

# Quarterly Securities Report

(The English translation of the “Shihanki-Houkokusho”  
for the second quarter of the 67th term)

from March 1, 2016  
to May 31, 2016

## TOSEI CORPORATION

4-2-3, Toranomon, Minato-ku, Tokyo, Japan

(E04021)

This is an English translation prepared for the convenience of non-resident shareholders by translating the Quarterly Securities Report (Shihanki-Houkokusho) submitted to the Director of the Kanto Local Finance Bureau of the Ministry of Finance of Japan on July 8, 2016. Should there be any inconsistency between the translation and the official Japanese text, the latter shall prevail.

## Table of Contents

Cover

<b>A. Company Information .....</b>	<b>1</b>
<b>I. Overview of the Tosei Group.....</b>	<b>1</b>
1. Trends in principal management benchmarks.....	1
2. Business description.....	1
<b>II. Review of operations .....</b>	<b>2</b>
1. Business and other risks .....	2
2. Important operational contracts, etc. ....	2
3. Analysis of financial position, operating results and cash flows.....	2
<b>III. Filing company.....</b>	<b>8</b>
1. Information on the Company (Tosei)'s shares, etc. ....	8
(1) Total number of authorized shares, etc. ....	8
(2) Status of stock acquisition rights .....	8
(3) Exercise of bond certificates with stock acquisition rights with exercise price amendment clause ....	8
(4) Details of rights plan.....	8
(5) Trends in total number of issued shares, share capital, etc. ....	8
(6) Status of major shareholders.....	9
(7) Status of voting rights.....	10
2. Status of Officers .....	10
<b>IV. Accounting.....</b>	<b>11</b>
1. Condensed Quarterly Consolidated Financial Statements .....	12
(1) Condensed Consolidated Statement of Financial Position.....	12
(2) Condensed Consolidated Statement of Comprehensive Income.....	13
(3) Condensed Consolidated Statement of Changes in Equity .....	15
(4) Condensed Consolidated Statement of Cash Flows.....	16
(5) Notes to Condensed Quarterly Consolidated Financial Statements.....	17
2. Other .....	23
<b>B. Information on Guarantee Companies, etc. of Filing Company .....</b>	<b>24</b>

[Quarterly Review Report of Independent Auditors]

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Company name (English):	Tosei Corporation
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## A. Company Information

### I. Overview of the Tosei Group

#### 1. Trends in principal management benchmarks

Term	66th term First six months	67th term First six months	66th term
Accounting period	From December 1, 2014 to May 31, 2015	From December 1, 2015 to May 31, 2016	From December 1, 2014 to November 30, 2015
Revenue (¥ thousand) [Second quarter of the current fiscal year]	22,343,163 [10,817,376]	30,655,217 [17,128,007]	43,006,964
Profit before tax (¥ thousand)	4,170,927	7,240,317	6,040,311
Profit attributable to owners of the parent (¥ thousand) [Second quarter of the current fiscal year]	2,653,947 [1,263,159]	4,743,981 [2,132,684]	4,135,816
Comprehensive income for the period attributable to owners of the parent (¥ thousand)	2,782,811	4,728,762	4,081,386
Total equity (¥ thousand)	34,931,240	40,206,413	36,228,378
Total assets (¥ thousand)	90,243,386	112,030,360	93,196,052
Basic earnings per share (¥) [Second quarter of the current fiscal year]	54.97 [26.17]	98.25 [44.17]	85.66
Diluted earnings per share (¥)	—	—	—
Ratio of equity attributable to owners of the parent to total assets (%)	38.7	35.9	38.9
Net cash from (used in) operating activities (¥ thousand)	(5,365,112)	(870,073)	(4,443,093)
Net cash from (used in) investing activities (¥ thousand)	(161,079)	(5,455,769)	481,605
Net cash from (used in) financing activities (¥ thousand)	6,235,013	10,166,443	6,661,097
Cash and cash equivalents at end of period (¥ thousand)	16,809,332	22,627,532	18,791,081

Notes: 1. Filing company's trends in principal management benchmarks are not disclosed as the Company prepares quarterly consolidated financial statements.

2. Revenue does not include consumption taxes.

3. Diluted earnings per share for the six months ended May 31, 2015 of the 66th term is not presented due to an absence of potential shares. Diluted earnings per share for the 66th term and the six months ended May 31, 2016 of the 67th term are not presented because there were no potential shares that have dilutive effects.

4. The above indexes are based on the quarterly consolidated financial statements and consolidated financial statements that were prepared in compliance with the International Financial Reporting Standards (hereinafter "IFRS").

#### 2. Business description

During the six months ended May 31, 2016, there were no significant changes in business activities operated by the Tosei Group (the Company and its subsidiaries and affiliates) from the previous fiscal year.

With respect to changes in principal subsidiaries and affiliates, Urban Home Corporation, Urban Next Co., Ltd., Kishino Corporation and Kishino Real Estate Corporation were acquired through M&A transactions, and Tosei Hotel Management Co., Ltd. and Tosei Chintai Hoshō LLC were established. Those entities have been included in the scope of consolidation.

Also, the trade name of a consolidated subsidiary NAI Tosei Japan, Inc. has been changed to Tosei international, Inc. as of January 31, 2016.

Reportable segment classifications have been changed effective from the first quarter of the fiscal year ending November 30, 2016. For details, please refer to "5. Segment information" in "IV. Accounting, 1. Condensed Quarterly Consolidated Financial Statements, (5) Notes to Condensed Quarterly Consolidated Financial Statements."

## **II. Review of operations**

### **1. Business and other risks**

There were no business and other risks that newly arose during the six months ended May 31, 2016. In addition, there were no significant changes in “Business and other risks” described in the annual securities report for the previous fiscal year.

### **2. Important operational contracts, etc.**

No important operational contracts, etc. were determined or entered into during the second quarter of the current fiscal year.

### **3. Analysis of financial position, operating results and cash flows**

Any forward-looking statements included in the following descriptions are based on the best estimates or judgment of the Tosei Group as of May 31, 2016.

#### **(1) Analysis of operating results**

During the six months ended May 31, 2016, the Japanese economy remained on a moderate recovery track against the backdrop of a rebound in capital investment and an improving employment and income environment, despite apparent weaknesses in some areas, such as exports and production. Although we have concerns about the business downturn stemming from slowdown in emerging-market economies and fluctuations in financial markets, more upbeat corporate earnings and robust personal consumption are giving rise to expectations that the moderate recovery will continue going forward.

In the real estate industry where Tosei Group operates, domestic real estate transactions by listed companies and other such entities decreased 23% year on year in fiscal 2015, ended March 31, 2016, to ¥4,089.6 billion, falling for the first time in four years. Amid the increased avoidance of risks in global financial markets, overseas investors adopted a more conservative investment stance, and market transactions decreased. However, transactions are expected to increase as the Bank of Japan’s introduction of a negative interest rate policy invigorates financing for real estate investment and pushes down interest on borrowings (according to a survey by a private research institution).

