

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 12, 2019

To Our Shareholders

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

Notice of the 46th Ordinary General Shareholders' Meeting

You are cordially invited to attend the 46th Ordinary General Shareholders' Meeting of Leopalace21 Corporation ("the Company"). The meeting will be held as described below.

If you are unable to attend the meeting, you may exercise your voting rights by either of the following methods. Please exercise your voting rights no later than 6:00 p.m. on Wednesday, June 26, 2019.

[Exercising your voting rights in writing]

Please refer to pages 3 to 10 of the Reference Materials for the General Shareholders' Meeting, indicate "for" or "against" for each agenda item shown on the enclosed Voting Rights Exercise Form and return it in time for delivery by the deadline mentioned above.

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

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

Please access the Voting Rights Exercise Site (<https://www.web54.net>), which is designated by the Company. Enter the "Voting Rights Exercise Code" and "Password" noted on the enclosed Voting Rights Exercise Form, examine the Reference Materials for the General Shareholders' Meeting on pages 3 to 10 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 agenda item.

In addition, if you exercise your voting rights both in writing and via the Internet, etc., the voting via the Internet, etc. shall prevail.

Details

1. **Date and Time:** June 27, 2019 (Thursday), 10:00 a.m. (Reception will open at 9:00 a.m.)
2. **Place:** Bellesalle Shibuya Garden, B1F, Sumitomo Fudosan Shibuya Garden Tower
16-17 Nanpeidaicho, Shibuya-ku, Tokyo
Please note that the venue has changed from last time, so be sure to use the correct address.
3. **Agenda for the Meeting**
Matters to be reported:
 1. Report on the Business Report, Consolidated Financial Statements, and Results of Audit of the Consolidated Financial Statements by the Accounting Auditor and the Audit & Supervisory Board for the 46th Fiscal Term (from April 1, 2018 to March 31, 2019)
 2. Report on Non-consolidated Financial Statements for the 46th Fiscal Term (from April 1, 2018 to March 31, 2019)

Matters to be resolved:

Proposal No. 1: Appointment of Ten (10) Directors

Proposal No. 2: Appointment of One (1) Audit & Supervisory Board Member

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

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

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

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

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

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: Appointment of Ten (10) Directors

The term of office of all eleven (11) Directors will expire at the conclusion of this Ordinary General Shareholders' Meeting. In that regard, it is proposed that ten (10) Directors (of which five (5) will be Outside Directors) be appointed.

The candidates for Director are as follows:

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	Reappointment Bunya Miyao (April 14, 1960) Attendance at the Board of Directors meetings: 21/21	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 General Manager of the Business Operation Headquarters, Leopalace21 Corporation (incumbent) Significant concurrent positions Director, Leopalace Guam Corporation	5,700 shares
<p>Reason for nomination as a candidate for Director</p> <p>Mr. Bunya Miyao is fulfilling an appropriate role as Director by taking important management decisions and supervising business execution, etc. Moreover, it is judged that as President and CEO, he will use his abundant experience in the fields such as the management planning and investor relations departments, and apply his strong leadership and decisiveness to guide the execution of the Company's business to achieve early improvement of the Company's governance, which is necessary to realize early recovery of trust and business performance which were undermined by the problem concerning construction defects. Therefore, the Company has nominated him once more as a candidate for Director.</p>			

Candidate number	Name (Date of birth)	Career summary, and positions and duties in the Company (Significant concurrent positions)	Number of the Company's shares held
2	New Candidate Shigeru Ashida (June 16, 1964) Attendance at the Board of Directors meetings: -/-	<p>April 1988 Joined Leopalace21 Corporation</p> <p>November 2003 Deputy Manager of the Financial Department, Leopalace21 Corporation</p> <p>April 2010 General Manager of the Management Planning Department, Leopalace21 Corporation</p> <p>May 2012 General Manager of the Business Planning Department, Leopalace21 Corporation</p> <p>April 2013 Administrative Officer, Leopalace21 Corporation</p> <p>April 2014 Executive Officer, Leopalace21 Corporation</p> <p>June 2019 Managing Executive Officer, Leopalace21 Corporation (incumbent) Chief of the Emergency Headquarters for Construction Defects, Leopalace21 Corporation (incumbent)</p> <p>Significant concurrent positions President and CEO, Leopalace Power Corporation</p>	9,300 shares
	<p>Reason for nomination as a candidate for Director</p> <p>Mr. Shigeru Ashida possesses extensive work experience and achievements related to new businesses, capital policy and M&A planning. Moreover, as Managing Executive Officer, he oversees the Emergency Headquarters for Construction Defects, and focuses on handling the problem concerning construction defects.</p> <p>For this reason, it is judged that his abundant experience and knowledge can be effectively incorporated into the Company's growth strategy, so the Company has nominated him as a candidate for Director.</p>		

Candidate number	Name (Date of birth)	Career summary, and positions and duties in the Company (Significant concurrent positions)		Number of the Company's shares held
3	New Candidate Katsuhiko Nanameki (February 17, 1961) Attendance at the Board of Directors meetings: -/-	April 1984	Joined The Kyowa Bank, Ltd. (now Resona Bank, Limited)	400 shares
	April 2004	Branch Manager of Kitakogane Branch, The Kyowa Bank, Ltd.		
		October 2006	Branch Manager of Senju Branch, The Kyowa Bank, Ltd.	
		October 2009	General Manager of Sales Department I, Katsushika Area Sales Department I, The Kyowa Bank, Ltd.	
		April 2013	Joined Leopalace21 Corporation on loan General Manager of the Finance & Accounting Department, Leopalace21 Corporation	
		April 2014	Joined Leopalace21 Corporation General Manager of the Finance & Accounting Department, Leopalace21 Corporation	
		April 2015	Administrative Officer, Leopalace21 Corporation	
		April 2016	Executive Officer, Leopalace21 Corporation	
		June 2019	Managing Executive Officer, Leopalace21 Corporation (incumbent) General Manager of the Management Headquarters, Leopalace21 Corporation (incumbent)	
<p>Reason for nomination as a candidate for Director</p> <p>Mr. Katsuhiko Nanameki possesses extensive work experience and achievements related to finance & accounting. Moreover, as Managing Executive Officer, he oversees the management department, strives to enhance the management system, and contributes to increasing the corporate value.</p> <p>For this reason, it is judged that his abundant experience and knowledge can be effectively incorporated into the Company's growth strategy, so the Company has nominated him as a candidate for Director.</p>				
4	New Candidate Mayumi Hayashima (April 26, 1973) Attendance at the Board of Directors meetings: -/-	April 1996	Joined Leopalace21 Corporation	4,300 shares
	April 2009	Deputy General Manager of the Eastern Japan Corporate Sales Department, Leasing Sales Section 3, Leasing Business Division, Leopalace21 Corporation		
		July 2010	General Manager of the Corporate Sales Department, Eastern Japan Section 2, Leasing Business Division, Leopalace21 Corporation	
		April 2014	General Manager of the Corporate Business Promotion Department, Leopalace21 Corporation	
		April 2015	Administrative Officer, Leopalace21 Corporation	
		April 2018	Executive Officer, Leopalace21 Corporation (incumbent)	
		June 2019	General Manager of the Compliance Management Headquarters, Chief Legal Officer (CLO), Leopalace21 Corporation (incumbent)	
<p>Reason for nomination as a candidate for Director</p> <p>Ms. Mayumi Hayashima possesses extensive work experience and achievements related to conducting cross-sectional measures and sales inside the Company. Moreover, as Executive Officer, she oversees the Compliance Management Headquarters, and through efforts to fundamentally revise our compliance system, she strives to rebuild a solid system.</p> <p>For this reason, it is judged that her abundant experience and knowledge can be effectively incorporated into the Company's growth strategy, so the Company has nominated her 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
5	New Candidate Seishi Okamoto (July 28, 1962) Attendance at the Board of Directors meetings: -/-	April 1986	Joined The Sumitomo Bank, Limited (now Sumitomo Mitsui Banking Corporation)	0 shares
	October 2006	Deputy General Manager of Tohoku Corporate Business Office, Sumitomo Mitsui Banking Corporation		
		April 2012	General Manager of Koiwa Corporate Business Office, Sumitomo Mitsui Banking Corporation	
		April 2014	General Manager of Retail Credit Department, Sumitomo Mitsui Banking Corporation	
		April 2018	Senior Assistant General Manager of Head Office, Sumitomo Mitsui Banking Corporation Joined SMBC Servicer Co., Ltd. on loan	
		June 2018	Joined SMBC Servicer Co., Ltd. Director, SMBC Servicer Co., Ltd.	
		June 2019	Joined Leopalace21 Corporation on loan Managing Executive Officer, Leopalace21 Corporation (incumbent) General Manager of the Management Planning Headquarters, Leopalace21 Corporation (incumbent)	
Reason for nomination as a candidate for Director				
Mr. Seishi Okamoto possesses extensive work experience and achievements as an officer and employee of financial institutions, etc. Moreover, as Managing Executive Officer, he oversees the management planning department, strives to plan growth strategy and promote PR activities, and contributes to increasing the corporate value. For this reason, it is judged that his abundant experience and knowledge can be effectively incorporated into the Company's growth strategy, so the Company has nominated him as a candidate for Director.				
6	Reappointment Outside Director Independent Officer Tadashi Kodama (November 11, 1947) Attendance at the Board of Directors meetings: 21/21	April 1970	Joined The Dai-Tokyo Fire & Marine Insurance Co., Ltd. (now Aioi Nissay Dowa Insurance Co., Ltd.)	7,000 shares
	June 2001	Director, Aioi Insurance Co., Ltd. (now Aioi Nissay Dowa Insurance Co., Ltd.)		
		April 2002	Managing Director, Aioi Insurance Co., Ltd.	
		April 2003	Senior Managing Director, Aioi Insurance Co., Ltd.	
		April 2004	Representative Director, President, Aioi Insurance Co., Ltd.	
		April 2010	Representative Director, Vice Chairman of the Board of Directors, Aioi Insurance Co., Ltd.	
		April 2010	Representative Director, Executive Officer, MS&AD Insurance Group Holdings, Inc.	
		October 2010	Representative Director, Vice Chairman of the Board of Directors, Aioi Nissay Dowa Insurance Co., Ltd.	
		June 2011	Director, Vice Chairman of the Board of Directors, Aioi Nissay Dowa Insurance Co., Ltd.	
		June 2012	Senior Advisor, Aioi Nissay Dowa Insurance Co., Ltd.	
		June 2015	Retired from Aioi Nissay Dowa Insurance Co., Ltd.	
		June 2016	Outside Director, Leopalace21 Corporation (incumbent)	
Reason for nomination as a candidate for Outside Director				
Mr. Tadashi Kodama fulfills an appropriate role in supervising the business execution of the Company, using his keen insight accumulated through his career as a senior manager of a listed company and deep knowledge and experience in corporate management to actively provide 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 Remuneration Committee, thereby increasing the transparency and objectivity of officer appointment and remuneration decision procedures. For this reason, it is judged that his abundant knowledge and ability in the field of management are essential to the Company's management, so the Company has nominated him once more as a candidate for Outside Director.				

