

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 8, 2017

To Our Shareholders

Eisei Miyama
President and CEO
Leopalace21 Corporation
2-54-11 Honcho, Nakano-ku, Tokyo

Notice of the 44th Ordinary General Shareholders' Meeting

You are cordially invited to attend the 44th 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 28, 2017.

[Exercising your voting rights in writing]

Please refer to pages 3 to 17 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 (<http://www.evot.jp/>), which is designated by the Company. Enter the "Login ID" and "Temporary Password" noted on the enclosed Voting Rights Exercise Form, refer to pages 3 to 17 of the Reference Materials for the General Shareholders' Meeting or reference materials on 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, the voting via the Internet shall prevail.

Details

1. **Date and Time:** June 29, 2017 (Thursday), 10:00 a.m. (Reception will open at 9:00 a.m.)
2. **Place:** Leopalace21 Corporation, Head Office,
Event Hall on B1 floor
2-54-11 Honcho, Nakano-ku, Tokyo
3. **Agenda for the Meeting**
Matters to be reported:
 1. Report on the Business Report, Consolidated Financial Statements, and Results of Audit of the Consolidated Financial Statements by the Accounting Auditor and the Audit & Supervisory Board for the 44th Fiscal Term (from April 1, 2016 to March 31, 2017)
 2. Report on Non-consolidated Financial Statements for the 44th Fiscal Term (from April 1, 2016 to March 31, 2017)

Matters to be resolved:

- Proposal No. 1:** Appropriation of Surplus
- Proposal No. 2:** Amendment to the Articles of Incorporation
- Proposal No. 3:** Appointment of Eleven (11) Directors
- Proposal No. 4:** Appointment of One (1) Audit & Supervisory Board Member
- Proposal No. 5:** Revision of Remuneration Amount for Directors
- Proposal No. 6:** Revision of Remuneration Concerning Stock Options as Stock-Based Remuneration to Directors

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).

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.

<http://eg.leopalace21.com/ir/>

On the day of the General Shareholders' Meeting, officers and staff of the Company will be dressed "cool-biz" style, or in suits without neckties, in order to contribute to electricity savings with respect to air-conditioning. 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: Appropriation of Surplus

In conjunction with distributing to shareholders the profits created through operating activities in the form of cash dividends, the Company's basic policy is to invest for future growth in areas such as real estate, overseas businesses, mergers and acquisitions, IT and research and development in order to maximize mid- to long-term corporate value, thus enhancing shareholder value by raising earnings per share (EPS) and providing stable dividends to shareholders.

Based on the above-mentioned policy, in light of such factors as business performance during the fiscal term under review and future business development, it is proposed that the distribution of year-end dividends for the fiscal term under review be as follows.

Matters concerning year-end dividends

(1) Form of dividend

Cash

(2) Allotment of dividends assets and total amount of dividends

12 yen per common share of the Company

The total payment of year-end dividends shall amount to 3,154,487,940 yen.

(3) Effective date of payment for dividends of surplus

June 30, 2017

Proposal No. 2: Amendment to the Articles of Incorporation

1. Rationale for amendment

- (1) The Company would like to add new business purposes in the provision of Article 2 (Purpose) of the existing Articles of Incorporation to expand and diversify business.
- (2) In line with the above-mentioned amendments, the item numbers of the Article are appropriately adjusted.

2. Details of amendment

Details of the amendment are as follows:

(Proposed amendments are underlined)

Existing Articles of Incorporation	Proposed Amendment
Chapter 1 General Provisions	Chapter 1 General Provisions
Article 1. <Omitted> (Purpose)	Article 1. <As per the existent articles> (Purpose)
Article 2. 1.–30. <Omitted>	Article 2. 1.–30. <As per the existent articles>
<u><Newly established></u>	<u>31. Education business for human resource development related to nursing care</u>
<u><Newly established></u>	<u>32. Fee-charging employment placement business</u>
<u><Newly established></u>	<u>33. Worker dispatching business</u>
<u>31.</u> Purchase, sales and rental service of used equipment, such as beds and wheelchairs	<u>34.</u> <As per the existent articles>
<u>32.</u> Dealer in secondhand articles	<u>35.</u> <As per the existent articles>
<u>33.</u> Transportation agency business	<u>36.</u> <As per the existent articles>
<u>34.</u> Any and all businesses relating to the foregoing items	<u>37.</u> <As per the existent articles>
Articles 3.–42. <Omitted>	Articles 3.–42. <As per the existent articles>

Proposal No. 3: Appointment of Eleven (11) Directors

The term of office of all eleven (11) Directors will expire at the conclusion of this Ordinary General Shareholders’ Meeting. Accordingly, it is proposed that eleven (11) Directors (of which three (3) 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 Eisei Miyama (November 13, 1957)	October 1977 Joined Leopalace21 Corporation April 1990 General Manager of the 3rd Sales Department, Leopalace21 Corporation June 1990 Director, Leopalace21 Corporation January 1996 Executive Director of Management, Leopalace21 Corporation November 1996 General Manager of the Leasing Business Headquarters, Leopalace21 Corporation April 2003 Senior Managing Director, Leopalace21 Corporation April 2008 Deputy General Manager of the Sales Headquarters, Leopalace21 Corporation General Manager of the Elderly Care Business Headquarters, Leopalace21 Corporation General Manager of the Hotel Business Headquarters, Leopalace21 Corporation April 2009 Senior Managing Director and Senior Executive Officer, Leopalace21 Corporation General Manager of the Management Planning Headquarters, Leopalace21 Corporation December 2009 Vice President and Representative Director, Leopalace21 Corporation General Manager of the 1st Sales Department, Leasing Business Division, Leopalace21 Corporation February 2010 President and CEO, Leopalace21 Corporation (incumbent) General Manager of the Marketing and Sales Headquarters, Leopalace21 Corporation June 2010 President and CEO, Leopalace21 Corporation (incumbent) Significant concurrent positions Director, Leopalace Guam Corporation	137,300 shares
<p>Reason for nomination as a candidate for Director</p> <p>Mr. Eisei Miyama is fulfilling an appropriate role as Director by taking important management decisions and supervising business execution. Moreover, as President and CEO, he demonstrates strong leadership and decisiveness based on his abundant experience in guiding the execution of the Company’s business, such as the formulation of the Leopalace21 Group’s Medium-term Management Plan.</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 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	Reappointment Tadahiro Miyama (January 21, 1966)	September 1985 Joined Leopalace21 Corporation October 2002 General Manager of the Sales and Marketing General Headquarters, Leopalace21 Corporation June 2003 Director, Leopalace21 Corporation Deputy General Manager of the Sales and Marketing General Headquarters, Leopalace21 Corporation October 2006 Director and Managing Executive Officer, Leopalace21 Corporation General Manager of the Subcontracting Business Headquarters, Leopalace21 Corporation May 2007 Executive Director of Management, Leopalace21 Corporation April 2009 Executive Director of Management and Managing Executive Officer, Leopalace21 Corporation General Manager of the Sales and Marketing General Headquarters, Leopalace21 Corporation General Manager of the Subcontracting Business Department, Leopalace21 Corporation General Manager of the Subcontracting Sales Department, Leopalace21 Corporation May 2011 Director and Senior Executive Officer, Leopalace21 Corporation General Manager of the Marketing and Sales Headquarters, Leopalace21 Corporation (incumbent) General Manager of the Leasing Business Division, Leopalace21 Corporation April 2012 General Manager of the Apartment Construction Subcontracting Business Division, Leopalace21 Corporation April 2014 Director and Senior Vice President, Leopalace21 Corporation (incumbent) General Manager of the Corporate Business Promotion Headquarters, Leopalace21 Corporation (incumbent) July 2015 General Manager of the Apartment Construction Subcontracting Business Division, Leopalace21 Corporation April 2016 General Manager of the Leasing Business Division, Leopalace21 Corporation Significant concurrent positions Director, Leopalace Leasing Corporation Director, Plaza Guarantee CO., LTD. Director, Asuka SSI Director, Azu Life Care Co., Ltd. Director, Life Living Co., Ltd. Director, Leopalace Guam Corporation Director, Leopalace21 Business Consulting (Shanghai) Co., Ltd. Director, Leopalace21 (Thailand) CO., LTD. Director, LEOPALACE21 VIETNAM CO., LTD. Director, Leopalace21 (Cambodia) Co., Ltd. Director, LEOPALACE21 PHILIPPINES INC. Director, LEOPALACE21 REAL ESTATE (CAMBODIA) Co., Ltd.	15,100 shares
<p>Reason for nomination as a candidate for Director</p> <p>Mr. Tadahiro Miyama is fulfilling an appropriate role as Director by taking important management decisions and supervising business execution. Moreover, as Senior Vice President, he is actively involved in business execution, planning the Company's global strategy and controlling the marketing and sales and other departments.</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 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	Reappointment Yuzuru Sekiya (September 1, 1957)	April 1980	Joined The Sumitomo Bank, Limited (now Sumitomo Mitsui Banking Corporation)	12,800 shares
	April 2004	Manager of Tokyo Credit Business Dept. IV, Sumitomo Mitsui Banking Corporation		
	June 2005	General Manager of Kitakyushu Corporate Business Office, Sumitomo Mitsui Banking Corporation		
	April 2008	Head of Credit Monitoring Dept. of Credit Dept. I, Middle Market Banking Unit, Sumitomo Mitsui Banking Corporation		
	April 2010	Joined Leopalace21 Corporation on loan Executive Officer, Leopalace21 Corporation Deputy General Manager of the Management Headquarters, Leopalace21 Corporation		
	June 2010	Director and Executive Officer, Leopalace21 Corporation		
	May 2011	Deputy General Manager of the Business Management Headquarters, Leopalace21 Corporation		
	April 2012	Director and Managing Executive Officer, Leopalace21 Corporation General Manager of the Business Management Headquarters, Leopalace21 Corporation		
	April 2013	General Manager of the General Planning Headquarters, Leopalace21 Corporation Deputy General Manager of the Business Management Headquarters, Leopalace21 Corporation		
	April 2014	Director and Senior Executive Officer, Leopalace21 Corporation (incumbent) General Manager of the Management Planning Headquarters, Leopalace21 Corporation (incumbent)		
April 2015	General Manager of the Hotel and Resort Business Division, Leopalace21 Corporation			
	Significant concurrent positions Director, Leopalace Guam Corporation			
<p>Reason for nomination as a candidate for Director</p> <p>Mr. Yuzuru Sekiya is fulfilling an appropriate role as Director by taking important management decisions and supervising business execution. Moreover, as Senior Executive Officer, he is actively involved in business execution, controlling the management planning department.</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 Director.</p>				

