

**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 7, 2021

**To Our Shareholders**

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

**Notice of the 48th Ordinary General Shareholders' Meeting**

We are pleased to announce that the 48th 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 Monday, June 28, 2021.**

**[Exercising your voting rights by in writing]**

Please refer to the Reference Materials for the General Shareholders' Meeting on pages 3 to 18 of this document, 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]**

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 on pages 3 to 18 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, the voting via the Internet shall prevail.

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

**Details**

- 1. Date and Time:** June 29, 2021 (Tuesday), 10:00 a.m. (Reception will open at 9:00 a.m.)
- 2. Place:** Conference room, Head Office, Leopalace21 Corporation  
2-54-11 Honcho, Nakano-ku, Tokyo

### 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 48th Fiscal Term (from April 1, 2020 to March 31, 2021)
2. Report on Non-consolidated Financial Statements for the 48th Fiscal Term (from April 1, 2020 to March 31, 2021)

#### Matters to be resolved:

**Proposal No. 1:** Reduction of Common Stock

**Proposal No. 2:** Partial Amendment to Articles of Incorporation (Increase in the Number of Authorized Shares)

**Proposal No. 3:** Partial Amendment to Articles of Incorporation (Limited Liability Agreement, Substitute Audit & Supervisory Board Member, etc.)

**Proposal No. 4:** Election of Eight (8) Directors

**Proposal No. 5:** Election of One (1) Audit & Supervisory Board Member

**Proposal No. 6:** Election of One (1) Substitute Audit & Supervisory Board Member

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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, 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.

Up until now, it has been the Company's practice to distribute in writing the "Notice Concerning Resolutions at the Ordinary General Shareholders' Meeting" as the method of providing notification of the results of resolutions after the conclusion of the Ordinary General Shareholders' Meeting. However, starting from the 48th Ordinary General Shareholders' Meeting, the Company will post the results of resolutions on the Company's website (URL shown below), instead of providing them in writing.

We appreciate the understanding of our shareholders on this matter.

<http://eg.leopalace21.com/ir/stocks/meeting.html>

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.

## Reference Materials for the General Shareholders' Meeting

### Proposal No. 1: Reduction of Common Stock

1. Purpose of reduction of common stock

In order to ensure the flexibility and speediness of the capital policy, the Company has decided to reduce the common stock, as stipulated in Article 447, paragraph (1) of the Companies Act.

2. Main points of reduction of common stock

(1) Reduced amount of common stock

The Company has decided to reduce common stock by JPY 81,182,359,829 from JPY 81,282,359,829 to make an amount of common stock of JPY 100,000,000.

(2) Method of reduction

There will be no change in the total number of outstanding shares. The entire amount of the reduction, JPY 81,182,359,829, will be transferred to other capital surplus.

(3) Effective date of reduction of common stock

August 10, 2021

**Proposal No. 2: Partial Amendment to Articles of Incorporation (Increase in the Number of Authorized Shares)**

1. Rationale for amendment

The Company’s outstanding number of shares including dilutive shares as a result of capital policy executed last year is 489,138,215 shares. The Company proposes to increase the number of authorized shares provided for in Article 6 (Total Number of Authorized Shares) of the current Articles of Incorporation from 500,000,000 shares to 750,000,000 shares in preparation for ensuring the speedy financing in the future. The total number of authorized shares after the amendment shall be within four times the number of issued shares.

2. Details of amendment

Details of the amendment are as follows:

(Proposed amendments are underlined)

<b>Existing Articles of Incorporation</b>	<b>Proposed Amendment</b>
(Total Number of Authorized Shares) Article 6. The Company is authorized to issue a total of <u>five hundred million (500,000,000)</u> shares.	(Total Number of Authorized Shares) Article 6. The Company is authorized to issue a total of <u>seven hundred and fifty million (750,000,000)</u> shares.

**Proposal No. 3: Partial Amendment to Articles of Incorporation (Limited Liability Agreement, Substitute Audit & Supervisory Board Member, etc.)**

1. Rationale for amendment

(1) Change in applicable persons for limited liability agreements

Under the current Articles of Incorporation, the Company may enter into a limited liability agreement with Outside Directors and Outside Audit & Supervisory Board Members. In this regard, the Company proposes to include non-executive Directors not serving as Outside Director by amending Article 28 (Limited liability agreement with an Outside Director) and include all Audit & Supervisory Board Members by amending Article 38 (Limited liability agreement with an Outside Audit & Supervisory Board Member) so that non-executive Directors not serving as Outside Director and Audit & Supervisory Board Members not serving as Outside Audit & Supervisory Board Member can also fully play their expected roles in their performance of duties, and so that the Company can attract competent personnel.

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

(2) Change of effective term of the resolution of a Substitute Audit & Supervisory Board Member (to four years)

In principle, the effective term of the resolution for election of a Substitute Audit & Supervisory Member shall expire at the beginning of the first Ordinary General Shareholders' Meeting, namely one year.

In order to mitigate the cumbersome procedure of the resolution concerning the election, the Company proposes to newly establish rules for a Substitute Audit & Supervisory Board Member to set the effective term of the resolution for election of a Substitute Audit & Supervisory Board Member expiring at the conclusion of the Ordinary General Shareholders' Meeting for the last fiscal year ending within four years from his/her election, namely four years.

(3) Partial amendment to terms

To reflect the actual situation, "(Rules of the Audit & Supervisory Board)" of Article 35 of the Articles of Incorporation will be revised to "(Regulations of the Audit & Supervisory Board)."

2. Details of amendment

Details of the amendment are as follows:

(Proposed amendments are underlined)

Existing Articles of Incorporation	Proposed Amendment
Articles 1. – 27. <Omitted>	Articles 1. – 27. <As per the existent Articles>
(Limited liability agreement with <u>an Outside Director</u> )	(Limited liability agreement with a <u>Director</u> )
<p>Article 28. Pursuant to the provisions of Article 427, paragraph (1) of the Companies Act, the Company may enter into a limited liability agreement with each <u>Outside Director</u> which limits their liability for damages under Article 423, paragraph (1) of the Companies Act. However, the limit of the liability under such agreement shall be the minimum limit amount prescribed by laws and regulations.</p>	<p>Article 28. Pursuant to the provisions of Article 427, paragraph (1) of the Companies Act, the Company may enter into a limited liability agreement with each <u>Director (excluding executive Directors and certain others)</u> which limits their liability for damages under Article 423, paragraph (1) of the Companies Act. However, the limit of the liability under such agreement shall be the minimum limit amount prescribed by laws and regulations.</p>
Article 29. <Omitted>	Article 29. <As per the existent Articles>
(Elections of Audit & Supervisory Board Members)	(Elections of Audit & Supervisory Board Members)
Article 30.	Article 30.
<p>30.1 Audit &amp; Supervisory Board Members shall be elected at General Shareholders' Meetings.</p>	<p>30.1 Audit &amp; Supervisory Board Members shall be elected at General Shareholders' Meetings.</p>
<p>30.2 In order to adopt a resolution for the election of Audit &amp; Supervisory Board Members, the attending shareholders must hold at least one-third of the voting rights of all shareholders and a majority of the voting rights exercised by the attending shareholders shall be required.</p>	<p>30.2 In order to adopt a resolution for the election of Audit &amp; Supervisory Board Members, the attending shareholders must hold at least one-third of the voting rights of all shareholders and a majority of the voting rights exercised by the attending shareholders shall be required.</p>
<Newly established>	<p><u>30.3 The Company may have a Substitute Audit &amp; Supervisory Board Member elected as provided in Article 329, paragraph (3) of the Companies Act to be ready to fill a vacant spot should the number of Audit &amp; Supervisory Board Members fall below the number prescribed by laws and regulations.</u></p>
<Newly established>	<p><u>30.4 The effective term of the resolution for the election of a Substitute Audit &amp; Supervisory Board Member in the preceding paragraph shall expire at the conclusion of the Ordinary General Shareholders' Meeting for the last fiscal year that ends within four (4) years from their election.</u></p>

Existing Articles of Incorporation	Proposed Amendment
<p>Articles 31. – 34. &lt;Omitted&gt;</p> <p>(<u>Rules</u> of the Audit &amp; Supervisory Board)</p> <p>Article 35. Matters relating to the Audit &amp; Supervisory Board shall be governed by the <u>Rules</u> of the Audit &amp; Supervisory Board, which are established by the Audit &amp; Supervisory Board of the Company, in addition to the provisions of laws and regulations or these Articles of Incorporation.</p> <p>Articles 36. – 37. &lt;Omitted&gt;</p> <p>(Limited liability agreement with <u>an Outside Audit &amp; Supervisory Board Member</u>)</p> <p>Article 38. Pursuant to the provisions of Article 427, paragraph (1) of the Companies Act, the Company may enter into a limited liability agreement with each <u>Outside Audit &amp; Supervisory Board Member</u> which limits their liability for damages under Article 423, paragraph (1) of the Companies Act. However, the limit of the liability under such agreement shall be the minimum limit amount prescribed by laws and regulations.</p> <p>Articles 39. – 42. &lt;Omitted&gt;</p>	<p>Articles 31. – 34. &lt;As per the existent Articles&gt;</p> <p>(<u>Regulations</u> of the Audit &amp; Supervisory Board)</p> <p>Article 35. Matters relating to the Audit &amp; Supervisory Board shall be governed by the <u>Regulations</u> of the Audit &amp; Supervisory Board, which are established by the Audit &amp; Supervisory Board of the Company, in addition to the provisions of laws and regulations or these Articles of Incorporation.</p> <p>Articles 36. – 37. &lt;As per the existent Articles&gt;</p> <p>(Limited liability agreement with <u>an Audit &amp; Supervisory Board Member</u>)</p> <p>Article 38. Pursuant to the provisions of Article 427, paragraph (1) of the Companies Act, the Company may enter into a limited liability agreement with each <u>Audit &amp; Supervisory Board Member</u> which limits their liability for damages under Article 423, paragraph (1) of the Companies Act. However, the limit of the liability under such agreement shall be the minimum limit amount prescribed by laws and regulations.</p> <p>Articles 39. – 42. &lt;As per the existent Articles&gt;</p>

Note: Article 6 is to be changed with Proposal No. 2 “Partial Amendment to Articles of Incorporation (Increase in the Number of Authorized Shares).”

## Proposal No. 4: Election of Eight (8) Directors

The term of office of all nine (9) Directors will expire at the conclusion of this Ordinary General Shareholders' Meeting. In that regard, it is proposed that eight (8) Directors (of which five (5) 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 eight (8) Directors: three (3) Executive Directors and five (5) Outside Directors with the latter being the majority.

### Skillset Matrix of the Board of Directors

	Attribute						Expertise, Experience, and Knowledge									
	Name	Executive position	Independency	Nomination and Compensation Committee	Age	Gender	Corporate management	Corporate rehabilitation and business restructuring	Sales and marketing	Quality management	Legal	Accounting and tax affairs	Finance	IR	Global	Audit
1	Bunya Miyao	President and CEO Chairman of the Board of Directors		Member	61	Male	<input type="radio"/>							<input type="radio"/>	<input type="radio"/>	
2	Shigeru Ashida	Director and Managing Executive Officer			56	Male	<input type="radio"/>		<input type="radio"/>			<input type="radio"/>				
3	Mayumi Hayashima	Director and Executive Officer			48	Female	<input type="radio"/>		<input type="radio"/>		<input type="radio"/>					
4	Kazuyasu Fujita	Director	Independent Outside	Member	74	Male	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>				<input type="radio"/>		
5	Yutaka Nakamura	Director	Independent Outside	Member	62	Male				<input type="radio"/>						
6	Akira Watanabe	Director	Independent Outside	Member	74	Male	<input type="radio"/>	<input type="radio"/>			<input type="radio"/>					<input type="radio"/>
7	Akio Yamashita	Director	Outside	Member	59	Male	<input type="radio"/>	<input type="radio"/>					<input type="radio"/>			
8	Jin Ryu	Director	Outside	Member	36	Male	<input type="radio"/>	<input type="radio"/>					<input type="radio"/>			

Note: Each of the candidate's stated age is as of the dispatch date of this notice.