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	Reappointment Outside Director Independent Officer Tetsuji Taya (December 14, 1963) Attendance at the Board of Directors meetings: 21/21	April 1987 June 1998 April 2003 April 2007 September 2009 June 2010 March 2011 Significant concurrent positions Board Member & Managing Director, Industrial Growth Platform, Inc.	Joined The Fuji Bank, Limited (now Mizuho Bank, Ltd.) Joined Merrill Lynch Securities Co., Ltd. Managing Director, Industrial Revitalization Corporation of Japan Board Member & Managing Director, Industrial Growth Platform, Inc. Representative Director, Acting CEO, Industrial Growth Platform, Inc. Outside Director, Leopalace21 Corporation (incumbent) Board Member & Managing Director, Industrial Growth Platform, Inc. (incumbent)	4,100 shares
	<p>Reason for nomination as a candidate for Outside Director</p> <p>Mr. Tetsuji Taya fulfills an appropriate role in supervising the business execution of the Company, using his keen insight accumulated through his career as a senior manager and deep knowledge and experience in corporate management to actively provide 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 Remuneration Committee, thereby increasing the transparency and objectivity of officer appointment and remuneration decision procedures.</p> <p>For this reason, it is judged that his abundant knowledge and ability in the field of management are essential to the Company's management, so the Company has nominated him once more as a candidate for Outside Director.</p>			
8	Reappointment Outside Director Independent Officer Yoshiko Sasao (April 2, 1960) Attendance at the Board of Directors meetings: 20/21	April 1984 April 2000 April 2004 April 2006 November 2007 June 2012 June 2015 June 2015 April 2017 April 2017 May 2018 June 2019 Significant concurrent positions Managing Executive Officer (Responsible for Work Style Reform), JDC Corporation	Joined Recruit Co., Ltd. Joined RECRUIT STAFFING CO., LTD. on loan Joined RECRUIT STAFFING CO., LTD. Manager of Marketing Support 1 Division Joined Tokyo Electric Power Company, Incorporated Joined TEPCO PARTNERS Co, Inc. on loan Managing Director President and Representative Director, TEPCO PARTNERS Co, Inc. Outside Director, Leopalace21 Corporation (incumbent) President and Representative Director, SHiDAX BEAUTY CARE MANAGEMENT CORPORATION Executive Officer, Hasegawa holdings Co., Ltd. (now HITOWA Holdings Co., Ltd.) President and Representative Director, Hasegawa Social Works Co., Ltd. (now HITOWA Social Works Co., Ltd.) Executive Officer (Responsible for Work Style Reform), JDC Corporation Managing Executive Officer (Responsible for Work Style Reform), JDC Corporation (incumbent)	5,000 shares
	<p>Reason for nomination as a candidate for Outside Director</p> <p>Ms. Yoshiko Sasao fulfills an appropriate role in supervising the business execution of the Company, using her keen insight accumulated through her career as a senior manager and deep knowledge and experience in corporate management to actively provide advice from an independent and fair perspective during the Board of Directors meetings and other meetings. She also serves as a member of the Nomination and Remuneration Committee, thereby increasing the transparency and objectivity of officer appointment and remuneration decision procedures.</p> <p>For this reason, it is judged that her abundant knowledge and ability in the field of management are essential to the Company's management, so the Company has nominated her once more as a candidate for Outside Director.</p>			

Candidate number	Name (Date of birth)	Career summary, and positions and duties in the Company (Significant concurrent positions)		Number of the Company's shares held
9	New Candidate Outside Director Independent Officer Yoshitaka Murakami (February 12, 1948) Attendance at the Board of Directors meetings: -/-	April 1972	Joined Ministry of Finance	0 shares
	July 1993	Assistant Regional Commissioner (Management and Co-ordination), Tokyo Regional Taxation Bureau		
		July 1998	Deputy Commissioner (Large Enterprise Examination and Criminal Investigation), National Tax Agency	
		June 2000	Deputy Commissioner (Taxation), National Tax Agency	
		June 2003	First Deputy Commissioner, National Tax Agency	
		October 2005	Senior Managing Director, East Nippon Expressway Company Limited	
		June 2011	Standing Audit & Supervisory Board Member, Credit Saison Co., Ltd. (incumbent) (Scheduled to retire on June 20, 2019)	
		Significant concurrent positions Standing Audit & Supervisory Board Member, Credit Saison Co., Ltd. (Scheduled to retire on June 20, 2019)		
Reason for nomination as a candidate for Outside Director				
Mr. Yoshitaka Murakami possesses keen insight accumulated through his career as an auditor of central government agencies and an audit & supervisory board member at a listed company and deep knowledge and experience in corporate management, and it is judged that he will fulfill a role in supervising the business execution from an independent and fair perspective during the Board of Directors meetings and other meetings, so the Company has nominated him as a candidate for Outside Director.				
10	New Candidate Outside Director Hisafumi Koga (October 4, 1947) Attendance at the Board of Directors meetings: -/-	April 1971	Joined Kyodo News	0 shares
	June 2007	Managing Director, General Manager of Corporate Planning Division and President's Office, Kyodo News		
		June 2010	Senior Managing Director, Kyodo News KK	
		June 2011	President and Representative Director, Kyodo News KK	
		June 2014	Advisor (full-time), Kyodo News KK	
		March 2016	Chairman, Kyodo Public Relations Co., Ltd. (incumbent)	
		Significant concurrent positions Chairman, Kyodo Public Relations Co., Ltd.		
Reason for nomination as a candidate for Outside Director				
Mr. Hisafumi Koga possesses keen insight accumulated through his career as a senior manager and deep knowledge and experience in corporate management, and it is judged that he will fulfill a role in supervising the business execution from an outside and fair perspective during the Board of Directors meetings and other meetings, so the Company has 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. Tadashi Kodama, Mr. Tetsuji Taya, Ms. Yoshiko Sasao, Mr. Yoshitaka Murakami and Mr. Hisafumi Koga are candidates for Outside Director. Mr. Tadashi Kodama, Mr. Tetsuji Taya, Ms. Yoshiko Sasao and Mr. Yoshitaka Murakami are candidates for independent officer as stipulated in Article 436-2 of the Securities Listing Regulations of Tokyo Stock Exchange, Inc. As the candidates also satisfy the independence criteria set forth by the Company, the Company deems that the independence of the candidates is also assured.
3. Mr. Tadashi Kodama has held positions at Aioi Nissay Dowa Insurance Co., Ltd. as Representative Director, Vice Chairman of the Board of Directors, and Senior Advisor. In June 2015 he retired from said company, and in June 2016 he assumed the office of Outside Director of the Company. Although there is a business relationship between said company and the Company, the transaction amount is negligible (accounts for less than 0.1% of said company's and the Company's separate consolidated net sales in the most recent fiscal year) and, therefore, does not affect his independence.
4. Mr. Tetsuji Taya has held a position at Industrial Growth Platform, Inc. as Board Member & Managing 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 separate consolidated net sales in the most recent fiscal year) and, therefore, does not affect his independence.
5. Mr. Hisafumi Koga has held a position at Kyodo Public Relations Co., Ltd. as Chairman, and there is a business relationship between said company and the Company. The transaction amount accounts for less than 5% of said company's consolidated net sales in the most recent fiscal year and accounts for less than 0.1% of the Company's consolidated net sales in the most recent fiscal year.
6. Mr. Tadashi Kodama is currently an Outside Director of the Company. His term as an Outside Director will be three years at the conclusion of this General Shareholders' Meeting.
7. Mr. Tetsuji Taya is currently an Outside Director of the Company. His term as an Outside Director will be nine years at the conclusion of this General Shareholders' Meeting.

8. Ms. Yoshiko Sasao is currently an Outside Director of the Company. Her term as an Outside Director will be four years at the conclusion of this General Shareholders' Meeting.
9. In accordance with the provisions of Article 427, Paragraph 1 of the Companies Act, the Company has entered into limited liability agreements with Mr. Tadashi Kodama, Mr. Tetsuji Taya and Ms. Yoshiko Sasao 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 reappointment is approved.
10. If the election of Mr. Yoshitaka Murakami and Mr. Hisafumi Koga is approved, in accordance with the provisions of Article 427, Paragraph 1 of the Companies Act, the Company plans to enter into limited liability agreements with them limiting their liability for damages under Article 423, Paragraph 1 of the Companies Act, to the minimum limit amount prescribed by laws and regulations.
11. During the fiscal year under review, 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 Outside Directors, Mr. Tadashi Kodama, Mr. Tetsuji Taya and Ms. Yoshiko Sasao did not know these issues until the issues were discovered, they have 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, they endeavor 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.
12. The candidates for Director other than the Outside Directors who were serving at the Company at the time when the problem concerning construction defects arose (four Directors, namely Mr. Bunya Miyao, Mr. Shigeru Ashida, Mr. Katsuhiko Nanameki and Ms. Mayumi Hayashima) have been confirmed as not having been involved in the problem concerning construction defects according to the Final Report on Problems Concerning Construction Defects, released by the Company on May 29, 2019, which had been received by the External Investigation Committee.
13. Ms. Mayumi Hayashima's name on her family register is Mayumi Tsuboi.

Proposal No. 2: Appointment 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 Takao Yuhara will expire. It is therefore proposed that one (1) Audit & Supervisory Board Member be appointed.

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	
Reappointment Outside Audit & Supervisory Board Member Independent Officer Takao Yuhara (June 7, 1946)	April 1969 Joined NIPPON CHEMICAL INDUSTRIAL CO., LTD. May 1971 Joined Sony Corporation June 2003 Corporate Senior Vice President and Group CFO, Corporate Executive Officer, Sony Corporation December 2007 Managing Executive Officer, Zensho Co., Ltd. (now ZENSHO HOLDINGS CO., LTD.)	0 shares	
Attendance at the Audit & Supervisory Board meetings: 13/13	June 2008 Audit & Supervisory Board Member, Ricoh Company, Ltd. May 2011 Managing Executive Director and CFO, Zensho Co., Ltd. (now ZENSHO HOLDINGS CO., LTD.)		
Attendance at the Board of Directors meetings: 20/21	June 2013 Audit & Supervisory Board Member, mofiria Corporation June 2014 Outside Auditor, KAMEDA SEIKA CO., LTD. (incumbent) June 2015 Outside Audit & Supervisory Board Member, Leopalace21 Corporation (incumbent) December 2015 Outside Audit & Supervisory Board Member, T. HASEGAWA CO., LTD. (incumbent)		
	Significant concurrent positions Outside Auditor, KAMEDA SEIKA CO., LTD. Outside Audit & Supervisory Board Member, T. HASEGAWA CO., LTD.		
Reason for nomination as a candidate for Outside Audit & Supervisory Board Member			
Mr. Takao Yuhara has served in positions such as that of chief financial officer (CFO) of a listed company, and currently serves as an audit & supervisory board member for multiple companies, in addition to which he also has abundant experience and deep insights into the Company, having supervised the business of the Company from an objective standpoint. For these reasons, the Company has nominated him once more as a candidate for Outside Audit & Supervisory Board Member based on its determination that he will be able to appropriately supervise the Company's management.			

- Notes:
1. There is no particular interest between Mr. Takao Yuhara and the Company.
 2. Mr. Takao Yuhara 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 also assured.
 3. Mr. Takao Yuhara is currently an Outside Audit & Supervisory Board Member of the Company. His term as an Outside Audit & Supervisory Board Member will be four years at the conclusion of this General Shareholders' Meeting.
 4. In accordance with the provisions of Article 427, Paragraph 1 of the Companies Act, the Company has entered into a limited liability agreement with Mr. Takao Yuhara 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 reappointment is approved.
 5. During the fiscal year under review, 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. Takao Yuhara 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.

[Reference]

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

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

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

(Attachments)

BUSINESS REPORT (from April 1, 2018 to March 31, 2019)

Items Regarding Status of Group Operations

Overview of Operations

Before explanations concerning overview of operations, we sincerely apologize to our stakeholders for the trouble caused by the confirmed issues 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.

We are making a Group-wide coordinated effort to conduct investigations and repairs, and will devote our fullest energy to restore trust as soon as possible. We will continue investigating the root causes of the defects, and organize a structure to prevent recurrence and ensure thorough quality control.

During the fiscal year under review, the domestic economy showed gradual recovery supported by continued improvements in employment and personal income environment, despite some signs of weakness in corporate earnings.

New housing starts of leased units decreased for the second year in succession (down 4.9% year on year), due to the completion of a demand cycle for inheritance tax reduction strategies as well as tighter conditions placed on apartment loan application approvals. In the rental housing industry in Japan, as the number of vacant units continues to increase and recovery in nationwide demand becomes difficult, we believe that to achieve stable occupancy rates, it is important to ensure the supply of properties is concentrated in areas where occupancy rates are forecasted to remain high in the future, while at the same time following a strategy of differentiation by providing value-added services, using the unique strengths of the Company.