Candidate number	Name (Date of birth)	Career summary, and positions and duties in the Company (Significant concurrent positions)		Number of the Company's shares held
4	Reappointment	April 1988	Joined Leopalace21 Corporation	12,100 shares
	Hiroshi Takeda (January 1, 1964)	April 1999	General Manager of the Kinki Sales Headquarters, Leopalace21 Corporation	
		October 2006	Executive Officer, Leopalace21 Corporation	
		June 2007	Director, Leopalace21 Corporation General Manager of the West Japan Sales Headquarters, Subcontracting Business Headquarters, Leopalace21 Corporation	
		April 2009	Director and Executive Officer, Leopalace21 Corporation General Manager of the Sales Planning Department, Subcontracting Business Division, Leopalace21 Corporation	
		April 2010	Director and Executive Officer, Leopalace21 Corporation General Manager of the Western Japan Construction Subcontracting Department, the Construction Subcontracting Business Division, Leopalace21 Corporation General Manager of the Central Japan Construction Subcontracting Department, the Construction Subcontracting Business Division, Leopalace21 Corporation	
		May 2011	General Manager of the Asset Management Department, Leasing Business Division, Leopalace21 Corporation	
		April 2013	Managing Executive Officer, Leopalace21 Corporation General Manager of the Leasing Business Division, Leopalace21 Corporation	
		April 2014	Senior Executive Officer, Leopalace21 Corporation	
		June 2015	Director and Senior Executive Officer, Leopalace21 Corporation (incumbent)	
		January 2016	Deputy General Manager of the Apartment Construction Subcontracting Business Division, Leopalace21 Corporation	
		April 2016	General Manager of the Apartment Construction Subcontracting Business Division, Leopalace21 Corporation (incumbent) Deputy General Manager of the Marketing and Sales Headquarters, Leopalace21 Corporation (incumbent)	
		Significant concurrent positions Representative Director, Morizou Co., Ltd. Director, Life Living Co., Ltd.		
Reason for nomination as a candidate for Director				
Mr. Hiroshi Takeda is fulfilling an appropriate role as Director by taking important management decisions and supervising business execution. Moreover, as Senior Executive Officer, he is actively involved in business execution, controlling the leasing business and the construction business. 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 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
5	Reappointment	April 1975	Joined The Kyowa Bank, Ltd. (now Resona Bank, Limited)	4,500 shares
	Kazuto Tajiri (August 22, 1952)	October 1998	General Manager of Credit 4th Department, The Kyowa Bank, Ltd. (now Resona Bank, Limited)	
		June 2002	General Manager of Credit 2nd Department, The Asahi Bank, Ltd. (now Resona Bank, Limited)	
		March 2003	General Manager of Credit 2nd Department, Saitama Resona Bank, Limited	
		July 2004	Joined Resona Research Institute Co., Ltd. on loan General Manager of Tokyo Consulting Department	
		June 2008	Executive Officer, Head and General Manager of Tokyo Sales Department, Resona Research Institute Co., Ltd.	
		December 2009	Managing Executive Officer, Head of Tokyo Headquarters, Tokyo Sales Department, Saitama Sales Department and Consulting Department, Resona Research Institute Co., Ltd.	
		April 2013	Joined Leopalace21 Corporation Managing Executive Officer, Leopalace21 Corporation General Manager of the Business Management Headquarters, Leopalace21 Corporation	
		June 2013	Director and Managing Executive Officer, Leopalace21 Corporation	
		April 2014	General Manager of the Management Headquarters, Leopalace21 Corporation (incumbent)	
April 2016	Director and Senior Executive Officer, Leopalace21 Corporation (incumbent)			
<p>Reason for nomination as a candidate for Director</p> <p>Mr. Kazuto Tajiri is fulfilling an appropriate role as Director by taking important management decisions and supervising business execution. Moreover, as Senior Executive Officer, he is actively involved in business execution, controlling the business management department.</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 Director.</p>				

Candidate number	Name (Date of birth)	Career summary, and positions and duties in the Company (Significant concurrent positions)		Number of the Company's shares held
6	Reappointment	April 1976	Joined Sankei Co., Ltd.	71,700 shares
	Yoshikazu Miike (July 8, 1957)	October 1980	Joined Leopalace21 Corporation	
		April 1999	General Manager of the Sales and Marketing General Headquarters, Leopalace21 Corporation	
		June 1999	Director, Leopalace21 Corporation Deputy General Manager of the Sales and Marketing General Headquarters, Leopalace21 Corporation	
		October 2003	Deputy General Manager of the Leasing Business Headquarters, Leopalace21 Corporation	
		October 2006	Director and Managing Executive Officer, Leopalace21 Corporation (incumbent) Representative in charge of the Kyushu region, West Japan Sales Headquarters, Leasing Business Headquarters, Leopalace21 Corporation	
		June 2007	Representative in charge of the West Japan regions, Leasing Business Headquarters, Leopalace21 Corporation	
		April 2008	Representative in charge of the East Japan regions, Leasing Business Headquarters, Leopalace21 Corporation	
		April 2009	General Manager of the Related Business Headquarters, Leopalace21 Corporation General Manager of the Elderly Care Business Department, Leopalace21 Corporation	
		April 2010	General Manager of the Leasing Business Division, Leopalace21 Corporation General Manager of the Western Japan Leasing and Administration Department, Leasing Business Division, Leopalace21 Corporation	
		May 2011	General Manager of the Related Businesses Division, Leopalace21 Corporation	
		February 2012	General Manager of the Hotel and Resort Business Division, Leopalace21 Corporation	
		April 2012	Deputy General Manager of the Related Businesses Division, Leopalace21 Corporation	
		April 2013	General Manager of the Hotel and Resort Business Division, Leopalace21 Corporation	
		April 2015	Deputy General Manager of Hotel and Resort Business Division, Leopalace21 Corporation	
			Significant concurrent positions Representative Director, WING MATE CO., LTD.	
<p>Reason for nomination as a candidate for Director</p> <p>Mr. Yoshikazu Miike is fulfilling an appropriate role as Director by taking important management decisions and supervising business execution. Moreover, as Managing Executive Officer, he is actively involved in business execution, and is responsible for WING MATE CO., LTD., an affiliated company of the Company.</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 Director.</p>				

Candidate number	Name (Date of birth)	Career summary, and positions and duties in the Company (Significant concurrent positions)		Number of the Company's shares held
7	Reappointment Hiroyuki Harada (January 7, 1955)	April 1980	Joined NISSANSHA INC.	10,500 shares
	January 1985	Joined Leopalace21 Corporation		
April 1999	General Manager of the Advertising Department, Leopalace21 Corporation			
October 2004	General Manager of the Personnel Department, Leopalace21 Corporation			
May 2007	Executive Officer, Leopalace21 Corporation			
May 2011	General Manager of the General and Legal Affairs Department, Leopalace21 Corporation			
April 2012	Executive Officer, Leopalace21 Corporation General Manager of the Personnel Department, Leopalace21 Corporation			
April 2013	Deputy General Manager of the Business Management Headquarters, Leopalace21 Corporation			
June 2013	Director and Executive Officer, Leopalace21 Corporation			
January 2014	General Manager of the Work-life Balance Promotion Office, Leopalace21 Corporation (incumbent)			
April 2014	Deputy General Manager of the Management Headquarters, Leopalace21 Corporation (incumbent)			
April 2016	Director and Managing Executive Officer, Leopalace21 Corporation (incumbent)			
	Significant concurrent positions Representative Director, PLAZA Guarantee CO., LTD.			
Reason for nomination as a candidate for Director				
Mr. Hiroyuki Harada is fulfilling an appropriate role as Director by taking important management decisions and supervising business execution. Moreover, as Managing Executive Officer, he is actively involved in business execution, controlling the personnel, general and legal affairs departments. 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 Director.				
8	Reappointment Bunya Miyao (April 14, 1960)	April 1983	Joined Nakamichi Leasing Co., Ltd.	4,700 shares
	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 Business Planning Department, Leopalace21 Corporation			
July 2012	Administrative Officer, Leopalace21 Corporation			
April 2013	Executive Officer, Leopalace21 Corporation			
June 2016	Director and Executive Officer, Leopalace21 Corporation (incumbent)			
May 2017	Representative in charge of the Business Planning Department, the Public Relations Department, Leopalace21 Corporation (incumbent)			
Reason for nomination as a candidate for Director				
Mr. Bunya Miyao is fulfilling an appropriate role as Director by taking important management decisions and supervising business execution. Moreover, as Executive Officer, he is actively involved in business execution, controlling the business planning and public relations. 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 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
9	Reappointment Outside Director Independent Officer Tadashi Kodama (November 11, 1947)	April 1970	Joined The Dai-Tokyo Fire & Marine Insurance Co., Ltd. (now Aioi Nissay Dowa Insurance Co., Ltd.)	3,000 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	Director, Leoplace21 Corporation (incumbent)			
<p>Reason for nomination as a candidate for Outside Director</p> <p>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.</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>				
10	Reappointment Outside Director Independent Officer Tetsuji Taya (December 14, 1963)	April 1987	Joined The Fuji Bank, Limited (now Mizuho Bank, Ltd.)	3,300 shares
		April 2007	Board Member & Managing Director, Industrial Growth Platform, Inc.	
		September 2009	Representative Director, Industrial Growth Platform, Inc.	
		June 2010	Director, Leoplace21 Corporation (incumbent)	
		March 2011	Board Member & Managing Director, Industrial Growth Platform, Inc. (incumbent)	
		Significant concurrent positions Board Member & Managing Director, Industrial Growth Platform, Inc.		
<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>				

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
11	Reappointment Outside Director Independent Officer Yoshiko Sasao (April 2, 1960)	<p>April 1984 Joined Recruit Co., Ltd.</p> <p>April 2000 Joined RECRUIT STAFFING CO., LTD. on loan</p> <p>April 2004 Joined RECRUIT STAFFING CO., LTD. Manager of Marketing Support 1 Division</p> <p>April 2006 Joined Tokyo Electric Power Company, Incorporated</p> <p>November 2007 Joined TEPCO PARTNERS Co, Inc. on loan Managing Director</p> <p>July 2010 Representative Director, TEPCO PARTNERS Co, Inc.</p> <p>June 2015 Director, Leoplace21 Corporation (incumbent)</p> <p>June 2015 Representative Director, SHiDAX BEAUTY CARE MANAGEMENT CORPORATION</p> <p>April 2017 Executive Officer, Hasegawa holdings Co., Ltd. (incumbent)</p> <p>Representative Director, Hasegawa Social Works Co., Ltd. (incumbent)</p> <p>Significant concurrent positions Representative Director, Hasegawa Social Works Co., Ltd.</p>	1,200 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>			

- Notes: 1. There is no particular interest between any of the candidates and the Company.
2. Mr. Tadashi Kodama, Mr. Tetsuji Taya and Ms. Yoshiko Sasao are candidates for Outside Director. They 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) and, therefore, does not affect his independence.
4. Mr. Tadashi Kodama is currently an Outside Director of the Company. His term as an Outside Director will be one year at the conclusion of this General Shareholders' Meeting.
5. Mr. Tetsuji Taya is currently an Outside Director of the Company. His term as an Outside Director will be seven years at the conclusion of this General Shareholders' Meeting.
6. Ms. Yoshiko Sasao is currently an Outside Director of the Company. Her term as an Outside Director will be two years at the conclusion of this General Shareholders' Meeting.
7. In accordance with the provisions of Article 427, Paragraph 1 of the Companies Act, the Company has entered into limited liability agreements with Mr. Tadashi Kodama, Mr. Tetsuji Taya 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.