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	Re-election  Bunya Miyao (April 14, 1960)  Attendance at the Board of Directors meetings: 24/24  Term of office: 5 years	April 1983      Joined Nakamichi Leasing Co., Ltd. June 1990      Joined Leopalace21 Corporation September 2000      Deputy Manager of the Financial Department, Leopalace21 Corporation July 2008      General Manager of the Resort Business Headquarters, Leopalace21 Corporation July 2010      General Manager of the Management Planning Department, Leopalace21 Corporation July 2012      Administrative Officer, Leopalace21 Corporation April 2013      Executive Officer, Leopalace21 Corporation June 2016      Director and Executive Officer, Leopalace21 Corporation May 2017      Representative in charge of the Management Planning Department, the Public Relations Department, Leopalace21 Corporation April 2018      Director and Managing Executive Officer, Leopalace21 Corporation Representative in charge of Management Planning and Investor Relations, Leopalace21 Corporation May 2019      President and CEO, Leopalace21 Corporation (incumbent) June 2019      Chief of the Business Operation Headquarters, Leopalace21 Corporation (incumbent)  Significant concurrent positions Director, Leopalace Guam Corporation	7,400 shares
<p><b>Reasons for nomination as a candidate for Director</b></p> <p>Mr. Bunya Miyao is fulfilling an appropriate role as Representative Director by taking important management decisions and supervising business execution and others. 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 decisively 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 construction defects problem. Therefore, the Company has nominated him again 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
2	Re-election  Shigeru Ashida (June 16, 1964)  Attendance at the Board of Directors meetings: 24/24  Term of office: 2 years	April 1988 November 2003 April 2010 May 2012 April 2013 April 2014 June 2019  July 2020 May 2021  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) Chief of the Corporate Planning Headquarters, Leopalace21 Corporation Chief of the Corporate Management Headquarters, Leopalace21 Corporation (incumbent) Chief of the Construction Defects Response Headquarters, Leopalace21 Corporation (incumbent)	16,400 shares
	<p><b>Reasons for nomination as a candidate for Director</b></p> <p>Mr. Shigeru Ashida is fulfilling an appropriate role as Director by taking important management decisions and supervising business execution, and others. 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 construction defects problem. It is judged that he can apply these to decisively 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 construction defects problem. Therefore, the Company has nominated him again as a candidate for Director.</p>			
3	Re-election  Mayumi Hayashima (April 26, 1973)  Attendance at the Board of Directors meetings: 24/24  Term of office: 2 years	April 1996 April 2009 July 2010 April 2014 April 2015 April 2018 June 2019  June 2020 July 2020 May 2021	Joined Leopalace21 Corporation Deputy General Manager of the Eastern Japan Corporate Sales Department, Leasing Sales Section 3, Leasing Business Division, Leopalace21 Corporation General Manager of the Corporate Sales Department, Eastern Japan Section 2, Leasing Business Division, Leopalace21 Corporation General Manager of the Corporate Business Promotion Department, Leopalace21 Corporation Administrative Officer, Leopalace21 Corporation Executive Officer, Leopalace21 Corporation Director and Executive Officer, Leopalace21 Corporation (incumbent) Chief of the Compliance Management Headquarters, Chief Legal Officer (CLO), Leopalace21 Corporation Chief of the Compliance Promotion Headquarters, Chief Legal Officer (CLO), Leopalace21 Corporation (incumbent) Chief of the Management Headquarters, Leopalace21 Corporation Deputy Chief of the Corporate Management Headquarters, Leopalace21 Corporation (incumbent)	5,500 shares
	<p><b>Reasons for nomination as a candidate for Director</b></p> <p>Ms. Mayumi Hayashima is fulfilling an appropriate role as Director by taking important management decisions and supervising business execution and others. 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 the legal compliance department. It is judged that she can apply these to decisively 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 construction defects problem. Therefore, the Company has nominated her again 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
4	Re-election Outside Independent  Kazuyasu Fujita (June 24, 1946)  Attendance at the Board of Directors meetings: 24/24  Term of office: 1 year and 4 months	April 1965      Joined the Osaka Prefectural Government November 1970      Joined Toyo Shutter Co., Ltd. October 1999      Business Administration Manager, Toyo Shutter Co., Ltd. June 2000      Director of Business Promotion Department and Purchasing Manager, Toyo Shutter Co., Ltd. June 2002      President and Representative Director, Toyo Shutter Co., Ltd. April 2006      President and Representative Director and Executive Officer for General Supervision, Toyo Shutter Co., Ltd. June 2010      Special Adviser, Toyo Shutter Co., Ltd. June 2011      Resigned from Toyo Shutter Co., Ltd. September 2011      Established Management Consulting Partner, Inc., President and Representative Director, Management Consulting Partner, Inc. (incumbent) February 2020      Outside Director, Leoplace21 Corporation (incumbent)  Significant concurrent positions President and Representative Director, Management Consulting Partner, Inc.	0 shares
<p><b>Reasons for nomination as a candidate for Outside Director and overview of expected roles</b></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 nomination 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 these reasons, it is judged that he can make a contribution based on his experience and knowledge regarding business revitalization, sales, construction and technology in decisively 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 construction defects problem, 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 again 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	Re-election Outside Independent  Yutaka Nakamura (September 28, 1958)  Attendance at the Board of Directors meetings: 24/24  Term of office: 1 year and 4 months	April 1981      Joined National Housing Materials Co., Ltd. (now Panasonic Homes Co., Ltd.)  October 2002    Manager of Quality & Environmental Promotion Department, Panasonic Homes Co., Ltd.  October 2006    Manager of Quality, Environment & IT Department, Panasonic Homes Co., Ltd.  April 2011        Councilor and Manager of Corporate Quality & Environmental Division, Panasonic Homes Co., Ltd.  April 2012        Senior Councilor and Manager of Corporate Quality & Environmental Division, Panasonic Homes Co., Ltd.  April 2018        Senior Principal for Quality & Customer Satisfaction, Panasonic Homes Co., Ltd.  March 2019       Resigned from Panasonic Homes Co., Ltd.  February 2020    Outside Director, Leoplace21 Corporation (incumbent)	0 shares
<p><b>Reasons for nomination as a candidate for Outside Director and overview of expected roles</b></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 nomination 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 &amp; 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 these reasons, it is judged that he can make a contribution based on his experience and knowledge regarding construction and technology in decisively 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 construction defects problem, 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 again 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
6	Re-election Outside Independent  Akira Watanabe (February 16, 1947)  Attendance at the Board of Directors meetings: 18/18  Term of office: 1 year	April 1973 Registered as an attorney at law November 2006 External Statutory Auditor, FAST RETAILING CO., LTD. June 2007 Outside Director, MAEDA CORPORATION June 2007 Outside Audit & Supervisory Board Member, KADOKAWA GROUP HOLDINGS, INC. (now KADOKAWA CORPORATION) (incumbent) April 2010 Outside Director, MS&AD Insurance Group Holdings, Inc. March 2013 Outside Director, DUNLOP SPORTS CO., LTD. October 2015 Director, ASIA PILE HOLDINGS CORPORATION (incumbent) September 2018 Partner, Comm & Path Law Office (incumbent) June 2019 Outside Director, Maeda Road Construction Co., Ltd. (incumbent) July 2020 Outside Director, Leoplace21 Corporation (incumbent)  Significant concurrent positions Outside Audit & Supervisory Board Member, KADOKAWA CORPORATION Director, ASIA PILE HOLDINGS CORPORATION Partner, Comm & Path Law Office Outside Director, Maeda Road Construction Co., Ltd.	0 shares
<p><b>Reasons for nomination as a candidate for Outside Director and overview of expected roles</b></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, and 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 nomination and remuneration decision procedures. For these reasons, it is judged that he can make a contribution based on his experience and knowledge regarding legal compliance in decisively 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 construction defects problem, 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 again 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	New election Outside  Akio Yamashita (October 23, 1961)  Attendance of the Board of Directors Meetings -/-  Term of office: -	April 1984	Joined Japan Development Bank (now Development Bank of Japan Inc.)	0 shares
	January 2006	Joined Morgan Stanley Securities Co., Ltd. (now Morgan Stanley MUFG Securities Co., Ltd.)		
		June 2008	Joined Fortress Investment Group, Managing Director (incumbent)	
		March 2013	Representative in Japan, Fortress Investment Group (incumbent)	
		Significant concurrent positions Representative in Japan, Fortress Investment Group (Japan) GK		
<b>Reasons for nomination as a candidate for Outside Director and overview of expected roles</b>				
Mr. Akio Yamashita possesses extensive work experience and achievements as an officer and employee of financial institutions and others. He has been involved in many projects, including real estate-related business, real estate finance, urban redevelopment funds, management buyouts, and corporate rehabilitation. With his keen insight and deep knowledge and experience in corporate management, it is judged that he can make a contribution to the Company's growth strategies, and the Company has therefore nominated him as a candidate for Outside Director.				
8	New election Outside  Jin Ryu (June 10, 1984)  Attendance of the Board of Directors Meetings -/-  Term of office: -	April 2010	Joined Morgan Stanley MUFG Securities Co., Ltd.	0 shares
	April 2011	Joined RBS Securities Japan Ltd.		
		May 2012	Joined Fortress Investment Group	
		December 2020	Managing Director, Fortress Investment Group (incumbent)	
		Significant concurrent positions Managing Director, Fortress Investment Group		
<b>Reasons for nomination as a candidate for Outside Director and overview of expected roles</b>				
Mr. Jun Ryu possesses extensive work experience and achievements as an officer and employee of an investment fund. He has been involved in many projects, including real estate-related business, investments into companies, and corporate rehabilitation. With his keen insight and deep knowledge and experience in corporate management, it is judged that he can make a contribution to the Company's growth strategies, and the Company has therefore nominated him as a candidate for Outside Director.				

- Notes: 1. There is no particular interest between any of the candidates and the Company.
2. Mr. Kazuyasu Fujita, Mr. Yutaka Nakamura, Mr. Akira Watanabe, Mr. Akio Yamashita and Mr. Jin Ryu are candidates for Outside Director. 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 assured. In addition, the Company has notified Tokyo Stock Exchange, Inc. of the designation of Mr. Kazuyasu Fujita, Mr. Yutaka Nakamura and Mr. Akira Watanabe as independent officers.
3. Mr. Akio Yamashita and Mr. Jin Ryu both serve as a Managing Director of the Fortress Investment Group LLC. That company is a business entity with ties to Chidori Godo Kaisha, a major shareholder of the Company, and Kaede Godo Kaisha, a major lender of the Company.
4. 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.
5. Pursuant to the provisions of Article 427, paragraph (1) of the Companies Act, the Company has entered into limited liability agreements with Mr. Kazuyasu Fujita, Mr. Yutaka Nakamura and Mr. Akira Watanabe 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.

6. If the election of Mr. Akio Yamashita and Mr. Jin Ryu is approved, pursuant to 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.
7. The Company has entered into a directors and officers liability insurance policy pursuant to Article 430-3, paragraph (1) of the Companies Act with an insurance company, under which all of the Directors are the insureds. The policy details are described on page 31 of the Business Report. Furthermore, if each candidate assumes the office of Director, they will be insureds under the policy, and the Company intends to renew the policy during their term of office.
8. Ms. Mayumi Hayashima's name on her family register is Mayumi Tsuboi.

## Proposal No. 5: Election of One (1) Audit & Supervisory Board Member

At the conclusion of this Ordinary General Shareholders' Meeting, the term of office of Audit & Supervisory Board Member Jiro Yoshino will expire. It is therefore proposed that one (1) Audit & Supervisory Board Member be elected.

The Audit & Supervisory Board has already given consent to this proposal. The candidate for 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
Re-election Outside Independent  Jiro Yoshino (August 24, 1954)  Attendance of the Board of Directors Meetings 24/24  Attendance of the Audit & Supervisory Board Meetings 15/15  Term of office: 4 years	April 1978      Joined Dai-Tokyo Fire and Marine Insurance Co., Ltd. (now Aioi Nissay Dowa Insurance Co., Ltd.)  April 2011      Executive Officer, Aioi Nissay Dowa Insurance Co., Ltd. (commissioned as General Manager of Chiba Division)  April 2012      Managing Executive Officer, Aioi Nissay Dowa Insurance Co., Ltd. (commissioned as General Manager of Regional Sales Promotion Division)  Executive Officer, MS&AD Insurance Group Holdings, Inc.  June 2013      Full-time Audit & Supervisory Board Member, MS&AD Insurance Group Holdings, Inc.  June 2017      Full-time Audit & Supervisory Board Member, MS&AD Insurance Group Holdings, Inc. (retired from office)  June 2017      Audit & Supervisory Board Member, Leopalace21 Corporation (incumbent)	9,000 shares
<b>Reason for nomination as a candidate for Outside Audit &amp; Supervisory Board Member</b> Mr. Jiro Yoshino has held key position at Aioi Nissay Dowa Insurance Co., Ltd. and possesses extensive knowledge and experience from his career as a business manager of a listed company. Moreover, he has served as a full-time Audit & Supervisory Board Member at MS&AD Insurance Group Holdings, Inc., and has deep knowledge and experience as an Audit & Supervisory Board Member. For these reasons, it is judged that he can appropriately audit the execution of duties by the Company's Directors, and the Company has therefore nominated him as a candidate to continue as an Outside Audit & Supervisory Board Member.		

Notes: 1. There is no particular interest between Mr. Jiro Yoshino and the Company.

2. Mr. Jiro Yoshino is a candidate for 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 assured. The Company has notified Tokyo Stock Exchange, Inc. of the designation of Mr. Jiro Yoshino as an independent officer.
3. Pursuant to the provisions of Article 427, paragraph (1) of the Companies Act, the Company has entered into a limited liability agreement with Mr. Jiro Yoshino limiting his 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 this agreement if his re-election is approved.
4. The Company has entered into a directors and officers liability insurance policy pursuant to Article 430-3, paragraph (1) of the Companies Act with an insurance company, under which all of the Audit & Supervisory Board Members are the insureds. The policy details are described on page 31 of the Business Report. Furthermore, if Mr. Yoshino is re-elected as an Audit & Supervisory Board Member, he will be insured under the policy, and the Company intends to renew the policy during his term of office.
5. During fiscal year 2018 while Mr. Jiro Yoshino was serving as Outside Audit & Supervisory Board Member of the Company, the issue of defects in parting walls of certain apartments constructed by the Company, and the issue regarding specifications for parting walls, exterior walls and ceilings that are not in compliance with specifications prescribed by law were discovered. Although Mr. Yoshino did not know these issues until the issues were discovered, he has provided recommendations at the Company's Board of Directors meetings and on other occasions from the viewpoint of compliance regularly to promote awareness. After the discovery of the issues, he endeavors to further strengthen the compliance system by making recommendations on factual investigation, identification of the root causes and measures to prevent recurrence, and other means.