Amid these conditions, the Leoplace21 Group (the “Group”) turned its attention to achieving the targets of the Medium-term Management Plan “Creative Evolution 2020” and while striving to create corporate value and new social value under the basic policy of “Supporting continuous growth of core businesses in ways that further increase corporate value while constructing a base for growth areas,” the entire Group made a coordinated effort to carry out the investigations and repair works to resolve the problem concerning construction defects as soon as possible.

Concerning consolidated operating results for the fiscal year under review, consolidated net sales came to 505,223 million yen (down 4.8% year on year) as a result of a deterioration of business revenue due to the problem concerning construction defects. Consolidated operating profit was 7,390 million yen (down 67.8% year on year) and consolidated recurring profit was 7,063 million yen (down 68.4% year on year). Consolidated net loss attributable to shareholders of the parent was 68,662 million yen (compared to a net income of 14,819 million yen in the previous fiscal year). This was mainly due to extraordinary losses of 54,786 million yen recorded as a reserve for repair costs and incidental expenses related to construction defects, 9,684 million yen recorded as a provision of reserve for apartment vacancy loss, as well as 7,560 million yen recorded as an impairment loss for company-owned apartments. Company-owned apartments were sold as part of the financial strategy set in our Medium-term Management Plan.

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 customize a wall of their rooms with their choice of wallpaper for free, our promotion of the transition to smart apartments, which enables remote control of electrical appliances, door locks, etc., by smartphone, our industry-first electronic leasing contract, and security systems in collaboration with large security companies. The Group also addressed demand for corporate dormitories and corporate housing and enhanced support system for foreign tenants.

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

Since new tenant recruitment activities have been suspended for the properties under top-priority investigation until those investigations and repairs related to the construction defects are completed, the occupancy rate at the end of the fiscal year under review was 84.33% (down 9.39 points from the end of the previous fiscal year), and the average occupancy rate for the period was 88.34% (down 2.25 points year on year). The number of units under management at the end of the fiscal year under review was 574,000 (an increase of 4,000 from the end of the previous fiscal year).

As a result of the above, net sales amounted to 426,388 million yen (down 2.1% year on year), and operating profit was 14,987 million yen (down 42.5% year on year).

Development Business (Construction and Real Estate Development Businesses)

In the Development Business, the Group focused on activities to secure orders in the three major metropolitan areas, where populations continue to increase and high occupancy rates are expected in the future, while strategically investing in high-quality, cutting-edge products. In addition, the Group expanded construction variations to realize “ideal land use,” while reviewing product prices and supply channels to improve profitability.

Also, subsidiary Life Living Co., Ltd. provides development business of condominiums and apartments, and subsidiary Morizou Co., Ltd. provides construction business of custom-built detached houses made of Kiso hinoki cypress.

As a result of orders becoming sluggish mainly due to intensified competition in the metropolitan areas and tighter conditions placed on apartment loan application approvals, orders received during the fiscal year under review were 64,495 million yen (down 15.0% year on year) and the orders received outstanding at the end of the fiscal year under review stood at 62,367 million yen (down 2.5% from the end of the previous fiscal year).

As a result, net sales came to 58,992 million yen (down 23.0% year on year), and operating loss was 995 million yen (operating profit of 3,663 million yen in the previous fiscal year).

Elderly Care Business

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

The Group newly opened 4 facilities during the fiscal year under review, and the number of facilities increased to 87 at the end of the fiscal year under review.

As a result, net sales were 13,922 million yen (up 8.7% year on year), and operating loss was 846 million yen (an improvement of 749 million yen from the previous fiscal year).

Hotels, Resort & Other Businesses

Net sales of the Hotels, Resort & Other Businesses, which operates resort facilities in Guam and hotels in Japan, the travel businesses, the finance business and other businesses were 5,919 million yen (up 0.2% year on year), and operating loss was 1,346 million yen (a deterioration of 500 million yen from the previous fiscal year).

Issues to Be Addressed

The Group has started its “Creative Evolution 2020” Medium-term Management Plan, which runs for three years from fiscal 2017. Taking as its basic policy “Supporting continuous growth of core businesses in ways that further increase corporate value while constructing a base for growth areas,” the Group aims to create corporate value as well as new social value by executing each of the following strategies.

Business Strategies (Cash flow generation for value creation)

- Core businessesBalance apartment supply and management & operation, deploy with more concentration and more diversification
- Growth businessesFocus on the Elderly Care Business and International Business, which are less exposed to the aging, shrinking domestic population, achieve profitability

In the Leasing Business, in order to secure a favorable competitive position in the rental housing market, where vacant units continue to increase, the Group will differentiate ourselves by offering value-added services that deploy our unique strengths such as homes equipped with furniture and household appliances, Internet (LEONET) and IoT capabilities (Leo Remocon and Leo Lock), and will consider a third form of contract in addition to rental contracts and monthly contracts. Also, with companies expected to increase their hiring to combat lack of staff, to reliably capture corporate housing demand, the Company mainly strives to reduce the operational burden on corporate customers through corporate sales specialized for each industry, and by unifying the point of contact for contracts. Further, in order to capture the growth in the ASEAN region caused by the expansion of businesses from Japan, with its falling population, the Group is expanding the development and operation of serviced apartments and offices in the ASEAN region.

In the Development Business (Construction and Real Estate Development Businesses), as well as offering high-quality, high value-added products and services restricted to three major metropolitan areas where the Group expects strong tenant demand in the future, the Group will promote diversifying construction so as to be able to respond to a range of needs such as social welfare facilities and commercial facilities.

In Elderly Care Business, which has been designated a growth strategy business, the Group will strive to improve profitability by rightsizing the personnel structure, and the Group will establish care facilities in response to the aged society.

Financial Strategies (Value creation via balance sheet management)

- Introduction of ROIC managementShift away from profit and loss-centric management to balance sheet management, with the aim of value creation and optimal capital structure
- * ROIC (Return on Invested Capital) = After-tax operating profit / (interest-bearing debt + net assets)
- Enhance asset and capital efficiencyMake active use of operating cash flow, and of cash flow from sale of assets, for investments in future growth and for shareholder returns
 - Enriched shareholder returnsBy introducing the total return ratio target, the Group will seek to deliver shareholder returns that include share buybacks

The Group is currently pressing ahead with new measures aimed at achieving plan targets. We ask shareholders for your continued understanding and support of these endeavors.

The Group recorded net loss attributable to shareholders of the parent and negative operating cash flow in the fiscal year under review due to the problem concerning construction defects confirmed in properties constructed by the Company. As a result, there are events or circumstances that raise significant doubts about the Group's going concern assumptions.

In order to respond to such events and circumstances, we are working to resume recruitment of tenants at an early stage by concentrating management resources on premise investigations and necessary repairs in a systematic manner. With regard to funding, while maintaining a sound financial balance, the Group endeavors to secure stable funds necessary for its business activities including selling assets held and maintain liquidity, thereby securing sufficient funds to meet anticipated demand based on its funding plans.

The Company's subsidiary Leoplace Power Corporation is currently inconsistent with the financial covenant clause attached to its borrowing contract entered into with a financial institution with the Company as guarantor, as our consolidated net assets as of March 31, 2019 was below a prescribed amount. However, we have obtained agreement from the financial institution that they would not exercise the right of forfeiture of the benefit of time.

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

Capital Investment

The total amount of capital investment carried out by the Group in the fiscal year under review is 8,801 million yen.

The main components of this were 5,322 million yen for investment in rental properties in connection with the leasing business in Japan, 1,733 million yen for capital investment in connection with the hotels & resort business, 811 million yen for investment of an information system in connection with all businesses, and 265 million yen for investment of an information system in connection with the leasing business.

Financing Activities

After giving consideration to the capital efficiency of the Group in the fiscal year under review, the Group procured funds of 5,030 million yen as funds related to a lease business inside the Group.

Major Subsidiaries (as of March 31, 2019)

Company Name	Capital	Voting Rights Ratio	Primary Areas of Business
Leopalace Leasing Corporation	400 million yen	100.0%	Corporate Housing Management Business Real Estate Brokerage Business
Plaza Guarantee CO., LTD.	50 million yen	100.0%	Rent Obligation Guarantee Business
Leopalace Power Corporation	80 million yen	100.0%	Solar Power Generation Business
Leopalace Energy Corporation	20 million yen	100.0% (100.0%)	Electricity Retail Business
Asuka SSI	1,000 million yen	100.0%	Small-Amount, Short-Term Insurance Business
Enplus Inc.	312 million yen	98.3%	Relocation Management Business
Leopalace Trust Co., Ltd.	300 million yen	100.0%	Trust Business
Leopalace21 Business Consulting (Shanghai) Co., Ltd.	5,359 thousand RMB	100.0%	Consulting Business
LEOPALACE21 VIETNAM CO., LTD.	20,196 million VND	100.0%	Serviced Apartments Business Real Estate Agency Business
Leopalace21 (Thailand) CO., LTD.	10,000 thousand THB	49.0% [51.0%]	Serviced Apartments Business Real Estate Agency Business
Leopalace21 (Cambodia) Co., Ltd.	500 thousand USD	100.0%	Serviced Apartments Business Real Estate Agency Business
LEOPALACE21 PHILIPPINES INC.	22,070 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
Life Living Co., Ltd.	100 million yen	100.0%	Real Estate Business
Morizou Co., Ltd.	85 million yen	88.2%	Construction Business of Custom-Built Detached Houses
Azu Life Care Co., Ltd.	80 million yen	100.0%	Care Business
Leopalace Guam Corporation	26,000 thousand USD	100.0%	Hotels & Resort Business
WING MATE CO., LTD.	40 million yen	100.0%	Travel Business
Leopalace Smile Co., Ltd.	10 million yen	100.0%	Clerical Work Outsourcing Service Business

- Notes:
1. Leopalace Trust Co., Ltd. is newly treated as a consolidated subsidiary from the fiscal year under review due to its increased materiality.
 2. There was no specified wholly-owned subsidiary as of the end of the fiscal year under review.
 3. Figures in parenthesis in the voting rights ratio column indicate indirect ownership ratios, and these are included in the total.
 4. Figures in square brackets in the voting rights ratio column indicate ownership ratios of a party with a close relationship and a party that gives consent, and these are not included in the total.

Major Areas of Operation (as of March 31, 2019)

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

Major Business Locations of the Group (as of March 31, 2019)**The Company**

Head Office	Nakano-ku, Tokyo
Regional	47 prefectures nationwide
Headquarters	(Leopalace centers: 182 branches; construction sales: 50 branches)
	Overseas
	(Leopalace centers: 7 branches [People's Republic of China: 4 branches; the Republic of Korea: 2 branches; Taiwan: 1 branch])
Hotels	4 facilities nationwide (Sapporo, Sendai, Nagoya, Hakata)
Care Facilities	62 facilities nationwide (Tokyo: 4 facilities; Chiba Prefecture: 16 facilities; Saitama Prefecture: 22 facilities; Kanagawa Prefecture: 3 facilities; Ibaraki Prefecture: 8 facilities; Tochigi Prefecture: 7 facilities; Gunma Prefecture: 2 facilities)

Major Subsidiaries

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

Employees of the Group (as of March 31, 2019)**1. Employees of the Group**

Segment	Number of Employees	
Leasing Business	3,673	[460]
Development Business	1,736	[19]
Elderly Care Business	1,164	[1,255]
Hotels, Resort & Other Businesses	578	[202]
All companies (common)	449	[11]
Total	7,600	[1,947]

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

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

2. Employees of the Company

Number of Employees	Change Since Previous FY	Average Age	Average Years of Service
6,331 [1,544]	-163	37 years and 7 months	9 years and 7 months

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

Major Lenders (as of March 31, 2019)

Lender	Loan Balance at End of the Fiscal Year under Review (millions of yen)
Mizuho Bank, Ltd.	14,947
Sumitomo Mitsui Banking Corporation	6,202

Items Regarding Shares of the Company (as of March 31, 2019)

- **Number of shares authorized** 500,000,000 shares
- **Number of shares outstanding** 244,882,515 shares

Note: The total number of shares outstanding decreased by 7,800,000 shares compared with the end of the previous fiscal year due to the retirement of treasury stock conducted on October 15, 2018.