In the Tokyo metropolitan area condominium market, a decline in unit sales continued, as sharply higher construction costs pushed up selling prices. Condominium units sold in April 2016 numbered 1,978, down 13.5% year on year, falling for the fifth consecutive month. The average selling price per unit was ¥57.5 million, up 8.4% year on year, rising for the 11th consecutive month. Furthermore, construction costs are forecast to continue surging, affected by the 2016 Kumamoto Earthquake, with selling prices expected to remain high (according to a survey by a private research institution).

In the Tokyo metropolitan area built-for-sale detached house market, the number of housing starts between January and April 2016 totaled 19,206 units, up 4.1% compared with the same period of the previous year, indicating firm demand. The perception that detached houses are undervalued in comparison with surging condominium prices is expected to push up demand further (according to the Ministry of Land, Infrastructure, Transport and Tourism data).

In the office leasing market of Tokyo’s five business wards, corporate business expansion continues to fuel demand for office relocation and expansion, and the average asking rent is continuing to rise. The vacancy rate in April 2016 was 4.23%, down 1.11 percentage points year on year, and the average asking rent was ¥18,061 per tsubo (1 tsubo = 3.3m<sup>2</sup>). This marked a rise of ¥804 compared with the same month of the previous year and was the first time since June 2010 that the figure has exceeded ¥18,000 per tsubo (according to a survey by a private research institution).

In the real estate securitization market, the total value of assets under management in private placement funds was ¥14.8 trillion as of December 31, 2015, down ¥0.3 trillion year on year, due to progress on the sale of assets under management. Meanwhile, the J-REIT market expanded further, with total market capitalization of J-REITs rising ¥1.4 trillion year on year, to ¥14.0 trillion (according to a survey by a private research institution).

Amid this operating environment, in the Revitalization Business, the Tosei Group made steady progress in selling assets such as income-generating office buildings and apartments, while in the Development Business, the Group pushed ahead with sales and development of commercial facilities and detached

houses. In addition, we proactively acquired income-generating properties and land for development as future sources of income.

As a result, consolidated revenue for the six months ended May 31, 2016 totaled ¥30,655 million (up 37.2% year on year), operating profit was ¥7,675 million (up 68.7%), profit before tax was ¥7,240 million (up 73.6%), and profit for the period was ¥4,743 million (up 78.8%).

Performance by business segment is shown below.

Reportable segment classifications have been changed effective from the first quarter of the fiscal year ending November 30, 2016, and in the following quarterly comparisons figures for the same period of the previous fiscal year have been recalculated according to the segment after such change.

### **Revitalization Business**

During the six months ended May 31, 2016, the segment sold 19 properties it had renovated, including Kinshicho Tosei Building (Sumida-ku, Tokyo), STABLE NAKANO (Nakano-ku, Tokyo), City Forum Kamihongo (Matudo-shi, Chiba), Mini-mall Yokohama Aoba (Yokohama-shi, Kanagawa), Takaido Tosei Studio (Suginami-ku, Tokyo) and Grace Heiwadai (Nerima-ku, Tokyo). In addition, the segment sold 39 units in the Restyling Business, including Hilltop Yokohama Negishi (Yokohama-shi, Kanagawa), Hilltop Yokohama Higashi Terao (Yokohama-shi, Kanagawa) and Renai Kamakura Ueki (Kamakura-shi, Kanagawa).

During the six months ended May 31, 2016, it also acquired a total of 28 income-generating office buildings and apartments and three land lot for renovation and sales purposes.

As part of the acquisition, our company acquired Kishino Coporation and Kishino Real Estate Corporation, companies hold income properties mainly in Toshima-ku, Tokyo, through M&A transaction and converted it into consolidated subsidiaries.

As a result, revenue in this segment was ¥15,424 million (up 12.1% year on year) and the segment profit was ¥3,627 million (up 10.0%).

### **Development Business**

During the six months ended May 31, 2016, the segment sold new commercial facilities T's BRIGHTIA Minami Aoyama (Minato-ku, Tokyo) and T's BRIGHTIA Tsunashima (Yokohama-shi, Kanagawa). In addition, the segment focused on the sale of detached houses, for which there was firm demand. The segment sold 53 detached houses at such properties as THE Palms Court Kashiwa Hatsuishi (Kashiwa-shi, Chiba), THE Palms Court Koshigaya Lake Town (Koshigaya-shi, Saitama), THE Palms Court Mitaka Osawa (Mitaka-shi, Tokyo) and THE Palms Court Hashimoto (Sagamihara-shi, Kanagawa).

During the six months ended May 31, 2016, it also acquired two land lots for detached housing projects and two land lots for commercial facility projects.

From the three months ended February 29, 2016, the segment embarked on efforts to enhance acquisition and sales networks in the outskirts of Tokyo and the Kanagawa area, facilitated by the Company making Urban Home Corporation, detached house sales and custom home construction company based in Machida-shi, Tokyo a consolidated subsidiary.

As a result, revenue in this segment was ¥10,097 million (up 142.5% year on year) and the segment profit was ¥3,659 million (up 516.7%).

### **Rental Business**

During the six months ended May 31, 2016, while the segment sold 11 buildings of its inventory assets held for leasing purposes, it newly acquired 28 properties including income-generating office buildings and apartments. In addition, the segment made efforts to lease vacancies out following acquisitions and also focused on leasing activities for its existing non-current assets and inventory assets.

As a result, revenue in this segment was ¥2,417 million (up 29.6% year on year) and the segment profit was ¥1,003 million (up 19.3%).

### **Fund and Consulting Business**

During the six months ended May 31, 2016, while ¥22,191 million was subtracted from the balance of

assets under management (Note), due mainly to property dispositions by funds, ¥87,185 million was added to the balance of Assets under management ¥421,792 for the end of the previous fiscal year, due mainly to new asset management contracts of large projects the segment obtained. The balance of assets under management as of May 31, 2016, was ¥486,785 million. The acquisition of such large project contracts increased asset management fees and contributed to revenue.

As a result, revenue in this segment was ¥1,077 million (up 39.6% year on year) and the segment profit was ¥430 million (up 27.7%).

Note: The balance of assets under management includes the balance of assets that were subject to consulting contracts, etc.

### **Property Management Business**

During the six months ended May 31, 2016, the segment worked to win new contracts and maintain existing contracts. Consequently, the total number of properties under management was 594 as of May 31, 2016, an increase of 51 properties from May 31, 2015, with that total comprising 360 office buildings, parking lots, schools and other such properties, and 234 condominiums and apartments.

As a result, revenue in this segment was ¥1,437 million (down 0.4% year on year) and segment profit was ¥70 million (down 20.8%).

### **Other**

For the six months ended May 31, 2016, revenue in this segment was ¥201 million (down 40.8% year on year) and the segment loss was ¥23 million (in comparison with segment profit of ¥52 million in the same period of the previous fiscal year).

## **(2) Analysis of financial position**

As of May 31, 2016, total assets were ¥112,030 million, an increase of ¥18,834 million compared with November 30, 2015, while total liabilities were ¥71,823 million, an increase of ¥14,856 million.

