of principal such companies

| | |
|---|--|
| Number of non-consolidated subsidiaries accounted for by the equity method: | 1 |
| Name of non-consolidated subsidiary: | TRUMAN HOLDING LIMITED |
| Number of affiliates accounted for by the equity method: | 4 |
| Names of affiliates: | Woori & Leo PMC Co., Ltd. Ancora Residential Fund LP PT TEGUH BINA KARYA Learn JP Corp. |

(b) Special note on the application of equity method

Although the fiscal year end of entities accounted for by the equity method are different from the consolidated balance sheet date, the financial statements of the companies as of their fiscal year end and for their fiscal year are used in the preparation of the Company’s consolidated financial statements.

(3) Changes in the scope of consolidation and application of equity method

(a) Changes in the scope of consolidation

The Company has excluded Leopalace Trust Co., Ltd. (now Miraisupport Trust Co., Ltd.) from the scope of consolidation from the fiscal year under review because the equity ratio attributable to the Company decreased as the result of a capital increase by third-party allotment implemented by said company after the Company sold some of its shares in said company.

The Company has excluded Life Living Co., Ltd. from the scope of consolidation from the fiscal year under review because the Company sold all of its shares in said company.

(b) Changes in the scope of application of equity method

TRUMAN HOLDING LIMITED, Ancora Residential Fund LP, PT TEGUH BINA KARYA, and Learn JP Corp. were included in the scope of application of equity method because of new acquisitions of their shares in the fiscal year under review.

(4) Fiscal year ends of consolidated subsidiaries

Among the consolidated subsidiaries, the fiscal year end of Leopalace Guam Corporation and other 15 companies is December 31 of each year. As the difference between the said date and the consolidated balance sheet date is within three months, their financial statements as of the said date are used in the preparation of the Company's consolidated financial statements.

When significant transactions occur at those subsidiaries between their fiscal year end and the consolidated balance sheet date, these transactions are included in consolidation as necessary.

(5) Summary of accounting policies

(a) Valuation bases and methods for significant assets

Securities

Held-to-maturity debt securities are stated at amortized cost (straight-line method).

Other securities

Other securities with available fair market values are stated at fair market value at the end of the fiscal year of the Company and each of the consolidated subsidiaries. Unrealized gains and losses are directly included in net assets. The cost of securities sold is determined by the moving-average method.

Other securities without available fair market values are stated at cost determined by the moving-average method.

Investments in silent partnerships, etc. are reported using the equity method, based on the latest financial statements available as at the closing dates stipulated by the respective partnership contracts.

Inventories

Real estate for sale and real estate for sale in progress

Primarily stated at cost determined by the specific identification method (figures on the balance sheet are determined based on the method of writing down the book value in accordance with the declining in profitability of assets)

Payment for construction in progress

Primarily stated at cost determined by the specific identification method

Raw materials and supplies

Primarily stated at cost determined by the last purchase cost method (figures on the balance sheet are determined based on the method of writing down the book value in accordance with the declining in profitability of assets)

Derivatives

Stated at fair market value

(b) Depreciation and amortization of significant depreciable and amortizable assets

Rental property, plant and equipment of the Company and consolidated subsidiaries in Japan (except for leased assets):

Depreciated by the straight-line method

Useful lives of major assets are as follows:

Buildings and structures: 22–47 years

Property, plant and equipment other than the above of the Company and consolidated subsidiaries in Japan (except for leased assets):

Depreciated by the declining-balance method

However, buildings (excluding accompanying facilities) obtained on or after April 1, 1998 and facilities accompanying buildings and structures obtained on or after April 1, 2016 are depreciated by the straight-line method.

Useful lives of major assets are as follows:

Buildings and structures: 15–50 years

Machinery, equipment, and vehicles: 17 years

Tools, furniture and fixtures (Other in property, plant and equipment): 5–10 years

Property, plant and equipment of the overseas subsidiaries:

Depreciated by the straight-line method based on the local GAAP

Useful lives of major assets are as follows:

Buildings and structures: 20–40 years

Tools, furniture and fixtures (Other in property, plant and equipment): 3–5 years

Intangible fixed assets (except for leased assets):

Amortized by the straight-line method

Useful lives of major assets are as follows:

Software for internal use: 5 years

Leased assets:

Depreciated and amortized by the straight-line method based on the lease term as the useful life and residual value of zero.

Long-term prepaid expenses:

Evenly amortized mainly over the following period

Prepaid master-lease rents: 3–5 years

(c) Accounting for deferred assets

Bond issuance cost

Evenly amortized over the redemption period

(d) Provision of significant allowance and provisions

Allowance for doubtful accounts

The Group maintains an allowance for doubtful accounts to reserve for potentially uncollectible receivables such as accounts receivable and loans. An estimated uncollectible amount is provided at the amount estimated by either using the historical rate of credit loss in the case of general receivables, or based on individual consideration of collectibility in the case of specific receivables such as highly doubtful receivables.

Reserve for warranty obligations on completed projects

With regard to the development business, reserve for warranty obligations on completed projects is provided to reserve for the Company's compensation expenses regarding its execution of warranty obligations under defect liabilities in the future pertaining to completed projects. It is calculated using the percentage of the past execution of warranty obligations on the completed projects.

Reserve for fulfillment of guarantees

In order to provide for losses attributable to its rent payment guarantee business, the Company's consolidated subsidiary, Plaza Guarantee Co., Ltd., records the amount of loss expected based on the rate of past guarantee fulfillments.

Reserve for losses related to repairs

An amount of loss estimated based on ratio of defects, etc. is recorded to prepare for the occurrence of repair costs and incidental expenses related to construction defects of properties (apartments) constructed by the Company.

Reserve for apartment vacancy loss

With regard to the leasing business, reserve to prepare for the risk of vacancy losses on apartment units managed under master lease agreements is provided according to the projected loss that could occur during a logically predictable period. It is based on estimated losses resulting from current rental income and expected future occupancy rates for each rental property.

(e) Recognition of significant revenues and costs

Recognition of net sales of completed construction contracts and cost of sales of completed construction contracts

(i) Construction contracts in which the outcome of the construction activity is deemed certain by the end of the fiscal year under review

Percentage-of-completion method (Progress of construction is estimated based on the method of the ratio of actual cost incurred to total cost.)

(ii) Other construction contracts

Completed-contract method

(f) Foreign currency translation of important foreign currency-denominated assets and liabilities into Japanese yen

All monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates as of the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of operations. The assets and liabilities of overseas subsidiaries are translated into Japanese yen at the current exchange rates as of the balance sheet date of overseas subsidiaries, and revenues and expenses are translated into Japanese yen at the average exchange rates of the fiscal year. Foreign exchange gains and losses from translation are included in foreign currency translation adjustments and non-controlling interests as a separate component of net assets.