- **Number of shareholders** 66,820
- **Major shareholders (top 10 shareholders)**

Shareholder Name	Number of Shares Held (thousands of shares)	Percentage of Outstanding Shares (%)
Ardisia Investment, Inc.	10,600	4.35
Reno, Inc.	7,875	3.23
RBC ISB S/A DUB NON RESIDENT/TREATY RATE UCITS-CLIENTS ACCOUNT	7,090	2.91
JPMorgan Securities Japan Co., Ltd.	6,643	2.72
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)	6,211	2.55
Stockholding Association for Leopalace21's Business Connection	5,662	2.32
The Master Trust Bank of Japan, Ltd. (Trust Account)	5,652	2.32
BNYM AS AGT/CLTS 10 PERCENT	5,097	2.09
STATE STREET BANK AND TRUST COMPANY 505103	4,945	2.03
EUROCLEAR BANK S.A./N.V.	4,901	2.01

Notes: 1. Of the shares listed above, those held in trust accounts as part of trust bank operations are as follows:

The Master Trust Bank of Japan, Ltd. (Trust Account) 4,783 thousand shares

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

- **Shareholder composition**

Financial instruments business operations	7.70%	(18,863 thousand shares)
Financial institutions	14.73%	(36,084 thousand shares)
Foreign corporations	38.96%	(95,402 thousand shares)
Treasury stocks	0.44%	(1,067 thousand shares)
Individuals and other	27.68%	(67,782 thousand shares)
Business corporations and other legal entities	10.49%	(25,680 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

		1st series share subscription rights	2nd series share subscription rights	3rd series share subscription rights	4th series share subscription rights	
Issuance resolution date		June 29, 2009	July 28, 2016	August 28, 2017	August 28, 2018	
Amount to be paid in for share subscription rights		Payment not required	Payment not required	Payment not required	Payment not required	
Value of property to be contributed upon exercise of share subscription rights		82,600 yen per 1 share subscription right (826 yen per share)	100 yen per 1 share subscription right (1 yen per share)	100 yen per 1 share subscription right (1 yen per share)	100 yen per 1 share subscription right (1 yen per share)	
Issue price of shares and amount incorporated into capital in case of issuance due to exercise of share subscription rights		Issue price: 1,103 yen; amount incorporated into capital: 552 yen	Issue price: 548 yen; amount incorporated into capital: 274 yen	Issue price: 529 yen; amount incorporated into capital: 265 yen	Issue price: 333 yen; amount incorporated into capital: 167 yen	
Exercise period		From August 18, 2011 through June 27, 2019	From August 19, 2016 through August 18, 2046	From September 15, 2017 through September 14, 2047	From September 15, 2018 through September 14, 2048	
Status of officers' holdings	Directors (excluding Outside Directors)	Number of share subscription rights	40 units	1,278 units	1,406 units	1,314 units
		Number of underlying shares	4,000 shares of common stock	127,800 shares of common stock	140,600 shares of common stock	131,400 shares of common stock
		Number of holders	2 persons	7 persons	7 persons	8 persons
	Audit & Supervisory Board Members	Number of share subscription rights	10 units	—	—	—
		Number of underlying shares	1,000 shares of common stock	—	—	—
		Number of holders	1 person	—	—	—

Note: The above 1st series share subscription rights are those granted to Directors and Audit & Supervisory Board Members while they were serving at the Company as employees.

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

			4th series share subscription rights
Issuance resolution date			August 28, 2018
Amount to be paid in for share subscription rights			Payment not required
Value of property to be contributed upon exercise of share subscription rights			100 yen per 1 share subscription right (1 yen per share)
Issue price of shares and amount incorporated into capital in case of issuance due to exercise of share subscription rights			Issue price: 333 yen; amount incorporated into capital: 167 yen
Exercise period			From September 15, 2018 through September 14, 2048
Status of delivery to employees, etc.	Employees of the Company	Number of share subscription rights	1,618 units
		Number of underlying shares	161,800 shares of common stock
		Number of holders	16 persons
	Officers of subsidiaries	Number of share subscription rights	548 units
		Number of underlying shares	54,800 shares of common stock
		Number of holders	15 persons

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

1. Directors and Audit & Supervisory Board Members (as of March 31, 2019)

Name	Title	Duties in the Company and Significant Concurrent Positions
Eisei Miyama	President and CEO	President and CEO Director, Leopalace Guam Corporation
Tadahiro Miyama	Director	Senior Vice President/General Manager of the Marketing and Sales Headquarters/General Manager of the Corporate Business Promotion Headquarters (concurrent) Director, Leopalace Guam Corporation
Yuzuru Sekiya	Director	Senior Executive Officer/General Manager of the Management Planning Headquarters Director, Leopalace Guam Corporation
Hiroshi Takeda	Director	Senior Executive Officer/Deputy General Manager of the Marketing and Sales Headquarters/General Manager of the Apartment Construction Subcontracting Business Division (concurrent) Director, Morizou Co., Ltd.
Kazuto Tajiri	Director	Senior Executive Officer/General Manager of the Management Headquarters
Hiroyuki Harada	Director	Managing Executive Officer/Deputy General Manager of the Management Headquarters/General Manager of the Diversity Promotion Office (concurrent) /General Manager of the Healthcare Promotion Office (concurrent) President and Representative Director, Plaza Guarantee CO., LTD.
Bunya Miyao	Director	Managing Executive Officer/Representative in charge of Management Planning and Investor Relations
Hiromi Ito	Director	Managing Executive Officer/Deputy General Manager of the Management Headquarters
Tadashi Kodama	Director	
Tetsuji Taya	Director	Board Member & Managing Director, Industrial Growth Platform, Inc.
Yoshiko Sasao	Director	Executive Officer (Responsible for Work Style Reform), JDC Corporation
Atsunori Nasu	Standing Audit & Supervisory Board Member	Audit & Supervisory Board Member, Morizou Co., Ltd.
Jiro Yoshino	Standing Audit & Supervisory Board Member	
Masahiko Nakamura	Audit & Supervisory Board Member	Representative, Masahiko Nakamura Certified Tax Accountant Office
Takao Yuhara	Audit & Supervisory Board Member	Outside Auditor, KAMEDA SEIKA CO., LTD. Outside Audit & Supervisory Board Member, T. HASEGAWA CO., LTD.

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

6. 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
Tadahiro Miyama	Director and Senior Vice President General Manager of the Business Operation Headquarters	Director and Senior Vice President General Manager of the Marketing and Sales Headquarters General Manager of the Corporate Business Promotion Headquarters (concurrent)	April 1, 2019
Hiroshi Takeda	Director and Senior Executive Officer General Manager of the Apartment Construction Subcontracting Business Division	Director and Senior Executive Officer Deputy General Manager of the Marketing and Sales Headquarters General Manager of the Apartment Construction Subcontracting Business Division (concurrent)	April 1, 2019
Kazuto Tajiri	Director and Senior Executive Officer General Manager of the Compliance Management Headquarters, Chief Legal Officer (CLO) General Manager of the Management Headquarters (concurrent)	Director and Senior Executive Officer General Manager of the Management Headquarters	April 1, 2019
Hiroyuki Harada	Director and Managing Executive Officer Representative in charge of General Affairs and Human Resources	Director and Managing Executive Officer Deputy General Manager of the Management Headquarters General Manager of the Diversity Promotion Office (concurrent) General Manager of the Healthcare Promotion Office (concurrent)	April 1, 2019
Hiromi Ito	Director and Managing Executive Officer Representative in charge of Information System and Financial Accounting	Director and Managing Executive Officer Deputy General Manager of the Management Headquarters	April 1, 2019
Eisei Miyama	Director	President and CEO	May 29, 2019
Bunya Miyao	President and CEO	Director and Managing Executive Officer Representative in charge of Management Planning and Investor Relations	May 30, 2019

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

Director, Mr. Yoshikazu Miike retired at the conclusion of the 45th Ordinary General Shareholders' Meeting held on June 28, 2018, due to the expiry of his term of office.

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

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

Category	Number of Persons	Total Amount
Directors (Outside Directors)	12 (3)	542 million yen (46 million yen)
Audit & Supervisory Board Members (Outside Audit & Supervisory Board Members)	4 (3)	53 million yen (33 million yen)
Total (Outside Directors and Audit & Supervisory Board Members)	16 (6)	595 million yen (80 million yen)

Notes: 1. Among the above-mentioned figures, there includes one Director who retired on June 28, 2018.

2. The total amount of remuneration, etc. for Directors, includes 52 million yen of expenses related to share subscription rights granted as stock options as stock-based remuneration recorded during the fiscal year under review.

Items Regarding Outside Officers

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

Title	Name	Significant Concurrent Positions	Relationships with the Company
Director	Tetsuji Taya	Board Member & Managing Director, Industrial Growth Platform, Inc.	There are no particular relationships with the Company requiring specific mention.
Director	Yoshiko Sasao	Executive Officer (Responsible for Work Style Reform), JDC Corporation	There are no particular relationships with the Company requiring specific mention.
Audit & Supervisory Board Member	Masahiko Nakamura	Representative, Masahiko Nakamura Certified Tax Accountant Office	There are no particular relationships with the Company requiring specific mention.
Audit & Supervisory Board Member	Takao Yuhara	Outside Auditor, KAMEDA SEIKA CO., LTD. Outside Audit & Supervisory Board Member, T. HASEGAWA CO., LTD.	There are no particular relationships with the Company requiring specific mention.

2. Key Activities in the Fiscal Year under Review

Title	Name	Attendance of the Board of Directors Meetings	Attendance of the Audit & Supervisory Board Meetings	Key Activities
Director	Tadashi Kodama	21/21	–	Mr. Kodama uses his abundant knowledge as a senior manager of a listed company to provide advice on the overall management of the Company and to make comments in order to ensure the reasonableness and appropriateness of decision-making by the Board of Directors.
Director	Tetsuji Taya	21/21	–	Mr. Taya uses his abundant knowledge and experience as well as his insight as a senior manager to provide advice on the overall management of the Company and to make comments in order to ensure the reasonableness and appropriateness of decision-making by the Board of Directors.
Director	Yoshiko Sasao	20/21	–	Ms. Sasao uses her abundant knowledge and experience as well as her insight as a senior manager to provide advice on the overall management of the Company and to make comments in order to ensure the reasonableness and appropriateness of decision-making by the Board of Directors.
Audit & Supervisory Board Member	Jiro Yoshino	21/21	13/13	Mr. Yoshino has abundant experience and expert knowledge as an executive officer and audit & supervisory board member of listed companies. He has objectively conducted proper supervision of the management of the Company.
Audit & Supervisory Board Member	Masahiko Nakamura	19/21	13/13	Mr. Nakamura has abundant experience and expert knowledge as a certified tax accountant. He has objectively conducted proper supervision of the management of the Company.

Title	Name	Attendance of the Board of Directors Meetings	Attendance of the Audit & Supervisory Board Meetings	Key Activities
Audit & Supervisory Board Member	Takao Yuhara	20/21	13/13	Mr. Yuhara has abundant experience and expert knowledge as an audit & supervisory board member of several companies. He has objectively conducted proper supervision of the management of the Company.

Note: As described in “Overview of Operations,” 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 during the fiscal year under review.

Although each of Outside Directors and Outside Audit & Supervisory Board Members did not know these issues until the issues were discovered, they have 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, they endeavor 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.