Proposal No. 4: Appointment of One (1) Audit & Supervisory Board Member

The term of office of Audit & Supervisory Board Member Mr. Mutsuhiro Yamada will expire at the conclusion of this Ordinary General Shareholders' Meeting. Accordingly, 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
New Candidate Outside Audit & Supervisory Board Member Independent Officer Jiro Yoshino (August 24, 1954)	April 1978	Joined Dai-Tokyo Fire and Marine Insurance Co., Ltd.	3,000 shares
	April 1994	General Manager of Shin-Toshin Branch, Tokyo Sales Department 1, Dai-Tokyo Fire and Marine Insurance Co., Ltd.	
	April 1999	Manager of Chiba Sales Department 2, Dai-Tokyo Fire and Marine Insurance Co., Ltd.	
	May 2001	General Manager of Keiyo Branch, Aioi Insurance Co., Ltd.	
	November 2002	General Manager of Market Development Department, Aioi Insurance Co., Ltd.	
	October 2004	General Manager of Tokyo Corporate Sales Department, Aioi Insurance Co., Ltd.	
	July 2006	Administrative Officer, General Manager of Tokyo Corporate Sales Department, Aioi Insurance Co., Ltd.	
	April 2010	Administrative Officer, General Manager of Chiba Division, Aioi Insurance Co., Ltd.	
	October 2010	Director, General Manager of Chiba Division, Aioi Nissay Dowa Insurance Co., Ltd.	
	April 2011	Executive Officer, Aioi Nissay Dowa Insurance Co., Ltd.	
	April 2012	Managing Executive Officer, Aioi Nissay Dowa Insurance Co., Ltd. Executive Officer, MS&AD Insurance Group Holdings, Inc.	
	June 2013	Full-time Audit & Supervisory Board Member, MS&AD Insurance Group Holdings, Inc. (incumbent)	
	Significant concurrent positions Full-time Audit & Supervisory Board Member, MS&AD Insurance Group Holdings, Inc.		
Reason for nomination as a candidate for Outside Audit & Supervisory Board Member			
The Company believes that Mr. Jiro Yoshino will appropriately supervise the Company's management from an objective perspective, using his abundant experience and wealth of expertise accumulated as an executive officer and an audit & supervisory board member of a listed company. For this reason, the Company has nominated him as a new candidate for Outside Audit & Supervisory Board Member.			

- Notes:
1. There is no particular interest between the candidate and the Company.
 2. Mr. Jiro Yoshino is a candidate for Outside Audit & Supervisory Board Member. He is a candidate for independent officer as stipulated in Article 436-2 of the Securities Listing Regulations of Tokyo Stock Exchange, Inc. As the candidate also satisfies the independence criteria set forth by the Company, the Company deems that the independence of the candidate is also assured.
 3. Although there is a business relationship between MS&AD Insurance Group Holdings, Inc. and the Company, and between Aioi Nissay Dowa Insurance Co., Ltd. and the Company, the transaction amounts are negligible (account for less than 0.1% of said companies' and the Company's separate consolidated net sales) and, therefore, do not affect his independence.
 4. If Mr. Jiro Yoshino's appointment as Outside Audit & Supervisory Board Member is approved and he assumes the office of Outside Audit & Supervisory Board Member, in accordance with the provisions of Article 427, Paragraph 1 of the Companies Act, the Company plans to enter into a limited liability agreement with him limiting his liability for damages under Article 423, Paragraph 1 of the Companies Act, to the minimum limit amount prescribed by laws and regulations.

Proposal No. 5: Revision of Remuneration Amount for Directors

With the objective of facilitating Directors and Executive Officers (hereinafter, “Directors, etc.”) to implement further improvements in the business performance and in corporate value of the Company and the Group, and with the aim of making even clearer the link with business performance and shareholder value, the Company is working on a revision of the remuneration system.

In cases where it is standard to evaluate the work of Directors, etc. excluding Outside Directors, although the new remuneration system is, as a rule, designed to maintain the existing level of remuneration, it widens the range of variation in the value of remuneration for each evaluation based on business performance, and strengthens the link between business performance and corporate value on the one hand and the amount of remuneration on the other.

Also, the remuneration of Directors, etc. excluding Outside Directors previously consisted of basic remuneration, a bonus for a single fiscal year and stock options as stock-based remuneration. In addition to these, however, the Company will establish a Medium-Term Management Plan period bonus linked to the level of achievement versus the Medium-Term Management Plan.

While the basic remuneration is fixed, the bonus for a single fiscal year is aimed at achieving yearly targets, while the Medium-Term Management Plan period bonus is focused on achieving the objectives of the Medium-Term Management Plan, and stock options as stock-based remuneration are intended to raise the motivation to contribute to mid- to long-term business performance and a higher stock price. In this way the Company will have a system that contributes to improved business performance and enhanced corporate value across a diverse range.

By revising the remuneration system in this way, the Company will facilitate the performance of duties that must be carried out by the Directors, etc. of the Company, and aims to enhance shareholder value.

In conjunction with the revision of the remuneration system, it is proposed that the amount of remuneration for Directors be revised as follows.

The amount of remuneration for Directors of the Company has been set at 500 million yen or below per year (excluding the employee salaries for Directors concurrently serving as employees), as approved at the 29th Ordinary General Shareholders’ Meeting held on June 27, 2002, and the amount has remained in place ever since. Taking into consideration, however, changes in the economic situation since then, revision of the remuneration system to one that contributes to improving the Company’s business performance as mentioned above, preparations for an increase in the amounts paid through the remuneration system when business performance is good, and other various circumstances, the Company proposes to revise the amount of remuneration for Directors to 800 million yen or below per year (of which 100 million yen or below for Outside Directors).

The Company requests that the employee salaries for Directors concurrently serving as employees not be included in the amount of remuneration for Directors as before, and that the individual amounts to be paid to each Director be left to the discretion of the Board of Directors.

If Proposal No. 3 “Appointment of Eleven (11) Directors” is approved and adopted as originally proposed, the number of Directors will be eleven (11) (including three (3) Outside Directors) after the conclusion of this Ordinary General Shareholders’ Meeting.

Proposal No. 6: Revision of Remuneration Concerning Stock Options as Stock-Based Remuneration to Directors

At the 36th Ordinary General Shareholders' Meeting held on June 29, 2009, the Company abolished the Retirement Benefit Program for Officers, and introduced stock options as stock-based remuneration with aims of motivating Directors (excluding Outside Directors) and raising their morale to improve corporate performance by sharing merits and risks of changes in stock prices with shareholders.

With regard to the stock options as stock-based remuneration, on the condition that Proposal No. 5 is approved as originally proposed, and following the revisions to the remuneration system etc. as described in Proposal No. 5, the Company proposes revisions as follows.

The amount of remuneration in stock options as stock-based remuneration for Directors (excluding Outside Directors) of the Company has been set at 150 million yen or below per year separately from the amount of remuneration for Directors (500 million yen or below per year; excluding the employee salaries), as approved at the 36th Ordinary General Shareholders' Meeting held on June 29, 2009, and the amount has remained in place ever since. Taking into consideration, however, changes in the economic situation since then, revision of the remuneration system to one that contributes to improving the Company's business performance as stated in the Proposal No. 5, preparations for an increase in amounts paid through the remuneration system when business performance is good, and other factors, the Company proposes to revise the amount of remuneration in stock options as stock-based remuneration for Directors (excluding Outside Directors) to 300 million yen or below per year.

The Company requests that the employee salaries for Directors concurrently serving as employees not be included in the amount of remuneration in stock options for Directors (excluding Outside Directors) as before, and that the individual amounts to be paid to each Director be left to the discretion of the Board of Directors.

If Proposal No. 3 "Appointment of Eleven (11) Directors" is approved and adopted as originally proposed, the number of Directors eligible to receive remuneration concerning stock options (excluding three (3) Outside Directors) will be eight (8) after the conclusion of this Ordinary General Shareholders' Meeting.

In this stock options as stock-based remuneration, Directors allotted stock acquisition rights will be granted remunerations equivalent to the amount to be paid in, and be able to acquire the stock acquisition rights by setting off the obligations to pay in for the stock acquisition rights against the remuneration claims. The amount of remuneration as stock options will be calculated by multiplying the fair value of each stock acquisition right determined on the allotment date of stock acquisition rights by the total number of stock acquisition rights to be allotted.

Details of stock acquisition rights are as follows.

(1) Type and number of shares to be issued or transferred upon exercise of stock acquisition rights

The maximum number of shares to be issued upon exercise of stock acquisition rights issued on any date within one year from the Company's General Shareholders' Meeting with respect to each fiscal year is 500,000 shares of common stock of the Company.

If stock split or stock consolidation is performed by the Company, the number of shares to be issued or transferred shall be adjusted according to the following formula. However, said adjustment shall be made only with respect to the number of shares to be issued or transferred for which stock acquisition rights have not yet been exercised at that point in time, and any fractional shares arising as a result of the adjustment shall be rounded off.

Number of shares after adjustment = Number of shares before adjustment × Stock split or consolidation ratio

Furthermore, in the event that the number of shares needs to be adjusted after the date of resolution of this proposal, it may be adjusted by the Company within reasonable bounds as required.

(2) Total number of stock acquisition rights

The maximum number of stock acquisition rights to be issued on any date within one year from the Company's General Shareholders' Meeting with respect to each fiscal year is 5,000 units. The number of shares to be issued or transferred per stock acquisition right (hereinafter the "number of shares granted") is 100 shares (However, in a case where the number of shares is adjusted as stated in (1), the number of shares granted shall be also adjusted in the same manner).

(3) Amount to be paid for stock acquisition rights and its calculation method

The amount to be paid for stock acquisition rights will be calculated by multiplying the fair value of each stock acquisition right determined based on the Black-Scholes model, etc. on the allotment date of stock acquisition rights by the total number of stock acquisition rights to be allotted. Monetary remuneration equivalent to the total amount to be paid for stock acquisition rights will be paid to Directors, and the amount to be paid for stock acquisition rights will be set off against the remuneration claims.

(4) Price of assets invested upon exercise of stock acquisition rights

The price of assets invested upon exercise of each stock acquisition right shall be obtained by multiplying 1 yen which is the amount to be paid per share to be issued upon exercise of stock acquisition rights by the number of shares granted.

(5) Exercise period of stock acquisition rights

Within 30 years from the date following the allotment date of stock acquisition rights.