## Proposal No. 6: Election of One (1) 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 Independent  Nobuo Kawasaki (September 28, 1958)	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	
Attendance at the Audit & Supervisory Board meetings: -/-	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	
Attendance at the Board of Directors meetings: -/-	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)	
	June 2020	Substitute Audit & Supervisory Board Member, Leoplace21 Corporation (incumbent)	
<b>Reasons for nomination as a candidate for Substitute Outside Audit &amp; Supervisory Board Member</b>			
Mr. Nobuo Kawasaki possesses a 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 Tokyo Stock Exchange, Inc. of his designation as independent officer.
4. If Mr. Nobuo Kawasaki assumes the office of Outside Audit & Supervisory Board Member, pursuant to 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.
5. The Company has entered into a directors and officers liability insurance policy pursuant to Article 430-3, paragraph (1) of the Companies Act with an insurance company, under which all of the Audit & Supervisory Board Members are the insureds. The policy details are described on page 31 of the Business Report. Furthermore, if Mr. Kawasaki assumes office as an Audit & Supervisory Board Member, he will be insured under the policy, and the Company intends to renew the policy during his term of office.

**[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 and the like.") that receives remuneration other than officer remuneration from the Company of an amount in the most recent fiscal year that is at least JPY 10 million 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 and the like 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 JPY 10 million 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, 2020 to March 31, 2021)**

### **Items Regarding Status of Group Operations**

#### **Overview of Operations**

During the fiscal year under review, the domestic economy, apart from some parts that showed signs of recovery, remained extremely challenging, as consumer spending was sluggish and corporate earnings deteriorated sharply due to such factors as the issuance of a declaration of a state of emergency in response to the spread of COVID-19 and requests to stay home and refrain from going out.

The new housing starts of leased units declined for the four years in a row (down 9.4% year on year) due to the tightening of lending terms by financial institutions. In the rental housing market, the number of vacant houses continues to increase, and in order to secure a stable occupancy rate amid difficulty in recovering nationwide demand, we believe it is important to implement a strategy of differentiation by focusing on supplying apartments mainly in the three metropolitan areas where we can expect high occupancy rates in the future and by providing value-added services.

Under these circumstances, the Leopalace21 Group (the "Group") posted a significant loss for the two years in a row in the previous fiscal year, mainly due to a deterioration in the occupancy rates caused by the construction defects problem. In response, on April 30, 2020, we announced "Drastic Business Strategies Reconstruction" and has been continuing the policies outlined within. Through a policy of selective concentration, we have been investing management resources into the Leasing Business, a core business, while continuing to implement structural reforms for radical improvement of the corporate structure, stabilizing both the business side and the financial side, and continually improving profitability.

As a result, net sales for the fiscal year under review amounted to JPY 408,959 million (down 5.7% year on year), and operating loss was JPY 29,182 million (a reduced loss of JPY 7,290 million year on year) due mainly to a decrease in rent revenues caused by stagnant occupancy rates, despite JPY 31,885 million reduction in cost of sales and SG&A expenses year on year. Recurring loss was JPY 34,170 million (a reduced loss of JPY 2,171 million year on year) due to the incurrence of funding costs and increased interest expenses. Net loss attributable to shareholders of the parent was JPY 23,680 million (a reduced loss of JPY 56,543 million year on year) mainly due to recording of impairment loss on non-current assets and goodwill of JPY 4,041 million and special severance allowance of JPY 2,479 million associated with the voluntary retirement program in extraordinary losses despite reversal of reserve for losses related to repairs of JPY 15,374 million resulting from reduced unit repair cost through volume discount and change in repair method, and gain on sale of investment securities of JPY 4,065 million.

The following is an overview by business segment.

Starting from the fiscal year under review, the Company has changed to three reportable segments of the Leasing Business, the Elderly Care Business, and the Other Businesses from the previous four segments of the Leasing Business, the Development Business, the Elderly Care Business and the Hotels, Resort & Other Businesses. This is because the Company undertook a drastic reconstruction of business strategies and shifted from a business diversification strategy to a profitability focused strategy centered on the Leasing Business. The Leasing Business now includes the former Development Business segment as it aims to strengthen relations with the owners of the apartments we lease, and to offer comprehensive proposals for using their real estate properties. As the Company has a policy of withdrawing from the hotel and resort

business, former Hotels, Resort & Other Businesses is now renamed the Other Businesses. The figures of the previous year that are used for comparison purposes were restated based on the new classification.

### 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 change their rooms to their liking, our promotion of the transition to smart apartments, which enables electrical appliance controls and door locks and others, to be operated by smartphone, support for so-called remote services such as web-based customer service, apartment viewing, and contract signing, and security services in collaboration with large security companies. The Group also addressed demand for corporate dormitories and corporate housing and enhanced the support system for foreign tenants in order to achieve stable occupancy rates. In addition, in the ASEAN countries, our subsidiaries are conducting the operation of serviced apartments and offices, and others.

The occupancy rate at the end of the fiscal year under review was 81.72% (down 1.35 points from the end of the previous fiscal year) with average occupancy rate of 78.89% (down 1.89 points year on year), which was significantly lower than the initial target. This was caused by the reduction of demand mainly in corporate customers as a core customer segment due to the spread of COVID-19 pandemic impact, and other factors, although the adverse effect of construction defects problem declined. The number of units under management at the end of the fiscal year under review was 573 thousand (a decrease of 2 thousand from the end of the previous fiscal year).

The number of direct leasing offices at the end of the fiscal year under review was 139 offices, (a reduction of 50 from the end of the previous fiscal year). That reflected efforts to increase the operational efficiency and productivity through the promotion of remote contract signing and aggressive use of real estate agents.

The orders received for apartment buildings was JPY 5,927 million (down 24.1% year on year) and the outstanding orders as of end of the fiscal year stood at JPY 9,651 million (down 65.2% from the end of the previous fiscal year). This was due to the Company’s ceasing of new bookings because of the construction defects problem such as parting walls along with intensified competition in the metropolitan areas, changes in the environment of apartment loans, and other factors.

As a result, net sales came to JPY 391,964 million (down 5.0% year on year) and operating loss was JPY 19,385 million (a reduced loss of JPY 6,580 million year on year).

### Elderly Care Business

The Group has been continuing to improve the operational efficiency of the Elderly Care Business, a strategic growth business, to lower operational cost. However, the business suffered from a declined number of users of nursing care services due to concerns over the risk of infection from COVID-19. Net sales were JPY 14,524 million (down 0.7% year on year), and operating loss was JPY 720 million (an increase of loss of JPY 179 million year on year). The number of facilities was 87 as of end of the fiscal year under review.

### Other Businesses

Net sales of the Other Businesses, including resort facilities in Guam, a finance business, and other businesses, were JPY 2,469 million (down 60.1% year on year)

and operating loss was JPY 1,551 million (an increase of loss of JPY 557 million year on year) due to a significant decline in occupancy rates for the resort facilities in Guam because of the COVID-19 pandemic and a down-sized operation as a result of the sale of hotels in Japan.

## Issues to Be Addressed

The Group has been continuing with the policies outlined in “Drastic Business Strategies Reconstruction” announced on April 30, 2020. Through a policy of selective concentration, we have been investing management resources into the Leasing Business, a core business, while continuing to implement structural reforms for radical improvement of the corporate structure, which were implemented from the fiscal year ended March 31, 2021, stabilizing both the business side and the financial side, and continually improving profitability.

- Continuation of drastic structural reform

Switching to a business portfolio which has the Leasing Business as the core business, the Group is keeping a close watch on international COVID-19 cases and the impact of that on the non-core, non-profitable businesses, the resort business and the international business based on a policy of divestiture and withdrawal.

Moreover, the Group is working to reform its revenue structure through constraining sales and administration costs in the Leasing Business, reducing fixed costs by consolidating and closing leasing offices, and revising personnel expense structures through reform of personnel management system, along with implementing cost-cutting of all costs without exception.

- Improvement of occupancy rates

As the Leasing Business, Company’s core business, is a stock business, it is essential to improve the occupancy rate in order to stabilize the business side.

The Group will strengthen its customer acquisition through promotion of so-called remote services, such as web-based customer service, apartment viewing and contract signing and the aggressive use of real estate agents. In addition, the Group will implement sales strategies based on different types of customers (corporate, individual, and foreign resident), and work to change the system for conducting sales strategies and management of income and expenditure on an area basis. It will also work to improve its occupancy rate by a prioritized allocation of human resources into the Leasing Business.

- Recovery of social trust

The Group has not changed from its policy of treating the speedy resolution of the construction defects problem and the recovery of the safety of the properties it provides as a key issue. The Group has been steadily proceeding with the repair works while maintaining stability of business performance and financial position. The Group has also been implementing measures for recurrence prevention, and the progress of these efforts is disclosed on the Company website together with the progress of repair works. Note that on March 29, 2021, concerning construction defects problem, Nagoya Prefectural authorities took administrative actions on the registered office of first-class architects in Nagoya branch pursuant to Article 26 of the Act on Architects and Building Engineers (order to cease operation for twelve months). The Group takes the details of this administrative action very seriously and while working to further strengthen the compliance system, it will appropriately undertake its business, complying with all laws and regulations.

The impact of the emergency declaration orders and requests for voluntary restraint of unnecessary outings that have been issued as a result of the COVID-19 pandemic has led to a significant fall in operating revenue. As of the end of the fiscal year (March 31, 2021), consolidated net assets amounted to the excessive liability of JPY 8,494 million (based on the definition of net assets in the listing rules of the Tokyo Stock Exchange (total net assets in the consolidated balance sheet minus share subscription rights and non-controlling interests); the same applies hereinafter).

Through surely carrying out the initiatives mentioned above, the Group plans to turn its operating loss to profit in the fiscal year ending March 31, 2022, and turn its net loss attributable to non-controlling interests to profit and resolve its status of excessive liabilities in the fiscal year ending March 31, 2023.

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 previous fiscal year and net loss attributable to shareholders of the parent as well as negative operating cash flow for two consecutive years due to construction defects problem such as parting walls confirmed in properties constructed by the Company.

In the fiscal year under review, the Group proceeded with repair works and recommenced tenant recruitment. Although business results were on track for recovery, the impact of the COVID-19 pandemic suppressed staff reassignment by corporate customers, which are the main customers in the Leasing Business, and tenant demand was weak. As a result, the Group recorded an operating loss of JPY 29,182 million, a net loss attributable to shareholders of the parent of JPY 23,680 million and net cash used in operating activities of JPY 40,816 million.

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

In order to resolve this situation, on November 2, 2020, the Group raised funds by issuance of new shares through third-party allotment, by a loan with share subscription rights, and by issuance of preferred stock by consolidated subsidiary Leopalace Power Corporation to raise total funds of JPY 57,215 million.

Furthermore, based on "Notice Concerning Implementing Structural Reforms based on Strategic Review Results for Drastic Business Strategies Reconstruction," announced on June 5, 2020 the Group has been focusing on implementing various cost reviews and cost reduction measures including the following: transferring or withdrawing from non-core and unprofitable businesses (sale and transfer of real estate and investment securities owned, transfer and liquidation of subsidiaries, etc.); implementing a voluntary retirement program and reducing executive remuneration; revising the personal cost structure, including reforming the personnel management system; curbing operating and administrative costs in the Leasing Business; reducing fixed costs by consolidating and closing leasing offices; reviewing advertising and sales promotion expenses; and abolishing shareholder special benefits.

In the fiscal year ending March 31, 2022, we will continue to implement the same measures in order to improve conditions both in terms of business results and financial position. We will work to improve occupancy rates to stabilize our business performance by strengthening customer acquisition through promotion of so-called remote services, such as web-based customer service, apartment viewing and contract signing, and the aggressive use of real estate agents, and as well, we will change the system for conducting sales strategies and management of income and expenditure on an area basis. Moreover, we will work to stabilize our financial position by thoroughly applying cost management, adjusting the repair works schedule, and other measures.

In terms of cash liquidity, the balance of cash and cash equivalents as of the end of the fiscal year under review was JPY 54,863 million, which is sufficient funds to carry on as a going concern for the present time.

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

### **Capital Investment**

The total amount of capital investment carried out by the Group in the fiscal year under review was JPY 2,838 million.

The main components of this were JPY 1,920 million for investment in rental properties in connection with the Leasing Business in Japan, JPY 45 million for capital investment in connection with the resort business, and JPY 98 million for investment of an information system in connection with the Leasing Business.

In addition, the Group sold an amount of non-current assets totaling JPY 4,167 million in the fiscal year under review.

The main components of this were JPY 1,974 million for sales in rental properties in connection with the Leasing Business in Japan, and JPY 1,379 million for sales of domestic hotels.

### **Financing Activities**

On November 2, 2020, the Group raised funds by issuance of new shares through third-party allotment, by a loan with share subscription rights, and by issuance of preferred stock by consolidated subsidiary Leopalace Power Corporation to raise total funds of JPY 57,215 million.