(g) Amortization and amortization period of goodwill

Goodwill is amortized evenly over the period of the future economic benefits. However, goodwill is amortized in lump-sum when incurred if the amount is minimal.

(h) Other important matters for preparing consolidated financial statements

Recognition of liability for retirement benefit

To prepare for employees' retirement benefits, liability for retirement benefit is recorded at the amount remaining after deducting pension assets from retirement benefit obligations based on estimated amounts at the end of the fiscal year under review.

Actuarial differences, which are prorated according to the straight-line method over a specified period (5 years) within the average remaining service years of employees at the time of accrual in each fiscal year, are amortized starting in the next fiscal year of the respective accruals.

Unrecognized actuarial differences are posted, factoring in tax effects, as remeasurements of defined benefit plans in accumulated other comprehensive income under net assets.

In the calculation of retirement benefit obligations, the method of attributing expected retirement benefits to the period up to the end of the fiscal year under review is on the benefit formula basis.

Certain consolidated subsidiaries apply a simplified accounting method in which the calculation of liability for retirement benefit and retirement benefit cost is carried out by using a method in which the retirement benefit obligations are deemed to be the amount of retirement benefits to be paid in cases where all eligible employees retired on a voluntary basis at the fiscal year-end date.

Accounting for national and local consumption taxes

National and local consumption taxes are excluded from transaction amounts. However, ASUKA SSI, a consolidated subsidiary, includes national and local consumption taxes.

The nondeductible portion of consumption taxes related to non-current assets is recorded as long-term prepaid expenses and amortized evenly over 5 years.

Interest capitalization

Leopalace Guam Corporation capitalized interest paid on borrowings for real estate development business for the development period into acquisition cost of property, plant and equipment.

Capitalized interests included in carrying amount of property, plant and equipment of Leopalace Guam Corporation were 318 million yen as of March 31, 2020.

Additional Information

Matters relating to the change in the purpose of holding the property, plant and equipment

Due to the change in the purpose of holding a part of the property, plant and equipment during the fiscal year under review, 49 million yen in buildings and structures, 344 million yen in land, and 4 million yen in other were reclassified to 102 million yen in real estate for sale and 295 million yen in real estate for sale in progress.

Reserve for losses related to repairs

The total amount of reserve for losses related to repairs was recorded in the current liabilities. In light of the progress of the repair works, we reclassified a part of reserve in the non-current liabilities which is not allocated for the cost to be incurred within one year.

Accounting assumption related to spread of COVID-19

We expect that the spread of COVID-19 and resultant sluggish economy will affect our business for the time being and assume that the number of residential contracts in our main Leasing Business will lack buoyancy until June 2020. Based on the above assumption, we examined the recoverability of deferred tax assets.

Although we made best possible estimation based on the available information at the time of preparing the consolidated financial statements, due to uncertainty in the assumptions used to make such estimation, depending on changes in the assumptions including the state of containment of COVID-19 spread and economic consequences, we may not be able to avoid the influence on our financial conditions and business performance.

2. Notes to Consolidated Balance Sheet

(1) Assets pledged as collateral and secured liabilities

(a) Assets pledged as collateral

| | |
|---------------------------------------|-------------------|
| Cash and cash equivalents | 130 million yen |
| Others (Current assets) | 251 million yen |
| Buildings and structures | 54 million yen |
| Machinery, equipment, and vehicles | 83 million yen |
| Others (Intangible fixed assets) | 730 million yen |
| Investment securities | 36 million yen |
| Others (Investments and other assets) | 108 million yen |
| Total | 1,395 million yen |

(b) Secured liabilities

| | |
|-----------------------------------|-----------------|
| Long-term debt | 629 million yen |
| Current portion of long-term debt | 76 million yen |

Of the assets pledged as collateral described in (a) above, cash and cash equivalents, others (current assets) and investment securities have been pledged as collateral to companies in which consolidated subsidiaries have invested and to lenders to customers, etc., and there are no secured liabilities.

(c) Securities and others (investments and other assets) which have been deposited with the Legal Affairs Bureau, etc.

| | |
|--|-------------------|
| Deposit for housing construction warranty | 1,156 million yen |
| Advanced payment certificate in accordance with Payment and Settlement Regulations | 628 million yen |
| Deposit for operation stipulated in Building Lots and Buildings Transaction Business Act | 95 million yen |
| Deposit for operation stipulated in Insurance Business Act | 120 million yen |
| Deposit for housing defect warranty | 109 million yen |
| Others | 9 million yen |

(2) Accumulated depreciation of property, plant and equipment 84,165 million yen

(3) Reduction entry amount deducted from the acquisition cost of property, plant and equipment

| | |
|------------------------------------|-----------------|
| Machinery, equipment, and vehicles | 155 million yen |
|------------------------------------|-----------------|

(4) Liabilities on guarantee

| | |
|--|-----------------|
| Liabilities on guarantee for financial institutions for customers who have a housing loan | 468 million yen |
| Liabilities on guarantee for financial institutions for customers who have a membership loan | 3 million yen |

(5) Contingent Liabilities

The Company announced on April 27, 2018 that there were partly discrepancies between construction drawings on notice of verification of building construction and the actual construction of two apartment series “Gold Nail” and “New Gold Nail” (hereinafter, the “Nail series”), developed by the Company between 1994 and 1995, and all subject properties will be investigated and repair works to be carried out on all properties with discrepancies with construction drawings on notice of verification of building construction, in consideration of the responsibilities as a construction company.

In addition, the Company announced on May 29, 2018 that because a part of six apartment series constructed by the Company during 1996 and 2009, “Gold Residence,” “New Silver Residence,” “New Gold Residence,” “Special Steel Residence,” “Better Steel Residence” and “Con Grazia” (hereinafter, the “Six series”), is suspected of violating the Building Standard Law, the Company will investigate all properties constructed by the Company and carry out repair works for the properties in question. For apartment series other than the above properties subject to priority investigations, the “Nail series” and “Six series,” defects were discovered in a part of the subject properties due to insufficient supervision of construction work and others.

Then, it was newly confirmed in the process of the investigation of all buildings that in a part of three apartment series constructed in the period between 1996 to 2001, “Gold Residence,” “New Gold Residence” and “Villa Alta,” foamed urethane was used as a construction member, instead of glass wool described as a construction member for parting walls and exterior walls in the construction design documents, and that in a part of “Gold Residence,” there were defects in construction of ceilings that form floors of living rooms.