Status of Accounting Auditor

1. Name of Accounting Auditor

Grant Thornton Taiyo LLC

2. Amount of Remuneration, Etc.

Segment	Amount Paid
Amount of Accounting Auditor remuneration, etc. in the fiscal year under review	92 million yen
Total amount owed to Accounting Auditor by the Company and its subsidiaries in the form of cash or other financial benefit	105 million yen

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

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

Where the Audit & Supervisory Board deems there are problems with the suitability, independence or reliability, etc., of the Accounting Auditor, it will determine the content of a proposal to be proposed to 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 the cornerstone of all of its corporate activities. This is exemplified by the President and CEO of the Company, whose role is to continuously share the spirit of this charter with all officers and employees of the Group.
- (b) The Group shall secure a compliance system through the establishment of a Corporate Ethics Charter, an internal reporting system, and a Compliance Committee as an advisory body of the Board of Directors. The Compliance Committee is composed of the Company’s President and CEO as the chairman and outside experts such as lawyers. It plans and implements various measures concerning compliance of the Group such as education and training and the improvement and reinforcement of the information control system as part of measures to strengthen corporate governance of the Group. The Compliance Committee shall also strengthen a monitoring system based on Compliance Regulations and strive to identify and understand problems and make improvements.
- (c) The Company’s Board of Directors is composed of independent Outside Directors called on to strengthen the function to oversee the legality of the decision-making and the business operations by the Board of Directors, and to ensure the transparency and fairness of management.
- (d) 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 and shall revise the audit method in the Auditing Department if necessary. In addition, in order to maintain sound internal controls, the Company shall establish an audit meeting, to perform monitoring and risk management of business activities in the Group, as well as to implement governance strengthening and promote creation of the appropriate financial statements and compliance with regulations, enabling the Group to conserve assets and efficiently carry out its business activities.
- (e) The Company’s Compliance Management Department shall fulfill checks and balances function within the Group and provide guidance so that, if a compliance violation was found by its officers and employees, it shall be immediately consulted with or reported to the Company’s Compliance Management Department. The Group provides a clause about the protection of whistleblowers to the Internal Report Regulations to the effect that, if its officers and employees recognized an act, etc., which is doubtful based on laws and regulations and the Articles of Incorporation, the Company shall prohibit treating the employee unfavorably by the reason of consultation and report.
- (f) The Compliance Regulations, related individual regulations, guidelines and manuals, etc., shall continue to be developed to build a system to ensure conformity of the fulfillment of

duties of officers and employees in the Group with laws and regulations and the Articles of Incorporation.

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

The President and CEO of the Company shall appoint the Director in charge of the Management Headquarters of the Company as the person generally responsible for the retention and management of information on the execution of the duties of Directors. As to the retention and management of information on the execution of duties of Directors, the information, which is recorded in documents or electromagnetic record media, shall be organized and retained based on Document Handling Regulations and Information Management Regulations.

(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 risk. The Risk Management Committee is composed of the Company's President and CEO as the chairman and members including outside experts, such as lawyers.
- (b) The Risk Management Committee shall confirm the development and operational status of the Risk Management Regulations for risk management of the Group and related individual regulations, guidelines and manuals, etc., and make plans to train officers and employees of the Group. The Company's Director in charge of Management Headquarters shall submit quarterly reports on risk management of the Group to the Company's Board of Directors.
- (c) The Company's Auditing Department shall audit the conditions for the execution of business for each department of the Group. If an act with a risk of loss was found in business operations, the Auditing Department shall immediately notify the Company's President and CEO, as well as the department in charge of its details of the degree of loss to be thereby incurred.

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

- (a) The Company shall set up the Board of Directors to enhance business performance through appropriate and rapid decision-making, responding flexibly to changes in the business and management environment. The Board of Directors shall be composed of an appropriate number of members and hold regular meetings once a month, while extraordinary meetings can be called at any time as required, in order for decisions to be made on critical management matters as well as to monitor business performance.
- (b) As a prior deliberative organ of the Board of Directors, regular meetings of the Corporate Management Council shall be held to discuss business operation policies and its implementation and to consider measures to be taken.

- (c) The Company shall set up a Medium-term Management Plan for the Group, and determine the priority objective and budgetary allocation of the whole group every fiscal year to materialize the relevant plan.
- (d) The progress of income and expenditure plans and other important business plans of each department and subsidiary shall be reviewed monthly or appropriately by the Board of Directors and other bodies, where problems will be extracted and counter measures will be executed.

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

- (a) The Affiliated Companies Management Regulations shall be applied to subsidiaries of the Company. Each subsidiary shall obtain prior approval of the Board of Directors, the Corporate Management Council, or the officers of the Company in charge of the respective subsidiary for important matters of corporate management, and report such matters to them, in accordance with the decision-making standards of the Company.
- (b) The management of subsidiaries of the Company shall be supervised by the Director in charge of the Management Planning Headquarters. The Company's Director in charge of the Management Planning Headquarters shall periodically hold a meeting with the affiliated companies liaison committee to smoothly exchange information and promote group activities, and receive reports from the subsidiaries as necessary.
- (c) Director in charge 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 Director in charge of the responsible department shall make periodic reports on the condition of progress in the management of subsidiaries by exchanging information in regular and timely manners with the subsidiary to the Board of Directors and the Corporate Management Council.
- (d) The Company's Auditing Department and Audit & Supervisory Board Members shall conduct a regular or special audit of each subsidiary and then report to the Company's President and CEO and the Auditing Council.

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

- (a) When the Company's Audit & Supervisory Board Member requests to assign an employee to assist with the duties of the Audit & Supervisory Board Member, the Company's Board of Directors shall nominate an employee assisting Audit & Supervisory Board Member from the members of the Company's Auditing Department after consultation with the Company's Audit & Supervisory Board Member.
- (b) In assisting the duties of Audit & Supervisory Board Members of the Company, the right of command over the nominated employee shall be transferred to the Company's

Audit & Supervisory Board Members to ensure independence from the Company's Board of Directors. The appointed employee shall submit to the orders of the Audit & Supervisory Board Members when supporting their duties. An evaluation of the support work of Audit & Supervisory Board Member's duties shall be conducted by the Company's Audit & Supervisory Board. The Company's Audit & Supervisory Board Member and the Director in charge of the Personnel Department shall confer about personnel changes and treatment.

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

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

(8) Systems to Ensure Reliable Financial Reporting

For the purpose of securing reliable financial reporting of the Company and effective and proper submission of internal control reports by the Company as provided in the Financial Instruments and Exchange Act, the Group shall set up a structure to establish and apply a proper internal control system under the command of the Company's President and CEO, continue to evaluate whether or not the structure will function properly, make necessary corrections, and ensure conformity with the Financial Instruments and Exchange Act and other applicable laws and regulations.

(9) Systems Development to Exclude All Antisocial Forces

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

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

The Company drew up a "Basic Policy on the Establishment of an Internal Control System," in accordance with which a system was put in place and operated to ensure that business execution was implemented appropriately.

However, 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.

In response to these issues, on February 27, 2019, the Company set up an External Investigation Committee composed only of neutral and impartial specialists who are completely independent of the Company. The report of this investigation was received on May 29, 2019, and announced the same day.

Having received the report of the investigation, while continuing to work to complete repairs as quickly as possible, the Company has been implementing improvements one after the other in relation to the issues detected, such as by clarifying the causes and drawing up measures to prevent a recurrence, rebuilding the internal control system, and above all beginning the revalidation of the compliance and risk management systems.

In addition, after internal consideration and after taking into account the opinions offered by the External Investigation Committee, the Company announced that a meeting of the Board of Directors held on May 29, 2019 resolved that the "Basic Policy on the Establishment of an Internal Control System" would be reviewed.

Going forward, all officers and employees of the Group will work as one under a new system based on the “Basic Policy on the Establishment of an Internal Control System” to manage the business in order 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, appointment of Outside Directors, establishment of the Auditing Department as well as the Legal Affairs Department, and establishment of the internal reporting system and related regulations.

During the fiscal year under review, while continuing to operate the existing system by holding 12 meetings of the Compliance Committee and conducting internal audits, the Company ensures compliance with laws and regulations and other rules. In addition, the Company raised the awareness of officers and employees of the Group by providing compliance training on a regular basis.

Conversely, it was found that there was a tendency for certain discussions of the Compliance Committee to become formalities. It was also discovered that, when checking business activities against laws and regulations, etc., there were weaknesses in the system from the perspective of the comprehensive involvement of the legal department.

In view of this, a Compliance Management Department was newly established in January 2019, with the aim of further strengthening the system for compliance with laws and regulations, etc., representing a change to a centralized checking system of business activities against laws and regulations, etc.

For the construction of buildings in particular, the Company has established a new Construction Legal Department, and has changed to a system whereby, when selling new products or making changes to materials for existing products, checks by a third-party organization are used to verify that there are no uncertainties about compliance with laws. Changes have also been made so that the same Department is responsible for the additional function of checking inspections on construction sites.

Furthermore, going forward the Company will execute a number of measures in turn, including rebuilding the organizational structure to better observe laws and regulations, beginning with the Compliance Committee, appointing a Chief Legal Officer, and rebuilding the reporting system used in the event of a compliance infringement occurring, including a whistle-blowing system.

(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 Director in charge of the Management Headquarters as the person generally responsible for the retention and management, as provided for in Document Management Regulations and Information Management Regulations.

During the fiscal year under review, these existing systems continued to operate and maintained an appropriate state of affairs, but here and there cases have been observed in

which the classification did not match the importance of the information. In order to further strengthen information management system, the Company will work to thoroughly inculcate the Information Management Regulations by means of education and training, etc.

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

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

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

On the other hand, with regard to potential risks, it was found that there were weaknesses in the system for promptly sharing information with the Board of Directors and the Risk Management Committee.

In the light of this, the Company will re-implement a risk management analysis for each business, and consider what measures to take based on the outcome of these analyses.

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

After preliminary deliberation by the Corporate Management Council, decisions have been made after deliberation at the Board of Directors meetings, as the governing body. On the other hand, to review the progress of business plans, business monitoring 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 including attendance via a telephone conference system and resolutions in writing to maintain appropriate conditions.

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

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

receive the necessary reports from subsidiaries. The Company dispatches Directors to subsidiaries to strengthen monitoring functions and ensure appropriateness of business operations.

During the fiscal year under review, the Company held meetings of the Group Executive Council twice, in addition to the meetings mentioned above, exchanged information among executives of the Company and those of its subsidiaries, and discussed future business growth.

Of the systems for ensuring the appropriateness of business operations by each company of the Group, while the Company's Compliance Management Department and Management 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.

Conversely, it was found that there were vulnerabilities in the audit system implemented by Audit & Supervisory Board Members of subsidiaries.

Taking this into account, the Company will reconsider the way it appoints Audit & Supervisory Board Members of subsidiaries, and will gradually change the system, including the cooperation with the Company's Audit & Supervisory Board Members and the Auditing Department.

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

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

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

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

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

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

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

(8) Systems to Ensure Reliable Financial Reporting

The system has been constructed to evaluate internal controls by the Auditing Department, and an internal control report for the 45th fiscal term was submitted on June 28, 2018.

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

(9) Systems Development to Exclude All Antisocial Forces

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

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

3. Policy on Determination of Dividends of Surplus and Others

The Company's basic policy regarding shareholder return is to aim not only to distribute to shareholders the profits created through operating activities in the form of cash dividends, but also to invest for future growth in areas such as real estate, overseas business, mergers and acquisitions, IT, and research and development to maximize mid- to long-term corporate value, thereby enhancing shareholder value by raising earnings per share (EPS).

The Company aims to put significant effort into shareholder returns. It introduced a total return ratio target (50% in the fiscal year ending March 31, 2020) in the Medium-term Management Plan and will flexibly execute share buybacks while keeping an eye on stock price trends, using the cash flow from sale of assets as the source of funds.

However, as described in the "Overview of Operations," due to defects in properties constructed by the Company significant losses have been incurred, and it is with sincere regret that the Company has decided not to pay a year-end dividend for the fiscal year under review.

* The Company implemented and completed a share buyback of total of 5,012 million yen of our own shares from June 14 to August 23, 2018 (the "share buyback") in accordance with the resolution of the Board of Directors on May 11, 2018. This share buyback was conducted within the amount available for distribution to shareholders at each time shares were repurchased. However, at the Board of Directors meeting held on May 29, 2019, the Company approved the financial statements for the 46th fiscal term, resulting in a deficit. As a result, the amount available for distribution to shareholders was insufficient with regards to conducting the share buyback.

This matter is still under investigation, but the main reason is that the scope of construction

defects has expanded amid the progress of investigation of all buildings, and we have set aside a reserve to respond to these construction defects. We believe it was difficult to predict this situation at the time of the share buyback, even if we are managing our company with a constant awareness of its financial condition.