(6) Restrictions on acquisition of stock acquisition rights by transfer

Acquisition of stock acquisition rights by transfer shall require the approval of the Board of Directors.

(7) Terms and conditions for exercise of stock acquisition rights

Stock acquisition rights, in principle, can be exercised from the date following the date in which the right holders lost a position as Director of the Company. Other terms and conditions for exercise of stock acquisition rights shall be determined at the meeting of the Board of Directors in which terms of offering stock acquisition rights, etc. are decided.

(8) Other details of stock acquisition rights

Other details of stock acquisition rights shall be determined at the meeting of the Board of Directors in which terms of offering stock acquisition rights, etc. are decided.

[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, 2016 to March 31, 2017)

Items Regarding Status of Group Operations

Overview of Operations

During the fiscal year under review, the domestic economy showed gradual recovery supported by improvements in corporate earnings, employment, and personal income.

In the rental housing industry, new housing starts of leased units has increased for two consecutive years (up 11.4% year on year), mainly due to the prolonged low interest rate environment and strong demand for apartment construction as a strategy to reduce inheritance taxes. On the other hand, as the number of vacant rental housing units continues to increase in Japan and recovery in nationwide demand is difficult to foresee, achieving stable occupancy rates requires mainly constructing apartments 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.

Amid this condition, the Leopalace21 Group (the “Group”) aims to achieve the targets of the Medium-term Management Plan “EXPANDING VALUE,” by building a solid management structure focusing on core businesses, comprising the leasing business and the construction business. In addition, the Group aimed to challenge itself with new businesses fields that contribute to the Group’s future growth, and it worked to expand its business activity areas.

As a result, consolidated net sales for the fiscal year under review came to 520,488 million yen (up 1.8% year on year). Consolidated operating profit was 22,898 million yen (up 8.6% year on year), consolidated recurring profit was 22,355 million yen (up 12.3% year on year) and consolidated net income attributable to shareholders of the parent was 20,401 million yen (up 3.9% year on year).

On a non-consolidated basis, net sales were 499,218 million yen (up 0.8% year on year), operating profit was 21,704 million yen (up 6.2% year on year), recurring profit was 21,717 million yen (up 9.5% year on year), and net income was 20,486 million yen (up 5.5% year on year).

Leasing Business

In the Leasing Business, to establish stable occupancy, the Group provided abundant added value with services such as “my DIY” which enables tenants to freely arrange their rooms, “LEONET” which provides tenants with a broad range of features to enhance internet experience, and security services in collaboration with large security companies as well as providing initiatives for corporate customers’ employee accommodation and enhancing the support structure for foreign tenants. In addition, in the ASEAN region the Group is conducting the development and operation of serviced apartments and offices.

The occupancy rate at the end of the fiscal year under review was 91.66% (up 1.13 points from the end of the previous fiscal year), and the average occupancy rate for the period was 88.53% (up 0.58 points year on year).

The number of units under management at the end of the fiscal year under review was 568,000 (an increase of 6,000 from the end of the previous fiscal year), and the number of direct offices was 189 (no change from the end of the previous fiscal year). The number of franchise offices was 119 (a decrease of 11 from the end of the previous fiscal year).

As a result of the above, net sales amounted to 416,594 million yen (up 1.4% year on year), and operating profit was 22,459 million yen (down 1.7% year on year).

Construction Business

In the Construction Business, the Group focused on activities to secure orders in three major

metropolitan areas of continually increasing population that are expected to have high occupancy rates in the future, as well as strategically investing in products that are high quality and cutting edge. In addition, the Group launched a new brand, attempting to strengthen product competitiveness and refresh its image among tenants, expanded construction variations to realize “ideal land use,” and begun reconsidering suppliers and its product prices to improve profitability.

Also, subsidiary Morizou Co., Ltd., provides custom-built homes made with the best Kiso cypress.

Orders received during the fiscal year under review were 87,139 million yen (up 0.8% year on year) and the orders received outstanding at the end of the fiscal year under review stood at 67,257 million yen (up 1.4% from the end of the previous fiscal year).

As a result, net sales came to 74,566 million yen (up 0.5% year on year), and operating profit was 5,051 million yen (up 51.2% year on year).

Elderly Care Business

Net sales were 11,536 million yen (up 6.8% year on year), and operating loss was 1,650 million yen (a deterioration of 296 million yen from the previous fiscal year).

Hotels & Resort Business

Net sales of resort facilities in Guam and hotels in Japan were 7,244 million yen (down 36.6% year on year), and operating loss was 768 million yen (a deterioration of 70 million yen from the previous fiscal year). Westin Resort Guam was sold in April 2016.

Other Businesses

In other businesses such as the real estate business, solar power generation business, and the small-amount, short-term insurance business, net sales were 10,546 million yen (up 135.1% year on year), and operating profit was 1,432 million yen (up 324.6% year on year).

Issues to Be Addressed

The Group has started its new “Creative Evolution 2020” Medium-Term Management Plan, which runs for three years from fiscal 2017. Taking as its basic policy “Sustainable growth in core businesses to further enhance corporate value and building the foundation 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 businesses Balance apartment supply and management & operation, deploy with more concentration and more diversification
- Growth businesses: Focus 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 features such as homes equipped with furniture and electrical goods, Internet (LEONET) and IoT capabilities (Leo Remocon), in addition to which the Group 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 company housing demand, the Company mainly strives to reduce the operational burden on corporate

customers through by 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 business), as well as offering high-quality, high value-added products and services restricted to major cities where demand is high, in light of the number of taxable persons increasing significantly due to revisions to the Inheritance Tax Act, the Group will focus on diversifying construction so as to be able to respond to a range of needs.

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 ageing of 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 creating value and optimizing capital structure
 - * ROIC (Return on Invested Capital) = After-tax operating profit / (interest-bearing debt + net assets)
- Review assets heldMake active use of operating cash flow, and of cash flow from selling inefficient 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.

Capital Investment

The total amount of capital investment carried out by the Group in the fiscal year under review is 5,278 million yen.

The main components of this were 749 million yen for investment in rental properties in connection with the leasing business in Japan, 251 million yen for investment in serviced apartments and offices in connection with the leasing business in ASEAN countries, 1,693 million yen for capital investment in connection with the hotels & resort business, and 873 million yen for construction of an information system in connection with all businesses.

Financing Activities

Nothing noteworthy to report.

Major Subsidiaries (as of March 31, 2017)

Company Name	Capital	Voting Rights Ratio	Primary Areas of Business
Leopalace Leasing Corporation	400 million yen	100.0%	Corporate Housing Management /Real Estate Brokerage Business
Plaza Guarantee CO., LTD.	50 million yen	100.0%	Rent Obligation Guarantee Business

Company Name	Capital	Voting Rights Ratio	Primary Areas of 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%	Real Estate Agency Business Serviced Apartments Business
Leopalace21 (Thailand) CO., LTD.	10,000 thousand THB	49.0% [51.0%]	Real Estate Agency Business Serviced Apartments Business
Leopalace21 (Cambodia) Co., Ltd.	500 thousand USD	100.0%	Real Estate Agency Business Serviced Apartments Business
LEOPALACE21 REAL ESTATE (CAMBODIA) Co., Ltd.	5 thousand USD	49.0% (49.0%) [51.0%]	Real Estate Business
LEOPALACE21 PHILIPPINES INC.	22,070 thousand Philippine peso	100.0%	Real Estate Agency Business Serviced Offices Business
PT. Leopalace21 Properti Manajemen	2,600,000 thousand IDR	0.0% [100.0%]	Real Estate Agency Business
PT. Leopalace Duasatu Realty	7,161,000 thousand IDR	100.0%	Real Estate Business
Leopalace21 Singapore Pte. Ltd.	450 thousand USD	100.0%	Investment Consulting Business
Morizou Co., Ltd.	85 million yen	88.2%	Construction Business of Custom-Built Detached Houses
Azu Life Care Co., Ltd.	80 million yen	100.0%	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
Life Living Co., Ltd.	100 million yen	100.0%	Real Estate 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
Leopalace Smile Co., Ltd.	10 million yen	100.0%	Clerical Work Outsourcing Service Business

- Notes:
1. Leopalace21 Singapore Pte. Ltd. was newly established in the fiscal year under review. Additionally, the Company purchased whole shares of Life Living Co., Ltd., making it into a consolidated subsidiary in the fiscal year under review. Leopalace21 (Shanghai) Property Management Co., Ltd. has been excluded from major subsidiaries as a result of completion of liquidation during the fiscal year under review.
 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, 2017)

Segment	Areas of Activity
Leasing Business	Leasing and management of apartments, etc., various leasing-related services, broadband service, repair work, corporate housing management business, real estate brokerage business, rent obligation guarantee business, consulting business, etc.
Construction Business	Contracted construction work for apartments, etc., contracted construction for custom-built detached houses, etc.
Elderly Care Business	Operation of elderly care facilities

Segment	Areas of Activity
Hotels & Resort Business	Operation of hotel and resort facilities
Other Businesses	Real estate business, solar power generation, small-amount, short-term insurance, financing activities, clerical work outsourcing service business, etc.

Major Business Locations of the Group (as of March 31, 2017)

The Company

Head Office	Nakano-ku, Tokyo
Regional	47 prefectures nationwide
Headquarters	(Leopalace centers: 182 branches; construction sales: 60 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
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 REAL ESTATE (CAMBODIA) Co., Ltd.	The Kingdom of Cambodia
LEOPALACE21 PHILIPPINES INC.	The Republic of the Philippines
PT. Leopalace21 Properti Manajemen	The Republic of Indonesia
PT. Leopalace Duasatu Realty	The Republic of Indonesia
Leopalace21 Singapore Pte. Ltd.	The Republic of Singapore
Morizou Co., Ltd.	Shibuya-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
Life Living Co., Ltd.	Shibuya-ku, Tokyo
Leopalace Power Corporation	Nakano-ku, Tokyo
Leopalace Energy Corporation	Nakano-ku, Tokyo
Asuka SSI	Nakano-ku, Tokyo
Leopalace Smile Co., Ltd.	Nakano-ku, Tokyo

Employees of the Group (as of March 31, 2017)

1. Employees of the Group

Segment	Number of Employees	
Leasing Business	3,526	[578]
Construction Business	1,792	[38]
Elderly Care Business	1,209	[1,571]
Hotels & Resort Business	690	[122]
Other Businesses	99	[1]
All companies (common)	379	[11]
Total	7,695	[2,321]

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 belonging to general administrative departments.