The scope of buildings constructed with foamed urethane instead of glass wool is being identified based on the component manufacturing list, etc., and the scope of buildings affected by construction defects in ceilings is being identified based on the expressions in the construction design documents, etc. Since properties in which these defects were identified have specifications that do not meet the specifications certified by the Ministry of Land, Infrastructure, Transport and Tourism Notice or the Minister of Land, Infrastructure, Transport and Tourism, the Company reported these issues to the Ministry of Land, Infrastructure, Transport and Tourism and announced on February 7, 2019 that the Company will carry out repair works to make the properties conform to the specifications prescribed by law.

In the process of continuing the all-building investigation, it was confirmed that the fire-resistant structures in parting walls of the steel-framed properties constructed by the Company were not conforming to statutory specifications recognized by the Minister of Land, Infrastructure, Transport and Tourism. As a result, the Company reported these issues to the Ministry of Land, Infrastructure, Transport and Tourism and announced on May 29, 2019 that the Company will carry out repair works to make the properties conform to the specifications prescribed by law.

In regard to the policy for repair work, the Company announced on October 31, 2019 that the planned schedule for completion of repair work was the end of June 2020 for properties subject to priority investigation, the “Nail series” and “Six series,” with obvious defects, and the end of December 2020 for apartment series other than the aforementioned with obvious defects; and that for other properties with minor defects a repair plan would be reported around the end of June 2020.

The progress of repair work is behind schedule. Of the 7,638 properties subject to priority repair works for obvious defects were recognized, repair has begun at 6,367 of those properties and of those properties, the number properties with finished repair has stalled at 999 properties (as of May 31, 2020). For the policy going forward, given that the recovery of business performance was indispensable for surely implementing measures against the construction defects problem and that a temporarily reduction in the scale of repair works and organizational setup to tackle the construction defects was necessary, the Company announced on June 5, 2020 that it intends to review the repair works plans and report them when it has prospects to realize recovery in business performance.

As a result of these events, to prepare for incurrence of repair costs and incidental expenses (expenses to compensate for the rent of vacancies of properties managed by other companies, relocation expenses for tenants, and external investigation expenses) related to the defects in properties constructed by the Company, reserve for losses related to repairs was recorded in the reasonably estimated amount at the end of the fiscal year under review, depending on changing conditions due to the details of the defects including the price of repairs and the methods used and the necessity or otherwise for the tenant to relocate, and how that is achieved.

However, the repair works are currently in progress, and in the event that there are any changes in the assumptions on which the calculation of reserve for losses related to repairs is based going forward, repair costs incurred and incidental expenses, etc. may exceed the amount for which the reserve has already been made.

Therefore, depending on the progress in repair works and other factors in the following fiscal years, the additional recording of reserve for losses related to repairs, etc. could impact consolidated business results of the Group.

3. Notes to Consolidated Statement of Changes in Net Assets

(1) Number of issued shares

| Class of shares | April 1, 2019 | Increase | Decrease | March 31, 2020 |
|-----------------|--------------------|----------|----------|--------------------|
| Common stock | 244,882,515 shares | – | – | 244,882,515 shares |

(2) Number of shares of treasury stock

| Class of shares | April 1, 2019 | Increase | Decrease | March 31, 2020 |
|-----------------|------------------|----------|----------------|----------------|
| Common stock | 1,067,510 shares | – | 296,300 shares | 771,210 shares |

Note: The decrease of 296 thousand shares in the number of treasury shares of common stock is the result of the exercise of share subscription rights.

(3) Dividends of surplus

(a) Cash dividends paid

Not applicable.

(b) Dividend payments whose record date is in the fiscal year under review but whose effective date is in the following fiscal year

Not applicable.

(4) Share subscription rights as of March 31, 2020

| | Share subscription rights as stock options |
|---|--|
| Class of shares subject to share subscription rights | Common stock |
| Number of shares subject to share subscription rights | 587,200 shares |
| Unexercised share subscription rights | 269 million yen |

4. Financial Instruments

(1) Status of financial instruments

(a) Policy for financial instruments

The Group is involved in raising funds (mostly bank borrowing and corporate bond issuance) based on a capital investment plan. Temporary excess funds are invested in highly secure financial assets, and short-term working capital is raised by borrowing from the bank.

The Group conducts derivative transactions primarily for the purpose of avoiding risks of fluctuations in interest rate and exchange rate, and has a policy not to conduct speculative trading.

(b) Nature of financial instruments and risks arising therefrom

Operating receivables and loans outstanding are exposed to credit risks of customers.

Foreign currency denominated debts and credits originated in conjunction with overseas business development are exposed to exchange risk.

Securities and investment securities include mainly held-to-maturity debt securities and shares, etc. related to business or capital alliances, etc., and they are exposed to risks of fluctuations in market prices and credit risks of the share issuing organizations.

Almost all electronically recorded obligations - operating, accounts payable, accounts payable for completed projects and accounts payable—other which are operating payables are scheduled to be paid within one year.

Borrowings, bonds, and lease obligations related to finance lease transactions are mainly for the purpose of raising funds necessary for investment in facilities, and the longest repayment date is 12 years subsequent to fiscal year end.

There are no derivatives transaction balances remaining as of the end of the fiscal year under review.

(c) Risk management for financial instruments

Credit risk management for operating receivables and loans outstanding follows the “Receivables Management Rules.” While each business division manages the extension of credit to its customers, it is also organized for early detection and loss reduction of accounts where collection is doubtful due to worsening credit or similar problems.

Regarding securities and investment securities, the Company periodically investigates and understands the share price and the financial condition of the share issuing organization. In addition, for items other than held-to-maturity debt securities, the Company considers the relationship with the trading partner companies and constantly re-evaluates its holdings.

The basic policy on derivatives trading is determined by the Board of Directors, and the execution and administration of derivatives transactions are conducted in accordance with the Company’s “Derivatives Trading Management Rules.” The derivatives trading management situation is periodically reported to the Board of Directors for comprehensive risk management.

Operating payables and borrowings are exposed to liquidity risk, but this risk is monitored by various means such as the preparation of a monthly financial plan by each company in the Group.

(d) Supplementary explanations on fair value of financial instruments

Fair value of financial instruments is measured based on the quoted market price, or reasonably assessed value if a quoted market price is not available.

Fair value of financial instruments for which quoted market price is not available is calculated based on changeable factors, and the value might differ if different assumptions are used.