This was primarily due to an increase in inventories resulting from purchase of properties exceeding sales of properties in the Revitalization Business and Development Business, and an increase in borrowings from financial institutions.

Total equity increased by ¥3,978 million to ¥40,206 million, mainly due to an increase in retained earnings and payment of cash dividends.

## **(3) Analysis of cash flows**

Cash and cash equivalents (hereinafter “cash”) as of May 31, 2016 totaled ¥22,627 million, up ¥3,836 million compared with November 30, 2015.

The cash flows for the six months ended May 31, 2016 and factors contributing to those amounts are as follows:

### **Cash Flows from Operating Activities**

Net cash used in operating activities totaled ¥870 million (down 83.8% year on year). This is mainly due to profit before tax of ¥7,240 million, as well as an increase in inventories of ¥8,185 million, which was a result of property acquisitions in the Revitalization Business and Development Business, and income taxes paid of ¥1,199 million.

### **Cash Flows from Investing Activities**

Net cash used in investing activities totaled ¥5,455 million (up 3,287.0% year on year). This is primarily due to purchases of investment properties ¥1,650 million and purchase of investments in subsidiaries resulting in change in scope of consolidation totaling ¥2,608 million.

## Cash Flows from Financing Activities

Net cash provided by financing activities totaled ¥10,166 million (up 63.1% year on year). This mainly reflects ¥14,045 million in the repayments of non-current borrowings and ¥771 million in cash dividends paid, despite ¥25,351 million in proceeds from non-current borrowings.

### (4) Operational and financial issues to be addressed

During the six months ended May 31, 2016, there was no significant change in issues to be addressed by the Tosei Group.

The Company has set the basic policy regarding the persons who control the decision-making on the financial and business policies of the Company. The contents of basic policy (matters set forth in Article 118, item 3 of the Ordinance for Enforcement of the Companies Act) are as follows:

#### a. Contents of basic policy

The Company believes that the persons who control decisions on the Company's financial and business policies need to be persons who fully understand the details of the Company's financial and business affairs and the source of the Company's corporate value and who will make it possible to continually and persistently ensure and enhance the Company's corporate value and, in turn, the common interests of its shareholders.

The Company believes that ultimately its shareholders as a whole must make the decision on any proposed acquisition that would involve a change of control of the Company. Also, the Company will not reject a large-scale acquisition of the shares in the Company if it will contribute to the corporate value of the Company and, in turn, the common interests of its shareholders.

Nonetheless, there are some forms of large-scale acquisition of shares that benefit neither the corporate value of the target company nor the common interests of its shareholders including those with a purpose that would obviously harm the corporate value of the target company and the common interests of its shareholders, those with the potential to substantially coerce shareholders into selling their shares; those that do not provide sufficient time or information for the target company's board of directors and shareholders to consider the details of the large-scale acquisition, or for the target company's board of directors to make an alternative proposal and those that require the target company to discuss or negotiate with the acquirer in order to procure more favorable terms for shareholders than those presented by the acquirer.

It is particularly necessary and essential for the persons who make decisions on the Company's financial and business policies to (i) maintain the system under which the Company internally covers the six business fields (Note) that allow the "integration of real estate and finance," which leads to maximization of the potential of the Company group, (ii) maintain employees who support that system with knowledge and experience specializing in real estate and finance, (iii) maintain the Company's trust in the real estate industry that has been built up over a long period of time based on the establishment of the ability and information networks supporting various value creation technologies, and (iv) master knowhow that enables comprehensive business. Unless the acquirer of a proposed large-scale acquisition of the shares in the Company understands the source of the corporate value of the Company as well as the details of financial and business affairs of the Company and would ensure and enhance these elements over the medium-to-long term, the corporate value of the Company and, in turn, the common interests of its shareholders would be harmed.

The Company believes that persons who would make a large-scale acquisition of the shares in the Company in a manner that does not contribute to the corporate value of the Company or the common interests of its shareholders would be inappropriate as persons that control decisions on the Company's financial and business policies. The Company believes that it is necessary to ensure the corporate value of the Company and, in turn, the common interests of its shareholders by taking necessary and reasonable countermeasures against a large-scale acquisition by such persons.

#### b. Overview of special measures to realize the basic policy

Under the new medium-term management plan called "Advancing Together 2017" (the targeted period of the plan is three years from December 2014 to November 2017), the Company group aims to further strengthen the business infrastructure by expanding and developing of the existing six business (Note) areas and considering its advance to peripheral areas of business, to build optimum corporate



governance for expansion of the Company group and increase of the employees which are entailed in expansion of the business, and to establish efficient organization management structure. Further, the Company group will emphasize the cultivation of the most valuable asset of the Company group, i.e. the human resources to increase satisfaction of the employees of the Company group. As the Basic Policy in the new medium-term management plan for the further growth of the Company group, the Company group is determined to establish the original and distinctive “Tosei brand” by providing products ensuring high customer satisfaction and high-quality services. Based on these policies, the Company group is dedicated to redefine existing ideas with the spirit of challenge and advance as the risk-taking group of companies, to aim “creation of new values and sensation as the truly globally-minded and promising professionals”.

The Company group has previously appointed multiple outside directors (two members), invited all Audit & Supervisory Board Members (five members) from outside the company, and has notified all of the above seven outside directors and Audit & Supervisory Board Members as “independent directors and/or Audit & Supervisory Board Members” in accordance with the “Principles of Corporate Governance for Listed Companies” of the Tokyo Stock Exchange. Also, the Company group has reinforced the business execution function by the introduction of the executive officer system, and the establishment of the corporate governance board, and will continue to endeavor to further strengthen corporate governance. Specifically, the Company group will focus on putting into practice actions based on a high-level awareness of compliance through raising awareness from the level of “role model” to that of “ideal” in accordance with the Compliance Principles of the Company, thorough implementation of risk management by correctly understanding and analyzing risks involved in corporate activities, continuous performance of accountability to various stakeholders including investors by promptly publicly disclosing correct corporate information under the spirit of fair disclosure, and other efforts for strengthening corporate governance.

- c. Overview of measures to prevent decisions on the Company’s financial and business policies from being controlled by persons deemed inappropriate according to the basic policy (hereinafter, the “plan”)

The plan is a measure to prevent decisions on the Company’s financial and business policies from being controlled by persons deemed inappropriate under the above basic policy, and its objective is to ensure and enhance the Company’s corporate value and, in turn, the common interests of its shareholders.

The plan stipulates procedures that must be followed in any cases of purchase, etc. of share certificates, etc. of the Company ((i) a purchase or other acquisition that would result in the holding ratio of share certificates, etc. (*kabuken tou hoyuu wariiai*) of a holder (*hoyuusha*) totaling at least 20% of the share certificates, etc. issued by the company; or (ii) a tender offer (*koukai kaittsuke*) that would result in the party conducting the tender offer’s ownership ratio of share certificates, etc. and the ownership ratio of share certificates, etc. of a person having a special relationship totaling at least 20% of the share certificates, etc. issued by the Company; or (iii) any similar action to (i) or (ii) above)

In practical terms, the acquirer must provide the Company a statement of undertaking (acquirer’s statement) and an acquisition document that includes essential information, etc. before making the acquisition, etc.