2. Employees of the Company

Number of Employees	Change Since Previous FY	Average Age	Average Years of Service
6,542 [2,050]	+129	36 years and 3 months	8 years and 3 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, 2017)

Lender	Loan Balance at End of the Fiscal Year under Review (millions of yen)
Mizuho Bank, Ltd.	9,439
Sumitomo Mitsui Banking Corporation	4,786

Items Regarding Shares of the Company

- **Number of shares authorized** 500,000,000 shares
- **Number of shares outstanding** 267,443,915 shares
- **Number of shareholders** 64,976
- **Major shareholders (top 10 shareholders)**

Shareholder Name	Number of Shares Held (thousands of shares)	Percentage of Outstanding Shares (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	40,952	15.57
BNYML - NON TREATY ACCOUNT	12,002	4.56
The Master Trust Bank of Japan, Ltd. (Trust Account)	10,788	4.10
STATE STREET BANK AND TRUST COMPANY 505225	6,063	2.30
Stockholding Association for Leopalace21's Business Connection	5,682	2.16
Trust & Custody Services Bank, Ltd.	4,920	1.87
TAIYO HANEI FUND, L. P. CEO & FOUNDING PARTNER BRIAN KHEYWOOD	4,876	1.85
BBH for Fidelity Low-Priced Stock Fund (Principal All Sector Subportfolio)	4,562	1.73
STATE STREET BANK AND TRUST COMPANY 505019	4,504	1.71
BBH FOR FIDELITY SMALL CAP STOCK FUND	4,169	1.58

Notes: 1. Although the Company holds 4,569 thousand shares of treasury stock, the Company is excluded from the above major shareholders.

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

Japan Trustee Services Bank, Ltd. (Trust Account) 40,050 thousand shares

The Master Trust Bank of Japan, Ltd. (Trust Account) 10,470 thousand shares

Trust & Custody Services Bank, Ltd. 4,920 thousand shares

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

- **Shareholder composition**

Financial instruments business operations	1.90%	(5,087 thousand shares)
Financial institutions	23.58%	(63,047 thousand shares)
Foreign corporations	49.71%	(132,955 thousand shares)
Treasury stocks	1.71%	(4,569 thousand shares)
Individuals and other	20.46%	(54,718 thousand shares)
Business corporations and other legal entities	2.64%	(7,065 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
Issuance resolution date			June 29, 2009	July 28, 2016
Amount to be paid in for share subscription rights			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)
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
Exercise period			From August 18, 2011 through June 27, 2019	From August 19, 2016 through August 18, 2046
Status of officers' holdings	Directors (excluding Outside Directors)	Number of share subscription rights	40 units	1,416 units
		Number of underlying shares	4,000 shares of common stock	141,600 shares of common stock
		Number of holders	2 persons	8 persons
	Audit & Supervisory Board Members	Number of share subscription rights	40 units	–
		Number of underlying shares	4,000 shares of common stock	–
		Number of holders	2 persons	–

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

			2nd series share subscription rights	
Issuance resolution date			July 28, 2016	
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: 548 yen; amount incorporated into capital: 274 yen	
Exercise period			From August 19, 2016 through August 18, 2046	
Status of delivery to employees	Employees of the Company	Number of share subscription rights	1,111 units	
		Number of underlying shares	111,100 shares of common stock	
		Number of holders	12 persons	

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

1. Directors and Audit & Supervisory Board Members

(as of March 31, 2017)

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)/General Manager of the Leasing Business Division (concurrent) Director, Leopalace Leasing Corporation Director, Plaza Guarantee CO., LTD. Director, Leopalace21 Business Consulting (Shanghai) Co., Ltd. Director, Leopalace21 (Thailand) CO., LTD. Director, LEOPALACE21 VIETNAM CO., LTD. Director, Leopalace21 (Cambodia) Co., Ltd. Director, LEOPALACE21 REAL ESTATE (CAMBODIA) Co., Ltd. Director, LEOPALACE21 PHILIPPINES INC. Director, Azu Life Care Co., Ltd. Director, Life Living Co., Ltd. Director, Asuka SSI
Yuzuru Sekiya	Director	Senior Executive Officer/General Manager of the Management Planning Headquarters/General Manager of the Hotel and Resort Business Division (concurrent) Director, Leopalace Guam Corporation Director, WING MATE CO., LTD.
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) Senior Vice President, Morizou Co., Ltd. Director, Life Living Co., Ltd.
Kazuto Tajiri	Director	Senior Executive Officer/General Manager of the Management Headquarters
Yoshikazu Miike	Director	Managing Executive Officer/Deputy General Manager of the Hotel and Resort Business Division Representative Director, WING MATE CO., LTD.
Hiroyuki Harada	Director	Managing Executive Officer/Deputy General Manager of the Management Headquarters/General Manager of the Work-life Balance Promotion Office (concurrent) Representative Director, Plaza Guarantee CO., LTD.
Bunya Miyao	Director	Executive Officer/General Manager of the Business Planning Department, Management Planning Headquarters
Tadashi Kodama	Director	
Tetsuji Taya	Director	Board Member & Managing Director, Industrial Growth Platform, Inc.
Yoshiko Sasao	Director	
Mutsuhiro Yamada	Standing Audit & Supervisory Board Member	
Atsunori Nasu	Standing Audit & Supervisory Board Member	Audit & Supervisory Board Member, Morizou Co., Ltd.

Name	Title	Duties in the Company and Significant Concurrent Positions
Masahiko Nakamura	Audit & Supervisory Board Member	Representative, Masahiko Nakamura Certified Tax Accountant Office Outside Audit & Supervisory Board Member, HOMENET Co., Ltd.
Takao Yuhara	Audit & Supervisory Board Member	Outside Audit & Supervisory Board Member, mofria Corporation 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. Ms. Yoshiko Sasao, Director, retired from her position as Representative Director of SHiDAX BEAUTY CARE MANAGEMENT CORPORATION in June 2016.
3. Mr. Masahiko Nakamura and Mr. Takao Yuhara serve as Outside Audit & Supervisory Board Members of the Company.
4. Mr. Masahiko Nakamura, Audit & Supervisory Board Member, is certified as a licensed tax accountant, and possesses considerable finance and accounting knowledge.
5. Mr. Takao Yuhara, Audit & Supervisory Board Member, retired from his position as Outside Audit & Supervisory Board Member of Ricoh Company, Ltd. in June 2016.
6. The Company has appointed all five Outside Directors and Audit & Supervisory Board Members as independent officers stipulated by the Tokyo Stock Exchange, Inc. and has registered with the Stock Exchange accordingly.
7. 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.
8. After the end of the fiscal year under review, the positions and duties of Directors have been changed as follows.

Name	New Positions and Duties	Former Positions and Duties	Date of Change
Yuzuru Sekiya	Director and Senior Executive Officer General Manager of the Management Planning Headquarters	Director and Senior Executive Officer General Manager of the Management Planning Headquarters General Manager of the Hotel and Resort Business Division (concurrent)	April 1, 2017
Yoshikazu Miike	Director and Managing Executive Officer	Director and Managing Executive Officer Deputy General Manager of the Hotel and Resort Business Division	April 1, 2017
Tadahiro Miyama	Director and Senior Vice President General Manager of the Marketing and Sales Headquarters General Manager of the Corporate Business Promotion Headquarters (concurrent)	Director and Senior Vice President General Manager of the Marketing and Sales Headquarters General Manager of the Leasing Business Division (concurrent) General Manager of the Corporate Business Promotion Headquarters (concurrent)	May 1, 2017
Bunya Miyao	Director and Executive Officer Representative in charge of the Business Planning Department, the Public Relations Department	Director and Executive Officer General Manager of the Business Planning Department, Management Planning Headquarters	May 1, 2017

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

Audit & Supervisory Board Member, Mr. Masumi Iwakabe retired at the conclusion of the 43rd Ordinary General Shareholders' Meeting held on June 29, 2016, due to the expiry of his term of office.

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

Category	Number of Persons	Total Amount
Directors (Outside Directors)	11 (3)	412 million yen (41 million yen)
Audit & Supervisory Board Members (Outside Audit & Supervisory Board Members)	5 (2)	44 million yen (12 million yen)
Total (Outside Directors and Audit & Supervisory Board Members)	16 (5)	457 million yen (54 million yen)

Notes: 1. Among the above-mentioned figures, there includes one Audit & Supervisory Board Member who retired on June 29, 2016.

2. The amount of remuneration, etc. for Directors, includes 58 million yen of expenses related to share subscription rights granted as stock options as stock-based remuneration recorded during the fiscal year under review.

3. In addition to the above remuneration, etc., 142 million yen was provided to eight inside Directors as directors' bonuses related to the previous fiscal year.

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.
Audit & Supervisory Board Member	Masahiko Nakamura	Representative, Masahiko Nakamura Certified Tax Accountant Office Outside Audit & Supervisory Board Member, HOMENET Co., Ltd.	Despite a capital relationship and sales transactions with HOMENET Co., Ltd., the conditions of transactions are comparable with a general trading partner, and there are no particular relationships with the Company to note, including the capital relationship. There are no other relationships requiring specific mention between the Company and the other entities at which concurrent positions are held.
Audit & Supervisory Board Member	Takao Yuhara	Outside Audit & Supervisory Board Member, mofiria Corporation 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	13/13	–	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	16/16	–	Mr. Taya uses his abundant knowledge and experience as well as his insight as a 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	16/16	–	Ms. Sasao uses her abundant knowledge and experience as well as her insight as a 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.

Title	Name	Attendance of the Board of Directors Meetings	Attendance of the Audit & Supervisory Board Meetings	Key Activities
Audit & Supervisory Board Member	Masahiko Nakamura	15/16	9/9	Mr. Nakamura has abundant experience and expert knowledge as a certified tax accountant. He has objectively conducted proper supervision of the management of the Company.
Audit & Supervisory Board Member	Takao Yuhara	16/16	9/9	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: Activity of Mr. Tadashi Kodama, Outside Director, since his assumption of office on June 29, 2016, is described.

Status of Accounting Auditor

1. Name of Accounting Auditor

Grant Thornton Taiyo LLC

2. Amount of Accounting Auditor Remuneration in the Fiscal Year under Review

Segment	Amount Paid
Remuneration for services stipulated in Article 2, Paragraph 1 of the Certified Public Accountants Act	92 million yen
Remuneration for services other than practices stipulated in Article 2, Paragraph 1 of the Certified Public Accountants Act	–
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 remuneration for services stipulated in Article 2, Paragraph 1 of the Certified Public Accountants Act 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, Leopalace Guam Corporation uses the accounting audit services (audits pursuant to the provisions in the Companies Act and the Financial Instruments Exchange Act, including overseas laws and regulations corresponding to these acts) of other certified public accountants or audit firms (including those outside Japan that possess certification equivalent to these certifications) other than the Accounting Auditor of the Company.

3. Policy Regarding Discharge or Non-reappointment of Accounting Auditor

In the event that there is an obstacle preventing the Accounting Auditor from performing their duties, the Audit & Supervisory Board, if it is deemed necessary, 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.

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 based on unanimous approval by 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.

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 Legal Affairs 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 Legal Affairs 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 Planning 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 Regulations 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 subsidiary 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 Regulations 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 for Ensuring 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, conducting internal audits and holding audit meetings, the Company strengthened its efforts to secure transparency and fairness of corporate management by increasing the number of Outside Directors by one, from two to three at the Ordinary General Shareholders' Meeting held in June 2016. In addition, the Company raised the awareness of officers and employees of the Group by providing compliance training on a regular basis and maintained appropriate conditions.