## Major Subsidiaries (as of March 31, 2021)

Company Name	Capital	Voting Rights Ratio	Major Areas of Operation
Leopalace Leasing Corporation	JPY 400 million	100.0%	Corporate Housing Management Business Real Estate Brokerage Business
Plaza Guarantee Co., Ltd.	JPY 50 million	100.0%	Rent Obligation Guarantee Business
Leopalace Power Corporation	JPY 80 million	65.9%	Solar Power Generation Business
Leopalace Energy Corporation	JPY 20 million	65.9% (65.9%)	Electricity Retail Business
ASUKA SSI	JPY 1,000 million	100.0%	Small-Amount, Short-Term Insurance Business
Leopalace21 Business Consulting (Shanghai) Co., Ltd.	5,359 thousand RMB	100.0%	Consulting 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.	JPY 85 million	88.2%	Construction Business of Custom-Built Detached Houses
Azu Life Care Co., Ltd.	JPY 80 million	100.0%	Elderly Care Business
Leopalace Guam Corporation	26,000 thousand USD	100.0%	Resort Business
Leopalace Smile Co., Ltd.	JPY 10 million	100.0%	Clerical Work Outsourcing Service Business

- Notes: 1. The Company has excluded LEOPALACE21 VIETNAM CO., LTD., Enplus Inc. and other one entity which were consolidated subsidiaries, from the scope of consolidation from the fiscal year under review because the Company sold all of its shares in said companies.
2. The Company has excluded WING MATE CO., LTD., which was a consolidated subsidiary, from the scope of consolidation from the fiscal year under review due to the liquidation.
3. There was no specified wholly-owned subsidiary as of the end of the fiscal year under review.
4. Figures in parenthesis in the voting rights ratio column indicate indirect ownership ratios, and these are included in the total.
5. Figures in square brackets in the voting rights ratio column indicate ownership ratios of parties that have a close relationship with the Company and parties that give consent, and these are not included in the total.



## Major Areas of Operation (as of March 31, 2021)

Segment	Areas of Operation
Leasing Business	Leasing and management of apartments, repair work, broadband service, rent obligation guarantee business, corporate housing management business, solar power generation business, small-amount, short-term insurance business, serviced apartments business, serviced offices business, real estate brokerage business, contracted construction work for apartments and custom-built detached houses, etc.
Elderly Care Business	Operation of elderly care facilities
Other Businesses	Operation of resort facilities, finance business, clerical work outsourcing service business, etc.

## Major Business Locations of the Group (as of March 31, 2021)

### The Company

Head Office	Nakano-ku, Tokyo
Regional	47 prefectures nationwide
Headquarters	(Leopalace centers: 133 branches) Overseas (Leopalace centers and other 7 branches [People's Republic of China: 4 branches; the Republic of Korea: 1 branch; Taiwan: 1 branch; Myanmar: 1 branch])
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
Leopalace21 Business Consulting (Shanghai) Co., Ltd.	The People's Republic of China
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 territory of the U.S.A.)
Leopalace Smile Co., Ltd.	Nakano-ku, Tokyo

## Employees of the Group (as of March 31, 2021)

### 1. Employees of the Group

Segment	Number of Employees	
Leasing Business	2,918	[275]
Elderly Care Business	1,192	[1,256]
Other Businesses	278	[37]
All companies (common)	694	[31]
Total	5,082	[1,599]

Notes: 1. The number of employees indicates the number of full-time employees. The average annual number of temporary employees (part-time workers and dispatched workers) is indicated separately in square brackets.

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

### 2. Employees of the Company

Number of Employees	Change Since Previous FY	Average Age	Average Years of Service
4,172 [1,241]	(1,648)	39 years and 0 months	10 years and 6 months

Note: 1 The number of employees indicates the number of full-time employees. The average annual number of temporary employees (part-time workers and dispatched workers) is indicated separately in square brackets.

2. Although the number of employees decreased by 1,648 employees since the end of the previous fiscal year, the main reason was due to the voluntary retirement program.

## Major Lenders (as of March 31, 2021)

Lender	Loan Balance at End of the Fiscal Year under Review (JPY million)
Kaede Godo Kaisha	30,000

### Items Regarding Shares of the Company (as of March 31, 2021)

- **Number of shares authorized** 500,000,000 shares
- **Number of shares outstanding** 329,389,515 shares
- **Number of shareholders** 60,798
- **Major shareholders (top 10 shareholders)**

Shareholder Name	Number of Shares Held (thousands of shares)	Percentage of Outstanding Shares (%)
Chidori Godo Kaisha	84,507	25.69
Ardisia Investment, Inc.	48,683	14.80
Noriyasu Shimada	11,474	3.48
STATE STREET BANK AND TRUST COMPANY 505103	9,295	2.82
The Master Trust Bank of Japan, Ltd. (Trust Account)	6,416	1.95
JPMBL RE NOMURA INTERNATIONAL PLC 1 COLL EQUITY	5,415	1.64
Stockholding Association for Leopalace21's Business Connection	5,319	1.61
SBI SECURITIES Co., Ltd.	5,029	1.52
Stockholding Association for Leopalace21's Apartment Owners	4,712	1.43
Stockholding Association for Leopalace21's Employees	3,093	0.94

Notes: 1. Of the shares held by The Master Trust Bank of Japan, Ltd. (Trust Account) as of March 31, 2021, those held in trust accounts as part of trust bank operations were 4,441 thousand shares.

2. The above percentage of outstanding shares is calculated excluding treasury stock.

3. The number of shares outstanding increased by 84,507 thousand shares through the issuance of new shares through third-party allotment with a date of payment of November 2, 2020.

- **Shareholder composition**

Financial institutions	7.08%	(23,341 thousand shares)
Foreign corporations	15.59%	(51,342 thousand shares)
Treasury stock	0.17%	(561 thousand shares)
Individuals and other	31.97%	(105,295 thousand shares)
Business corporations and other legal entities	42.48%	(139,931 thousand shares)
Financial instruments business operators	2.71%	(8,916 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 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		JPY 100 per 1 share subscription right (JPY 1 per share)	JPY 100 per 1 share subscription right (JPY 1 per share)	JPY 100 per 1 share subscription right (JPY 1 per share)	
Issue price of shares and amount incorporated into capital in case of issuance due to exercise of share subscription rights		Issue price: JPY 548; amount incorporated into capital: JPY 274	Issue price: JPY 529; amount incorporated into capital: JPY 265	Issue price: JPY 333; amount incorporated into capital: JPY 167	
Exercise period		From August 19, 2016 through August 18, 2016	From September 15, 2017 through September 14, 2017	From September 15, 2018 through September 14, 2018	
Status of officers' holdings	Directors (excluding Outside Directors)	Number of share subscription rights	197 units	216 units	226 units
		Number of underlying shares	19,700 shares of common stock	21,600 shares of common stock	22,600 shares of common stock
		Number of holders	2 persons	2 persons	3 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 and others during the fiscal year under review**

Not applicable.

**3. Other share subscription rights**

**Share subscription rights issued for a loan with share subscription rights in accordance with the resolution of the Board of Directors on September 30, 2020**

Aggregate number of share subscription rights	159,748,700 units
Type and number of shares underlying share subscription rights	159,748,700 shares of common stock (1 share per share subscription right)
Amount paid in for share subscription rights	JPY 1.35 per share subscription right
Date of payment of share subscription rights	November 2, 2020
Value of property to be contributed upon exercise of share subscription rights	JPY 142 per share
Exercise period of share subscription rights	From November 2, 2020 through November 2, 2025
Issue price of shares and amount incorporated into capital in case of issuance due to exercise of share subscription rights	Issue price: JPY 143.350 Amount incorporated into capital: JPY 71.675
Conditions for exercise of share subscription rights	No share subscription rights may be exercised in part.
Allotment method and scheduled allottee	All issued share subscription rights were allotted to Chidori Godo Kaisha, a related business entity of Fortress Investment Group LLC, through third-party allotment.
Balance of loan with share subscription rights	JPY 30,000 million

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

### 1. Directors and Audit & Supervisory Board Members (as of March 31, 2021)

Name	Title	Duties in the Company and Significant Concurrent Positions
Bunya Miyao	Representative Director, President and CEO	President and CEO / Chief of the Business Operation Headquarters Director, Leoplace Guam Corporation
Shigeru Ashida	Director	Managing Executive Officer / Chief of the Corporate Planning Headquarters / Chief of the Emergency Headquarters for Construction Defects (concurrent) President and CEO, Leoplace Power Corporation
Mayumi Hayashima	Director	Executive Officer / Chief of the Management Headquarters / Chief of the Compliance Promotion Headquarters, Chief Legal Officer (CLO) (concurrent)
Tadashi Kodama	Director	
Tetsuji Taya	Director	Board Member & Managing Director, CFO, Industrial Growth Platform, Inc.
Hisafumi Koga	Director	Chairman, Kyodo Public Relations Co., Ltd.
Kazuyasu Fujita	Director	Representative Director and President, Management Consulting Partner, Inc.
Yutaka Nakamura	Director	
Akira Watanabe	Director	Outside Audit & Supervisory Board Member, KADOKAWA CORPORATION Director, ASIA PILE HOLDINGS CORPORATION Outside Director, Maeda Road Construction Co., Ltd. Partner, Comm & Path Law Office
Jiro Yoshino	Full-time Audit & Supervisory Board Member	
Kenichiro Samejima	Full-time Audit & Supervisory Board Member	
Takao Yuhara	Audit & Supervisory Board Member	Outside Audit & Supervisory Board Member, KAMEDA SEIKA CO., LTD. Outside Director, T. HASEGAWA CO., LTD.
Yoshitaka Murakami	Audit & Supervisory Board Member	

- Notes: 1. Mr. Tadashi Kodama, Mr. Tetsuji Taya, Mr. Hisafumi Koga, Mr. Kazuyasu Fujita, Mr. Yutaka Nakamura and Mr. Akira Watanabe serve as Outside Directors of the Company.  
2. Mr. Jiro Yoshino and Mr. Takao Yuhara serve as Outside Audit & Supervisory Board Members of the Company.  
3. Mr. Akira Watanabe is a qualified lawyer.  
4. The Company has designated Outside Directors Mr. Tadashi Kodama, Mr. Tetsuji Taya, Mr. Kazuyasu Fujita, Mr. Yutaka Nakamura and Mr. Akira Watanabe, and Outside Audit & Supervisory Board Members Mr. Jiro Yoshino and Mr. Takao Yuhara as independent officers stipulated by Tokyo Stock Exchange, Inc. and has registered with the Stock Exchange accordingly.

5. Changes in positions and duties of Directors after the end of the fiscal year under review are as follows:

Name	New Positions and Duties	Former Positions and Duties	Date of Change
Shigeru Ashida	Director, Managing Executive Officer Chief of the Corporate Management Headquarters Chief of the Construction Defects Response Headquarters (concurrent)	Director, Managing Executive Officer Chief of the Corporate Planning Headquarters Chief of the Emergency Headquarters for Construction Defects (concurrent)	May 1, 2021
Mayumi Hayashima	Director, Executive Officer Chief of the Compliance Promotion Headquarters, CLO Deputy Chief of the Corporate Management Headquarters (concurrent)	Director, Executive Officer Chief of the Management Headquarters Chief of the Compliance Promotion Headquarters, CLO (concurrent)	May 1, 2021

## 2. Outline of limited liability agreement

Pursuant to 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 to limit their liability for damages under Article 423, paragraph (1) of the Companies Act. The limit of the liabilities under such agreement shall be the minimum limit amount prescribed by laws and regulations.

## 3. Outline of directors and officers liability insurance policy

The Company has entered into a directors and officers liability insurance policy pursuant to Article 430-3, paragraph (1) of the Companies Act with an insurance company. The scope of insureds includes Directors, Audit & Supervisory Board Members, Executive Officers, and significant employees under the Companies Act, and the insurance premiums are not borne by the insureds.

The insurance policy covers the cost of damages payment, legal expenses, etc. to be borne by the insured arising from claims for damages from shareholders, third parties, etc.

However, to ensure that the properness of performance of duties by the insureds is not impaired, the insurance policy does not cover losses in cases where claims for damages arise from criminal acts and others of the insureds.

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

Directors Mr. Katsuhiko Nanameki, Mr. Seishi Okamoto, Ms. Yoshiko Sasao and Mr. Yoshitaka Murakami, and Audit & Supervisory Board Members Mr. Atsunori Nasu and Mr. Masahiko Nakamura retired from office at the conclusion of the 47th Ordinary General Shareholders' Meeting held on July 22, 2020, due to the expiry of their terms of office.

Please note that Director Mr. Yoshitaka Murakami assumed office of Audit & Supervisory Board Member on July 22, 2020.

## **5. Directors' and Audit & Supervisory Board Members' remuneration and others**

### **(1) Things including the policy for determining the content of board members' remuneration and others**

The Company adopted a resolution on the policy for determining the content of individual remuneration for Directors and others at the Board of Directors meeting held on February 24, 2021. In this resolution of the Board of Directors, the Board of Director consulted with the Nomination and Compensation Committee in advance on the content to be resolved, and received a report from the Committee.

Furthermore, as for individual remuneration and others for Directors for the fiscal year under review, the Board of Directors has confirmed that the method for determining the content of remuneration and others and the determined content of remuneration and others are consistent with the determination policy resolved by the Board of Directors and the report from the Nomination and Compensation Committee is respected, and judged that the content reflects the policy.