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, 2019)

(millions of yen)

ASSETS	
Current assets	110,757
Cash and cash equivalents	84,536
Trade receivables	6,908
Accounts receivable for completed projects	1,709
Operating loans	256
Securities	1,254
Real estate for sale	1,027
Real estate for sale in progress	5,554
Payment for construction in progress	680
Raw materials and supplies	565
Prepaid expenses	2,952
Other accounts receivable	1,198
Others	4,255
Allowance for doubtful accounts	(142)
Non-current assets	180,705
Property, plant and equipment	123,215
Buildings and structures	40,542
Machinery, equipment, and vehicles	11,185
Land	49,221
Leased assets	11,732
Construction in progress	3,470
Other	7,062
Intangible fixed assets	9,575
Goodwill	2,324
Others	7,250
Investments and other assets	47,914
Investment securities	16,903
Long-term loans	501
Bad debts	214
Long-term prepaid expenses	3,252
Deferred tax assets	23,650
Others	4,333
Allowance for doubtful accounts	(941)
Deferred assets	327
Bond issuance cost	327
Total assets	291,790

CONSOLIDATED BALANCE SHEET (as of March 31, 2019) (Continued)

(millions of yen)

LIABILITIES	
Current liabilities	141,765
Electronically recorded obligations - operating	897
Accounts payable	4,037
Accounts payable for completed projects	4,715
Short-term borrowings	1,070
Current portion of long-term debt	2,768
Bonds due within one year	3,966
Lease obligations	5,320
Accounts payable—other	14,922
Accrued income taxes	798
Advances received	34,635
Customer advances for projects in progress	3,651
Reserve for warranty obligations on completed projects	347
Reserve for fulfillment of guarantees	1,138
Reserve for losses related to repairs	50,707
Reserve for apartment vacancy loss	8,826
Asset retirement obligations	44
Others	3,919
Non-current liabilities	68,687
Bonds	8,103
Long-term debt	18,318
Lease obligations	8,501
Long-term advances received	11,869
Lease/guarantee deposits received	6,599
Deferred tax liabilities	5
Reserve for apartment vacancy loss	3,902
Liability for retirement benefit	8,213
Asset retirement obligations	86
Others	3,086
Total liabilities	210,452
NET ASSETS	
Shareholders' equity	81,140
Common stock	75,282
Capital surplus	45,148
Retained earnings	(38,635)
Treasury stock	(655)
Accumulated other comprehensive income	(224)
Net unrealized gains on "other securities"	280
Foreign currency translation adjustments	(176)
Remeasurements of defined benefit plans	(327)
Share subscription rights	404
Non-controlling interests	17
Total net assets	81,338
Total liabilities and net assets	291,790

CONSOLIDATED STATEMENT OF OPERATIONS (from April 1, 2018 to March 31, 2019)

(millions of yen)

Net sales	505,223
Sales from Leasing Business	426,388
Sales from Development Business	58,992
Sales from Other Businesses	19,842
Cost of sales	428,988
Cost of sales from Leasing Business	363,651
Cost of sales from Development Business	44,597
Cost of sales from Other Businesses	20,739
Gross profit	76,235
Selling, general and administrative expenses	68,844
Operating profit	7,390
Other income	891
Interest income	113
Dividend income	172
Gain on valuation of investment securities	185
Foreign exchange gains	148
Equity in earnings of affiliated companies	1
Others	270
Other expenses	1,218
Interest expenses	748
Bond issuance cost	191
Others	278
Recurring profit	7,063
Extraordinary income	245
Gain on sale of property, plant and equipment	245
Extraordinary losses	72,148
Loss on sale of property, plant and equipment	0
Loss on retirement of property, plant and equipment	117
Impairment loss	7,560
Provision of reserve for losses related to repairs	50,707
Loss related to repairs	4,079
Provision of reserve for apartment vacancy loss	9,684
Loss before income taxes	(64,840)
Income taxes—current	756
Income taxes—deferred	3,124
Net loss	(68,720)
Net loss attributable to non-controlling interests	(58)
Net loss attributable to shareholders of the parent	(68,662)

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(from April 1, 2018 to March 31, 2019)

(millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2018	75,282	45,235	37,839	(430)	157,926
Change during period					
Dividends of surplus			(3,025)		(3,025)
Net loss attributable to shareholders of the parent			(68,662)		(68,662)
Acquisition of treasury stock				(5,012)	(5,012)
Retirement of treasury stock			(4,787)	4,787	-
Change in share of parent from transactions with non-controlling interests		(86)			(86)
Net change of items other than shareholders' equity					-
Total change during period	-	(86)	(76,474)	(225)	(76,786)
Balance as of March 31, 2019	75,282	45,148	(38,635)	(655)	81,140

(millions of yen)

	Accumulated other comprehensive income				Share subscription rights	Non-controlling interests	Total net assets
	Net unrealized gains on "other securities"	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance as of April 1, 2018	586	872	(341)	1,117	284	109	159,438
Change during period							
Dividends of surplus							(3,025)
Net loss attributable to shareholders of the parent							(68,662)
Acquisition of treasury stock							(5,012)
Retirement of treasury stock							-
Change in share of parent from transactions with non-controlling interests							(86)
Net change of items other than shareholders' equity	(306)	(1,049)	14	(1,342)	120	(92)	(1,313)
Total change during period	(306)	(1,049)	14	(1,342)	120	(92)	(78,100)
Balance as of March 31, 2019	280	(176)	(327)	(224)	404	17	81,338

Notes to Consolidated Financial Statements

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

(1) Scope of consolidation

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

Number of consolidated subsidiaries:	26
Principal consolidated subsidiaries:	Leopalace Leasing Corporation Plaza Guarantee CO., LTD. Leopalace Power Corporation Leopalace Energy Corporation Asuka SSI Enplus Inc. Leopalace Trust Co., Ltd. Leopalace21 Business Consulting (Shanghai) Co., Ltd. LEOPALACE21 VIETNAM CO., LTD. Leopalace21 (Thailand) CO., LTD. Leopalace21 (Cambodia) Co., Ltd. LEOPALACE21 PHILIPPINES INC. PT. Leopalace Duasatu Realty Leopalace21 Singapore Pte. Ltd. Life Living Co., Ltd. Morizou Co., Ltd. Azu Life Care Co., Ltd. Leopalace Guam Corporation WING MATE CO., LTD. Leopalace Smile Co., Ltd.

(b) Status of non-consolidated subsidiaries

Not applicable.

(2) Application of equity method

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

Non-consolidated subsidiaries accounted for by the equity method:	Not applicable.
Number of affiliates accounted for by the equity method:	1
Name of principal affiliate:	Woori & Leo PMC Co., Ltd.

(b) Names, etc. of non-consolidated subsidiaries and affiliates not accounted for by the equity method

Not applicable.

(c) Special note on the application of equity method

Although the fiscal year end of Woori & Leo PMC Co., Ltd. is different from the consolidated balance sheet date, the financial statements of the company as of its fiscal year end and for its 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 Group has included Leopalace Trust Co., Ltd. into the scope of consolidation effective from the fiscal year under review, due to its increased materiality.

(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 other 14 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.

In addition, among the consolidated subsidiaries, the former balance sheet date of Morizou Co., Ltd. was the end of February, and the financial statements as of the said date has been used, with adjustments made regarding significant transactions occurred between the end of February and the consolidated balance sheet date. However, the balance sheet date has been changed to March 31 effective from the fiscal year under review.

Due to this change, the 13 months between March 1, 2018 and March 31, 2019 has been consolidated and adjusted through the consolidated statement of operations for the fiscal year under review.

(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.

Contributions to limited investment partnerships, etc. are reported using the equity method, based on the latest financial statements available as at the closing dates stipulated by the respective partnership contracts.

Inventories

Real estate for sale and real estate for sale in progress

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

Payment for construction in progress

Primarily stated at cost determined based on the specific identification method

Raw materials and supplies

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

Derivatives

Stated at fair market value

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

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

Depreciated by the straight-line method

Useful lives of major assets are as follows:

Buildings and structures: 22–47 years

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

Depreciated by the declining-balance method

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

Useful lives of major assets are as follows:

Buildings and structures: 15–50 years

Machinery, equipment, and vehicles: 17 years

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

Property, plant and equipment of the overseas subsidiaries:

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

Useful lives of major assets are as follows:

Buildings and structures: 20–40 years

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

Intangible fixed assets (except for leased assets):

Amortized by the straight-line method

Useful lives of major assets are as follows:

Software for internal use: 5 years

Leased assets:

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

Long-term prepaid expenses:

Evenly amortized mainly over the following period

Prepaid master-lease rents: 3–5 years

(c) Provision of significant allowance and provisions

Allowance for doubtful accounts

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

Reserve for warranty obligations on completed projects

With regard to the development business, reserve for warranty obligations on completed projects is provided to reserve for the Company's compensation expenses regarding its execution of warranty

obligations under defect liabilities in the future pertaining to completed projects. It is calculated using the percentage of the past execution of warranty obligations on the completed projects.

Reserve for fulfillment of guarantees

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

Reserve for losses related to repairs

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

Reserve for apartment vacancy loss

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

Additional Information

Previously, the full amount of reserve for apartment vacancy loss was recorded as non-current liabilities because the amount used within one year could not be calculated accurately. However, of the reserve recorded in the fiscal year under review, the portion affected by the problem concerning construction defects can certainly be expected to be used within one year, and therefore it has been recorded as current liabilities.

In addition, a provision of reserve for apartment vacancy loss was previously included in cost of sales from leasing business. In the fiscal year under review, however, a decrease in occupancy rates followed by a large amount of loss is expected from suspending tenant recruitment due to the problem concerning construction defects, and other factors. This loss is transient and large, and will not occur in ordinary business activities, and therefore has been recorded in extraordinary losses as a provision of reserve for apartment vacancy loss.

(d) Recognition of significant revenues and costs

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

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

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

(ii) Other construction contracts

Completed-contract method

(e) 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.

(f) Significant hedge accounting

(i) Method of hedge accounting

For interest rate swaps, exceptional treatment is applied since the swaps satisfy the requirements for exceptional treatment.

(ii) Hedging instruments and hedged items

Hedging instruments: Interest rate swaps

Hedged item: Borrowings

(iii) Hedging policy

For the purpose of avoiding future market interest rate rising risks, the Group implements hedging within the scope of liabilities to be hedged.

(iv) Method of assessing hedge effectiveness

An assessment of hedge effectiveness as of the consolidated balance sheet date is not provided because the interest rate swaps satisfy the requirements for exceptional treatment.

(g) Amortization and amortization period of goodwill

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

(h) Other important matters for preparing consolidated financial statements

Recognition of liability for retirement benefit

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

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

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

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

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

Accounting for national and local consumption taxes

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

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

Interest capitalization

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

Capitalized interests included in carrying amount of property, plant and equipment of Leopalace Guam Corporation were 329 million yen as of March 31, 2019.

2. Changes in Presentation

Application of “Partial Amendments to ‘Accounting Standard for Tax Effect Accounting,’ etc.”

The Company has applied “Partial Amendments to ‘Accounting Standard for Tax Effect Accounting,’ etc.” (ASBJ Statement No. 28, February 16, 2018) as of the beginning of the fiscal year under review. Deferred tax assets are recorded under investments and other assets and deferred tax liabilities are recorded under non-current liabilities.

