

February 5, 2020

Hironao Fukushima  
Representative Director  
Reno, Inc.

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Representative Director  
S-GRANT.CO., LTD.

## **Explanation of Our Proposed Agenda Items for the Extraordinary Shareholders' Meeting**

To the shareholders of Leopalace21 Corporation:

An extraordinary shareholders' meeting for Leopalace21 Corporation ("Leopalace" hereafter) will be held on February 27, 2020.

We, Reno, Inc. and S-GRANT.CO, LTD, have submitted a demand for the convocation of an extraordinary shareholders' meeting on December 27, 2019, based on our rights as shareholders. Thereafter, on January 28, 2020, we have changed our proposed agenda items.

Our proposed agenda item for this upcoming extraordinary shareholders' meeting is the election of one board director (brief personal history attached at the end of document) which we have nominated.

In the attached document "Reasons for Submitting the Demand for the Convocation of an Extraordinary Shareholders' Meeting", we have explained (1) why we have submitted the demand for the convocation of an extraordinary shareholders' meeting, (2) why we have withdrawn the original proposed Agenda Item 1 "Dismissal of 10 directors of the board", and (3) why we have amended the original proposed Agenda Item 2 "Election of 3 directors of the board", and we have also included (4) "Request to Approve Our Proposed Agenda Item".

We sincerely hope that a board of directors that can strive to increase enterprise value with an even stronger shareholder perspective will be elected at the scheduled annual general shareholders' meeting in June, with director nominations from other major shareholders too.

We will also include for the shareholders the attached document "Initiatives Upon Being Elected" from Masahiro Omura, the board director candidate that we have nominated.

#### Reasons for Submitting the Demand for the Convocation of an Extraordinary Shareholders' Meeting

The brand image of Leopalace has been damaged significantly with the construction defects problem coming to light.

We have been asking Leopalace to disclose information proactively and with transparency, as we thought that the Company's delay in information disclosure was adding to the concerns of all stakeholders including apartment owners, tenants, and shareholders.

However, our requests were not met, but instead the Company made significant downward revisions to business results forecasts and announced an amended schedule for the resolution of the construction defects problem which was over one year behind the originally announced schedule.

We expect a lot of time to be necessary to complete the difficult task of recovering from the significant damage suffered by the brand image of Leopalace on their own.

We believe that the best and most reliable method of making the leasing business recover is to leverage the trustworthiness of other companies through business divestitures (including those that take on the form of company splits), and we have been making such proposals to Leopalace from the outset.

We do not intend to stubbornly persist to our proposal; we are ready to employ other means if there are better ideas, and thus we had been asking for a counterproposal from Leopalace throughout the process, but Leopalace never made any specific proposals, and also refused our proposal to include us in the considerations of reform plans.

As there was no indication that the Company was changing its stance to make appropriate disclosures, and as there was no sign that the Company was considering specific and fundamental reform plans, we saw the need for a complete renewal of the management structure at Leopalace and thus submitted the demand for the convocation of an extraordinary shareholders' meeting.

The two shareholder proposals we made for agenda items were (1) the dismissal of all current directors of the board, and (2) the election of 3 directors of the board that we nominate.

#### Reasons for Withdrawing the Original Proposed Agenda Item 1 "Dismissal of 10 Directors of the Board"

Leopalace did not respond to our request to publicly announce the fact that they are considering reform plans including business alliances and business reorganizations, but the Company later announced this while we were in the process of demanding the convocation of the extraordinary shareholders' meeting. We also saw that Leopalace was considering reform plans more proactively, though facts such as the Company explaining such plans to other major shareholders, hence we came to the conclusion that the current board members shall not be dismissed until the scheduled annual general shareholders' meeting in June, having them focus on rectifying the construction defects problem and conducting marketing during the busy season instead. As for reform plans that can drastically improve enterprise value, we came to the conclusion that it should be discussed with the new director that we propose as a part of the discussions, and that such reform plans be executed under the management structure that will be approved in the annual general shareholders' meeting in June. Therefore, we have decided to withdraw the agenda item to dismiss the current directors of the board.