Details of the policy for determining the content of individual remuneration and others for Directors are as follows:

#### **(a) Basic policy**

The Company's basic policy is to have a remuneration system for Directors – specifically regarding decisions on the amount of remuneration and others for Directors or the method of calculating it – that will contribute to enhancing the Company's business performance and corporate value over a diverse range.

The remuneration for Executive Directors has four components: the basic remuneration as fixed remuneration, stock options, which are designed to boost medium- to long-term Company performance and corporate value by sharing the advantages and disadvantages of stock price fluctuations with the shareholders, annual bonuses on the attainment of single fiscal year management targets, and bonuses for the medium-term management plan period on the attainment of the medium-term management plan.

To Outside Directors, only the basic remuneration shall be paid, in light of their duties.

In the development of the remuneration system, the Company creates a remuneration table in light of each Director's duties and related risk, taking into account other companies' remuneration level, the Company's business performance and employees' salary level, and determines the system based on this table.

#### **(b) Policy for determining the amount of monetary remuneration (basic remuneration, annual bonuses and bonuses for the Medium-term Management Plan period)**

The basic remuneration is determined based on a basic remuneration table, which is developed in light of duties and related risk for each position.

For the annual performance bonuses, whether or not the bonuses are paid, and the amount of the bonuses paid are determined based on the annual bonuses table, which is developed in light of duties and related risk for each position, in view of quantitative factors such as the Company's business performance and qualitative factors such as strengthening of the management base, according to assessment made by comprehensively taking into account a degree of contribution and expectation of each Director.

For the performance bonuses for the Medium-term Management Plan period, whether or not the bonuses are paid, and the amount of the bonuses paid are determined based on the medium-term bonuses table, which is developed in light



of duties and related risk for each position, in view of quantitative factors such as the Company's business performance and qualitative factors such as strengthening of the management base, according to assessment made by comprehensively taking into account a degree of contribution of each Director.

- (c) Policy for determining the content and amount or the method for numerical calculation of non-monetary remuneration and others.

For stock options as stock-based remuneration that fall under non-monetary remuneration and others, whether or not the stock options are granted, and the number of units granted are determined based on the stock option table, which is developed in light of duties and related risk for each position, according to the assessment made by comprehensively taking into account the Company's business performance and a degree of contribution of each Director.

- (d) Policy for determining the ratio to the amount of each individual remuneration

For the remuneration ratio by type of Executive Directors, the content of individual remuneration for Directors shall be determined by the ratio in the remuneration table by type based on a board members' remuneration system determined by the Board of Directors.

A rough indication for the ratio by type shall be the following composition ratio in adequate performance ratings. However, the bonuses for the Medium-term Management Plan period are not included.

Position	Monetary remuneration	Non-monetary remuneration and others
Representative Director	83%	17%
Director	82% – 83%	17% – 18%

The composition ratio in basic remuneration, annual bonuses and non-monetary remuneration is as follows:

Position	Basic remuneration	Annual performance bonuses	Non-monetary remuneration
Representative Director	53%	30%	17%
Director	49% – 53%	30% – 32%	17% – 18%

- (e) Policy for determining the timing or conditions for providing remuneration and others to Directors

For the basic remuneration, the annual amount shall be determined and this remuneration amount shall be prorated by the number of months in office and paid as monthly remuneration.

For the annual bonuses, the annual amount shall be determined and this remuneration amount shall be paid at a certain timing.

For the bonuses for the Medium-Term Management Plan period, the amount for the covered period shall be determined after the period of the Medium-term Management Plan ends, and this remuneration amount shall be paid by adding it to the annual bonuses for the next fiscal year.

For the stock options, the annual number of share subscription rights granted shall be determined, and become exercisable after the grantee retires as board member of the Group.

(f) Matters regarding determination of the content of individual remuneration for Directors and others

For the amount of individual remuneration, determination of the specific content shall be delegated to Representative Director, President & CEO based on resolution of the Board of Directors.

The content of delegated authority shall be determination of assessment based on the performance of the business of which the Executive Director is in charge, and each remuneration amount shall be determined based on the remuneration table by type of remuneration in accordance with the outcome of assessment.

To ensure that the authority is appropriately exercised by Representative Director, President & CEO, the Board of Directors shall make the Nomination and Compensation Committee deliberate the specific content of individual remuneration that is prepared by Representative Director, President & CEO, and receive a report from the Committee. The above delegated Representative Director, President & CEO must make the determination based on the content of the report.

The Nomination and Compensation Committee has been set up as an advisory organization for the Board of Directors in order to ensure appropriateness of the amount of individual remuneration. The Nomination and Compensation Committee shall be operated in accordance with the provisions of the Nomination and Compensation Committee Rules.

The Nomination and Compensation Committee assesses reasonableness of the board members' remuneration system and submits a report to the Board of Directors. In addition, the committee objectively assesses the examination process for determination of individual remuneration by Representative Director, President & CEO to which authority for the individual remuneration amount was delegated based on a resolution of the Board of Directors, and submits a report to the Board of Directors. This way the Company ensures reasonableness, objectivity and transparency of individual assessment and remuneration amount for board members.

## (2) Total amount of remuneration and others in the fiscal year under review

Category	Total amount of remuneration and others (JPY million)	Total amount of remuneration and others by type (JPY million)			Number of eligible board members (persons)
		Basic remuneration	Performance-linked remuneration and others	Non-monetary remuneration and others	
Directors (of which, Outside Directors)	132 (75)	132 (75)	– (–)	– (–)	13 (8)
Audit & Supervisory Board Members (of which, Outside Audit & Supervisory Board Members)	38 (21)	38 (21)	– (–)	– (–)	6 (3)
Total (of which, Outside Directors and Audit & Supervisory Board Members)	170 (97)	170 (97)	– (–)	– (–)	19 (11)

- Notes:
- 1 Among the above-mentioned figures, there includes four Directors and two Audit & Supervisory Board Members who retired on July 22, 2020.
  - 2 The date of resolution at the General Shareholders' Meeting on remuneration for Directors of the Company and others is June 29, 2017. It was resolved that the amount of monetary remuneration for Directors is JPY 800 million or less per year (of which the amount of remuneration for Outside Directors is JPY 100 million or less per year, and which does not include employee salaries for Directors concurrently serving as employees), the amount of non-monetary remuneration (amount of stock options as stock-based remuneration) for Directors (excluding Outside Directors) is JPY 300 million or less per year (not including employee salaries for Directors concurrently serving as employees), and the individual remuneration amount is left to the discretion of the Board of Directors. The number of Directors related to the resolution as at the conclusion of the General Shareholders' Meeting was 11 (including three Outside Directors).
  - 3 It was resolved at the Ordinary General Shareholders' Meeting held on June 29, 2004, that the amount of monetary remuneration for the Company's Audit & Supervisory Board Members is JPY 60 million or less per year. The number of Audit & Supervisory Board Members related to the resolution as at the conclusion of the General Shareholders' Meeting was four.
  - 4 Directors' remuneration has been determined by Bunya Miyao, Representative Director, President & CEO in accordance with the policy described in (1) (f) above.

## 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	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.
Director	Akira Watanabe	Outside Audit & Supervisory Board Member, KADOKAWA CORPORATION Director, ASIA PILE HOLDINGS CORPORATION Outside Director, Maeda Road Construction Co., Ltd. Partner, Comm & Path Law Office	There are business transaction relationships between Maeda Road Construction 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.  In addition, there are no other relationships requiring specific mention between the Company and the other entities at which concurrent positions are held.
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 and Overview of Duties in Relation to the Role Expected of Outside Directors
Director	Tadashi Kodama	24/24	-	Mr. Kodama expressed his opinions on the overall management mainly based on his abundant insight as a senior manager of a listed company. He has fulfilled an appropriate role to ensure the reasonableness and appropriateness of decision-making by the Board of Directors particularly by proving supervision, advice, etc. on growth strategy and business promotion from a specialist standpoint. In addition, as the chair of the Nomination and Compensation Committee, he led the supervisory function in processes of nominating candidates for the Company's officer and determining board members' remuneration from an objective and neutral viewpoint.
Director	Tetsuji Taya	24/24	-	Mr. Taya expressed his opinions on the overall management mainly based on his abundant insight as a senior manager of a company. He has fulfilled an appropriate role to ensure the reasonableness and appropriateness of decision-making by the Board of Directors particularly by proving supervision, advice, etc. on business turnaround and growth strategy, business promotion, and finance from a specialist standpoint. In addition, as a member of the Nomination and Compensation Committee, he served the supervisory function in processes of nominating candidates for the Company's officer and determining board members' remuneration from an objective and neutral viewpoint.
Director	Hisafumi Koga	19/24	-	Mr. Koga expressed his opinions on the overall management mainly based on his abundant insight as a senior manager of a listed company. He has fulfilled an appropriate role to ensure the reasonableness and appropriateness of decision-making by the Board of Directors particularly by proving supervision, advice, etc. on management of reputation risk, growth strategy and business promotion from a specialist standpoint. In addition, as a member of the Nomination and Compensation Committee, he served the supervisory function in processes of nominating candidates for the Company's officer and determining board members' remuneration from an objective and neutral viewpoint.

Title	Name	Attendance of the Board of Directors Meetings	Attendance of the Audit & Supervisory Board Meetings	Key activities and Overview of Duties in Relation to the Role Expected of Outside Directors
Director	Kazuyasu Fujita	24/24	-	Mr. Fujita expressed his opinions on the overall management mainly based on his abundant insight as a senior manager of a listed company. He has fulfilled an appropriate role to ensure the reasonableness and appropriateness of decision-making by the Board of Directors particularly by proving supervision, advice, etc. on business turnaround as well as construction and technologies from a specialist standpoint. In addition, as a member of the Nomination and Compensation Committee, he served the supervisory function in processes of nominating candidates for the Company's officer and determining board members' remuneration from an objective and neutral viewpoint.
Director	Yutaka Nakamura	24/24	-	Mr. Nakamura expressed his opinions on the overall management mainly based on his deep experience and knowledge in the housing industry. He has fulfilled an appropriate role to ensure the reasonableness and appropriateness of decision-making by the Board of Directors particularly by proving supervision, advice, etc. on quality management and environmental management in construction work from a specialist standpoint. In addition, as a member of the Nomination and Compensation Committee, he served the supervisory function in processes of nominating candidates for the Company's officer and determining board members' remuneration from an objective and neutral viewpoint.
Director	Akira Watanabe	18/18	-	Mr. Watanabe used his specialized knowledge as an attorney at law and deep knowledge and experience in corporate management as an outside director at other companies 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	24/24	15/15	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 and Overview of Duties in Relation to the Role Expected of Outside Directors
Audit & Supervisory Board Member	Takao Yuhara	22/24	14/15	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 Director Mr. Akira Watanabe cover the period since he assumed office on July 22, 2020.

## Status of Accounting Auditor

### 1. Name of Accounting Auditor

Grant Thornton Taiyo LLC

### 2. Amount of Remuneration and others

Segment	Amount Paid
Amount of Accounting Auditor remuneration and others in the fiscal year under review	JPY 97 million
Total amount owed to Accounting Auditor by the Company and its subsidiaries in the form of cash or other financial benefit	JPY 110 million

- 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 and others 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 JPY 9 million in the fiscal year under review as 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 the audit schedule and the remuneration amount for the fiscal year under review after comparing the auditing plan of the previous fiscal year with the actual audits conducted 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 belong to the same network as that of the Company’s Accounting Auditor.

### 3. Policy Regarding Discharge or Non-reappointment 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 designated by the Audit & Supervisory Board shall present a report stating the purport of the dismissal of the Accounting Auditor and the reasons therefor at the first general shareholders’ meeting convened after the dismissal.

Where the Audit & Supervisory Board deems there are problems with the suitability, independence, reliability, etc., of the Accounting Auditor, it will determine the content of a proposal to be proposed at a general shareholders’ meeting concerning the dismissal or non-reappointment 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 as its 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 Promotion Headquarters, and concurrently serving as the 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 to ensure a system related to compliance. The Committee is composed of one of the Outside Directors as the chairman and members including external experts such as attorneys at law. The Compliance Committee, as part of the Group’s efforts of strengthening governance, plans and implements the measures regarding the Group’s compliance framework, including reinforcing training and the 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 Promotion Headquarters headed by the Chief of the Compliance Promotion Headquarters, and concurrently serving as the Chief Legal Officer (CLO), who manages all the matters related to the legal compliance. The Compliance Promotion Headquarters is responsible for planning and implementing measures to promote the Group’s compliance as well as making improvements to develop the autonomous corporate culture.
- (e) The Company created, under the Compliance Promotion Headquarters, the Compliance Promotion 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 support, progress management and monitoring functions of the compliance-related operations conducted by business departments, as well as legal functions such as confirming contracts and handling lawsuits.

- (f) For the system that ensures compliance concerns are not overlooked, the Group assigns compliance coordinators to business sites to make compliance measures known and report any violations of laws and regulations. The internal reporting system has also been established, and whistle-blowing hotlines have 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 conducts periodic surveys 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 in the Internal Report Regulations to the effect that, if its officers and employees recognized an act and others, which is questionable based on laws and regulations and the Articles of Incorporation, the Company shall prohibit treating that person unfavorably on the grounds of consulting about or reporting the violation.
- (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, the Auditing Department shall perform monitoring and risk management of business activities in the Group, as well as 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 meetings 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 according to job level and job duties 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 a multi-directional personnel rating method.
- (i) The Company promotes active dialogue between the management team and all the stakeholders so that it leads to the development of a customer-oriented corporate culture by increasing the transparency of management and fostering mutual understanding.
- (j) Through the establishment of these systems, the Group has positioned at its core the development of a corporate culture that respects the importance of compliance. The Group pursues the concept of "compliance-first" by mutually integrating a structure that ensures systematic compliance with laws and regulations spearheaded by the Compliance Promotion Headquarters and a structure that uses the Auditing Department's audits and internal reporting system to ensure that illegalities are not overlooked.