(2) Fair value of financial instruments

The carrying amount on the consolidated balance sheet and fair value of financial instruments as of March 31, 2020 as well as the differences between these values are described below. Financial instruments whose fair values appear to be extremely difficult to determine are not included in the table.

(millions of yen)

| | Carrying amount | Fair value | Difference |
|--|-----------------|---------------|------------|
| (1) Cash and cash equivalents | 60,501 | 60,501 | — |
| (2) Trade receivables and accounts receivable for completed projects | 7,792 | 7,792 | — |
| (3) Securities and investment securities | | | |
| (a) Held-to-maturity debt securities | 905 | 915 | 10 |
| (b) Other securities | 1,808 | 1,808 | — |
| (4) Operating loans | 132 | | |
| Allowance for doubtful accounts (*1) | (5) | | |
| Net | 126 | 140 | 13 |
| (5) Long-term loans | 1,025 | | |
| Allowance for doubtful accounts (*1) | (83) | | |
| Net | 942 | 942 | — |
| (6) Bad debts | 225 | | |
| Allowance for doubtful accounts (*1) | (225) | | |
| Net | — | — | — |
| Total assets | 72,077 | 72,102 | 24 |
| (1) Electronically recorded obligations - operating | 176 | 176 | — |
| (2) Accounts payable and accounts payable for completed projects | 4,622 | 4,622 | — |
| (3) Accounts payable—other | 14,935 | 14,935 | — |
| (4) Short-term borrowings | 847 | 847 | — |
| (5) Bonds (*2) | 8,103 | 8,117 | 14 |
| (6) Long-term debt (*2) | 18,310 | 18,436 | 126 |
| (7) Lease obligations | 8,877 | 9,705 | 828 |
| Total liabilities | 55,872 | 56,841 | 969 |

(*1) Operating loans, long-term loans and bad debts have deductions of their respective allowance for doubtful accounts, which are recorded separately.

(*2) As of March 31, 2020, bonds due within one year of 3,066 million yen and current portion of long-term debt of 2,659 million yen are included in bonds and long-term debt, respectively.

Note 1: Matters concerning the calculation method for the fair value of financial instruments, and matters concerning securities

Assets

(1) Cash and cash equivalents, (2) Trade receivables and accounts receivable for completed projects

These assets are stated at carrying amount as they are settled in the short-term and their fair values approximate their carrying amount.

(3) Securities and investment securities

Shares are stated at the stock exchange quoted price; bonds are stated at either the stock exchange quoted price or the price presented by transacting financial institutions.

Information on securities by holding purpose is shown below.

(a) Held-to-maturity debt securities

The carrying amount on the consolidated balance sheet and fair value of held-to-maturity debt securities by type as well as the differences between these values are described below.

(millions of yen)

| | Type | Carrying amount | Fair value | Difference |
|--|------------------------------------|-----------------|------------|------------|
| Debt securities whose fair value exceeds their carrying amount | (1) Government and municipal bonds | 905 | 915 | 10 |
| | (2) Corporate bonds | – | – | – |
| | (3) Others | – | – | – |
| | Subtotal | 905 | 915 | 10 |
| Debt securities whose carrying amount exceeds their fair value | (1) Government and municipal bonds | – | – | – |
| | (2) Corporate bonds | – | – | – |
| | (3) Others | – | – | – |
| | Subtotal | – | – | – |
| Total | | 905 | 915 | 10 |

(b) Other securities

The carrying amount on the consolidated balance sheet and acquisition cost of other securities by type as well as the differences between these values are described below.

(millions of yen)

| | Type | Carrying amount | Acquisition cost | Difference |
|---|------------------------------------|-----------------|------------------|------------|
| Securities whose carrying amount exceeds their acquisition cost | (1) Stock | 1,610 | 100 | 1,510 |
| | (2) Bonds | | | |
| | (a) Government and municipal bonds | 112 | 111 | 0 |
| | (b) Corporate bonds | – | – | – |
| | (c) Others | – | – | – |
| | (3) Others | – | – | – |
| | Subtotal | 1,722 | 211 | 1,510 |
| Securities whose acquisition cost exceeds their carrying amount | (1) Stock | 12 | 13 | (0) |
| | (2) Bonds | | | |
| | (a) Government and municipal bonds | 74 | 74 | (0) |
| | (b) Corporate bonds | – | – | – |
| | (c) Others | – | – | – |
| | (3) Others | – | – | – |
| | Subtotal | 86 | 87 | (0) |
| Total | | 1,808 | 299 | 1,509 |

(4) Operating loans

The fair value of operating loans is stated at the net present value, which is calculated by discounting the principal with interest by the discount rate (i.e. the estimated interest rate for new transaction).

(5) Long-term loans, (6) Bad debts

The fiscal year-end outstanding balances are calculated mainly using expected future cash flows of the potentially recoverable principal and interest.

Liabilities

(1) Electronically recorded obligations - operating, (2) Accounts payable and accounts payable for completed projects, (3) Accounts payable—other, (4) Short-term borrowings

These liabilities are stated at carrying amount as they are settled in the short-term and their fair values approximate their carrying amount.

(5) Bonds

Bonds issued by the Company are privately offered, and their fair value is stated at the net present value, which is calculated by discounting the principal with interest by the discount rate (i.e. the current market interest rate in consideration of the remaining period and credit risk).

(6) Long-term debt, (7) Lease obligations

These liabilities are stated at the net present value, which is calculated by discounting the principal with interest by the discount rate (i.e. the estimated interest rate for new borrowings or lease transaction).

Note 2: Financial instruments whose fair value appears to be extremely difficult to determine

(millions of yen)

| Item | Carrying amount |
|--|-----------------|
| Other securities | |
| (1) Unlisted shares | 2,935 |
| (2) Shares of non-consolidated subsidiaries and affiliates | 1,060 |
| (3) Unlisted bonds (corporate bonds and subordinate corporate bonds) | 6,424 |
| (4) Others | |
| Subordinate beneficiary rights of loans and accounts receivable in trust | 866 |
| Investments in silent partnerships | 114 |
| Total | 11,400 |

As they have no market value, and as it is understood that it is extremely difficult to estimate their future cash flow, the above financial instruments are not included in “Assets: (3) (b) Other securities.”