(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 Handling Regulations and Information Management Regulations.

During the fiscal year under review, the Company continued to operate existing systems and maintained appropriate conditions.

(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, which were developed on the basis of Risk Management Regulations.

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

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

After preliminary deliberation by the Corporate Management Council, decisions have been made at meetings of the Board of Directors, 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.

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

(5) Systems About 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 execution of 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 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 Legal Affairs Department and Business 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, thereby maintaining appropriate conditions.

(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 for employees to assist with the duties of the Audit & Supervisory Board Members.

During the fiscal year under review, no employee was appointed to assist Audit & Supervisory Board Members, who executed their duties smoothly.

(7) Systems for Directors and Employees, as well as Directors, Audit & Supervisory Board Members, and Employees 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 Regulations and the Auditing Standards for the Audit & Supervisory Board Members. Audit & Supervisory Board Members cooperate closely with the Auditing Department and the Accounting Auditor.

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

(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 43rd fiscal term was submitted on June 29, 2016.

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 Corporate Ethics Charter and rules for excluding antisocial forces, 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 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).

Concerning the dividend payout ratio, the Company carried out the return of profits linked to performance with a mid-term goal of 30% (in respect to consolidated net income). The Company also strived to consistently provide stable dividends.

Based on the above-mentioned policy, the Company will pay a year-end dividend for the fiscal term under review of 12 yen per share. An annual dividend with the addition of an interim dividend of 10 yen will be 22 yen, and dividend payout ratio will be 28.3%.

Going forward, the Company will put significant effort into shareholder returns by introducing a total return ratio target (50% in the fiscal year ending March 31, 2020), and by flexibly executing share buybacks while keeping an eye on stock price trends.

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, 2017)

(millions of yen)

ASSETS	
Current assets	133,786
Cash and cash equivalents	104,432
Trade receivables	6,547
Accounts receivable for completed projects	2,355
Operating loans	675
Securities	121
Real estate for sale	421
Real estate for sale in progress	1,849
Payment for construction in progress	518
Raw materials and supplies	526
Prepaid expenses	2,827
Deferred tax assets	8,636
Other accounts receivable	831
Others	4,228
Allowance for doubtful accounts	(186)
Non-current assets	203,489
Property, plant and equipment	155,267
Buildings and structures	41,827
Machinery, equipment, and vehicles	14,206
Land	80,388
Leased assets	13,652
Construction in progress	3,911
Other	1,281
Intangible fixed assets	11,642
Goodwill	3,181
Others	8,461
Investments and other assets	36,579
Investment securities	12,453
Long-term loans	516
Bad debts	1,246
Long-term prepaid expenses	3,820
Deferred tax assets	17,486
Others	3,129
Allowance for doubtful accounts	(2,073)
Deferred assets	552
Bond issuance cost	552
Total assets	337,828

CONSOLIDATED BALANCE SHEET (as of March 31, 2017) (Continued)

(millions of yen)

LIABILITIES	
Current liabilities	97,524
Accounts payable	2,826
Accounts payable for completed projects	12,186
Current portion of long-term debt	1,263
Bonds due within one year	3,966
Lease obligations	4,647
Accounts payable—other	19,066
Accrued expenses	1
Accrued income taxes	2,544
Advances received	40,003
Customer advances for projects in progress	5,381
Reserve for warranty obligations on completed projects	412
Reserve for fulfillment of guarantees	1,082
Asset retirement obligations	43
Others	4,099
Non-current liabilities	81,433
Bonds	16,035
Long-term debt	13,267
Lease obligations	10,739
Long-term advances received	16,614
Lease/guarantee deposits received	7,152
Deferred tax liabilities	148
Reserve for apartment vacancy loss	3,183
Liability for retirement benefit	11,295
Asset retirement obligations	77
Others	2,920
Total liabilities	178,958
NET ASSETS	
Shareholders' equity	156,779
Common stock	75,282
Capital surplus	45,235
Retained earnings	39,923
Treasury stock	(3,660)
Accumulated other comprehensive income	1,933
Net unrealized gains on "other securities"	574
Foreign currency translation adjustments	2,027
Remeasurements of defined benefit plans	(668)
Share subscription rights	136
Non-controlling interests	20
Total net assets	158,870
Total liabilities and net assets	337,828

CONSOLIDATED STATEMENT OF OPERATIONS (from April 1, 2016 to March 31, 2017)
(millions of yen)

Net sales	520,488
Sales from Leasing Business	416,594
Sales from Construction Business	74,566
Sales from Other Businesses	29,327
Cost of sales	427,820
Cost of sales from Leasing Business	349,112
Cost of sales from Construction Business	52,800
Cost of sales from Other Businesses	25,907
Gross profit	92,668
Selling, general and administrative expenses	69,769
Operating profit	22,898
Other income	572
Interest income	80
Dividend income	118
Gain on valuation of investment securities	166
Foreign exchange gains	36
Amortization of deposits received income	21
Others	149
Other expenses	1,115
Interest expenses	734
Commission fee	46
Bond issuance cost	241
Equity in losses of affiliated companies	6
Others	87
Recurring profit	22,355
Extraordinary income	408
Gain on sale of property, plant and equipment	408
Extraordinary losses	1,142
Loss on sale of property, plant and equipment	314
Loss on retirement of property, plant and equipment	149
Impairment loss	589
Disaster loss	88
Income before income taxes	21,622
Income taxes—current	3,245
Income taxes—refund	(3)
Income taxes—deferred	(2,031)
Net income	20,411
Net income attributable to non-controlling interests	10
Net income attributable to shareholders of the parent	20,401

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(from April 1, 2016 to March 31, 2017)

(millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2016	75,282	45,235	26,125	(3,660)	142,982
Cumulative effects of changes in accounting policies			(1,345)		(1,345)
Balance as of April 1, 2016 after retrospective adjustment	75,282	45,235	24,779	(3,660)	141,636
Change during period					
Dividends of surplus			(5,257)		(5,257)
Net income attributable to shareholders of the parent			20,401		20,401
Acquisition of treasury stock				(0)	(0)
Net change of items other than shareholders' equity					
Total change during period	-	-	15,143	(0)	15,143
Balance as of March 31, 2017	75,282	45,235	39,923	(3,660)	156,779

(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, 2016	435	3,651	(895)	3,190	18	20	146,211
Cumulative effects of changes in accounting policies							(1,345)
Balance as of April 1, 2016 after retrospective adjustment	435	3,651	(895)	3,190	18	20	144,865
Change during period							
Dividends of surplus							(5,257)
Net income attributable to shareholders of the parent							20,401
Acquisition of treasury stock							(0)
Net change of items other than shareholders' equity	139	(1,624)	226	(1,257)	118	(0)	(1,138)
Total change during period	139	(1,624)	226	(1,257)	118	(0)	14,004
Balance as of March 31, 2017	574	2,027	(668)	1,933	136	20	158,870

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:	21
Principal consolidated subsidiaries:	Leopalace Leasing Corporation Plaza Guarantee CO., LTD. Leopalace21 Business Consulting (Shanghai) Co., Ltd. LEOPALACE21 VIETNAM CO., LTD. Leopalace21 (Thailand) CO., LTD. Leopalace21 (Cambodia) Co., Ltd. LEOPALACE21 REAL ESTATE (CAMBODIA) Co., Ltd. LEOPALACE21 PHILIPPINES INC. PT.Leopalace21 Properti Manajemen PT.Leopalace Duasatu Realty Leopalace21 Singapore Pte.Ltd. Morizou Co., Ltd. Azu Life Care Co., Ltd. Leopalace Guam Corporation WING MATE CO., LTD. Life Living Co., Ltd. Leopalace Power Corporation Leopalace Energy Corporation ASUKA SSI 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

As 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 Leopalace21 Singapore Pte.Ltd., which is a newly established company, into

the scope of consolidation effective from the fiscal year under review. Life Living Co., Ltd. whose whole shares were acquired by the Company in the fiscal year under review, has also been included in the scope of consolidation. Moreover, Leopalace21 (Shanghai) Property Management Co., Ltd. has been excluded from the scope of consolidation as a result of completion of liquidation.

- (b) Changes in the scope of application of equity method
Not applicable.

(4) Fiscal year ends of consolidated subsidiaries

Among the consolidated subsidiaries, the fiscal year end of Leopalace21 Business Consulting (Shanghai) Co., Ltd.; LEOPALACE21 VIETNAM CO., LTD.; Leopalace21 (Thailand) CO., LTD.; Leopalace21 (Cambodia) Co., Ltd.; LEOPALACE21 REAL ESTATE (CAMBODIA) Co., Ltd.; Leopalace Guam Corporation; Leopalace Guam Distributing Corporation; LEOPALACE21 PHILIPPINES INC.; PT.Leopalace21 Properti Manajemen; PT.Leopalace Duasatu Realty; Leopalace21 Singapore Pte.Ltd.; and WING MATE CO., LTD. is December 31 of each year, and the fiscal year end of Morizou Co., Ltd. is the end of February of each year. As the difference between these dates and the consolidated balance sheet date is within three months, their financial statements as of these dates are used in the preparation of the Company's consolidated financial statements.

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

(5) Summary of accounting policies

- (a) Valuation bases and methods for significant assets

Securities

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

Other securities

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

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

Contributions to limited investment partnerships, etc. are reported using the equity method, based on the latest financial statements available.

Inventories

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

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 consolidated 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
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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
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(c) Provision of significant allowance and provisions

Allowance for doubtful accounts

The Companies maintain 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

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 apartment vacancy loss

With regard to the leasing business of the Company, 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.

(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 each 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 each balance sheet date, and revenues and expenses are translated into Japanese yen at the average exchange rates of the fiscal year. Foreign currency translation adjustments are included in 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, special treatment is applied since the swaps satisfy the requirements for special 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 Companies implement 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 special treatment.

(g) Amortization and amortization period of goodwill

Goodwill is equally amortized 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.

Past service costs are amortized by the straight-line method over a specified period (5 years) within the average remaining service years of employees at the time of accrual.

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 and unrecognized past service costs 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 fiscal year under review is the benefit formula basis.

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 345 million yen as of March 31, 2017.

2. Changes in Accounting Policies

(Change in revenue recognition standard)

Plaza Guarantee Co., Ltd., a subsidiary of Leopalace21 Corporation, had previously recognized revenue from guarantee fees as a bulk amount at the time of concluding contracts. From this fiscal year, while comprehensively taking into account the Accounting Practice Committee Research Report No. 13 “Research Report on Revenue Recognition in Japan (interim report),” etc., the Group has decided to recognize revenue over a reasonably determined period.

The Group has applied this change in order to reflect more appropriately the economic actualities of the business, since a certain period of time has passed from the start of the guarantee business and the average guarantee period can be reasonably determined.