Upon receiving these documents, the independent committee, while obtaining independent expert advice, will conduct its consideration of the acquisition terms; collection of information on materials such as the management plans and business plans of the acquirer and the Company’s board of directors and comparison thereof; consideration of any alternative plan presented by the Company’s board of directors, and the like; and discussion and negotiation with the acquirer. The Company will disclose information in a timely manner.

When (i) the acquisition is not in compliance with the procedures prescribed in the plan or (ii) it threatens to cause obvious harm to the corporate value of the Company, and, in turn, to the common interests of shareholders, (iii) and it is reasonable to implement the gratis allotment of stock acquisition rights, the independent committee will recommend the implementation the gratis allotment of stock acquisition rights to the Company’s board of directors. In addition, when a meeting of shareholders is convened to confirm the intent of the Company’s shareholders, the Company’s board of directors will respond to the shareholders’ intent. These stock acquisition rights will be allotted with an exercise condition that does not allow, as a general rule, the acquirer to exercise the rights and an acquisition provision to the effect that the Company may acquire the stock acquisition rights in exchange for shares in the Company from persons other than the acquirer. The Company’s board of directors, in exercising its role under the Companies Act, will pass a resolution relating to the implementation or non-

implementation of the gratis allotment of stock acquisition rights, respecting the recommendation of the Independent Committee to the maximum extent. In addition, when a meeting of shareholders is convened to confirm the intent of the Company's shareholders, the Company's board of directors will respond to the shareholders' intent. If the procedures for the plan have commenced, the acquirer must not effect an acquisition until and unless the Company's board of directors resolves not to trigger the plan. The effective period of the plan expires at the conclusion of the ordinary general meeting of shareholders for the last fiscal year ending within three years after the conclusion of the 65th Ordinary General Meeting of Shareholders. However, if, before the expiration of the effective period, the Company's board of directors resolves to abolish the plan, the plan will be abolished at that time.

d. Decisions by the Company's board of directors regarding specific measures and reasons therefor

Company's board of directors deems that the new medium-term management plan and other measures such as the efforts to enhance the corporate value and the strengthening of corporate governance were established as specific measures to continuously and sustainably enhance the corporate value of the Company and, in turn, the common interests of its shareholders, and that these are truly in accordance with the basic policy, not detrimental to the common interests of the Company's shareholders and not for the purpose of maintaining the positions of the Company's corporate officers.

In addition, the Company's board of directors deems that the plan is not detrimental to the common interests of the Company's shareholders, not for the purpose of maintaining the positions of the Company's corporate officers, and in accordance with the basic policy based on the following reasoning: approval from the general meeting of shareholders must be obtained for its renewal; its effective period is stipulated as a maximum of three years and it can be abolished at any time by the resolution of the Company's board of directors; an independent committee, which is composed of members who are independent from the management of the Company, has been established; in the event that the plan's countermeasures are triggered, the Company must obtain a resolution by the independent committee when making a decision for triggering the countermeasures in the plan, and the plan fully satisfies the three principles set out in the Guidelines Regarding Takeover Defense for the Purposes of Protection and Enhancement of Corporate Value and Shareholders' Common Interests released by the Ministry of Economy, Trade and Industry and the Ministry of Justice on May 27, 2005.

(Note) Reportable segment classifications have been changed effective from the first quarter of the fiscal year ending November 30, 2016. For details, please refer to "5. Segment information" in "IV. Accounting, 1. Condensed Quarterly Consolidated Financial Statements, (5) Notes to Condensed Quarterly Consolidated Financial Statements."

**(5) Research and development activities**

No item to report.

**(6) Number of employees**

In the six months ended May 31, 2016, the number of employees increased by 48 persons compared with November 30, 2015, largely as a result of acquisitions through M&A transactions of Urban Home Corporation and Urban Next Co., Ltd., which operate real estate development business and real estate fund and consulting business.

### III. Filing company

#### 1. Information on the Company (Tosei)'s shares, etc.

##### (1) Total number of authorized shares, etc.

###### a. Total number of authorized shares

Class	Total number of authorized shares
Ordinary shares	150,000,000
Total	150,000,000

###### b. Number of issued shares

Class	Number of issued shares (Shares: as of May 31, 2016)	Number of issued shares (Shares: as of the date of filing: July 8, 2016)	Name of financial instruments exchange where the stock of Tosei is traded or the name of authorized financial instruments firms association where Tosei is registered	Details
Ordinary shares	48,284,000	48,284,000	Tokyo Stock Exchange (First Section), Singapore Exchange (Mainboard)	Share unit number: 100
Total	48,284,000	48,284,000	–	–

##### (2) Status of stock acquisition rights

No item to report.

##### (3) Exercise of bond certificates with stock acquisition rights with exercise price amendment clause

No item to report.

##### (4) Details of rights plan

No item to report.

##### (5) Trends in total number of issued shares, share capital, etc.

Date	Fluctuation in the number of issued shares (Shares)	Balance of issued shares (Shares)	Fluctuation in share capital (¥ thousand)	Balance of share capital (¥ thousand)	Fluctuation in capital reserves (¥ thousand)	Balance of capital reserves (¥ thousand)
From March 1, 2016 to May 31, 2016	–	48,284,000	–	6,421,392	–	6,504,868

## (6) Status of major shareholders

(As of May 31, 2016)

Name of shareholder	Address	Number of shares held (Shares)	Percentage of number of shares held in the total number of shares issued (%)
Seiichiro Yamaguchi	Shibuya-ku, Tokyo, Japan	12,885,500	26.68
Zeus Capital Limited	2-22-26-103 Uehara, Shibuya-ku, Tokyo, Japan	6,000,000	12.42
KBL EPB S.A 107704 (Standing proxy: Mizuho Bank, Ltd., Settlement & cleaning Services Division)	43, Boulevard Royal, L-2955 Luxembourg (2-15-1 Konan, Minato-ku, Tokyo, Japan)	4,828,900	10.00
Japan Trustee Services Bank, Ltd. (Trust Account)	1-8-11, Harumi, Chuo-ku, Tokyo, Japan	1,852,100	3.83
State Street Bank and Trust Company 505001 (Standing proxy: Mizuho Bank, Ltd., Settlement & cleaning Services Division)	P.O.BOX 351 Boston Massachusetts 02101 U.S.A (2-15-1 Konan, Minato-ku, Tokyo, Japan)	1,555,500	3.22
CBNY-Government of Norway (Standing proxy: Citibank Japan Ltd.)	388 Greenwich Street, New York, NY 10013 USA (6-27-30 Shinjuku, Shinjuku-ku, Tokyo, Japan)	1,494,870	3.09
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3, Hamamatsucho, Minato-ku, Tokyo, Japan	1,359,900	2.81
BNP Paribas Securities Services Luxembourg / JASDEC / FIM / Luxembourg Funds UCITS Assets (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited Tokyo Branch)	33 RUE DE GASPERICH, L-5826 Howald-Hesperange, Luxembourg (3-11-1, Nihonbashi, Chuo-ku, Tokyo, Japan)	820,000	1.69
CBLDN Thread Needle Investment Funds ICVC-Japan Fund (Standing proxy: Citibank Japan Ltd.)	Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB, UK (6-27-30 Shinjuku, Shinjuku-ku, Tokyo, Japan)	735,200	1.52
HSBC-Fund Services, HBAPCLTS UCITS A/C-Ireland (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited Tokyo Branch)	1 Queen's Road Central Hong Kong (3-11-1, Nihonbashi, Chuo-ku, Tokyo, Japan)	499,100	1.03
Total	-	32,031,070	66.29