Note 3: Scheduled redemption amount of monetary claims and investment securities with maturity subsequent to fiscal year end

(millions of yen)

| | Due within 1 year | Due after 1 year through 5 years | Due after 5 years through 10 years | Due after 10 years |
|--|-------------------|----------------------------------|------------------------------------|--------------------|
| Cash and cash equivalents | 60,501 | — | — | — |
| Trade receivables and accounts receivable for completed projects | 7,792 | — | — | — |
| Securities and investment securities | | | | |
| Held-to-maturity debt securities | 200 | 200 | 500 | — |
| Other securities with maturities | 5,750 | — | 36 | 1,690 |
| Operating loans | 46 | 52 | 21 | 12 |
| Long-term loans | 145 | 414 | 18 | 447 |
| Bad debts | — | — | — | 225 |
| Total | 74,436 | 666 | 575 | 2,376 |

Note 4: Scheduled repayment amount of loans payable and other interest-bearing debt subsequent to fiscal year end

(millions of yen)

| | Due within 1 year | Due after 1 year through 5 years | Due after 5 years through 10 years | Due after 10 years |
|-----------------------|-------------------|----------------------------------|------------------------------------|--------------------|
| Short-term borrowings | 847 | – | – | – |
| Bonds | 3,066 | 5,037 | – | – |
| Long-term debt | 2,659 | 7,878 | 6,276 | 1,495 |
| Lease obligations | 4,344 | 4,532 | – | – |
| Total | 10,918 | 17,447 | 6,276 | 1,495 |

5. Rental Properties

The Company possesses rental apartments in major cities and regional cities throughout Japan. Also, some of consolidated subsidiaries possess rental housing and buildings for rent, and possess serviced apartments. For the fiscal year ended March 31, 2020, income arising from these rental properties was 910 million yen, and impairment loss was 1,407 million yen.

Also, the changes in the carrying amount on the consolidated balance sheet of rental properties during the fiscal year under review, and the fair value as of March 31, 2020 were as follows:

(millions of yen)

| Carrying amount | | | Fair value as of March 31, 2020 |
|-----------------------------|-------------------|------------------------------|---------------------------------|
| Balance as of April 1, 2019 | Increase/decrease | Balance as of March 31, 2020 | |
| 27,036 | (13,150) | 13,886 | 17,585 |

- Notes:
1. The carrying amount on the consolidated balance sheet is the amount after deducting accumulated depreciation and accumulated impairment loss from acquisition cost.
 2. The main decreases for the fiscal year under review were sale of rental apartments of 11,714 million yen and impairment loss of 1,407 million yen.
 3. Fair value as of the end of the fiscal year under review is calculated by the Company mainly based on “Real-estate appraisal standards.”

6. Per Share Information

| | |
|----------------------|--------------|
| Net assets per share | 5.34 yen |
| Basic loss per share | (328.77) yen |

7. Events after the Reporting Period

At the Board of Directors meeting held on June 5, 2020, the Company has drastically revised its business strategies and determined that it will offer a voluntary retirement program in order to implement structural reforms aimed at increasing corporate value.

(1) Reasons for offering a voluntary retirement program

The Company has decided to offer a voluntary retirement program to realize workforce rightsizing to the future operations in the tough business conditions to respond to the business structure changes based on selective concentration strategy, and further reduce fixed costs.

(2) Outline of voluntary retirement

(a) Eligible applicants: Employees aged 35 or older as of April 1, 2020

(b) Expected number of applicants: About 1,000

(c) Application period: From June 22, 2020 to July 31, 2020

(d) Planned leave date: August 31, 2020

(e) Others: In addition to the retirement allowances stipulated in the retirement allowance regulations, the Company will pay special severance allowance to the applicants and will provide them with outplacement service.

(3) Expected amount of loss on voluntary retirement

The company plans to recognize an extraordinary loss of approximately 3,000 million yen as special severance allowance in the fiscal year ending March 31, 2021.

NON-CONSOLIDATED FINANCIAL STATEMENTS

NON-CONSOLIDATED BALANCE SHEET (as of March 31, 2020)

(millions of yen)

| ASSETS | |
|--|----------------|
| Current assets | 73,964 |
| Cash and cash equivalents | 46,902 |
| Trade receivables | 5,922 |
| Accounts receivable for completed projects | 489 |
| Operating loans | 132 |
| Securities | 5,750 |
| Real estate for sale | 1,043 |
| Real estate for sale in progress | 2,539 |
| Payment for construction in progress | 705 |
| Supplies | 438 |
| Prepaid expenses | 2,731 |
| Other accounts receivable | 1,248 |
| Deposits paid | 2,258 |
| Short-term loans receivable from subsidiaries and affiliates | 3,460 |
| Others | 514 |
| Allowance for doubtful accounts | (172) |
| Non-current assets | 99,963 |
| Property, plant and equipment | 50,412 |
| Buildings | 7,077 |
| Structures | 107 |
| Machinery and equipment | 3 |
| Tools, furniture and fixtures | 358 |
| Land | 28,953 |
| Leased assets | 13,911 |
| Intangible fixed assets | 4,152 |
| Software | 3,612 |
| Others | 539 |
| Investments and other assets | 45,399 |
| Investment securities | 6,159 |
| Stocks of subsidiaries and affiliates | 28,605 |
| Long-term loans | 544 |
| Long-term loans receivable from subsidiaries and affiliates | 4,796 |
| Bad debts | 225 |
| Long-term prepaid expenses | 1,875 |
| Others | 4,592 |
| Allowance for doubtful accounts | (1,399) |
| Deferred assets | 224 |
| Bond issuance cost | 224 |
| Total assets | 174,153 |

NON-CONSOLIDATED BALANCE SHEET (as of March 31, 2020) *(Continued)*

(millions of yen)

| | |
|--|----------------|
| LIABILITIES | |
| Current liabilities | 82,520 |
| Electronically recorded obligations - operating | 176 |
| Accounts payable | 2,937 |
| Accounts payable for completed projects | 969 |
| Bonds due within one year | 3,066 |
| Lease obligations | 6,154 |
| Accounts payable—other | 13,894 |
| Accrued income taxes | 431 |
| Advances received | 29,745 |
| Customer advances for projects in progress | 1,528 |
| Deposits received | 3,347 |
| Reserve for warranty obligations on completed projects | 117 |
| Reserve for losses related to repairs | 8,302 |
| Reserve for apartment vacancy loss | 11,715 |
| Others | 132 |
| Non-current liabilities | 90,840 |
| Bonds | 5,037 |
| Lease obligations | 9,490 |
| Long-term advances received | 9,451 |
| Lease/guarantee deposits received | 6,206 |
| Retirement benefit reserves | 8,014 |
| Reserve for losses related to repairs | 47,945 |
| Reserve for apartment vacancy loss | 4,191 |
| Deferred tax liabilities | 439 |
| Others | 63 |
| Total liabilities | 173,360 |
| NET ASSETS | |
| Shareholders' equity | (523) |
| Common stock | 75,282 |
| Capital surplus | 45,235 |
| Legal capital surplus | 45,235 |
| Retained earnings | (120,567) |
| Other retained earnings | (120,567) |
| Retained earnings brought forward | (120,567) |
| Treasury stock | (473) |
| Valuation and translation adjustments | 1,047 |
| Net unrealized gains on "other securities" | 1,047 |
| Share subscription rights | 269 |
| Total net assets | 792 |
| Total liabilities and net assets | 174,153 |

