

FOR IMMEDIATE RELEASE

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Company Name: **Leopalace21 Corporation**
Representative: Bunya Miyao, President and CEO
Code Number: 8848 (Tokyo Stock Exchange, First Section)
Contact: Kiyoshi Arai, Executive Officer
Tel: +81-50-2016-2907
E-mail: ir@leopalace21.com

Notice Concerning the Company's Response to the Shareholders' Demand for Calling an Extraordinary General Meeting of Shareholders

Leopalace21 Corporation (Headquarters: Nakano, Tokyo; President and CEO: Bunya Miyao; the "Company") announced in its "Notice Concerning Shareholders' Demand for Calling an Extraordinary General Meeting of Shareholders" dated December 27, 2019, that it received a demand in writing to call an extraordinary general meeting of shareholders (the "Demand") from two of the Company's shareholders (the "Requesting Shareholders"). Further, the Company announced in its "Notice Concerning Shareholders' Petition for Permission to Call an Extraordinary General Meeting of Shareholders" dated January 15, 2020, that it received service of a written petition concerning petition for permission to call a general meeting of shareholders of the Company (the "Petition") filed by the Requesting Shareholders; the Company announces that it passed the following resolution in the Board of Directors Meeting held today concerning the Company's policy in response to the Demand and the Petition.

Particulars

The Company announced in its "Notice Concerning Deciding on a Record Date for Voting Rights in an Extraordinary General Meeting of Shareholders" dated January 6, 2020, that it began to examine the propriety of holding an extraordinary general meeting of shareholders in late February to early March for which the record date for voting rights is January 24, 2020 (the "EGM"); as a result of careful examination by the Board of Directors of the Company, the Company considered that the Petition falls under an abuse of rights of the Requesting Shareholders and decided not to proceed with the procedure for calling an EGM based on the Demand.

Today, the Company filed an opinion with the Tokyo District Court to state that the Petition falls under an abuse of rights of the Requesting Shareholders and so should be withdrawn promptly.

As to the Company's position on the Requesting Shareholders' demand for call an extraordinary general meeting of shareholders and on their proposals, please see the Exhibit attached to the Notice.

We will promptly announce if any event to be disclosed occurs hereafter.

END

The Company's Position on the Requesting Shareholders' Demand for Call an Extraordinary General Meeting of Shareholders and on Their Proposals

The Company announced in its notice dated Dec 27, 2019 that it received a demand in writing to call an extraordinary general meeting of shareholders from Reno, Inc. and S Grant Corporation, two of the Company's shareholders (hereinafter "Requesting Shareholders"). The Company is opposed to the call for an extraordinary general meeting of shareholders (hereinafter "Call") and the two resolution proposals (hereinafter "Proposals") based on the below mentioned reasons.

1. Current state of management issues

The Company has been providing and managing one-room type units equipped with furniture and electrical appliances amounting to approximately 570,000 and enjoys good relationship with the local economies and financial institutions based on our long-term property management contracts with about 28,000 landlords as apartment owners.

We have been diligently working to resolve the construction defects problem with our firm recognition that the Company play vital role in supporting social infrastructure.

In order to objectively clarify the causes of construction defects and formulate measures to prevent recurrence, we established an External Investigation Committee to conduct investigations. Based on the recommendations stated in the reports received from the Committee, we formulated concrete measures to prevent recurrence on May 29, 2019, based on the three core initiatives: (i) drastically reforming our corporate culture; (ii) rebuilding our compliance and risk management systems; and (iii) reviewing our construction business framework. As a part of such measures we established the Construction Legal Department with its subordinate organizations of Construction Legal Section and Inspection Section in the Compliance Management Division, outside the business divisions, to examine construction management and enhance the inspection system from their objective standpoints.

In addition, we recognized the Board of Directors with four independent Outside Directors and one Outside Director, and have taken advantage of their own knowledge and experience to receive supervision and recommendations for our business execution from an independent and fair standpoint. We are continuing to work diligently on the construction defect problem with the results being steadily realized, albeit little by little.

In order to further strengthen the management supervising system from an external perspective, we made half of the Board of Directors to be Outside Directors at the

Ordinary General Meeting of Shareholders last year. A Board of Directors Meeting concluded on December 16, 2019, and announced on the same day that a majority of the Board of Directors should be outside Directors, which is to be submitted as a proposal to the Annual General Meeting of Shareholders planned for June this year (hereinafter "AGM in 2020").