3. Notes to Consolidated Balance Sheet

(1) Assets pledged as collateral and secured liabilities

(a) Assets pledged as collateral

Cash and cash equivalents	105 million yen
Buildings and structures	63 million yen
Machinery, equipment, and vehicles	113 million yen
Others (Intangible fixed assets)	767 million yen
Investment securities	55 million yen
Others (Investments and other assets)	116 million yen
Total	1,221 million yen

(b) Secured liabilities

Long-term debt	714 million yen
Current portion of long-term debt	79 million yen

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

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

Deposit for housing construction warranty	1,122 million yen
Advanced payment certificate in accordance with Payment and Settlement Regulations	628 million yen
Deposit for operation stipulated in Building Lots and Buildings Transaction Business Act	136 million yen
Deposit for operation stipulated in Insurance Business Act	120 million yen
Deposit for housing defect warranty	109 million yen
Deposit for operation stipulated in Trust Business Act	25 million yen
Others	4 million yen

(2) Accumulated depreciation of property, plant and equipment 87,187 million yen

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

Machinery, equipment, and vehicles	155 million yen
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(4) Liabilities on guarantee

Liabilities on guarantee for financial institutions for customers who have a housing loan	505 million yen
Liabilities on guarantee for financial institutions for customers who have a membership loan	3 million yen

(5) Contingent Liabilities

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

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

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

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

Under the leadership of the Emergency Headquarters for Construction Defects launched in June 2018 with President and CEO as Chief of Headquarters, the Company is currently pursuing the investigation of all buildings of properties constructed by the Company. For properties in which defects have been confirmed through the investigation, the Company has been implementing repair works sequentially while making arrangements with occupants and owners.

With regard to the progress in repair works, the repair works for the Nail series have been nearly completed and tenant recruitment has been resumed. For the Six series, in accordance with the instruction of the Ministry of Land, Infrastructure and Transport that repair works on all the buildings should be completed before this summer, the Company continues to exert its fullest efforts to complete the works. For the apartment series other than the properties subject to top priority investigations, the Company sequentially proceeds with investigations after the end of the investigations of the properties subject to top priority investigations comes in sight. The repairing method and repair works will be decided and implemented through consultations with owners and specific administrative agencies.

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

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

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

4. Notes to Consolidated Statement of Changes in Net Assets

(1) Number of issued shares

Class of shares	April 1, 2018	Increase	Decrease	March 31, 2019
Common stock	252,682,515 shares	–	7,800,000 shares	244,882,515 shares

Note: The decrease of 7,800 thousand shares in the number of shares of common stock issued is due to the retirement of treasury stock by resolution of the Board of Directors.

(2) Number of shares of treasury stock

Class of shares	April 1, 2018	Increase	Decrease	March 31, 2019
Common stock	567,420 shares	8,300,090 shares	7,800,000 shares	1,067,510 shares

Notes: 1. The increase of 8,300 thousand shares in the number of treasury shares of common stock is the result of an increase of 8,300 thousand shares due to the acquisition of treasury stock by resolution of the Board of Directors and an increase of 0 thousand shares due to the purchase of fractional shares.

2. The decrease of 7,800 thousand shares in the number of treasury shares of common stock is the result of the retirement of treasury stock by resolution of the Board of Directors.

(3) Dividends of surplus

(a) Cash dividends paid

Resolution	Class of shares	Total amount of dividends (millions of yen)	Source of dividends	Dividends per share (yen)	Record date	Effective date
Ordinary General Shareholders' Meeting held on June 28, 2018	Common stock	3,025	Retained earnings	12	March 31, 2018	June 29, 2018

(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, 2019

	Share subscription rights as stock options
Class of shares subject to share subscription rights	Common stock
Number of shares subject to share subscription rights	898,950 shares
Unexercised share subscription rights	404 million yen

5. Financial Instruments

(1) Status of financial instruments

(a) Policy for financial instruments

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

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

(b) Nature of financial instruments and risks arising therefrom

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

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

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

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

Borrowings, bonds, and lease obligations related to finance lease transactions are mainly for the purpose of raising funds necessary for investment in facilities, and the longest repayment date is 13 years subsequent to fiscal year end.

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

(c) Risk management for financial instruments

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

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

The basic policy on derivatives trading is determined by the Board of Directors, and the execution and administration of derivatives transactions are conducted in accordance with the Company's "Derivatives Trading Management Rules." The derivatives trading management situation is periodically reported to the Board of Directors for comprehensive risk management. The Company believes that it has little credit risk associated with nonfulfillment of contracts by counterparties because it enters into derivative contracts only with domestic financial institutions with high credit ratings.

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

(d) Supplementary explanations on fair value of financial instruments

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

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

(2) Fair value of financial instruments

The carrying amount on the consolidated balance sheet and fair value of financial instruments as of March 31, 2019 as well as the differences between these values are described below. Financial instruments whose fair values appear to be extremely difficult to determine are not included in the table.

(millions of yen)

	Carrying amount	Fair value	Difference
(1) Cash and cash equivalents	84,536	84,536	–
(2) Trade receivables and accounts receivable for completed projects	8,617	8,617	–
(3) Securities and investment securities			
(a) Held-to-maturity debt securities	1,309	1,325	16
(b) Other securities	2,208	2,208	–
(4) Operating loans	256		
Allowance for doubtful accounts (*1)	(27)		
Net	229	269	39
(5) Long-term loans	501		
Allowance for doubtful accounts (*1)	(91)		
Net	409	409	–
(6) Bad debts	214		
Allowance for doubtful accounts (*1)	(214)		
Net	–	–	–
Total assets	97,311	97,367	55
(1) Electronically recorded obligations - operating	897	897	–
(2) Accounts payable and accounts payable for completed projects	8,752	8,752	–
(3) Short-term borrowings	1,070	1,070	–
(4) Bonds (*2)	12,069	12,102	33
(5) Long-term debt (*2)	21,086	21,309	222
(6) Lease obligations	13,821	13,669	(152)
Total liabilities	57,697	57,801	103

(*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, 2019, bonds due within one year of 3,966 million yen and current portion of long-term debt of 2,768 million yen are included in bonds and long-term debt, respectively.

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

Assets

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

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

(3) Securities and investment securities

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

Information on securities by holding purpose is shown below.

(a) Held-to-maturity debt securities

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

(millions of yen)

	Type	Carrying amount	Fair value	Difference
Debt securities whose fair value exceeds their carrying amount	(1) Government and municipal bonds	1,309	1,325	16
	(2) Corporate bonds	–	–	–
	(3) Others	–	–	–
	Subtotal	1,309	1,325	16
Debt securities whose carrying amount exceeds their fair value	(1) Government and municipal bonds	–	–	–
	(2) Corporate bonds	–	–	–
	(3) Others	–	–	–
	Subtotal	–	–	–
Total		1,309	1,325	16

(b) Other securities

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

(millions of yen)

	Type	Carrying amount	Acquisition cost	Difference
Securities whose carrying amount exceeds their acquisition cost	(1) Stock	862	460	402
	(2) Bonds			
	(a) Government and municipal bonds	965	959	6
	(b) Corporate bonds	—	—	—
	(c) Others	—	—	—
	(3) Others	—	—	—
	Subtotal	1,827	1,419	408
Securities whose acquisition cost exceeds their carrying amount	(1) Stock	342	347	(4)
	(2) Bonds			
	(a) Government and municipal bonds	38	38	(0)
	(b) Corporate bonds	—	—	—
	(c) Others	—	—	—
	(3) Others	—	—	—
	Subtotal	380	385	(4)
	Total	2,208	1,804	403

(4) Operating loans

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

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

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

Liabilities

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

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

(4) Bonds

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

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

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

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

(millions of yen)

Item	Carrying amount
Other securities	
(1) Unlisted shares	4,510
(2) Shares of affiliates	70
(3) Unlisted bonds (corporate bonds and subordinate corporate bonds)	6,424
(4) Others	
Subordinate beneficiary rights of loans and accounts receivable in trust	870
Contributions to limited investment partnerships	2,764
Total	14,640

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

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

(millions of yen)

	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	84,536	–	–	–
Trade receivables and accounts receivable for completed projects	8,617	–	–	–
Securities and investment securities				
Held-to-maturity debt securities	400	400	500	–
Other securities with maturities	852	5,750	–	1,695
Operating loans	109	104	26	16
Long-term loans	11	23	16	451
Bad debts	–	–	–	214
Total	94,526	6,277	542	2,377

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

(millions of yen)

	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Short-term borrowings	1,070	–	–	–
Bonds	3,966	8,103	–	–
Long-term debt	2,768	9,135	6,748	2,433
Lease obligations	5,320	8,501	–	–
Total	13,124	25,740	6,748	2,433

6. Rental Properties

The Company possesses rental apartments in major cities and regions throughout Japan. Also, some of consolidated subsidiaries possess rental housing and buildings for rent, and possess serviced apartments. For the fiscal year ended March 31, 2019, income arising from these rental properties was 1,902 million yen, and impairment loss was 7,560 million yen.

Also, the changes in the carrying amount on the consolidated balance sheet of rental properties during the fiscal year under review, and the fair value as of March 31, 2019 were as follows:

(millions of yen)

Carrying amount			Fair value as of March 31, 2019
Balance as of April 1, 2018	Increase/decrease	Balance as of March 31, 2019	
44,769	(17,732)	27,036	33,760

- 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 9,556 million yen and impairment loss of 7,560 million yen.
 3. Fair value as of the end of the fiscal year under review is calculated by the Company mainly based on “Real-estate appraisal standards.”

7. Per Share Information

Net assets per share	331.87 yen
Basic loss per share	(278.58) yen

8. Events after the Reporting Period

Not applicable.

9. Other Notes

Business Combination

Transaction under Common Control

Additional purchase of shares of subsidiaries

1. Overview of transaction

(1) Names and business activities of the companies involved

Names of the company involved: Enplus Inc.

Business activities: Relocation management business

(2) Date of business combination

March 28, 2019

(3) Legal form of business combination

Additional purchase of shares from non-controlling shareholders

(4) Name of company after business combination

No change.

(5) Other matters related to the overview of transaction

The percentage of voting rights of additionally purchased shares is 31.6%, and the percentage of voting rights held by the Company became 98.3% as a result of this transaction. The additional purchase was made by the Company to accept purchase of shares from non-controlling shareholders in an effort to speed up making-decision and accelerate generation of synergy by enhancing the control over the company.

2. Overview of accounting treatment adopted

The transaction was accounted for as a transaction with non-controlling shareholders within the transactions under common control, etc., in accordance with the “Accounting Standard for Business Combinations” and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures.”

3. Matters related to additional purchase of shares of subsidiaries

Acquisition cost of the acquired company and components thereof

Consideration for acquisition	Cash and cash equivalents	112 million yen
Acquisition cost		112 million yen

4. Matters related to changes in the Company’s ownership interest of subsidiaries due to transactions with non-controlling shareholders

(1) Major factor of change in capital surplus

Additional purchase of shares of subsidiaries

(2) Amount of capital surplus decreased by transactions with non-controlling shareholders

86 million yen

NON-CONSOLIDATED FINANCIAL STATEMENTS

NON-CONSOLIDATED BALANCE SHEET (as of March 31, 2019)

(millions of yen)

ASSETS	
Current assets	77,206
Cash and cash equivalents	53,537
Trade receivables	5,505
Accounts receivable for completed projects	1,626
Operating loans	256
Securities	853
Real estate for sale	247
Real estate for sale in progress	2,874
Payment for construction in progress	667
Supplies	427
Prepaid expenses	2,710
Other accounts receivable	963
Deposits paid	2,069
Short-term loans receivable from subsidiaries and affiliates	4,948
Others	646
Allowance for doubtful accounts	(126)
Non-current assets	183,166
Property, plant and equipment	80,740
Buildings	20,283
Structures	254
Machinery and equipment	145
Tools, furniture and fixtures	768
Land	40,047
Leased assets	17,411
Construction in progress	1,829
Intangible fixed assets	5,894
Investments and other assets	96,531
Investment securities	15,450
Stocks of subsidiaries and affiliates	49,114
Long-term loans	498
Long-term loans receivable from subsidiaries and affiliates	4,926
Bad debts	214
Long-term prepaid expenses	2,822
Deferred tax assets	21,420
Others	3,414
Allowance for doubtful accounts	(1,332)
Deferred assets	327
Bond issuance cost	327
Total assets	260,700

NON-CONSOLIDATED BALANCE SHEET (as of March 31, 2019) *(Continued)*

(millions of yen)