#### Reasons for Withdrawing the Original Proposed Agenda Item 2 “Election of 3 Directors of the Board”

What we have been asking from Leopalace from the outset was to have the board of directors transform into one that includes external board directors that can think about the improvement of enterprise value from the perspectives of shareholders.

Leopalace announced Company-proposed agenda items for this upcoming extraordinary shareholders’ meeting to appoint two new external directors, and there is the possibility that we can expect these two new external directors to generate a certain level of results. Our wish is to have directors with shareholders’ perspectives join the board of directors to transform the board, which does not necessarily require three new appointees, hence we have decided to reduce our nomination to one candidate.

#### Why an Extraordinary Shareholders’ Meeting is Necessary

When we notified the changes in our proposed agenda items to Leopalace, the Company requested that we withdraw our demand for the convocation of the extraordinary shareholders’ meeting and make these proposals at the annual general shareholders’ meeting in June.

Although we are starting to see a change in attitude at the Company to move forward considerations of fundamental reform plans, Leopalace remains in a critical situation, with occupancy rates in the leasing business continuing to remain below plans and specific goals not being presented for the construction defects problem. As such, we find it difficult to entrust the current management team with all matters of the Company for another four months until the annual general shareholders’ meeting.

#### Request to Approve Our Proposed Agenda Item

What we require of the current management team of Leopalace in the four months until the annual general shareholders’ meeting is progress in the resolution of the construction defects problem as well as marketing activities during the busy season of the leasing business, and simultaneously, the moving forward of specific and proactive considerations of reform plans that can recover the significantly damaged enterprise value of the Company.

The new management structure that will be put in place at the annual general shareholders’ meeting in June will be executing these reform plans, but in the consideration process, it is crucial that a director that can think from a shareholder’s perspective is included in the discussions.

It is hard to say that the board of directors of Leopalace is working on improving enterprise value with the perspective of shareholders, and we believe that sincere discussions within the board of directors can be held only by adding a new director with such a perspective.

We hope that you understand and agree with our proposed agenda item (of electing one director of the board).

Brief Personal History for New Director Candidate

(Name) Masahiro Omura

(Date of Birth) March 18, 1974

(Brief Personal History and Representative Status in Other Companies)

April 1997          Joined Shimizu Corporation

May 2004          Joined Sumitomo Trust and Banking Co., Ltd.

February 2007      Joined Redwood Group Japan Co., Ltd.

August 2009        Joined Reno, Inc.

February 2013      Representative Director, City Index Hospitality, Inc. (current role)

(Attached Document)

## **Initiatives Upon Being Elected**

Masahiro Omura  
President and Representative Director  
City Index Hospitality, Inc.

If I am appointed as an external board director of Leopalace21 Corporation at its extraordinary shareholders' meeting scheduled to be held on February 27, 2020, I intend to state my opinions in board meetings with the following points in mind upon taking the role.

### **(1) Promotion of Proactive and Appropriate Information Disclosure**

I believe that the first step to recovering trust is to constantly revisit the impact of the construction defects problem on the finances and business results of the Company and make disclosures. I also believe that a certain level of sense of security can be provided by proactively making disclosures regarding the reasons to why rectification constructions are being delayed, as this is an area of interest for all stakeholders.

### **(2) Promotion of Consideration Process for Fundamental Reform Plans**

I personally own shares in the Company. I am told that the current board of directors are considering fundamental reform plans that include business alliances and business restructurings, so my first course of action will be to understand the content of these considerations, and then participate in the discussions with the perspective of a shareholder to ensure that the plans being considered are designed to maximize enterprise value.

Not only is the leasing business of Leopalace21 Corporation a wonderful business model, it is also responsible for upholding a section of the social infrastructure in the form of providing housing, and I consider it to be a business that must not fail under any circumstance.

I will be sharing my opinions with the earliest resolution of the construction defects problem and the maximization of enterprise value in mind, so that results that are favorable for all stakeholders, and not only shareholders, can be achieved.