## **(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 Corporate 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 risks. 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 training for officers and employees of the Group. The Company's Chief of the Compliance Promotion Headquarters, and concurrently serving as the 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 is found in business operations, the Auditing Department shall immediately notify the Company's President and CEO, as well as the department in charge, of the details of the risk and the level of loss that could be 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 members with diverse backgrounds, and composed of an appropriate number of members and consider the enhancement of monitoring functions. The Board of Directors shall hold regular meetings once a month, while extraordinary meetings can be called at any time as required, in order to make decisions 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, the Corporate Management Council shall meet regularly to discuss business operation policies and their implementation and to consider measures to be taken.
- (c) The Company shall formulate a Medium-term Management Plan for the Group, and determine the priority objectives 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 identified and countermeasures 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 Chief of the Corporate Management Headquarters shall supervise the management of subsidiaries of the Company. The Company's Chief of the Corporate Management Headquarters shall periodically hold a meeting with the affiliated companies liaison committee to smoothly exchange information and promote group activities, and mutually exchange 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 exchange information with subsidiaries on a regular basis and as needed and make regular reports on the progress in the management of subsidiaries 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 an Audit & Supervisory Board Member of the Company requests to have an employee assigned to assist with the duties of the Audit & Supervisory Board Member, the Company's Board of Directors shall designate an employee to assist the Audit & Supervisory Board Member from the members of the Company's Auditing Department after consultation with the Audit & Supervisory Board Member.
- (b) In regards to the assistance in the duties of Audit & Supervisory Board Members of the Company, the right of command over the designated employee shall be transferred to the Company's Audit & Supervisory Board Members to ensure independence from the Company's Board of Directors. The designated employee shall submit to the orders of the Audit & Supervisory Board Members when supporting their duties. The Company's Audit & Supervisory Board shall conduct a performance evaluation of the designated employee on their support work of Audit & Supervisory Board Members' duties. The Company's Audit & Supervisory Board Members and the General Manager of the Human Resources and General Affairs Department shall confer about personnel changes and treatment.

**(7) Systems for Directors and Employees, as well as Directors, Audit & Supervisory Board Members, Employees and others of Subsidiaries to Report to Audit & Supervisory Board Members, Other Systems of Reporting to Audit & Supervisory Board Members, and Other Systems to Secure Effective 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 Regulations and the Auditing Standards for the Audit & Supervisory Board Members. In order to ensure thorough reporting to the Audit & Supervisory Board Members, officers and employees shall be made aware of the relevant system and reminded on a regular basis. The Company's Audit & Supervisory Board Members may also require officers and employees to report at any time 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 carry out monitoring and inspections through periodic interviews and on-site audits of each department of the Group and Audit & Supervisory Board Members of subsidiaries.
- (c) The Company's Audit & Supervisory Board Members, based on the independence and authority granted according to the Audit & Supervisory Board Regulations and the Auditing Standards for the Audit & Supervisory Board Members, shall ensure the effectiveness of audits, and maintain close cooperation with the Auditing Department and the Accounting Auditors to promote the achievement of their outcomes by receiving audit status reports 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 reimbursement 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 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 any possible 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 designating a person responsible for preventing unlawful demands in all offices and places of business. The Human Resources and General Affairs Department and the Compliance Promotion Headquarters 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 Promotion Department, and establishment of the internal reporting system and related regulations.

Furthermore, the Company received an investigation report on the construction defects problem from the External Investigation Committee. The Company has either completed or is in the process of implementing all the items of the recurrence preventive measures that were established on May 29, 2019, and there are no items for which work has not started.

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 was appointed to chair the Compliance Committee in the 47th fiscal term. As a result of a major review of the contents of deliberations and composition of the committee, the discussions have become more lively and the committee can be assessed as functioning effectively.

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 Corporate 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 were maintained in an appropriate state, but occasional cases in which the management of important information has been inadequate. In order to further strengthen the information management system, the Company will work to thoroughly inculcate the Information Management Regulations by means of training and others.

### **(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, while each business division identified potential risks based on the recurrence preventive measures after receiving an investigation report on the construction defects problem from the External Investigation Committee, the measures to take are currently being determined and company-wide management of potential risks is a future issue.

In addition, work has commenced on 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.

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

Organizational decisions are made after deliberations at the Board of Directors meetings following preliminary deliberations by the Corporate Management Council. On the other hand, to review the progress of business plans, Board of Executive Officers meetings, 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 through measures including participation 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 Promotion 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 nominates Audit & Supervisory Board Members of subsidiaries, and conducted changes of the system, including how the Company's Audit & Supervisory Board Members and the Company's Auditing Department cooperate with them.

**(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 Regulations and the Auditing Standards for employees who assist with the duties of the Audit & Supervisory Board Members.

During the fiscal year under review, an employee was assigned 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 and others of Subsidiaries to Report to Audit & Supervisory Board Members, Other Systems of Reporting to Audit & Supervisory Board Members, and Other Systems to Secure Effective Audits by Audit & Supervisory Board Members**

The systems for reporting to Audit & Supervisory Board Members and the systems to secure effective audits by Audit & Supervisory Board Members have been fully developed by stipulating them in the Audit & Supervisory Board Regulations 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 for reporting to Audit & Supervisory Board Members to work appropriately, the Audit & Supervisory Board encouraged the Board of Directors to report more promptly.

**(8) Systems to Ensure Reliable Financial Reporting**

The systems have been constructed to evaluate internal controls by the Auditing Department, and an internal control report for the 47th fiscal term was submitted on July 22, 2020.

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 and others, and has developed a system therefor.

During the fiscal year under review, the Company conducted its 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, 2021)

(JPY million)

<b>ASSETS</b>	
<b>Current assets</b>	<b>72,598</b>
Cash and cash equivalents	54,863
Trade receivables	7,930
Accounts receivable for completed projects	524
Operating loans	86
Securities	100
Real estate for sale	180
Real estate for sale in progress	349
Payment for construction in progress	238
Raw materials and supplies	497
Prepaid expenses	2,076
Other accounts receivable	1,819
Others	4,112
Allowance for doubtful accounts	(182)
<b>Non-current assets</b>	<b>89,109</b>
<b>Property, plant and equipment</b>	<b>70,052</b>
Buildings and structures	19,557
Machinery, equipment, and vehicles	8,589
Land	31,118
Leased assets	3,506
Construction in progress	82
Other	7,198
<b>Intangible fixed assets</b>	<b>4,173</b>
Goodwill	12
Others	4,161
<b>Investments and other assets</b>	<b>14,883</b>
Investment securities	5,431
Long-term loans	1,096
Bad debts	249
Long-term prepaid expenses	1,121
Deferred tax assets	2,194
Others	5,443
Allowance for doubtful accounts	(651)
<b>Total assets</b>	<b>161,708</b>

**CONSOLIDATED BALANCE SHEET** (as of March 31, 2021) (Continued)

(JPY million)

<b>LIABILITIES</b>	
<b>Current liabilities</b>	<b>65,798</b>
Electronically recorded obligations - operating	19
Accounts payable	3,172
Accounts payable for completed projects	514
Current portion of long-term debt	114
Lease obligations	3,133
Accounts payable—other	9,593
Accrued income taxes	696
Advances received	28,239
Customer advances for projects in progress	541
Reserve for warranty obligations on completed projects	67
Reserve for fulfillment of guarantees	2,783
Reserve for losses related to repairs	3,777
Reserve for apartment vacancy loss	9,301
Asset retirement obligations	30
Others	3,811
<b>Non-current liabilities</b>	<b>92,633</b>
Long-term debt	30,615
Lease obligations	1,544
Long-term advances received	7,869
Lease/guarantee deposits received	6,423
Reserve for losses related to repairs	29,732
Deferred tax liabilities	9
Reserve for apartment vacancy loss	2,960
Liability for retirement benefit	9,650
Asset retirement obligations	63
Others	3,763
<b>Total liabilities</b>	<b>158,431</b>
<b>NET ASSETS</b>	
<b>Shareholders' equity</b>	<b>(6,474)</b>
Common stock	81,282
Capital surplus	55,174
Retained earnings	(142,586)
Treasury stock	(344)
<b>Accumulated other comprehensive income</b>	<b>(2,019)</b>
Net unrealized gains on other securities	(0)
Foreign currency translation adjustments	(1,877)
Remeasurements of defined benefit plans	(142)
<b>Share subscription rights</b>	<b>388</b>
<b>Non-controlling interests</b>	<b>11,383</b>
<b>Total net assets</b>	<b>3,277</b>
<b>Total liabilities and net assets</b>	<b>161,708</b>

**CONSOLIDATED STATEMENT OF OPERATIONS** (from April 1, 2020 to March 31, 2021)  
(JPY million)

<b>Net sales</b>	<b>408,959</b>
Sales from Leasing Business	391,964
Sales from Other Businesses	16,994
<b>Cost of sales</b>	<b>387,872</b>
Cost of sales from Leasing Business	370,872
Cost of sales from Other Businesses	17,000
<b>Gross profit</b>	<b>21,086</b>
<b>Selling, general and administrative expenses</b>	<b>50,269</b>
<b>Operating loss</b>	<b>(29,182)</b>
<b>Other income</b>	<b>1,084</b>
Interest income	66
Dividend income	84
Gain on valuation of investment securities	141
Foreign exchange gains	110
Employment adjustment subsidy	243
Others	438
<b>Other expenses</b>	<b>6,072</b>
Interest expenses	2,171
Bond issuance cost	251
Funding costs	2,904
Share of loss of entities accounted for using equity method	44
Others	700
<b>Recurring loss</b>	<b>(34,170)</b>
<b>Extraordinary income</b>	<b>19,664</b>
Gain on sale of property, plant and equipment	225
Gain on sale of investment securities	4,065
Gain on sale of shares in subsidiary	0
Reversal of reserve for losses related to repairs	15,374
<b>Extraordinary losses</b>	<b>8,419</b>
Loss on sale of property, plant and equipment	18
Loss on retirement of property, plant and equipment	114
Impairment loss	4,041
Losses related to repairs	982
Loss on sale of investment securities	114
Special severance allowance	2,479
Retirement benefit cost	427
Loss on liquidation of affiliates	151
Loss on valuation of investment securities	90
<b>Loss before income taxes</b>	<b>(22,925)</b>
Income taxes—current	710
Income taxes—deferred	(429)
<b>Net loss</b>	<b>(23,205)</b>
Net income attributable to non-controlling interests	475
<b>Net loss attributable to shareholders of the parent</b>	<b>(23,680)</b>

## **CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS**

**(from April 1, 2020 to March 31, 2021)**

(JPY million)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2020	75,282	45,148	(118,874)	(473)	1,083
Change during period					
Issuance of new shares	5,999	5,999			11,999
Net loss attributable to shareholders of the parent			(23,680)		(23,680)
Disposal of treasury stock			(32)	128	96
Change in share of parent from transactions with non-controlling interests		4,026			4,026
Net change of items other than shareholders' equity					
<b>Total change during period</b>	<b>5,999</b>	<b>10,026</b>	<b>(23,712)</b>	<b>128</b>	<b>(7,557)</b>
<b>Balance as of March 31, 2021</b>	<b>81,282</b>	<b>55,174</b>	<b>(142,586)</b>	<b>(344)</b>	<b>(6,474)</b>

(JPY million)

	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, 2020	1,047	(280)	(546)	220	269	16	1,589
Change during period							
Issuance of new shares							11,999
Net loss attributable to shareholders of the parent							(23,680)
Disposal of treasury stock							96
Change in share of parent from transactions with non-controlling interests							4,026
Net change of items other than shareholders' equity	(1,047)	(1,596)	403	(2,240)	119	11,366	9,245
<b>Total change during period</b>	<b>(1,047)</b>	<b>(1,596)</b>	<b>403</b>	<b>(2,240)</b>	<b>119</b>	<b>11,366</b>	<b>1,687</b>
<b>Balance as of March 31, 2021</b>	<b>(0)</b>	<b>(1,877)</b>	<b>(142)</b>	<b>(2,019)</b>	<b>388</b>	<b>11,383</b>	<b>3,277</b>

# Notes to Consolidated Financial Statements

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

(1) Scope of consolidation

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

Number of consolidated subsidiaries: 20

Principal consolidated subsidiaries: Leopalace Leasing Corporation  
Plaza Guarantee Co., Ltd.  
Leopalace Power Corporation  
Leopalace Energy Corporation  
ASUKA SSI  
Leopalace21 Business Consulting (Shanghai) 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  
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 LEOPALACE21 VIETNAM CO., LTD., Enplus Inc. and other one entity from the scope of consolidation from the fiscal year under review because the Company sold all of its shares in said companies.

The Company has excluded WING MATE CO., LTD. from the scope of consolidation from the fiscal year under review due to the liquidation.

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

Not applicable.