This change in accounting policy has been retrospectively applied, and thereby the cumulative effects of changes in accounting policies are reflected in the carrying amount of net assets at the beginning of the fiscal year.

As a result, the amount of retained earnings on the consolidated statement of changes in net assets after retrospective adjustment as of April 1, 2016 decreased by 1,345 million yen.

(Application of the Practical Solution on Accounting on a Change in Depreciation Method Due to Tax Reform 2016)

Following the revision of the Corporation Tax Act, the “Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016” (ASBJ PITF No. 32, June 17, 2016) has been applied effective from the fiscal year under review. The depreciation method for facilities accompanying buildings and structures acquired on or after April 1, 2016 was also changed from the declining balance method to the straight line method.

As a result, operating profit, recurring profit, and income before income taxes for the fiscal year under review each increased by 9 million yen.

(Additional Information)

(Application of ASBJ Guidance on Recoverability of Deferred Tax Assets)

Effective from the fiscal year under review, the Company has applied the Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016).

3. Changes in Presentation

Consolidated Statement of Operations

“Bond issuance cost,” which was included in “others” under “other expenses” for the previous fiscal year, exceeds ten hundredths (10/100) of the total amount of other expenses. It has therefore been decided to present the “bond issuance cost” separately.

“Bond issuance cost” for the previous fiscal year is 165 million yen.

4. Notes to Consolidated Balance Sheet

(1) Assets pledged as collateral and secured liabilities

(a) Assets pledged as collateral

Cash and cash equivalents	17 million yen
Investment securities	55 million yen
Total	72 million yen

(b) Secured liabilities

The above assets have been pledged as collateral to companies in which consolidated subsidiaries have invested and to lenders of housing loans to customers, 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

Deposit for operation stipulated in Building Lots and Buildings	
Transaction Business Act	45 million yen
Deposit for housing construction warranty	1,045 million yen
Deposit for housing defect warranty	109 million yen
Advanced payment certificate in accordance with Payment and Settlement Regulations	628 million yen

(2) Accumulated depreciation of property, plant and equipment 88,019 million yen

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

Machinery, equipment, and vehicles 155 million yen

(4) Liabilities on guarantee

Liabilities on guarantee for financial institutions for customers who have a housing loan	734 million yen
Liabilities on guarantee for financial institutions for customers who have a membership loan	3 million yen

5. Notes to Consolidated Statement of Changes in Net Assets

(1) Number of issued shares

Class of shares	April 1, 2016	Increase	Decrease	March 31, 2017
Common stock	267,443,915 shares	–	–	267,443,915 shares

(2) Number of shares of treasury stock

Class of shares	April 1, 2016	Increase	Decrease	March 31, 2017
Common stock	4,569,520 shares	400 shares	–	4,569,920 shares

Note: The increase of 400 shares in the total number of shares of common stock in treasury was due to purchase of shares less than one unit.

(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 29, 2016	Common shares	2,628	Retained earnings	10	March 31, 2016	June 30, 2016
Meeting of the Board of Directors held on November 4, 2016	Common shares	2,628	Retained earnings	10	September 30, 2016	December 12, 2016

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

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 29, 2017	Common shares	3,154	Retained earnings	12	March 31, 2017	June 30, 2017

(4) Share subscription rights as of March 31, 2017

	Share subscription rights as stock options
Class of shares subject to share subscription rights	Common stock
Number of shares subject to share subscription rights	317,700 shares
Unexercised share subscription rights	136 million yen

6. Financial Instruments

(1) Status of financial instruments

(a) Policy for financial instruments

The Companies are mainly involved in raising funds (mostly bank borrowing and corporate bond issuance) needed for capital investment to carry out the leasing business and the construction business.

Temporary excess funds are invested in highly secure financial assets, and short-term working capital is raised by borrowing from the bank.

The Companies conduct derivative transactions primarily for the purpose of avoiding interest rate and exchange rate risks, 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 risk.

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

Securities and investment securities are mainly held-to-maturity securities and shares of the companies with which the Company has a business relationship, and those securities are exposed to market risk.

Almost all 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 15 years subsequent to fiscal year end.

Derivative transactions the Companies use are interest rate swaps with the purpose of avoiding risks of future fluctuations in interest rate for borrowings. Interest rate swaps adopted by the Company are exposed to the risk of changes in market interest rates. For details of hedging instruments, hedged items, hedging policies, assessment of hedge effectiveness of hedge accounting, please refer to “(5) Summary of accounting policies, (f) Significant hedge accounting.”

(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 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 Companies.

(d) Supplementary explanations on fair value of financial instruments

Fair value of financial instruments are 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.

The contracted amounts for “Derivatives” in “(2) Fair value of financial instruments” below should not be, in themselves, considered indicative of the volume of market risk associated with the derivatives.

(2) Fair value of financial instruments

The carrying amount on the consolidated balance sheet and fair value of financial instruments as of March 31, 2017 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	104,432	104,432	–
(2) Trade receivables and accounts receivable for completed projects	8,903	8,903	–
(3) Securities and investment securities			
(a) Held-to-maturity debt securities	1,393	1,414	20
(b) “Other securities”	2,383	2,383	–
(4) Operating loans	675		
Allowance for doubtful accounts (*1)	(95)		
Net	580	720	140
(5) Long-term loans	516		
Allowance for doubtful accounts (*1)	(97)		
Net	419	419	–
(6) Bad debts	1,246		
Allowance for doubtful accounts (*1)	(1,246)		
Net	–	–	–
Total assets	118,112	118,273	161
(1) Accounts payable and accounts payable for completed projects	15,012	15,012	–
(2) Bonds (*2)	20,001	20,041	40
(3) Long-term debt (*2)	14,530	14,610	79
(4) Lease obligations	15,386	15,548	162
Total liabilities	64,931	65,212	281
Derivatives	–	–	–

(*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, 2017, current portion of long-term debt of 1,263 million yen and bonds due within one year of 3,966 million yen are included in long-term debt and bonds, respectively.

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

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	1,393	1,414	20
	(2) Corporate bonds	–	–	–
	(3) Others	–	–	–
	Subtotal	1,393	1,414	20
Debt securities whose carrying amount exceeds their fair value	(1) Government and municipal bonds	–	–	–
	(2) Corporate bonds	–	–	–
	(3) Others	–	–	–
	Subtotal	–	–	–
Total		1,393	1,414	20

(b) Other securities

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

(millions of yen)

	Type	Carrying amount	Fair value	Difference
Securities whose carrying amount exceeds their acquisition cost	(1) Stock	1,265	460	805
	(2) Bonds			
	(a) Government and municipal bonds	1,080	1,056	23
	(b) Corporate bonds	–	–	–
	(c) Others	–	–	–
	(3) Others	–	–	–
	Subtotal	2,345	1,516	828
Securities whose acquisition cost exceeds their carrying amount	(1) Stock	–	–	–
	(2) Bonds			
	(a) Government and municipal bonds	38	38	(0)
	(b) Corporate bonds	–	–	–
	(c) Others	–	–	–
	(3) Others	–	–	–
	Subtotal	38	38	(0)
Total		2,383	1,555	828

(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) Accounts payable and accounts payable for completed projects

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

(2) 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 residual value and credit risk).

(3) Long-term debt, (4) 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).

Derivatives trading

(1) Derivatives to which hedge accounting is not applied

Not applicable.

(2) Derivatives to which hedge accounting is applied

(millions of yen)

Method of hedge accounting	Transaction	Hedged item	Contract amount, etc.	Due after 1 year	Fair value
Exceptional treatment for interest rate swaps	Interest rate swaps Floating rate receipt/ Fixed rate payment	Long-term debt	58	8	(Note)

(Note) Interest rate swaps that qualify for the exceptional treatment are accounted for with the long-term debt, and their fair value is included in the fair value of the long-term debt.

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

(millions of yen)

Item	Carrying amount
Other securities	
(1) Unlisted shares	4,566
(2) Unlisted bonds	
Subordinate corporate bonds	824
(3) Others	
Subordinate beneficiary rights of loans and accounts receivable in trust	879
Contributions to limited investment partnerships	2,526
Total	8,796

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: The 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	104,432	–	–	–
Trade receivables and accounts receivable for completed projects	8,903	–	–	–
Securities and investment securities				
Held-to-maturity debt securities	50	1,020	300	–
Other securities with maturities	71	1,042	–	1,703
Operating loans	165	429	56	23
Long-term loans	10	32	13	459
Bad debts	–	–	–	1,246
Total	113,631	2,524	370	3,433

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
Bonds	3,966	14,064	1,971	–
Long-term debt	1,263	4,267	4,690	4,309
Lease obligations	4,647	10,739	–	–
Total	9,876	29,070	6,661	4,309

7. 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 develop and possess serviced apartments. For the year ended March 31, 2017, income arising from these rental properties was 4,152 million yen, and impairment loss was 589 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, 2017 were as follows:

(millions of yen)

Carrying amount			Fair value as of March 31, 2017
Balance as of April 1, 2016	Increase/decrease	Balance as of March 31, 2017	
64,159	(2,413)	61,745	63,987

Notes: 1. Carrying amount recorded on the consolidated balance sheet is the amount after deducting accumulated depreciation and accumulated impairment loss from acquisition cost.

2. The main increase for the fiscal year under review was development of serviced apartments of 649 million yen, and the main decreases for the fiscal year under review were sale of rental apartments of 1,652 million yen and impairment loss of 589 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.”

8. Per Share Information

- | | |
|-----------------------------|------------|
| 1. Net assets per share | 603.76 yen |
| 2. Basic earnings per share | 77.61 yen |

9. Events after the Reporting Period

Not applicable.

10. Other Notes

Business Combination

Business Combination by Acquisition

(1) Overview of business combination

(a) Name and business activities of the acquired company

Name of acquired company: SBI Life Living Co., Ltd.

Business activities: Real estate business (planning, architect, development, and sales of investment income properties)

(b) Main reasons for business combination

To strengthen its core Leasing and Construction businesses, and expand into new business fields by leveraging SBI Life Living Co., Ltd.'s excellent development records in the Tokyo metropolitan, Nagoya, and Fukuoka areas, as well as its unique product lineup, which includes four-story reinforced concrete condominiums and three-story wooden apartments.

(c) Date of business combination

July 1, 2016

(d) Legal form of business combination

Acquisition of shares

(e) Name of company after business combination

Life Living Co., Ltd. has changed in its business name from SBI Life Living Co., Ltd on July 1, 2016.

(f) Voting right ratio acquired

100%

(g) Main grounds for determining acquiring company

The Company acquired the shares in exchange for cash.