Notes: 1. The change report for the large shareholding report, which was made accessible to the public as of October 19, 2015, states that SPARX Asset Management Co., Ltd. held the following shares as of October 15, 2015. However, since the Company could not confirm the actual number of shares held by this company as of May 31 2016, the company was not included in the status of major shareholders described above.

The content of the change report for the large shareholding report is as follows:

Large volume holder	SPARX Asset Management Co., Ltd.
Address	Tennozu First Tower, 2-2-4, Higashi-shinagawa, Shinagawa-ku, Tokyo
Number of share certificates, etc. held	3,233,200
Holding ratio of share certificates, etc.	6.70%

2. The change report for the large shareholding report, which was made accessible to the public as of April 6, 2016, states that HALLEY SICAV held the following shares as of April 1, 2016. However, since the Company could not confirm the actual number of shares held by this company as of May 31 2016, the company was not included in the

status of major shareholders described above.

The content of the change report for the large shareholding report is as follows:

Large volume holder	HALLEY SICAV
Address	7A rue Robert Stumper, L-2557 Luxembourg
Number of share certificates, etc. held	4,532,100
Holding ratio of share certificates, etc.	9.39%

## (7) Status of voting rights

### a. Issued shares

(As of May 31, 2016)

Classification	Number of shares (Shares)	Number of voting rights	Details
Shares without voting rights	–	–	–
Shares with restricted voting rights (Treasury shares, etc.)	–	–	–
Shares with restricted voting rights (Other)	–	–	–
Shares with full voting rights (Treasury shares, etc.)	–	–	–
Shares with full voting rights (Other)	Ordinary shares 48,282,100	482,821	Tosei's standard class of shares with no rights limitations
Shares less than one unit	Ordinary shares 1,900	–	–
Total number of issued shares	48,284,000	–	–
Voting rights owned by all shareholders	–	482,821	–

Note: The number of "Shares with full voting rights (Other)" includes 400 shares in the name of Japan Securities Depository Center, Inc. "Number of voting rights" includes four units of voting rights related to shares with full voting rights in its name.

### b. Treasury shares, etc.

(As of May 31, 2016)

Name of shareholders	Address	Number of shares held under own name (Shares)	Number of shares held under the name of others (Shares)	Total number of shares held (Shares)	Percentage of number of shares held in the total number of shares issued (%)
–	–	–	–	–	–
Total	–	–	–	–	–

## 2. Status of officers

There was no change in Officers during the six months ended May 31, 2016 after the filing date of annual securities report for the previous fiscal year.

## **IV. Accounting**

### **1. Preparation policy of the condensed quarterly consolidated financial statements**

The condensed quarterly consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard (IAS) 34 “Interim Financial Reporting” under the provision of Article 93 of the “Ordinance on Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements” (Cabinet Office Ordinance No. 64 of 2007).

### **2. Audit attestation**

The condensed quarterly consolidated financial statements for the second quarter of the fiscal year ending November 30, 2016 (from March 1, 2016 to May 31, 2016) and for the first six months of the fiscal year ending November 30, 2016 (from December 1, 2015 to May 31, 2016) were reviewed by Shinsoh Audit Corporation pursuant to Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act.

# 1. Condensed Quarterly Consolidated Financial Statements

## (1) Condensed Consolidated Statement of Financial Position

(¥ thousand)

	Notes	As of November 30, 2015	As of May 31, 2016
<b>Assets</b>			
Current assets			
Cash and cash equivalents	8	18,791,081	22,627,532
Trade and other receivables	8	2,914,639	2,257,309
Inventories		46,156,041	59,895,174
Other current assets		27,010	106,692
Total current assets		67,888,773	84,886,709
Non-current assets			
Property, plant and equipment		3,315,747	3,587,869
Investment properties		18,785,986	20,330,269
Intangible assets		96,648	95,801
Available-for-sale financial assets	8	1,225,047	1,315,177
Trade and other receivables	8	1,098,687	1,362,289
Deferred tax assets		781,146	423,327
Other non-current assets		4,014	28,914
Total non-current assets		25,307,278	27,143,650
Total assets		93,196,052	112,030,360
<b>Liabilities and equity</b>			
Liabilities			
Current liabilities			
Trade and other payables	8	2,734,006	2,886,209
Borrowings	8	9,492,795	7,191,155
Current income tax liabilities		1,150,089	2,551,630
Provisions		442,303	389,740
Total current liabilities		13,819,195	13,018,736
Non-current liabilities			
Trade and other payables	8	3,510,413	4,345,440
Borrowings	8	39,175,846	53,978,437
Retirement benefits obligations		383,312	402,354
Provisions		78,905	78,977
Total non-current liabilities		43,148,478	58,805,210
Total Liabilities		56,967,673	71,823,946
Equity			
Share capital		6,421,392	6,421,392
Capital reserves		6,373,881	6,395,697
Retained earnings		23,327,875	27,299,313
Other components of equity		105,228	90,010
Total equity		36,228,378	40,206,413
Total liabilities and equity		93,196,052	112,030,360

## (2) Condensed Consolidated Statement of Comprehensive Income

Six months ended May 31, 2016

(¥ thousand)

	Notes	Six months ended May 31, 2015	Six months ended May 31, 2016
Revenue	5	22,343,163	30,655,217
Cost of revenue		15,272,904	18,907,200
Gross profit		7,070,258	11,748,016
Selling, general and administrative expenses		2,531,621	3,983,010
Other income		35,663	134,843
Other expenses		23,332	224,615
Operating profit	5	4,550,967	7,675,234
Finance income		1,557	31,133
Finance costs		381,596	466,050
Profit before tax		4,170,927	7,240,317
Income tax expense		1,516,980	2,496,336
Profit for the period		2,653,947	4,743,981
Other comprehensive income			
Items that may be transferred to net profit or loss			
Exchange differences on translation of foreign operations		3,624	(19,729)
Net change in fair values of available-for-sale financial assets		133,017	7,272
Net change in fair values of cash flow hedges		(7,776)	(2,762)
Subtotal		128,864	(15,218)
Other comprehensive income for the period, net of tax		128,864	(15,218)
Total comprehensive income for the period		2,782,811	4,728,762
Profit attributable to:			
Owners of the parent		2,653,947	4,743,981
Total comprehensive income attributable to:			
Owners of the parent		2,782,811	4,728,762
Earnings per share attributable to owners of the parent			
Basic earnings per share (yen)	7	54.97	98.25
Diluted earnings per share (yen)	7	—	—