NON-CONSOLIDATED STATEMENT OF OPERATIONS

(from April 1, 2019 to March 31, 2020)

(millions of yen)

| | |
|---|-----------------|
| Net sales | 413,844 |
| Sales from Leasing Business | 381,387 |
| Sales from Development Business | 19,173 |
| Sales from Other Businesses | 13,282 |
| Cost of sales | 391,392 |
| Cost of sales from Leasing Business | 364,457 |
| Cost of sales from Development Business | 15,651 |
| Cost of sales from Other Businesses | 11,283 |
| Gross profit | 22,451 |
| Selling, general and administrative expenses | 59,041 |
| Operating loss | (36,589) |
| Other income | 2,765 |
| Interest and dividend income | 1,298 |
| Investment returns from anonymous associations | 977 |
| Others | 490 |
| Other expenses | 1,365 |
| Interest expenses | 513 |
| Foreign exchange losses | 111 |
| Commission income refund | 255 |
| Others | 484 |
| Recurring loss | (35,189) |
| Extraordinary income | 11,681 |
| Gain on sale of property, plant and equipment | 8,945 |
| Gain on sale of investment securities | 2,368 |
| Gain on reversal of share subscription rights | 17 |
| Gain on cancelling contracts | 350 |
| Extraordinary losses | 31,382 |
| Loss on sale of property, plant and equipment | 972 |
| Loss on retirement of property, plant and equipment | 38 |
| Impairment loss | 1,778 |
| Provision of reserve for losses related to repairs | 21,501 |
| Loss related to repairs | 2,914 |
| Provision of allowance for doubtful accounts | 1,648 |
| Loss on sale of shares in subsidiaries | 118 |
| Loss on valuation of shares of subsidiaries | 2,119 |
| Special severance allowance | 227 |
| Repair expenses | 63 |
| Loss before income taxes | (54,890) |
| Income taxes—current | 205 |
| Income taxes—deferred | 21,521 |
| Net loss | (76,617) |

NON-CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(from April 1, 2019 to March 31, 2020)

(millions of yen)

| | Shareholders' equity | | | | | | |
|---|----------------------|-----------------------|-----------------------|-------------------------|-------------------------|----------------|----------------------------|
| | Common stock | Capital surplus | | Retained earnings | | Treasury stock | Total shareholders' equity |
| | | Legal capital surplus | Total capital surplus | Other retained earnings | Total retained earnings | | |
| Balance as of April 1, 2019 | 75,282 | 45,235 | 45,235 | (43,902) | (43,902) | (655) | 75,959 |
| Change during period | | | | | | | |
| Net loss | | | | (76,617) | (76,617) | | (76,617) |
| Disposal of treasury stock | | | | (47) | (47) | 181 | 134 |
| Net change of items other than shareholders' equity | | | | | | | |
| Total change during period | - | - | - | (76,664) | (76,664) | 181 | (76,482) |
| Balance as of March 31, 2020 | 75,282 | 45,235 | 45,235 | (120,567) | (120,567) | (473) | (523) |

(millions of yen)

| | Valuation and translation adjustments | | Share subscription rights | Total net assets |
|---|--|---|---------------------------|------------------|
| | Net unrealized gains on "other securities" | Total valuation and translation adjustments | | |
| Balance as of April 1, 2019 | 280 | 280 | 404 | 76,644 |
| Change during period | | | | |
| Net loss | | | | (76,617) |
| Disposal of treasury stock | | | | 134 |
| Net change of items other than shareholders' equity | 766 | 766 | (135) | 631 |
| Total change during period | 766 | 766 | (135) | (75,851) |
| Balance as of March 31, 2020 | 1,047 | 1,047 | 269 | 792 |

Notes to Non-consolidated Financial Statements

1. Significant Accounting Policies

(1) Valuation bases and methods for assets

Securities

Shares of subsidiaries and affiliates

Stated at cost determined by the moving-average method

Other securities

Other securities with available fair market values are stated at fair market value at the end of the fiscal year. Unrealized gains and losses are directly included in net assets. The cost of securities sold is determined by the moving-average method.

Other securities without available fair market values are stated at cost determined by the moving-average method.

Investments in silent partnerships are reported using the equity method, based on the latest financial statements available.

Inventories

Real estate for sale and real estate for sale in progress

Primarily stated at cost determined by the specific identification method (figures on the balance sheet are determined based on the method of writing down the book value in accordance with the declining in profitability of assets)

Payment for construction in progress

Primarily stated at cost determined by the specific identification method

Supplies

Primarily stated at cost determined by the last purchase cost method (figures on the balance sheet are determined based on the method of writing down the book value in accordance with the declining in profitability of assets)

(2) Depreciation and amortization of non-current assets

Rental property, plant and equipment (except for leased assets):

Depreciated by the straight-line method

Useful lives of major assets are as follows:

Buildings: 22–47 years

Property, plant and equipment other than the above (except for leased assets):

Depreciated by the declining-balance method

However, buildings (excluding accompanying facilities) obtained on or after April 1, 1998 and facilities accompanying buildings and structures obtained on or after April 1, 2016 are depreciated by the straight-line method.

Useful lives of major assets are as follows:

Buildings: 15–50 years

Tools, furniture and fixtures: 5–10 years

Intangible fixed assets (except for leased assets):

Amortized by the straight-line method

Useful lives of major assets are as follows:

Software for internal use: 5 years

Leased assets:

Depreciated and amortized by the straight-line method based on the lease term as the useful life and residual value of zero.

Long-term prepaid expenses:

Evenly amortized mainly over the following period

Prepaid master-lease rents: 3–5 years

(3) Accounting for deferred assets

Bond issuance cost

Evenly amortized over the redemption period

(4) Provision of allowance and provisions

Allowance for doubtful accounts

The Company maintains an allowance for doubtful accounts to reserve for potentially uncollectible receivables such as accounts receivable and loans. An estimated uncollectible amount is provided at the amount estimated by either using the historical rate of credit loss in the case of general receivables, or based on individual consideration of collectibility in the case of specific receivables such as highly doubtful receivables.