2. Background of receiving the Call

In accordance with the Corporate Governance Code set by Tokyo Stock Exchange, we have held sincere dialogues with the Requesting Shareholders and held meetings with them, including Mr. Yoshiaki Murakami (hereinafter "Mr. Murakami"), an advisor to the Requesting Shareholders.

However, at the meeting in November 2019, Mr. Murakami stated that he would demand an extraordinary general meeting of shareholders unless the Company announces until December 16, 2019 that a majority of Directors will be elected from the candidates whom major shareholders nominates at the AGM in 2020. We also received a document which stated the above-mentioned request.

As we recognized the importance of oversight by outside Directors since last year, we decided on a policy based on the Board of Directors resolution that a proposal should be submitted to the AGM in 2020 which states that a majority of Directors should be outside Directors. We announced this on December 16, 2019.

In the meetings and email exchanges in December 2019, Mr. Murakami and Mr. Ohmura, a candidate of the Director in the Proposals, requested us to consider drastic reforms such as the sale of the leasing business, and further requested that the Company should announce the Requesting Shareholders' involvement in the deliberations. In the absence of our action obeying their intentions, we were told that they will demand to call an extraordinary general meeting of shareholders.

Considering the interests of our stakeholders as a whole and the common interests of shareholders, we declined the request because it would not be proper for only parts major shareholders to be involved in the consideration of drastic reform proposals. The interactions mentioned above resulted in the Requesting Shareholders' demand for calling an extraordinary general meeting of shareholders.

As is clear from the above history, the Requesting Shareholders' Call has been used as a means to make the Company to accept the demands of Mr. Murakami and others, so it is far from a demand based on the shareholder's legitimate right. In addition, if an extraordinary general meeting of shareholders is to be held, there would be specific adverse effects as shown in the following.

3. Adverse effects in case of holding an extraordinary general shareholders' meeting

It is a matter of course that the directors being commissioned by the shareholders should follow the judgment by the shareholders. However, in the event of an

extraordinary general meeting of shareholders, in addition to the costs incurred by the holding of the meeting, we can specifically anticipate the following adverse effects.

(1) Suspension of preparing drastic reform proposals, including business collaboration and business restructuring

In parallel to our daily efforts to restore confidence that was damaged, we have taken actions in the sale of some of our businesses and assets. However, due to a downward revision in our earnings forecast for the fiscal year ending March 2020, we are now considering all options, including business collaboration and restructuring, such as increasing productivity and reducing costs through structural reforms, and strengthen our business model centering on the leasing business. In such circumstances, if an extraordinary general meeting of shareholders is to be held to dismiss and appoint the Directors, it would be necessary to suspend specific consideration due to the necessity to deal with the extraordinary general meeting of shareholders and the related party's concerns over the possible change of management.

(2) Impact on business performance

The leasing business, which is the mainstay of our earnings, is entering its busy season from January to April every year, and whether we can increase the occupancy rate by devoting a large number of personnel during this period directly impact our business performance. Since the tenant recruitment requires sales initiative to the respective corporate customers for company residence use, which represents 60 percent of overall tenants, and individual negotiations to deal with related authorities as the repair works progress.

However, if we would hold an extraordinary general meeting of shareholders late February to early March to discuss the dismissal and appointment of the members of the Board of Directors, tenants and owners would be worried about the changes in management, and additional personnel would be needed to deal with these concerns. Moreover, as long as there is a possibility of the change in management, it is anticipated that the restarting tenant recruitment itself would be hard to realize because, in particular, it would be a worrying factor for our corporate customers and they may be reluctant to make contracts with the Company, an inevitable negative element affecting our business performance in the future.

4. Election and dismissal of the Board of Directors are most appropriate at the ordinary general meeting of shareholders

The Requesting Shareholders' proposals are dismissing all current ten Directors including outside Directors, and electing three candidates for the Directors, who are related to the Requesting Shareholders. However, the term of our Board of Directors is

one year and expires at the end of the AGM in 2020. At the time of the AGM in 2020, it will get clear the result of the current fiscal year and how the first quarter of the following fiscal year is going.

We believe that it is necessary for our shareholders to make a decision based on adequate information as to the candidates, which will contribute to improving our corporate governance. In case the Requesting Shareholders think that Directors should be elected from the candidates other than the ones the Company nominates, they can make a shareholder proposal.