Second quarter ended May 31, 2016

(¥ thousand)

	Notes	Second quarter ended May 31, 2015	Second quarter ended May 31, 2016
Revenue	5	10,817,376	17,128,007
Cost of revenue		7,375,585	11,560,253
Gross profit		3,441,791	5,567,754
Selling, general and administrative expenses		1,263,262	1,845,187
Other income		30,410	4,651
Other expenses		23,275	179,484
Operating profit	5	2,185,663	3,547,733
Finance income		186	642
Finance costs		205,890	222,869
Profit before tax		1,979,959	3,325,506
Income tax expense		716,800	1,192,822
Profit for the period		1,263,159	2,132,684
Other comprehensive income			
Items that may be transferred to net profit or loss			
Exchange differences on translation of foreign operations		14,670	(127)
Net change in fair values of available-for-sale financial assets		16,551	7,879
Net change in fair values of cash flow hedges		(8,227)	(1,504)
Subtotal		22,994	6,247
Other comprehensive income for the period, net of tax		22,994	6,247
Total comprehensive income for the period		1,286,153	2,138,932
Profit attributable to:			
Owners of the parent		415,848	2,132,684
Total comprehensive income attributable to:			
Owners of the parent		416,495	2,138,932
Earnings per share attributable to owners of the parent			
Basic earnings per share (yen)	7	26.17	44.17
Diluted earnings per share (yen)	7	—	—

### (3) Condensed Consolidated Statement of Changes in Equity

Six months ended May 31, 2015 (December. 1, 2014 – May 31, 2015)

						(¥ thousand)
	Notes	Share capital	Capital reserves	Retained earnings	Other components of equity	Total equity
Balance at December 1, 2014		6,421,392	6,375,317	19,776,474	154,652	32,727,836
Profit for the period		—	—	2,653,947	—	2,653,947
Other comprehensive income		—	—	—	128,864	128,864
Total comprehensive income for the period		—	—	2,653,947	128,864	2,782,811
Dividends of surplus	6	—	—	(579,408)	—	(579,408)
Balance at May 31, 2015		6,421,392	6,375,317	21,851,013	283,516	34,931,240

Six months ended May 31, 2016 (December. 1, 2015 – May 31, 2016)

						(¥ thousand)
	Notes	Share capital	Capital reserves	Retained earnings	Other components of equity	Total equity
Balance at December 1, 2015		6,421,392	6,373,881	23,327,875	105,228	36,228,378
Profit for the period		—	—	4,743,981	—	4,743,981
Other comprehensive income		—	—	—	(15,218)	(15,218)
Total comprehensive income for the period		—	—	4,743,981	(15,218)	4,728,762
Dividends of surplus	6	—	—	(772,544)	—	(772,544)
Share-based payment		—	21,816	—	—	21,816
Balance at May 31, 2016		6,421,392	6,395,697	27,299,313	90,010	40,206,413

**(4) Condensed Consolidated Statement of Cash Flows**

(¥ thousand)

Notes	Six months ended May 31, 2015	Six months ended May 31, 2016
Cash flows from operating activities		
Profit before tax	4,170,927	7,240,317
Depreciation expense	106,365	154,412
Increase (decrease) in provisions and retirement benefits obligations	(421,378)	(43,112)
Interest and dividend income	(1,557)	(31,133)
Interest expenses	381,596	466,050
Loss on retirement of property, plant and equipment	81	4,308
Decrease (increase) in trade and other receivables	(393,558)	710,332
Decrease (increase) in inventories	(7,998,416)	(8,185,643)
Increase (decrease) in trade and other payables	167,154	(143,488)
Other, net	(7,771)	126,390
Subtotal	(3,996,555)	298,435
Interest and dividend income received	1,557	31,134
Income taxes paid	(1,370,113)	(1,199,642)
Net cash from (used in) operating activities	(5,365,112)	(870,073)
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	140,000	—
Purchase of property, plant and equipment	(23,653)	(15,547)
Purchase of investment properties	(687,382)	(1,650,882)
Purchase of intangible assets	(37,709)	(12,440)
Purchase of available-for-sale financial assets	(1,650)	(80,250)
Collection of available-for-sale financial assets	4,321	80,452
Proceeds from sales of available-for-sale financial assets	444,960	—
Payments of loans receivable	—	(1,200,000)
Collection of loans receivable	35	36
Purchase of investments in subsidiaries resulting in change in scope of consolidation	—	(2,608,326)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	—	31,150
Other, net	—	37
Net cash from (used in) investing activities	(161,079)	(5,455,769)
Cash flows from financing activities		
Net increase (decrease) in current borrowings	—	116,900
Proceeds from non-current borrowings	19,713,000	25,351,800
Repayments of non-current borrowings	(12,277,858)	(14,045,826)
Cash dividends paid	(577,728)	(771,027)
Interest expenses paid	(620,607)	(481,822)
Other, net	(1,792)	(3,579)
Net cash from (used in) financing activities	6,235,013	10,166,443
Net increase (decrease) in cash and cash equivalents	708,821	3,840,600
Cash and cash equivalents at beginning of period	16,100,795	18,791,081
Effect of exchange rate change on cash and cash equivalents	(284)	(4,149)
Cash and cash equivalents at end of period	16,809,332	22,627,532

## **(5) Notes to Condensed Quarterly Consolidated Financial Statements**

### **1. Reporting entity**

Tosei Corporation (hereinafter, the “Company”) is a share company located in Japan whose shares are listed on the First Section of Tokyo Stock Exchange and the Mainboard of Singapore Exchange. The Company’s condensed quarterly consolidated financial statements for the second quarter (March 1, 2016 to May 31, 2016) and first six months (December 1, 2015 to May 31, 2016) of the current fiscal year have been prepared in respect of the Company and its subsidiaries (hereinafter collectively, the “Group”). The Group engages in the following five business operations: Revitalization Business, Development Business, Rental Business, Fund and Consulting Business and Property Management Business. The operations of each business segment are presented in “5. Segment information” in the notes.

### **2. Basis of preparation**

#### **(1) Compliance with IFRS**

Since the Company qualifies as a “specified company” as provided in Article 1-2 of the “Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements” (Ordinance of the Ministry of Finance No. 28 of 1976), its condensed quarterly consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 “Interim Financial Reporting” under the provision of Article 93 of the “Ordinance on Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements” (Cabinet Office Ordinance No. 64 of 2007).

These condensed quarterly consolidated financial statements were approved by Seiichiro Yamaguchi, the Company’s President and CEO, and Noboru Hirano, Director and CFO, on July 7, 2016.

#### **(2) Basis of measurement**

The condensed quarterly consolidated financial statements have been prepared on the historical cost basis except for assets and liabilities measured at fair value.