Reserve for warranty obligations on completed projects

With regard to the development business, reserve for warranty obligations on completed projects is provided to reserve for the Company's compensation expenses regarding its execution of warranty obligations under defect liabilities in the future pertaining to completed projects. It is calculated using the percentage of the past execution of warranty obligations on the completed projects.

Retirement benefit reserves

To prepare for employees' retirement benefits, retirement benefit reserves are provided for based on projected retirement benefit obligations and pension assets as of the balance sheet date.

Actuarial differences, which are prorated according to the straight-line method over a specified period (5 years) within the average remaining service years of employees at the time of accrual in each fiscal year, are amortized starting in the next fiscal year of the respective accruals.

Reserve for losses related to repairs

An amount of loss estimated based on ratio of defects, etc. is recorded to prepare for the occurrence of repair costs and incidental expenses related to construction defects of properties (apartments) constructed by the Company.

Reserve for apartment vacancy loss

With regard to the leasing business, reserve to prepare for the risk of vacancy losses on apartment units managed under master lease agreements is provided according to the projected loss that could occur during a logically predictable period. It is based on estimated losses resulting from current rental income and expected future occupancy rates for each rental property.

(5) Recognition of revenues and costs

Recognition of net sales of completed construction contracts and cost of sales of completed construction contracts

(a) Construction contracts in which the outcome of the construction activity is deemed certain by the end of the fiscal year under review

Percentage-of-completion method (Progress of construction is estimated based on the method of the ratio of actual cost incurred to total cost.)

(b) Other construction contracts

Completed-contract method

(6) Foreign currency translation of foreign currency-denominated assets and liabilities into Japanese yen

All monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates as of the balance sheet date. The foreign exchange gains and losses from translation are recognized in the statement of operations.

(7) Other important matters for preparing non-consolidated financial statements

Accounting for national and local consumption taxes

National and local consumption taxes are excluded from transaction amounts. The nondeductible portion of consumption taxes related to non-current assets is recorded as long-term prepaid expenses and amortized evenly over 5 years.

Additional Information

Matters relating to the change in the purpose of holding the property, plant and equipment

Due to the change in the purpose of holding a part of the property, plant and equipment during the fiscal year under review, 49 million yen in buildings and structures, 344 million yen in land, and 4 million yen in others were reclassified to 102 million yen in real estate for sale and 295 million yen in real estate for sale in progress.

Reserve for losses related to repairs

The total amount of reserve for losses related to repairs was recorded in the current liabilities. In light of the progress of the repair works, we reclassified a part of reserve in the non-current liabilities which is not allocated for the cost to be incurred within one year.

Accounting assumption related to spread of COVID-19

We expect that the spread of COVID-19 and resultant sluggish economy will affect our business for the time being and assume that the number of residential contracts in our main Leasing Business will lack buoyancy until June 2020. Based on the above assumption, we examined the recoverability of deferred tax assets.

Although we made best possible estimation based on the available information at the time of preparing the non-consolidated financial statements, due to uncertainty in the assumptions used to make such estimation, depending on changes in the assumptions including the state of containment of COVID-19 spread and economic consequences, we may not be able to avoid the influence on our financial conditions and business performance.

2. Notes to Non-consolidated Balance Sheet

(1) Assets pledged as collateral and secured liabilities

(a) Assets pledged as collateral

| | |
|---------------------------|-----------------|
| Cash and cash equivalents | 130 million yen |
| Others (Current assets) | 251 million yen |
| Investment securities | 36 million yen |
| Total | 418 million yen |

(b) Secured liabilities

The above assets have been pledged as collateral to companies in which consolidated subsidiaries have invested and to lenders to customers, etc., and there are no secured liabilities.

| | |
|--|--------------------|
| (c) Securities and others (investments and other assets) which have been deposited with the Legal Affairs Bureau, etc. | |
| Deposit for housing construction warranty | 1,156 million yen |
| Advanced payment certificate in accordance with Payment and Settlement Regulations | 628 million yen |
| Deposit for housing defect warranty | 109 million yen |
| Deposit for operation stipulated in Building Lots and Buildings Transaction Business Act | 60 million yen |
| Others | 9 million yen |
| (2) Accumulated depreciation of property, plant and equipment | 49,135 million yen |
| (3) Liabilities on guarantee | |
| Liabilities on guarantee for financial institutions for customers who have a housing loan | 468 million yen |
| Liabilities on guarantee for financial institutions for customers who have a membership loan | 3 million yen |
| Liabilities on guarantee for borrowings of subsidiaries | 18,437 million yen |
| Liabilities on guarantee for suppliers of subsidiaries | 1 million yen |

(4) Contingent Liabilities

The Company announced on April 27, 2018 that there were partly discrepancies between construction drawings on notice of verification of building construction and the actual construction of two apartment series “Gold Nail” and “New Gold Nail” (hereinafter, the “Nail series”), developed by the Company between 1994 and 1995, and all subject properties will be investigated and repair works to be carried out on all properties with discrepancies with construction drawings on notice of verification of building construction, in consideration of the responsibilities as a construction company.

In addition, the Company announced on May 29, 2018 that because a part of six apartment series constructed by the Company during 1996 and 2009, “Gold Residence,” “New Silver Residence,” “New Gold Residence,” “Special Steel Residence,” “Better Steel Residence” and “Con Grazia” (hereinafter, the “Six series”), is suspected of violating the Building Standard Law, the Company will investigate all properties constructed by the Company and carry out repair works for the properties in question. For apartment series other than the above properties subject to priority investigations, the “Nail series” and “Six series,” defects were discovered in a part of the subject properties due to insufficient supervision of construction work and others.

Then, it was newly confirmed in the process of the investigation of all buildings that in a part of three apartment series constructed in the period between 1996 to 2001, “Gold Residence,” “New Gold Residence” and “Villa Alta,” foamed urethane was used as a construction member, instead of glass wool described as a construction member for parting walls and exterior walls in the construction design documents, and that in a part of “Gold Residence,” there were defects in construction of ceilings that form floors of living rooms.

The scope of buildings constructed with foamed urethane instead of glass wool is being identified based on the component manufacturing list, etc., and the scope of buildings affected by construction defects in ceilings is being identified based on the expressions in the construction design documents, etc. Since properties in which these defects were identified have specifications that do not meet the specifications certified by the Ministry of Land, Infrastructure, Transport and Tourism Notice or the Minister of Land, Infrastructure, Transport and Tourism, the Company reported these issues to the Ministry of Land, Infrastructure, Transport and Tourism and announced on February 7, 2019 that the Company will carry out

repair works to make the properties conform to the specifications prescribed by law.