(2) Period of business results of acquired company included in consolidated financial statements

From July 1, 2016 to March 31, 2017

(3) Acquisition cost of the acquired company and components thereof

Consideration for acquisition	Cash	5,700 million yen
Acquisition cost		5,700 million yen

(4) Main contents of acquisition-related cost

Advisory cost, etc.: 92 million yen

(5) Amount of goodwill recognized, reason for recognition of goodwill, and method and period for amortization of goodwill

(a) Amount of goodwill recognized 2,079 million yen

(b) Reason for recognition of goodwill

Calculated based primarily on a reasonable estimation of future excess earning power expected from the expansion of Life Living Co., Ltd.'s investment-type condominium development business.

(c) Method and period for amortization of goodwill

Evenly amortized over six years

(6) Amount, source, method and period of goodwill amortization

Current assets	2,771 million yen
Non-current assets	1,130 million yen
<u>Total assets</u>	<u>3,901 million yen</u>

Current liabilities	232 million yen
Non-current liabilities	48 million yen
<u>Total liabilities</u>	<u>281 million yen</u>

(7) Estimated amount of impact on the consolidated statements of operations for the fiscal year under review based on the assumption that the business combination was completed on the first day of the fiscal year under review, as well as the calculation method thereof

Net sales	547 million yen
Operating profit (loss)	(83) million yen
Recurring profit (loss)	(82) million yen
Net income (loss) attributable to shareholders of the parent	(85) million yen

(Calculation method for the estimated amount)

The estimated amount of impact is the difference between net sales and profit/loss information calculated based on the assumption that the business combination was completed on the first day of the fiscal year under review and the net sales and profit/loss information presented in the consolidated statements of operations of the acquired company. In addition, the amortized amount has been calculated based on the assumption that the goodwill recognized when the business combination was completed had been generated on the first day of the fiscal year under review.

Please note that these notes have not received audit certification.

NON-CONSOLIDATED FINANCIAL STATEMENTS

NON-CONSOLIDATED BALANCE SHEET (as of March 31, 2017)

(millions of yen)

ASSETS	
Current assets	102,026
Cash and cash equivalents	76,432
Trade receivables	5,428
Accounts receivable for completed projects	2,188
Operating loans	675
Securities	71
Real estate for sale	21
Real estate for sale in progress	200
Payment for construction in progress	489
Supplies	407
Prepaid expenses	2,629
Deferred tax assets	7,523
Other accounts receivable	809
Deposits paid	2,693
Short-term loans receivable from subsidiaries and affiliates	2,037
Others	592
Allowance for doubtful accounts	(174)
Non-current assets	204,160
Property, plant and equipment	111,281
Buildings	23,344
Structures	310
Machinery and equipment	99
Vehicles	0
Tools, furniture and fixtures	963
Land	70,873
Leased assets	13,537
Construction in progress	2,153
Intangible fixed assets	8,167
Investments and other assets	84,711
Investment securities	10,803
Stocks of subsidiaries and affiliates	45,046
Long-term loans	514
Long-term loans receivable from subsidiaries and affiliates	7,177
Bad debts	1,246
Long-term prepaid expenses	3,231
Deferred tax assets	15,952
Others	2,628
Allowance for doubtful accounts	(1,888)
Deferred assets	552
Bond issuance cost	552
Total assets	306,739

NON-CONSOLIDATED BALANCE SHEET (as of March 31, 2017) *(Continued)*

(millions of yen)

LIABILITIES	
Current liabilities	90,030
Accounts payable	2,311
Accounts payable for completed projects	11,410
Current portion of long-term debt	200
Bonds due within one year	3,966
Lease obligations	4,614
Accounts payable—other	17,867
Accrued income taxes	2,235
Advances received	38,003
Customer advances for projects in progress	4,841
Deposits received	4,020
Reserve for warranty obligations on completed projects	370
Others	189
Non-current liabilities	64,489
Bonds	16,035
Long-term debt	300
Lease obligations	10,630
Long-term advances received	16,614
Lease/guarantee deposits received	7,124
Retirement benefit reserves	10,563
Reserve for apartment vacancy loss	3,183
Others	37
Total liabilities	154,520
NET ASSETS	
Shareholders' equity	151,507
Common stock	75,282
Capital surplus	45,235
Legal capital surplus	45,235
Retained earnings	34,650
Other retained earnings	34,650
Retained earnings brought forward	34,650
Treasury stock	(3,660)
Valuation and translation adjustments	574
Net unrealized gains on "other securities"	574
Share subscription rights	136
Total net assets	152,219
Total liabilities and net assets	306,739

NON-CONSOLIDATED STATEMENT OF OPERATIONS**(from April 1, 2016 to March 31, 2017)**

	(millions of yen)
Net sales	499,218
Sales from Leasing Business	415,608
Sales from Construction Business	70,779
Sales from Other Businesses	12,830
Cost of sales	409,487
Cost of sales from Leasing Business	348,195
Cost of sales from Construction Business	50,108
Cost of sales from Other Businesses	11,182
Gross profit	89,730
Selling, general and administrative expenses	68,026
Operating profit	21,704
Other income	835
Interest and dividend income	387
Foreign exchange gains	13
Others	434
Other expenses	821
Interest expenses	550
Others	271
Recurring profit	21,717
Extraordinary income	403
Gain on sale of property, plant and equipment	403
Extraordinary losses	1,025
Loss on sale of property, plant and equipment	260
Loss on retirement of property, plant and equipment	86
Impairment loss	589
Disaster loss	88
Income before income taxes	21,095
Income taxes—current	2,903
Income taxes—deferred	(2,294)
Net income	20,486

NON-CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
(from April 1, 2016 to March 31, 2017)

(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 Retained earnings brought forward	Total retained earnings		
Balance as of April 1, 2016	75,282	45,235	45,235	19,422	19,422	(3,660)	136,279
Change during period							
Dividends of surplus				(5,257)	(5,257)		(5,257)
Net income				20,486	20,486		20,486
Acquisition of treasury stock						(0)	(0)
Net change of items other than shareholders' equity							
Total change during period	–	–	–	15,228	15,228	(0)	15,228
Balance as of March 31, 2017	75,282	45,235	45,235	34,650	34,650	(3,660)	151,507

(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, 2016	435	435	18	136,732
Change during period				
Dividends of surplus				(5,257)
Net income				20,486
Acquisition of treasury stock				(0)
Net change of items other than shareholders' equity	139	139	118	258
Total change during period	139	139	118	15,487
Balance as of March 31, 2017	574	574	136	152,219

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 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

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

(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

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 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.

Past service costs are amortized by the straight-line method over a specified period (5 years) within the average remaining service years of employees at the time of accrual.

Reserve for apartment vacancy loss

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

(5) Recognition of 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 each 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 Accounting Policies

(Application of the Practical Solution on Accounting on a Change in Depreciation Method Due to Tax Reform 2016)

Following the revision of the Corporation Tax Act, the “Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016” (ASBJ PITF No. 32, June 17, 2016) has been applied effective from the fiscal year under review. The depreciation method for facilities accompanying buildings and structures acquired on or after April 1, 2016 was also changed from the declining balance method to the straight line method.

As a result, operating profit, recurring profit, and income before income taxes for the fiscal year under review each increased by 9 million yen.

(Additional Information)

(Application of ASBJ Guidance on Recoverability of Deferred Tax Assets)

Effective from the fiscal year under review, the Company has applied the Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016).

3. Notes to Non-consolidated Balance Sheet

(1) Assets pledged as collateral and secured liabilities

(a) Assets pledged as collateral

Cash and cash equivalents	17 million yen
Investment securities	55 million yen
Total	72 million yen

(b) Secured liabilities

The above assets have been pledged as collateral to companies in which consolidated subsidiaries have invested and to lenders of housing loans to customers, 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

Deposit for operation stipulated in Building Lots and Buildings	
Transaction Business Act	45 million yen
Deposit for housing construction warranty	1,045 million yen
Deposit for housing defect warranty	109 million yen
Advanced payment certificate in accordance with Payment and Settlement Regulations	628 million yen

(2) Accumulated depreciation of property, plant and equipment 58,781 million yen

(3) Liabilities on guarantee

Liabilities on guarantee for financial institutions for customers who have a housing loan	734 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	13,690 million yen
Liabilities on guarantee for lease contracts of subsidiaries	5 million yen
Liabilities on guarantee for suppliers of subsidiaries	7 million yen

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

Short-term monetary claims	421 million yen
Short-term monetary liabilities	930 million yen
Long-term monetary liabilities	13 million yen

4. Notes to Non-consolidated Statement of Operations

Transactions with subsidiaries and affiliates

Sales to subsidiaries and affiliates	5,038 million yen
Purchases, etc. from subsidiaries and affiliates	5,113 million yen
Non-operating transactions	555 million yen

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

Number of shares of treasury stock

Class of shares	April 1, 2016	Increase	Decrease	March 31, 2017
Common stock	4,569,520 shares	400 shares	–	4,569,920 shares

Note: The increase of 400 shares in the total number of shares of common stock in treasury was due to purchase of shares less than one unit.

6. Tax Effect Accounting

Significant components of deferred tax assets and liabilities

(millions of yen)

Deferred tax assets:	
Loss carried forward for tax purposes	15,562
Impairment loss	10,712
Retirement benefit reserves	3,235
Bonuses payable	1,486
Loss on devaluation of property, plant and equipment	1,164
Loss on devaluation of stock of shares of subsidiaries and affiliates	1,076
Reserve for apartment vacancy loss	980
Allowance for doubtful accounts	630
Advances from customers for rent income	445
Loss on devaluation of real estate for sale	358
Software	332
Deposits received	324
Accrued enterprise tax	265
Accounts payable—other	247
Asset retirement obligations	120
Reserve for warranty obligations on completed projects	114
Sales promotion cost	110
Others	498
<hr/> Sub-total	<hr/> 37,667
Less: valuation allowance	(13,915)
<hr/> Total deferred tax assets	<hr/> 23,751
 Deferred tax liabilities:	
Fixed asset retirement expenses	(4)
Adjustment of gain/loss on transfer (buildings)	(17)
Net unrealized gain on other securities	(253)
<hr/> Total deferred tax liabilities	<hr/> (275)
<hr/> Net deferred tax assets	<hr/> 23,475

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, 2017
Subsidiary	Leopalace Power Corporation	Direct 100.0%	Installment of solar power systems on a contract basis	Lending of funds	–	Long-term loans receivable from subsidiaries and affiliates	4,600

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

When lending funds to Leopalace Power Corporation, interest rates are decided taking into account the market rate of interest and others.

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, 2017
Close relative of director	Toshiko Miyoshi	–	Leasing of land and buildings	Leasing of apartments	26	–	–

Notes: 1. Toshiko Miyoshi is a close relative of Tadahiro Miyama, Director of the Company.

2. Transaction conditions and policies to decide transaction conditions

Rental prices and other conditions for leasing of land and buildings are the same as for transactions with third parties.

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

8. Per Share Information

Net assets per share 578.54 yen

Basic earnings per share 77.93 yen

9. Events after the Reporting Period

Not applicable.

10. Matters Regarding Company Subject to Consolidated Dividend Regulations

Not applicable.