#### **(3) Presentation currency and unit**

The condensed quarterly consolidated financial statements in this report are presented in Japanese yen, the Company’s functional currency. All financial information presented in Japanese yen is rounded down to the nearest thousand yen.

### **3. Significant accounting policies**

Significant accounting policies that the Group applies in condensed quarterly consolidated financial statements are the same as the accounting policies used in the consolidated financial statements for the previous fiscal year.

### **4. Significant accounting estimates and judgments requiring estimates**

The preparation of the condensed quarterly consolidated financial statements in compliance with IFRS requires the management of the Group to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, revenue and expenses. However, actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period in which the estimates are changed and in future periods in which the change will affect.

### **5. Segment information**

The Group’s reportable segments are components of the Group about which separate financial information is available that the Board of Directors regularly conducts deliberations to determine the allocation of management resources and to assess the performance. The Group draws up comprehensive strategies for each of the following five business segments and conducts business activities accordingly; “Revitalization Business”, “Development Business”, “Rental Business”, “Fund and Consulting

Business”, and “Property Management Business”. In the Revitalization Business, the Group acquires the properties whose asset values have declined, renovates, and resells them. In the Development Business, the Group sells condominium units and detached houses to individual customers as well as apartment and office buildings to investors. In the Rental Business, the Group rents office buildings and apartments. The Fund and Consulting Business mainly provides asset management services for the properties placed in real estate funds. The Property Management Business provides comprehensive property management services.

The Tosei Group has made changes to its reportable segments, reducing the number of such segments from six up through the end of the previous fiscal year to five as of the first quarter of the fiscal year ending November 30, 2016. Accordingly, the reportable segments are now: the Revitalization Business, Development Business, Rental Business, Fund and Consulting Business, and Property Management Business segments.

With this change, transactions formerly classified as being associated with the Alternative Investment Business segment, based on the point of view that they involved acquisition of real estate arising from purchases of real estate collateralized loans, M&As of real estate-owning companies and other alternative means of investment, are now classified as being associated with either the Revitalization Business, Rental Business, Fund and Consulting Business, or Other, depending on the nature of the revenue derived from the respective transaction. The “Other” category includes business involving sports club facilities.

Segment information for the six months ended May 31, 2015 and second quarter ended May 31, 2015 have been prepared in accordance with the new reportable segment classifications.

The Group’s revenue and profit/loss by reportable segment are as follows:

Six months ended May 31, 2015

(December 1, 2014 – May 31, 2015)

	Reportable Segments					Other	Adjustment	Total
	Revitalization Business	Development Business	Rental Business	Fund and Consulting Business	Property Management Business			
Revenue								
Revenue from external customers	13,759,988	4,162,916	1,864,729	771,856	1,442,682	340,990	—	22,343,163
Intersegment revenue	—	—	27,611	3,490	218,710	—	(249,811)	—
Total	13,759,988	4,162,916	1,892,340	775,346	1,661,393	340,990	(249,811)	22,343,163
Segment profit	3,296,722	593,493	840,972	336,939	88,784	52,126	(658,072)	4,550,967
Finance income/costs, net								(380,039)
Profit before tax								4,170,927

Six months ended May 31, 2016

(December 1, 2015 – May 31, 2016)

(¥ thousand)

	Reportable Segments					Other	Adjustment	Total
	Revitalization Business	Development Business	Rental Business	Fund and Consulting Business	Property Management Business			
Revenue								
Revenue from external customers	15,424,148	10,097,038	2,417,311	1,077,630	1,437,385	201,704	—	30,655,217
Intersegment revenue	—	—	20,815	12,600	525,539	370	(559,324)	—
Total	15,424,148	10,097,038	2,438,126	1,090,230	1,962,924	202,074	(559,324)	30,655,217
Segment profit or loss	3,627,319	3,659,887	1,003,040	430,340	70,332	(23,796)	(1,091,888)	7,675,234
Finance income/costs, net								(434,916)
Profit before tax								7,240,317

Second quarter ended May 31, 2015

(March 1, 2015 – May 31, 2015)

(¥ thousand)

	Reportable Segments					Other	Adjustment	Total
	Revitalization Business	Development Business	Rental Business	Fund and Consulting Business	Property Management Business			
Revenue								
Revenue from external customers	6,552,521	1,838,157	999,020	512,804	743,690	171,182	—	10,817,376
Intersegment revenue	—	—	13,803	2,162	104,975	—	(120,942)	—
Total	6,552,521	1,838,157	1,012,824	514,967	848,665	171,182	(120,942)	10,817,376
Segment profit	1,448,935	184,321	475,419	286,031	62,668	22,275	(293,988)	2,185,663
Finance income/costs, net								(205,703)
Profit before tax								1,979,959

Second quarter ended May 31, 2016

(March 1, 2016 – May 31, 2016)

(¥ thousand)

	Reportable Segments					Other	Adjustment	Total
	Revitalization Business	Development Business	Rental Business	Fund and Consulting Business	Property Management Business			
Revenue								
Revenue from external customers	13,063,468	1,372,913	1,316,360	514,574	795,275	65,416	—	17,128,007
Intersegment revenue	—	—	10,513	9,600	311,567	370	(332,050)	—
Total	13,063,468	1,372,913	1,326,873	524,174	1,106,842	65,786	(332,050)	17,128,007
Segment profit or loss	3,445,079	79,417	541,266	220,320	42,314	(22,550)	(758,114)	3,547,733
Finance income/costs, net								(222,226)
Profit before tax								3,325,506

## 6. Dividends

Dividends paid in the six months ended May 31, 2015 and May 31, 2016 are as follows:

Six months ended May 31, 2015				
Resolution	Dividends per share (¥)	Total dividends (¥ thousand)	Record date	Effective date
Ordinary General Meeting of Shareholders held on February 25, 2015	12	579,408	November 30, 2014	February 26, 2015

Six months ended May 31, 2016				
Resolution	Dividends per share (¥)	Total dividends (¥ thousand)	Record date	Effective date
Ordinary General Meeting of Shareholders held on February 25, 2016	16	772,544	November 30, 2015	February 26, 2016

## 7. Earnings per share

	Six months ended May 31, 2015	Six months ended May 31, 2016
Profit for the period attributable to owners of the parent (¥ thousand)	2,653,947	4,743,981
Weighted average number of outstanding ordinary shares (shares)	48,284,000	48,284,000
Basic earnings per share (¥)	54.97	98.25

	Second quarter ended May 31, 2015	Second quarter ended May 31, 2016
Profit for the period attributable to owners of the parent (¥ thousand)	1,263,159	2,132,684
Weighted average number of outstanding ordinary shares (shares)	48,284,000	48,284,000
Basic earnings per share (¥)	26.17	44.17

- Notes: 1. Basic earnings per share is calculated by dividing profit attributable to owners of the parent, by the weighted average number of ordinary shares outstanding during the reporting period.
2. Diluted earnings per share for the six months ended May 31, 2015 and second quarter ended May 31, 2015 are not presented due to an absence of potential shares. Diluted earnings per share for the six months ended May 31, 2016 and second quarter ended May 31, 2016 are not presented because there were no potential shares that have dilutive effects.