In the process of continuing the all-building investigation, it was confirmed that the fire-resistant structures in parting walls of the steel-framed properties constructed by the Company were not conforming to statutory specifications recognized by the Minister of Land, Infrastructure, Transport and Tourism. As a result, the Company reported these issues to the Ministry of Land, Infrastructure, Transport and Tourism and announced on May 29, 2019 that the Company will carry out repair works to make the properties conform to the specifications prescribed by law.

In regard to the policy for repair work, the Company announced on October 31, 2019 that the planned schedule for completion of repair work was the end of June 2020 for properties subject to priority investigation, the “Nail series” and “Six series,” with obvious defects, and the end of December 2020 for apartment series other than the aforementioned with obvious defects; and that for other properties with minor defects a repair plan would be reported around the end of June 2020.

The progress of repair work is behind schedule. Of the 7,638 properties subject to priority repair works for obvious defects were recognized, repair has begun at 6,367 of those properties and of those properties, the number properties with finished repair has stalled at 999 properties (as of May 31, 2020). For the policy going forward, given that the recovery of business performance was indispensable for surely implementing measures against the construction defects problem and that a temporarily reduction in the scale of repair works and organizational setup to tackle the construction defects was necessary, the Company announced on June 5, 2020 that it intends to review the repair works plans and report them when it has prospects to realize recovery in business performance.

As a result of these events, to prepare for incurrence of repair costs and incidental expenses (expenses to compensate for the rent of vacancies of properties managed by other companies, relocation expenses for tenants, and external investigation expenses) related to the defects in properties constructed by the Company, reserve for losses related to repairs was recorded in the reasonably estimated amount at the end of the fiscal year under review, depending on changing conditions due to the details of the defects including the price of repairs and the methods used and the necessity or otherwise for the tenant to relocate, and how that is achieved.

However, the repair works are currently in progress, and in the event that there are any changes in the assumptions on which the calculation of reserve for losses related to repairs is based going forward, repair costs incurred and incidental expenses, etc. may exceed the amount for which the reserve has already been made.

Therefore, depending on the progress in repair works and other factors in the following fiscal years, the additional recording of reserve for losses related to repairs, etc. could impact business results of the Company.

(5) Monetary claims and liabilities to subsidiaries and affiliates (excluding those classified separately in the Balance Sheet)

| | |
|---------------------------------|-------------------|
| Short-term monetary claims | 436 million yen |
| Short-term monetary liabilities | 2,919 million yen |
| Long-term monetary liabilities | 5,060 million yen |

3. Notes to Non-consolidated Statement of Operations

Transactions with subsidiaries and affiliates

| | |
|--|-------------------|
| Sales to subsidiaries and affiliates | 4,343 million yen |
| Purchases, etc. from subsidiaries and affiliates | 3,620 million yen |
| Non-operating transactions | 735 million yen |

4. Notes to Non-consolidated Statement of Changes in Net Assets

Number of shares of treasury stock

| Class of shares | April 1, 2019 | Increase | Decrease | March 31, 2020 |
|-----------------|------------------|----------|----------------|----------------|
| Common stock | 1,067,510 shares | – | 296,300 shares | 771,210 shares |

Note: The decrease of 296 thousand shares in the number of treasury shares of common stock is the result of the exercise of share subscription rights.

5. Tax Effect Accounting

Significant components of deferred tax assets and liabilities

(millions of yen)

Deferred tax assets:

| | |
|---|----------------|
| Loss carried forward for tax purposes | 30,304 |
| Reserve for losses related to repairs | 17,223 |
| Reserve for apartment vacancy loss | 4,870 |
| Retirement benefit reserves | 4,133 |
| Loss on devaluation of stock of shares of subsidiaries and affiliates | 2,493 |
| Impairment loss | 2,068 |
| Allowance for doubtful accounts | 481 |
| Software | 377 |
| Advances from customers for rent income | 254 |
| Loss on devaluation of real estate for sale | 206 |
| Deposits received | 202 |
| Accounts payable—other | 168 |
| Asset retirement obligations | 135 |
| Accrued enterprise tax | 69 |
| Loss on devaluation of property, plant and equipment | 57 |
| Reserve for warranty obligations on completed projects | 36 |
| Sales promotion cost | 8 |
| Others | 488 |
| <hr/> Sub-total | <hr/> 63,581 |
| Valuation allowance for losses carried forward for tax purposes | (30,304) |
| Valuation allowance for total deductible temporary difference, etc. | (33,228) |
| <hr/> Sub-total | <hr/> (63,533) |
| <hr/> Total deferred tax assets | <hr/> 48 |

Deferred tax liabilities:

| | |
|---|-------------|
| Fixed asset retirement expenses | (10) |
| Adjustment of gain/loss on transfer (buildings) | (15) |
| Net unrealized gain on other securities | (462) |
| <hr/> Total deferred tax liabilities | <hr/> (487) |
| <hr/> Net deferred tax assets | <hr/> (439) |

6. Related Party Transactions

Affiliates, etc.

(millions of yen)

| Attribute | Name | Percentage of share ownership | Relation | Transaction | Transaction amount | Account | Balance as of March 31, 2020 |
|------------|-------------------------------|-------------------------------|--|-------------------------|--------------------|---------|------------------------------|
| Subsidiary | Leopalace Power Corporation | Direct holdings 100.0% | Maintenance and management of solar power systems, etc. | Guarantee against loans | 14,076 | — | — |
| Subsidiary | Leopalace Leasing Corporation | Direct holdings 100.0% | Leasing of fixtures equipped with company-managed properties, etc. | Guarantee against loans | 4,361 | — | — |

Notes: 1. Transaction conditions and policies to decide transaction conditions

The Company provides guarantees against loans from financial institutions, and receives guarantee premiums that are calculated based on the value of the guarantee. The transaction amount is the outstanding year-end balance of the guarantee against loans.

2. Consumption taxes were not included in the transaction amount above.

7. Per Share Information

| | |
|----------------------|--------------|
| Net assets per share | 2.15 yen |
| Basic loss per share | (313.99) yen |

8. Events after the Reporting Period

This description is omitted because the relevant information is described in “Notes to Consolidated Financial Statements, 7. Events after the Reporting Period.”

9. Matters Regarding Company Subject to Consolidated Dividend Regulations

Not applicable.