(4) Fiscal year-ends of consolidated subsidiaries

Among the consolidated subsidiaries, the fiscal year-end of Leopalace Guam Corporation and 11 other 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 and others 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 decline 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 decline in profitability of assets)

(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 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 a residual value of zero.

Long-term prepaid expenses:

Evenly amortized mainly over the following period

Prepaid master-lease rent: 5–7 years

(c) Accounting for deferred assets

Share issuance costs

Fully recognized as expenses included in funding costs when paid.

(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 Leasing 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 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 and others is recorded to prepare for the incurrence of repair work expenses 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 rent to pay as a subleasing company 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 estimated 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 a 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 deemed to have accrued at the end of the fiscal year under review based on the estimated amount of retirement benefit obligations 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 the interest paid on borrowings for real estate development business during the development period into the acquisition cost of property, plant and equipment.

Capitalized interest included in the carrying amount of property, plant and equipment of Leopalace Guam Corporation was JPY 300 million as of March 31, 2021.

*Additional Information*

*Accounting estimates related to the impact of the spread of COVID-19*

We assume that the spread of COVID-19 and resulting slowdown in economic activities will continue for the time being and affect the overall businesses of the Group. Particularly in the Leasing Business, the core business, it is anticipated that demand for new occupancy will remain sluggish due to restriction on staff reassignment and reduction of new hires by corporate customers, which are the main customer segment, prevailed on-line lectures at universities, restricted immigration control for foreign nationals, and other factors.

We assume that although COVID-19 is expected to begin to subside in and after the second half of the fiscal year ending March 31, 2022, the impact will last through the year. Accounting estimates of recoverability of deferred tax assets and others for the fiscal year under review were made based on these assumptions.

If the timing when COVID-19 subsides, the impact on the economic environment or other factors materially differ from the assumptions above, the Group's financial position and operating results may be affected.

## 2. Notes regarding Accounting Estimates

### (1) Reserve for apartment vacancy loss

(a) Amounts recorded in the consolidated financial statements for the fiscal year under review

(JPY million)

	As of March 31, 2021
Reserve for apartment vacancy loss (Current liabilities)	9,301
Reserve for apartment vacancy loss (Non-current liabilities)	2,960
Total	12,262

(b) Information on the content of significant accounting estimates for identified items

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 rent to pay as a subleasing company and expected future occupancy rates for each rental property.

As the specific calculation method, the amount is calculated by comparing gross income, which was obtained by multiplying the total of rent income and other incidental income for each rental property by expected future occupancy rates, with gross expenditure, which is the total of rent to pay as a subleasing company and management cost, and then multiplying the negative amount of difference for any properties whose gross expenditure exceeds their gross income by the number of remaining months of the master lease agreements.

Rent paid by a subleasing company to the property owner in relation to subleasing is calculated by reflecting estimated fluctuations in rent in the remaining agreement period in rent under the current agreement.

For expected future occupancy rates, an estimate is primarily made in light of circumstances around the property, demand and impact of the spread of COVID-19, and then adjustments are made to it, taking into account effects of suspension of tenant recruitment due to repair works. If conditions or assumptions based on the premise of these estimates are changed, the amount of reserve recorded may vary in consolidated financial statements for the next fiscal year.

### (2) Reserve for losses related to repairs

(a) Amounts recorded in the consolidated financial statements for the fiscal year under review

(JPY million)

	As of March 31, 2021
Reserve for losses related to repairs (Current liabilities)	3,777
Reserve for losses related to repairs (Non-current liabilities)	29,732
Total	33,509

(b) Information on the content of significant accounting estimates for identified items

The Company has pursued all-building investigations of construction defects released in May 2018, February 2019 and May 2019 in addition to the construction defects in parting walls in attics released in April 2018, and been implementing repair works for properties in which defects were identified sequentially.

An amount of loss estimated based on ratio of defects and others was recorded to prepare for the incurrence of repair work expenses and incidental expenses related to construction defects of properties (apartments) constructed by the Company. All important defects recognized at present are subject to recording of reserve, and the Company considers that there is no important defect for which additional reserve will be required in the future.

The specific calculation method is as follows:

a. Repair work expenses

The number of properties with defects is estimated based on ratio of defects and others found through all-building investigations for each type of properties which have defects in parting walls in attics and others, and the expenses are calculated by multiplying the estimate by actual unit price or estimated unit price.

b. Subleasing expenses (expenses to compensate for the rent of vacancies of properties managed by other companies)

The expenses are calculated by multiplying the anticipated subleasing period for each property managed by other companies by actual value of rent and others.

c. External investigation expenses

The expenses are calculated by multiplying properties that have not been investigated and those requiring confirmation of completion of repair works by actual unit price of expenses for commissioning investigations to first-class registered architects.

d. Expenses for relocation and others.

Mainly for properties managed by other companies, the expenses are calculated by multiplying the number of properties from which relocation is expected to be required by actual unit price of relocation expenses and others.

As for repair work expenses and incidental expenses, the Company strives to make more reasonable and more highly accurate estimates of amounts, taking into account bulk order placement to external business operators, change of the construction method, changes in estimated unit price due to change from outsourcing to insourcing, effects of review of construction schedule and others in addition to change from calculation using previous estimated unit price calculated by the Company's construction department to estimated unit price presented by external business operators.

If conditions or assumptions based on the premise of these estimates are changed, the amount of reserve recorded may vary in consolidated financial statements for the next fiscal year.

### **3. Change in Presentation**

*Application of "Accounting Standard for Disclosure of Accounting Estimates"*

The Company has applied "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) from the consolidated financial statements at the end of the fiscal year under review and provided notes regarding significant accounting estimates in the consolidated financial statements.

#### 4. Notes to Consolidated Balance Sheet

(1) Assets pledged as collateral and secured liabilities

(a) Assets pledged as collateral

Cash and cash equivalents	JPY 126 million
Real estate for sale	JPY 37 million
Others (Current assets)	JPY 242 million
Buildings and structures	JPY 5,094 million
Machinery, equipment, and vehicles	JPY 45 million
Land	JPY 24,988 million
Others (Intangible fixed assets)	JPY 1,010 million
Investment securities	JPY 2,339 million
Others (Investments and other assets)	JPY 100 million
Total	JPY 33,985 million

(b) Secured liabilities

Current portion of long-term debt	JPY 65 million
Long-term debt	JPY 30,437 million

Of the assets pledged as collateral described in (a) above, cash and cash equivalents, others (current assets) and JPY 36 million of 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) Investments and other assets which have been deposited with the Legal Affairs Bureau (Others)

Deposit for housing construction warranty	JPY 788 million
Advanced payment certificate in accordance with Payment and Settlement Regulations	JPY 332 million
Deposit for operation stipulated in Building Lots and Buildings Transaction Business Act	JPY 100 million
Deposit for operation stipulated in Insurance Business Act	JPY 201 million
Deposit for housing defect warranty	JPY 109 million
Others	JPY 2 million

(2) Accumulated depreciation of property, plant and equipment JPY 82,810 million

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

Machinery, equipment, and vehicles	JPY 155 million
Tools, furniture and fixtures	
(Property, plant and equipment and other)	JPY 44 million

(4) Liabilities on guarantee

Liabilities on guarantee for financial institutions for customers who have a housing loan	JPY 430 million
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## 5. Notes to Consolidated Statement of Changes in Net Assets

### (1) Number of issued shares

Class of shares	April 1, 2020	Increase	Decrease	March 31, 2021
Common stock	244,882,515 shares	84,507,000 shares	–	329,389,515 shares

Note: The increase in issued shares is 84,507 thousand shares of issuance of new shares due to a capital increase by third-party allotment.

### (2) Number of shares of treasury stock

Class of shares	April 1, 2020	Increase	Decrease	March 31, 2021
Common stock	771,210 shares	–	209,600 shares	561,610 shares

Note: The decrease of 209 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, 2021

Class of shares subject to share subscription rights	Common stock
Number of shares subject to share subscription rights	160,125,900 shares
Unexercised share subscription rights	JPY 388 million

## 6. Financial Instruments

### (1) Status of financial instruments

#### (a) Policy for financial instruments

The Group is mainly involved in raising funds, mostly bank borrowing and corporate bond issuance. Temporary excess funds are invested in highly secured financial assets, and short-term working capital is raised by borrowing from the bank.

#### (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 and others, 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 and lease obligations related to finance lease transactions are for the funding mainly for repair works and investment in facilities, respectively, and the longest repayment date is 6 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.” Each business division manages the extension of credit to its customers while striving 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.

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 a quoted market price is not available is calculated based on fluctuating 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, 2021 as well as the difference between these values are shown below. Financial instruments whose fair values are deemed to be extremely difficult to determine are not included in the table.

	(JPY million)		
	Carrying amount	Fair value	Difference
(1) Cash and cash equivalents	54,863	54,863	—
(2) Trade receivables and accounts receivable for completed projects	8,455	8,455	—
(3) Securities and investment securities			
(a) Held-to-maturity debt securities	602	607	5
(b) Other securities	36	36	—
(4) Operating loans	86		
Allowance for doubtful accounts (*1)	(3)		
Net	83	91	8
(5) Long-term loans	1,096		
Allowance for doubtful accounts (*1)	(79)		
Net	1,016	1,016	—
(6) Bad debts	249		
Allowance for doubtful accounts (*1)	(249)		
Net	—	—	—
Total assets	65,056	65,070	14
(1) Electronically recorded obligations - operating	19	19	—
(2) Accounts payable and accounts payable for completed projects	3,687	3,687	—
(3) Accounts payable—other	9,593	9,593	—
(4) Long-term debt (*2)	30,730	30,030	(699)
(5) Lease obligations	4,678	4,641	(37)
Total liabilities	48,709	47,972	(737)

(\*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, 2021, current portion of long-term debt of JPY 114 million is included in long-term debt.

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

These assets 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 difference between these values are shown below.

(JPY million)

	Type	Carrying amount	Fair value	Difference
Debt securities whose fair value exceeds their carrying amount	(1) Government and municipal bonds	602	607	5
	(2) Corporate bonds	—	—	—
	(3) Others	—	—	—
	Subtotal	602	607	5
Debt securities whose carrying amount exceeds their fair value	(1) Government and municipal bonds	—	—	—
	(2) Corporate bonds	—	—	—
	(3) Others	—	—	—
	Subtotal	—	—	—
Total		602	607	5



(b) Other securities

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

(JPY million)

	Type	Carrying amount	Acquisition cost	Difference
Securities whose carrying amount exceeds their acquisition cost	(1) Stock	—	—	—
	(2) Bonds			
	(a) Government and municipal bonds	—	—	—
	(b) Corporate bonds	—	—	—
	(c) Others	—	—	—
	(3) Others	—	—	—
	Subtotal	—	—	—
Securities whose acquisition cost exceeds their carrying amount	(1) Stock	—	—	—
	(2) Bonds			
	(a) Government and municipal bonds	36	36	(0)
	(b) Corporate bonds	—	—	—
	(c) Others	—	—	—
	(3) Others	—	—	—
	Subtotal	36	36	(0)
	Total	36	36	(0)

(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 a 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

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

(4) Long-term debt, (5) 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 transactions).

Note 2: Financial instruments whose fair values are deemed to be extremely difficult to determine  
(JPY million)

Item	Carrying amount
Other securities	
(1) Unlisted shares	1,757
(2) Shares of non-consolidated subsidiaries and affiliates	1,336
(3) Unlisted bonds (corporate bonds and subordinate corporate bonds)	824
(4) Others	
Subordinate beneficiary rights of loans and accounts receivable in trust	861
Investments in silent partnerships	113
Total	4,893

As they have no market value, and as it is deemed to be 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  
(JPY million)

	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	54,863	–	–	–
Trade receivables and accounts receivable for completed projects	8,455	–	–	–
Securities and investment securities				
Held-to-maturity debt securities	100	300	200	–
Other securities with maturities	–	–	36	1,686
Operating loans	22	36	19	8
Long-term loans	14	606	12	462
Bad debts	–	–	–	249
Total	63,456	942	268	2,406

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

	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Long-term debt	114	30,426	189	–
Lease obligations	3,133	1,544	–	–
Total	3,248	31,971	189	–

## 7. Rental Properties

The Company possesses rental apartments in major cities and regional cities throughout Japan. Also, some consolidated subsidiaries possess rental housing and buildings for rent, and possess serviced apartments. For the fiscal year ended March 31, 2021, income arising from these rental properties was JPY 502 million, and impairment loss was JPY 3,843 million.

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, 2021 were as follows:

(JPY million)

Carrying amount			Fair value as of March 31, 2021
Balance as of April 1, 2020	Increase/decrease	Balance as of March 31, 2021	
13,886	(5,793)	8,092	10,859

- 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 JPY 2,085 million and impairment loss of JPY 3,843 million.
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."

## 8. Per Share Information

Net assets per share	JPY (25.83)
Net loss per share	JPY (84.88)

## 9. Events after the Reporting Period

The Company resolved, at the Board of Directors meeting held on May 14, 2021, to submit a proposal on reduction of common stock to the Ordinary General Shareholders' Meeting to be held on June 29, 2021.

### (1) Purpose of reduction of common stock

In order to ensure the flexibility and speediness of the capital policy, the Company has decided to reduce the common stock, as stipulated in Article 447, paragraph (1) of the Companies Act. There will be no change in the total number of outstanding shares and there will be no effect on the number of shares held by all shareholders. In addition, there will be no change in net assets and in net assets per share.