LIABILITIES	
Current liabilities	133,056
Electronically recorded obligations - operating	897
Accounts payable	2,830
Accounts payable for completed projects	4,400
Current portion of long-term debt	100
Bonds due within one year	3,966
Lease obligations	6,586
Accounts payable—other	14,025
Accrued income taxes	487
Advances received	32,864
Customer advances for projects in progress	3,340
Deposits received	3,540
Reserve for warranty obligations on completed projects	289
Reserve for losses related to repairs	50,707
Reserve for apartment vacancy loss	8,826
Others	192
Non-current liabilities	50,999
Bonds	8,103
Lease obligations	12,875
Long-term advances received	11,868
Lease/guarantee deposits received	6,570
Retirement benefit reserves	7,638
Reserve for apartment vacancy loss	3,902
Others	40
Total liabilities	184,055
NET ASSETS	
Shareholders' equity	75,959
Common stock	75,282
Capital surplus	45,235
Legal capital surplus	45,235
Retained earnings	(43,902)
Other retained earnings	(43,902)
Retained earnings brought forward	(43,902)
Treasury stock	(655)
Valuation and translation adjustments	280
Net unrealized gains on “other securities”	280
Share subscription rights	404
Total net assets	76,644
Total liabilities and net assets	260,700

NON-CONSOLIDATED STATEMENT OF OPERATIONS(from April 1, 2018 to March 31, 2019)

(millions of yen)

Net sales	477,834
Sales from Leasing Business	418,374
Sales from Development Business	46,138
Sales from Other Businesses	13,321
Cost of sales	405,787
Cost of sales from Leasing Business	360,053
Cost of sales from Development Business	34,363
Cost of sales from Other Businesses	11,369
Gross profit	72,046
Selling, general and administrative expenses	66,484
Operating profit	5,561
Other income	2,220
Interest and dividend income	1,458
Foreign exchange gains	171
Others	590
Other expenses	964
Interest expenses	600
Others	364
Recurring profit	6,817
Extraordinary income	242
Gain on sale of property, plant and equipment	242
Extraordinary losses	72,948
Loss on sale of property, plant and equipment	0
Loss on retirement of property, plant and equipment	80
Impairment loss	7,560
Provision of reserve for losses related to repairs	50,707
Loss related to repairs	4,094
Provision of reserve for apartment vacancy loss	9,684
Provision of allowance for doubtful accounts	516
Loss on valuation of shares of subsidiaries	305
Loss before income taxes	(65,888)
Income taxes—current	221
Income taxes—deferred	2,644
Net loss	(68,754)

NON-CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(from April 1, 2018 to March 31, 2019)

(millions of yen)

	Shareholders' equity						
	Common stock	Capital surplus		Retained earnings		Treasury stock	Total shareholders' equity
		Legal capital surplus	Total capital surplus	Other retained earnings	Total retained earnings		
Balance as of April 1, 2018	75,282	45,235	45,235	32,664	32,664	(430)	152,752
Change during period							
Dividends of surplus				(3,025)	(3,025)		(3,025)
Net loss				(68,754)	(68,754)		(68,754)
Acquisition of treasury stock						(5,012)	(5,012)
Retirement of treasury stock				(4,787)	(4,787)	4,787	–
Net change of items other than shareholders' equity							
Total change during period	–	–	–	(76,567)	(76,567)	(225)	(76,792)
Balance as of March 31, 2019	75,282	45,235	45,235	(43,902)	(43,902)	(655)	75,959

(millions of yen)

	Valuation and translation adjustments		Share subscription rights	Total net assets
	Net unrealized gains on "other securities"	Total valuation and translation adjustments		
Balance as of April 1, 2018	586	586	284	153,623
Change during period				
Dividends of surplus				(3,025)
Net loss				(68,754)
Acquisition of treasury stock				(5,012)
Retirement of treasury stock				–
Net change of items other than shareholders' equity	(306)	(306)	120	(186)
Total change during period	(306)	(306)	120	(76,979)
Balance as of March 31, 2019	280	280	404	76,644

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.

Contributions to limited investment 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 based on the specific identification method (figures on the balance sheet are determined based on the method of writing down the book value in accordance with the declining in profitability of assets)

Payment for construction in progress

Primarily stated at cost determined based on the specific identification method

Supplies

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

(2) Depreciation and amortization of non-current assets

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

Depreciated by the straight-line method

Useful lives of major assets are as follows:

Buildings: 22–47 years

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

Depreciated by the declining-balance method

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

Useful lives of major assets are as follows:

Buildings: 15–50 years

Tools, furniture and fixtures: 5–10 years

Intangible fixed assets (except for leased assets):

Amortized by the straight-line method

Useful lives of major assets are as follows:

Software for internal use: 5 years

Leased assets:

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

Long-term prepaid expenses:

Evenly amortized mainly over the following period

Prepaid master-lease rents: 3–5 years

(3) Accounting for deferred assets

Bond issuance cost

Evenly amortized over the redemption period

(4) Provision of allowance and provisions

Allowance for doubtful accounts

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

Reserve for warranty obligations on completed projects

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

Retirement benefit reserves

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

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

Reserve for losses related to repairs

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

Reserve for apartment vacancy loss

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

Additional Information

Previously, the full amount of reserve for apartment vacancy loss was recorded as non-current liabilities because the amount used within one year could not be calculated accurately. However, of the reserve recorded in the fiscal year under review, the portion affected by the problem concerning construction defects can certainly be expected to be used within one year, and therefore it has been recorded as current liabilities.

In addition, a provision of reserve for apartment vacancy loss was previously included in cost of sales from leasing business. In the fiscal year under review, however, a decrease in occupancy rates followed by a large amount of loss is expected from suspending tenant recruitment due to the problem concerning construction

defects, and other factors. This loss is transient and large, and will not occur in ordinary business activities, and therefore has been recorded in extraordinary losses as a provision of reserve for apartment vacancy loss.

(5) Recognition of significant 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 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 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.

2. Changes in Presentation

Application of “Partial Amendments to ‘Accounting Standard for Tax Effect Accounting,’ etc.”

The Company has applied “Partial Amendments to ‘Accounting Standard for Tax Effect Accounting,’ etc.” (ASBJ Statement No. 28, February 16, 2018) as of the beginning of the fiscal year under review. Deferred tax assets are recorded under investments and other assets and deferred tax liabilities are recorded under non-current liabilities.

3. Notes to Non-consolidated Balance Sheet

(1) Assets pledged as collateral and secured liabilities

(a) Assets pledged as collateral

Cash and cash equivalents	105 million yen
Investment securities	55 million yen
Total	160 million yen

(b) Secured liabilities

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

(c) Securities, investment securities and others (investments and other assets) which have been deposited with the Legal Affairs Bureau, etc.	
Deposit for housing construction warranty	1,122 million yen
Advanced payment certificate in accordance with Payment and Settlement Regulations	628 million yen
Deposit for housing defect warranty	109 million yen
Deposit for operation stipulated in Building Lots and Buildings Transaction Business Act	63 million yen
Others	4 million yen
(2) Accumulated depreciation of property, plant and equipment	54,437 million yen
(3) Liabilities on guarantee	
Liabilities on guarantee for financial institutions for customers who have a housing loan	505 million yen
Liabilities on guarantee for financial institutions for customers who have a membership loan	3 million yen
Liabilities on guarantee for borrowings of subsidiaries	21,229 million yen
Liabilities on guarantee for suppliers of subsidiaries	7 million yen
Liabilities on guarantee for lease contracts of subsidiaries	1 million yen

(4) Contingent Liabilities

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

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

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

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

conform to the specifications prescribed by law.

Under the leadership of the Emergency Headquarters for Construction Defects launched in June 2018 with President and CEO as Chief of Headquarters, the Company is currently pursuing the investigation of all buildings of properties constructed by the Company. For properties in which defects have been confirmed through the investigation, the Company has been implementing repair works sequentially while making arrangements with occupants and owners.

With regard to the progress in repair works, the repair works for the Nail series have been nearly completed and tenant recruitment has been resumed. For the Six series, in accordance with the instruction of the Ministry of Land, Infrastructure and Transport that repair works on all the buildings should be completed before this summer, the Company continues to exert its fullest efforts to complete the works. For the apartment series other than the properties subject to top priority investigations, the Company sequentially proceeds with investigations after the end of the investigations of the properties subject to top priority investigations comes in sight. The repairing method and repair works will be decided and implemented through consultations with owners and specific administrative agencies.

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

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

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

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

Short-term monetary claims	437 million yen
Short-term monetary liabilities	2,214 million yen
Long-term monetary liabilities	4,582 million yen

4. Notes to Non-consolidated Statement of Operations

Transactions with subsidiaries and affiliates

Sales to subsidiaries and affiliates	4,188 million yen
Purchases, etc. from subsidiaries and affiliates	5,044 million yen
Non-operating transactions	763 million yen

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

Number of shares of treasury stock

Class of shares	April 1, 2018	Increase	Decrease	March 31, 2019
Common stock	567,420 shares	8,300,090 shares	7,800,000 shares	1,067,510 shares

- Notes:
1. The increase of 8,300 thousand shares in the number of treasury shares of common stock is the result of an increase of 8,300 thousand shares due to the acquisition of treasury stock by resolution of the Board of Directors and an increase of 0 thousand shares due to the purchase of fractional shares.
 2. The decrease of 7,800 thousand shares in the number of treasury shares of common stock is due to the retirement of treasury stock by resolution of the Board of Directors.

6. Tax Effect Accounting

Significant components of deferred tax assets and liabilities

(millions of yen)

Deferred tax assets:

Loss carried forward for tax purposes	22,048
Reserve for losses related to repairs	15,526
Retirement benefit reserves	3,918
Reserve for apartment vacancy loss	3,897
Impairment loss	1,768
Loss on devaluation of stock of shares of subsidiaries and affiliates	1,169
Bonuses payable	733
Software	463
Allowance for doubtful accounts	446
Advances from customers for rent income	253
Deposits received	239
Loss on devaluation of real estate for sale	188
Asset retirement obligations	122
Accounts payable—other	110
Reserve for warranty obligations on completed projects	88
Accrued enterprise tax	81
Loss on devaluation of property, plant and equipment	57
Sales promotion cost	55
Others	498
Sub-total	51,670
Valuation allowance for losses carried forward for tax purposes	(12,274)
Valuation allowance for total deductible temporary difference, etc.	(17,831)
Sub-total	(30,105)
Total deferred tax assets	21,565

Deferred tax liabilities:

Fixed asset retirement expenses	(5)
Adjustment of gain/loss on transfer (buildings)	(16)
Net unrealized gain on other securities	(123)
Total deferred tax liabilities	(144)
Net deferred tax assets	21,420

7. Related Party Transactions

(1) Affiliates, etc.

(millions of yen)

Attribute	Name	Percentage of share ownership	Relation	Transaction	Transaction amount	Account	Balance as of March 31, 2019
Subsidiary	Leopalace Power Corporation	Direct 100.0%	Maintenance and management of solar power systems, etc.	Guarantee against loans	15,414	—	—
Subsidiary	Leopalace Leasing Corporation	Direct 100.0%	Leasing of fixtures equipped with company-managed properties, etc.	Guarantee against loans	5,815	—	—

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

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

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

(2) Directors and major individual shareholders

(millions of yen)

Attribute	Name	Percentage of share ownership	Relation	Transaction	Transaction amount	Account	Balance as of March 31, 2019
Close relative of director	Kei Ishida	—	Real estate brokerage, etc.	Rental brokerage commissions	17	—	0
Close relative of director	Toshiko Miyoshi	—	Leasing of land and buildings	Leasing of apartments	26	—	—

Notes: 1. Kei Ishida is a close relative of Eisei Miyama, President and CEO of the Company.

2. Toshiko Miyoshi is a close relative of Tadahiro Miyama, Director of the Company.

3. Transaction conditions and policies to decide transaction conditions

Prices and other conditions for real estate brokerage, etc., and leasing of land and buildings are the same as for transactions with third parties.

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

8. Per Share Information

Net assets per share	312.69 yen
Basic loss per share	(278.95) yen

9. Events after the Reporting Period

Not applicable.

10. Matters Regarding Company Subject to Consolidated Dividend Regulations

Not applicable.