In this way, as the shareholders can exercise their voting rights to appoint adequate Directors at the AGM in 2020, there is absolutely no need to pull in the General Meeting of Shareholders by merely about three months.

As announced on January 15, 2020 in the “Notice Concerning Shareholders’ Petition for Permission to Call an Extraordinary General Meeting of Shareholders,” the Requesting Shareholders filed a petition for permission to call a general meeting of shareholders of the Company, we do not believe that the extraordinary general meeting of shareholders should be held as insisted by the Requesting Shareholders based on the reasons described in the above item 2 to 4. We will file an opinion with the Tokyo District Court accordingly.

5. Company’s view on the Requesting Shareholders’ two proposals at an Extraordinary General Meeting of Shareholders

(1) Proposal for the dismissal of all current Directors

As there are many new defects that have become apparent in the course of the all-building investigations, the repair costs and time augmented compared to the initial estimate. It is necessary for the Company to politely ask the subject tenants to vacate the rooms to carry out repairs, which delayed the completion of repair works and hence the resumption of tenant recruitment. Due to these inevitable elements, we revised downward the earnings forecast for the fiscal year ending March 2020, and we also postponed the completion of repair works. We cannot deny our lax outlook at the initial stage, and we sincerely apologize for the troubles and inconvenience we have caused to everyone concerned and our shareholders as well.

As stated in item 4, the term of our Board of Directors is one year and therefore the shareholders will decide on suitable Board Members at the AGM in 2020 referring to the result of the current fiscal year. The Requesting Shareholders have not indicated any specific reasons why the shareholders cannot wait for the AGM in 2020, and they have not provided the aims by replacing the management team.

It is clear that the sudden change of management in the course of our urgent efforts to investigate and repair the construction defects will have a major

detrimental impact on our business operations, and we believe that this would only make an adverse effect.

The Requesting Shareholders have also argued that our Directors should be responsible for compensating the loss as a result of the acquisition of the treasury stock which took place from June 14 to August 23, 2018. However, regarding this point, we have received an opinion from our Audit & Supervisory Board that the Directors should not be liable for deficit compensation, as announced in "Notice of Receipt of Audit & Supervisory Board Members' Opinion on the Responsibility of Directors in the Purchase of Treasury Stock for the 46th Fiscal Period" dated July 31, 2019. Considering the status of recognition and consideration of the Directors at the time which eventually led to the loss, we came to the conclusion that our Directors should not be responsible for the loss compensation and compensation for the damage because of the acquisition of the treasury stock. Therefore, we do not believe that the current Director are responsible for any loss compensation or liability as the Requesting Shareholders insists, and that there is no doubt about their qualifications.

(2) Proposal for appointing three Directors

In addition to the dismissal of all the current Directors, the Requesting Shareholders proposed to appoint three candidates as Directors, including Mr. Ohmura, who are not estimated to be familiar with the Company's specific operations.

All of the candidates are directors of Reno, Inc., and they have been working together with Mr. Murakami in the past. Mr. Ohmura, who is considered to be a candidate for a Representative Director, has no experience of running a company of a scale similar to the Company, and therefore he is deemed to operate the Company in accordance with Mr. Murakami's intention. Mr. Fukushima and Mr. Nakashima are regarded as candidates for external Directors, but they do not meet the independence standards as the Company's Outside Director. We cannot expect both of them to play their roles in overseeing the management from a fair and independent standpoint.

In accordance with the Corporate Governance Code set by Tokyo Stock Exchange, Principle 4.7 "Roles and Responsibilities of Independent Directors" states in its item iii) that monitoring of conflicts of interest between the company and the management or controlling shareholders. We believe that the Requesting Shareholders' proposal does not comply with this requirement.

(3) The Requesting Shareholders began acquiring our shares from around March 2019 after the discovery of the construction defects problem. In the meetings and e-mail exchanges from April 2019 onwards, they hinted dismantling the Company or capital reduction and mentioned examples of "dismantling-type acquisition" which

they led. The Requesting Shareholders also argued that the sale of our leasing business would make a significant profit.

It is obvious that the sudden change of management in the course of our urgent efforts to investigate and repair the construction defects will create significant confusion and have a major adverse impact on our operations.

We are opposed to the Requesting Shareholders' Call and Proposals, which seeks to pursue their own interests at the sacrifice of the interests of the other stakeholders by realizing a "dismantling-type acquisition." rather than tackling the improvement of share value through increasing our mid-to long-term corporate value.

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