### (2) Main points in reduction of common stock

#### (a) Reduced amount of common stock

Reduce common stock by JPY 81,182,359,829 from JPY 81,282,359,829 to make the common stock of JPY 100,000,000.

#### (b) Method of reduction

There will be no change in the total number of outstanding shares. The entire amount of reduction, JPY 81,182,359,829, will be transferred to other capital surplus.

(3) Timeline

May 14, 2021 (Board of Directors meeting)	Date of resolution of the Board of Directors Meeting
June 29, 2021 (General Shareholders' Meeting)	Date of resolution at the General Shareholders' Meeting
July 30, 2021 (planned)	Date of expiration of period for creditors' making objections
August 10, 2021 (planned)	Effective date

(4) Future prospect

The above measure involves reassignments of funds within the net assets category with no changes in the amount of net assets and will not have any impact on the Company's business performance. The execution of the measure is subject to the approval at the Ordinary General Shareholders' Meeting to be held on June 29, 2021.

## NON-CONSOLIDATED FINANCIAL STATEMENTS

### NON-CONSOLIDATED BALANCE SHEET (as of March 31, 2021)

(JPY million)

<b>ASSETS</b>	
<b>Current assets</b>	<b>62,816</b>
Cash and cash equivalents	44,938
Trade receivables	6,892
Accounts receivable for completed projects	483
Operating loans	86
Real estate for sale	101
Payment for construction in progress	234
Supplies	411
Prepaid expenses	2,019
Other accounts receivable	1,823
Deposits paid	2,100
Short-term loans receivable from subsidiaries and affiliates	4,432
Others	388
Allowance for doubtful accounts	(1,095)
<b>Non-current assets</b>	<b>84,015</b>
<b>Property, plant and equipment</b>	<b>38,815</b>
Buildings	4,690
Structures	105
Machinery and equipment	2
Tools, furniture and fixtures	326
Land	23,645
Leased assets	10,044
<b>Intangible fixed assets</b>	<b>3,114</b>
Software	2,060
Software in progress	515
Others	539
<b>Investments and other assets</b>	<b>42,084</b>
Investment securities	3,592
Stocks of subsidiaries and affiliates	26,074
Long-term loans	504
Long-term loans receivable from subsidiaries and affiliates	7,382
Bad debts	249
Long-term prepaid expenses	1,106
Others	3,706
Allowance for doubtful accounts	(533)
<b>Total assets</b>	<b>146,832</b>

**NON-CONSOLIDATED BALANCE SHEET (as of March 31, 2021) (Continued)**

(JPY million)

<b>LIABILITIES</b>	
<b>Current liabilities</b>	<b>61,333</b>
Electronically recorded obligations - operating	19
Accounts payable	2,816
Accounts payable for completed projects	287
Lease obligations	5,391
Accounts payable—other	8,682
Accrued income taxes	359
Advances received	26,243
Customer advances for projects in progress	324
Deposits received	2,815
Reserve for warranty obligations on completed projects	67
Reserve for losses related to repairs	3,777
Reserve for apartment vacancy loss	9,301
Others	1,245
<b>Non-current liabilities</b>	<b>92,223</b>
Long-term debt	30,000
Lease obligations	5,989
Long-term advances received	7,869
Lease/guarantee deposits received	6,356
Retirement benefit reserves	9,261
Reserve for losses related to repairs	29,732
Reserve for apartment vacancy loss	2,960
Deferred tax liabilities	17
Others	35
<b>Total liabilities</b>	<b>153,556</b>
<b>NET ASSETS</b>	
<b>Shareholders' equity</b>	<b>(7,112)</b>
Common stock	81,282
Capital surplus	51,235
Legal capital surplus	51,235
Retained earnings	(139,285)
Other retained earnings	(139,285)
Retained earnings brought forward	(139,285)
Treasury stock	(344)
<b>Valuation and translation adjustments</b>	<b>(0)</b>
Net unrealized gains on other securities	(0)
<b>Share subscription rights</b>	<b>388</b>
<b>Total net assets</b>	<b>(6,724)</b>
<b>Total liabilities and net assets</b>	<b>146,832</b>

**NON-CONSOLIDATED STATEMENT OF OPERATIONS**

(from April 1, 2020 to March 31, 2021)

(JPY million)

<b>Net sales</b>	<b>392,513</b>
Sales from Leasing Business	381,547
Sales from Other Businesses	10,965
<b>Cost of sales</b>	<b>375,326</b>
Cost of sales from Leasing Business	364,895
Cost of sales from Other Businesses	10,431
<b>Gross profit</b>	<b>17,186</b>
<b>Selling, general and administrative expenses</b>	<b>46,413</b>
<b>Operating loss</b>	<b>(29,226)</b>
<b>Other income</b>	<b>5,846</b>
Interest and dividend income	4,937
Gain on valuation of investment securities	109
Employment adjustment subsidy	227
Others	571
<b>Other expenses</b>	<b>5,625</b>
Interest expenses	2,188
Funding costs	2,852
Others	585
<b>Recurring loss</b>	<b>(29,005)</b>
<b>Extraordinary income</b>	<b>19,664</b>
Gain on sale of property, plant and equipment	224
Gain on sale of investment securities	4,065
Reversal of reserve for losses related to repairs	15,374
Others	0
<b>Extraordinary losses</b>	<b>9,133</b>
Loss on sale of property, plant and equipment	18
Loss on retirement of property, plant and equipment	53
Impairment loss	3,644
Losses related to repairs	982
Provision of allowance for doubtful accounts	731
Loss on valuation of shares of subsidiaries	582
Special severance allowance	2,474
Retirement benefit cost	427
Others	218
<b>Loss before income taxes</b>	<b>(18,475)</b>
Income taxes—current	170
Income taxes—deferred	40
<b>Net loss</b>	<b>(18,685)</b>

## **NON-CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS**

**(from April 1, 2020 to March 31, 2021)**

(JPY million)

	Shareholders' equity						
	Common stock	Capital surplus		Retained earnings		Treasury stock	Total share-holders' equity
		Legal capital surplus	Total capital surplus	Other retained earnings Retained earnings brought forward	Total retained earnings		
Balance as of April 1, 2020	75,282	45,235	45,235	(120,567)	(120,567)	(473)	(523)
Change during period							
Issuance of new shares	5,999	5,999	5,999				11,999
Net loss				(18,685)	(18,685)		(18,685)
Disposal of treasury stock				(32)	(32)	128	96
Net change of items other than shareholders' equity							
<b>Total change during period</b>	<b>5,999</b>	<b>5,999</b>	<b>5,999</b>	<b>(18,717)</b>	<b>(18,717)</b>	<b>128</b>	<b>(6,589)</b>
<b>Balance as of March 31, 2021</b>	<b>81,282</b>	<b>51,235</b>	<b>51,235</b>	<b>(139,285)</b>	<b>(139,285)</b>	<b>(344)</b>	<b>(7,112)</b>

(JPY million)

	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, 2020	1,047	1,047	269	792
Change during period				
Issuance of new shares				11,999
Net loss				(18,685)
Disposal of treasury stock				96
Net change of items other than shareholders' equity	(1,047)	(1,047)	119	(928)
<b>Total change during period</b>	<b>(1,047)</b>	<b>(1,047)</b>	<b>119</b>	<b>(7,517)</b>
<b>Balance as of March 31, 2021</b>	<b>(0)</b>	<b>(0)</b>	<b>388</b>	<b>(6,724)</b>



# 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 such as 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 decline 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 decline 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 a residual value of zero.

Long-term prepaid expenses:

Evenly amortized mainly over the following period

Prepaid master-lease rent: 5–7 years

(3) Accounting for deferred assets

Share issuance costs

Fully recognized as expenses included in funding costs when paid.

(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 Leasing 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 completed projects.

Retirement benefit reserves

To prepare for employees' retirement benefits, retirement benefit reserves are provided at the amount deemed to have accrued at the end of the fiscal year under review based on the estimated amount of retirement benefit obligations 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.

Reserve for losses related to repairs

An amount of loss estimated based on ratio of defects and others is recorded to prepare for the incurrence of repair work expenses 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 rent to pay as a subleasing company 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*

*Accounting estimates related to the impact of the spread of COVID-19*

We assume that the spread of COVID-19 and resulting slowdown in economic activities will continue for the time being and affect the overall businesses of the Group. Particularly in the Leasing Business, the core business, it is anticipated that demand for new occupancy will remain sluggish due to restriction on staff reassignment and reduction of new hires by corporate customers, which are the main customer segment, prevailed on-line lectures at universities, restricted immigration control for foreign nationals, and other factors.

We assume that although COVID-19 is expected to begin to subside in and after the second half of the fiscal year ending March 31, 2022, the impact will last through the year. Accounting estimates of recoverability of deferred tax assets and others for the fiscal year under review were made based on these assumptions.

If the timing when COVID-19 subdues, the impact on the economic environment or other factors materially differ from the assumptions above, the Company's financial position and operating results may be affected.

## **2. Notes regarding Accounting Estimates**

Information has been omitted because it has been provided in "Notes to Consolidated Financial Statements, 2. Notes regarding Accounting Estimates."

## **3. Change in Presentation**

Information has been omitted because it has been provided in "Notes to Consolidated Financial Statements, 3. Change in Presentation."

#### 4. Notes to Non-consolidated Balance Sheet

(1) Assets pledged as collateral and secured liabilities

(a) Assets pledged as collateral

Cash and cash equivalents	JPY 126 million
Real estate for sale	JPY 37 million
Short-term loans receivable from subsidiaries and affiliates	JPY 4,432 million
Others (Current assets)	JPY 242 million
Buildings	JPY 4,408 million
Structures	JPY 91 million
Machinery and equipment	JPY 2 million
Land	JPY 23,538 million
Others (Intangible fixed assets)	JPY 321 million
Investment securities	JPY 2,339 million
Stocks of subsidiaries and affiliates	JPY 476 million
Long-term loans receivable from subsidiaries and affiliates	JPY 7,101 million
Total	JPY 43,120 million

(b) Secured liabilities

Long-term loans	JPY 30,000 million
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Of assets pledged as collateral in (a) above, cash and cash equivalents, other (current assets) and JPY 36 million of 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) Investments and other assets which have been deposited with the Legal Affairs Bureau

Deposit for housing construction warranty	JPY 788 million
Advanced payment certificate in accordance with Payment and Settlement Regulations	JPY 332 million
Deposit for operation stipulated in Building Lots and Buildings Transaction Business Act	JPY 65 million
Deposit for housing defect warranty	JPY 109 million
Others	JPY 2 million

(2) Accumulated depreciation of property, plant and equipment JPY 46,924 million

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

Tools, furniture and fixtures	JPY 44 million
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(4) Liabilities on guarantee

Liabilities on guarantee for financial institutions for customers who have a housing loan	JPY 430 million
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(5) Monetary claims and liabilities to subsidiaries and affiliates (excluding those classified separately in the Balance Sheet)

Short-term monetary claims	JPY 312 million
Short-term monetary liabilities	JPY 3,302 million
Long-term monetary liabilities	JPY 4,477 million

## 5. Notes to Non-consolidated Statement of Operations

Transactions with subsidiaries and affiliates

Sales to subsidiaries and affiliates	JPY 3,973 million
Purchases from subsidiaries and affiliates	JPY 1,637 million
Non-operating transactions	JPY 622 million

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

Number of shares of treasury stock

Class of shares	April 1, 2020	Increase	Decrease	March 31, 2021
Common stock	771,210 shares	–	209,600 shares	561,610 shares

Note: The decrease of 209 thousand shares in the number of treasury shares of common stock is the result of the exercise of share subscription rights.

## 7. Tax Effect Accounting

Significant components of deferred tax assets and liabilities

(JPY million)

### Deferred tax assets:

Loss carried forward for tax purposes	40,161
Reserve for losses related to repairs	10,260
Reserve for apartment vacancy loss	3,754
Retirement benefit reserves	2,835
Loss on devaluation of stock of shares of subsidiaries and affiliates	2,438
Impairment loss	925
Allowance for doubtful accounts	498
Software	262
Advances from customers for rent income	184
Deposits received	164
Asset retirement obligations	107
Accounts payable—other	84
Accrued enterprise tax	58
Loss on devaluation of property, plant and equipment	57
Reserve for warranty obligations on completed projects	20
Loss on devaluation of real estate for sale	18
Others	319
<b>Sub-total</b>	<b>62,152</b>
Valuation allowance for losses carried forward for tax purposes	(40,161)
Valuation allowance for total deductible temporary difference and others	(21,991)
<b>Sub-total</b>	<b>(62,152)</b>
<b>Total deferred tax assets</b>	<b>–</b>

### Deferred tax liabilities:

Fixed asset retirement expenses	(3)
Adjustment of gain/loss on transfer (buildings)	(14)
<b>Total deferred tax liabilities</b>	<b>(17)</b>
<b>Net deferred tax liabilities</b>	<b>(17)</b>

## **8. Related Party Transactions**

Not applicable.

## **9. Per Share Information**

Net assets per share	JPY (21.63)
Net loss per share	JPY (66.97)

## **10. Events after the Reporting Period**

This description is omitted because the relevant information is described in “Notes to Consolidated Financial Statements, 9. Events after the Reporting Period.”

## **11. Matters Regarding Company Subject to Consolidated Dividend Regulations**

Not applicable.