## 8. Financial instruments

### i) Fair values and carrying amounts

Fair values of financial assets and liabilities and their carrying amounts presented in the condensed consolidated statement of financial position are as follows:

	As of November 30, 2015		As of May 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	18,791,081	18,791,081	22,627,532	22,627,532
Available-for-sale financial assets	1,225,047	1,225,047	1,315,177	1,315,177
Trade and other receivables	4,013,327	4,013,327	3,619,599	3,619,599
Trade and other payables	6,244,419	6,244,419	7,231,650	7,231,650
Borrowings	48,668,642	48,696,153	61,169,592	61,193,538

## Method for measuring fair value of financial instruments

### Cash and cash equivalents, trade and other receivables, trade and other payables, and current borrowings

The book values of these financial instruments that are settled in a short period of time approximate the fair values.

However, the fair values of interest rate swaps are based on market values presented by financial institutions.

### Available-for-sale financial assets

The fair values of listed securities are measured based on quoted market prices. For financial assets for which there is no active market and unlisted securities, the Group estimates fair values using certain valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially at the same price, and the discounted cash flow method. Securities that do not have a quoted market price in an active market and of which the fair value cannot be reliably estimated are measured based on the acquisition cost.

### Non-current borrowings

The fair values of non-current borrowings with floating interest rate approximate the book values, as interest rates reflect market interest rates in short-term intervals. The fair values of those with fixed interest rate are measured based on the present value of the total amount of principal and interest discounted by the interest rate that would be charged for a new similar borrowing.

## ii) Fair value hierarchy

The following shows the analysis of financial instruments measured at fair value after the initial recognition. Fair values of financial instruments are classified into level 1 to level 3.

Level 1: Fair values measured at a price quoted in an active market

Level 2: Fair values calculated directly or indirectly using an observable price except for level 1

Level 3: Fair values calculated through valuation techniques, including inputs that are not based on observable market data

(¥ thousand)

	As of November 30, 2015			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	1,097,925	38	127,083	1,225,047
Financial liabilities measured at fair value with the change in fair value recognized through profit or loss (derivative)	—	13,180	—	13,180

(¥ thousand)

	As of May 31, 2016			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	1,188,128	38	127,010	1,315,177
Financial liabilities measured at fair value with the change in fair value recognized through other comprehensive income (derivative)	—	40,792	—	40,792



Reconciliation of financial assets classified in level 3 at the beginning of the period with those at the end of the period is as follows:

(¥ thousand)	
	Six months ended May 31, 2016
Balance at beginning of period	127,083
Acquisition	80,410
Comprehensive income	
Profit (loss)	—
Disposal	(80,482)
Balance at end of period	127,010

## 9. Business combinations

In the six months ended May 31, 2016, the Group engaged in the following business combinations.

### *Acquisition of Kishino Corporation and Kishino Real Estate Corporation*

On March 31, 2016, the Company acquired 100% of the shares in Kishino Corporation and Kishino Real Estate Corporation, companies owning income-generating properties mainly in Toshima Ward, Tokyo, and engaging in the rental business.

The Group is stepping up its activities to acquire future sources of income. This M&A activity was performed as part of the acquisition methods therefor.

The fair values of consideration paid, assets acquired and liabilities assumed as of the acquisition date were as follows:

	Amount (Thousands of yen)
Fair value of consideration paid (Note)	3,054,784
Fair values of assets acquired and liabilities assumed	
Current assets	5,239,508
[Of which, cash and cash equivalents]	[431,500]
Non-current assets	109,202
Current liabilities	(285,402)
Non-current liabilities	(2,008,552)
Net assets	3,054,784

Note: Consideration paid was in cash. The adjustment of consideration to reflect the change in the amount equivalent to net assets during the period until the closing date had not been made yet as of May 31, 2016.

The fair values of assets acquired and liabilities assumed were calculated by taking into overall consideration financial and asset conditions examined through third-party due diligence.

Acquisition costs related to these business combinations, of ¥169,853 thousand, were recorded in “other expenses.”

Profit and loss information and pro forma profit and loss information for these business combinations after the acquisition date are not stated, as its amount of impact on the condensed quarterly consolidated financial statements is immaterial.

**10. Significant subsequent events**

No item to report.

**2. Other**

No item to report.

**B. Information on Guarantee Companies, etc. of Filing Company**

No items to report.

(Translation)

**Quarterly Review Report of Independent Auditors**

July 7, 2016

To the Board of Directors of  
Tosei Corporation

Shinsoh Audit Corporation

Designated and Engagement Partner,  
Certified Public Accountant:

\_\_\_\_\_ Takayuki Sakashita (Seal)

Designated and Engagement Partner,  
Certified Public Accountant:

\_\_\_\_\_ Atushi Iijima (Seal)

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have reviewed the condensed quarterly consolidated financial statements of Tosei Corporation included in the “Accounting” section, namely, the condensed consolidated statements of financial position, comprehensive income, changes in equity, and cash flows, as well as their notes, for the second quarter (March 1, 2016 to May 31, 2016) and the six-month period (December 1, 2015 to May 31, 2016) of the fiscal year from December 1, 2015 to November 30, 2016.

*Management’s Responsibility for the Condensed Quarterly Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these condensed quarterly consolidated financial statements in conformity with International Accounting Standard 34 “Interim Financial Reporting” under the provision of Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements of Japan; this includes the design, implementation, and maintenance of internal control as management determines is necessary to enable the preparation and fair presentation of condensed quarterly consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor’s Responsibility*

Our responsibility is to express a conclusion from an independent perspective on these condensed quarterly consolidated financial statements based on our quarterly review as independent auditor. We conducted our review in conformity with quarterly review standards generally accepted in Japan.

A quarterly review consists principally of making inquiries, primarily of management and persons responsible for financial and accounting matters, and applying analytical procedures and other quarterly review procedures. A quarterly review is substantially less in scope than an audit conducted in conformity with auditing standards generally accepted in Japan.

We believe that we have obtained the evidence to provide a basis for our conclusion.

*Auditor’s Conclusion*

In our quarterly review, we have concluded that the condensed quarterly consolidated financial statements referred to above are in conformity with International Accounting Standard 34 “Interim Financial Reporting.”, and nothing has come to our attention that causes us to believe that they do not fairly present, in all material respects, the financial positions of the Company and its consolidated subsidiaries as of May 31, 2016, their operating results for the second quarter and the six month ended May 31, 2016, and their cash flows for the six months ended the same date.

*Interest*

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

End

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\*1. The above is a digitization of the text contained in the original copy of the Quarterly Review Report, which is in the custody of the Company (filing company of the quarterly securities report) as attachments to the financial statements.

2.XBRL data is excluded from the scope of the quarterly review.

Note:

The English version of the financial statements consists of an English translation of the reviewed Japanese financial statements. The actual text of the English translation of the financial statements was not covered by our review. Consequently, for the auditors' review report of the English financial statements, the Japanese original is the official text, and the English version is a translation of that text.