TOSEI CORPORATION

CORPORATE GOVERNANCE

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**Tosei Corporation**
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**The state of corporate governance of Tosei Corporation ("the Company") is as described below:**

## I. Fundamental Approach toward Corporate Governance, Capital Structure, Corporate Attributes, and Other Basic Information

### 1. Fundamental Approach

Fundamental Approach toward Corporate Governance

Our Group aspires to be a valuable contributor to all kinds of our stakeholders in the society, including the shareholders, the employees, the business partners and others, by promptly and appropriately responding to the changes in the business environment and continuing operational activities which enable the Group to achieve a sound growth. For this purpose, the Group has placed the greatest importance on enhancement of corporate governance, and in particular, "fully cultivating compliance mind", "enhancing risk management" and "conducting timely disclosure" as three key initiatives. Furthermore, the Group is determined to make efforts in a unified manner, from the top management down to each employee of the Group companies, led by the Board of Directors, to develop an internal control system as required by the Companies Act and the Financial Instruments and Exchange Act, as well as to set up a system which is credible to investors, as a financial instruments business operator.

**[Reasons for Non-Compliance with the Principles of the Corporate Governance Code]**

**Supplementary Principle 4-11-1** Basic view on the appropriate balance between knowledge, experience and skills of the board as a whole, and also on diversity and appropriate board size

⇒The Board of Directors is deemed to contribute to the medium- to long-term growth of the Group when it is comprised of a diverse range of members. Going forward, the Group's policy is to appoint any eligible candidate when they are identified. As of this document's last update, there is no female Director in office.

**[Disclosure Based on the Principles of the Corporate Governance Code]**

The Company discloses the basic policy for each of principles of the Corporate Governance Code as "Tosei Corporation Basic Policy on Corporate Governance (hereinafter, the Company's Basic Policy)" on the Company's website below. In addition, the Basic Policy was partially revised as of November 22, 2018.

https://www.toseicorp.co.jp/english/ir/governance/basic_policy/

(1) Company's disclosure regarding to policies, basic rules, procedures, outline of analysis and others which are required to disclose under "The Preparation Guidelines for Preparing the Corporate Governance Reports (Tokyo Stock Exchange)" are written in below,

**General Principle 1.4 Cross-shareholdings**

Basic policy for maintaining cross-shareholdings and exercising voting right

⇒As of this document's last update, the Company does not own any shares of another listed company for strategic purposes. More details are described in "the Company's Basic Policy" Principle 1-4

**General Principle 1.7 Related Party Transaction**

Basic rules of appropriate manner in case of entering transactions involving conflict of interest with director(s) or major shareholders (related parties)

⇒"the Company's Basic Policy" Principle 1-7

**General Principle 2.6 Roles as Asset Owner of Corporate Pension Funds**

⇒As of this document's last update, the Company does not have any corporate pension funds.

**General Principle 3.1 Full Disclose**

ⅰ)Company objectives(e.g., business principles), business strategies and business plans

⇒"the Company's Basic Policy" Principle 3-1,
and Company's website (https://www.toseicorp.co.jp/)

ⅱ)Basic views and guideline on corporate governance based on each of the principles of the Code

⇒details are described in Section Ⅰ.1

ⅲ)Board policies and procedures in determining the remuneration for the senior management and directors

⇒"the Company's Basic Policy" Principle 3-1

ⅳ)Board policies and procedures in the appointment of the senior management and the nomination of directors and *Kansayaku* candidates

⇒"the Company's Basic Policy" Principle 3-1

ⅴ)Explanation with respect to the individual appointments and nominations based on ⅳ)

⇒details are described below (a)

**General Principle 4.1 Roles and Responsibilities of the Board(1)**

**Supplementary Principle 4-1-1** Outline of the scope Board of Directors delegate to the management of company

⇒"the Company's Basic Policy" Principle 4-1

**General Principle 4-9 Independent Standards and Qualification for Independent Directors**

Independence Standards for Independent Directors

⇒"the Company's Basic Policy" Principle 4-9

**General Principle 4-11 Preconditions for Board and *Kansayaku* Board Effectiveness**

**Supplementary Principle 4-11-2** The status of directors or *Kansayaku* who serves concurrently as directors, *Kansayaku* or the management at other listed companies

⇒details are described below (b)

**Supplementary Principle 4-11-3** Summary of the analysis/evaluation result of the effectiveness of the entire Board of Directors

⇒details are described below (c)

**General Principle 4-14 Directors and *Kansayaku* Training**

Policy in Training of Directors and *Kansayaku*

⇒"the Company's Basic Policy" Principle 4-14

**General Principle 5-1 Policy for Constructive Dialogue with Shareholders**

⇒"the Company's Basic Policy" Principle 5-1

(a)Reasons for nominating current Directors and Audit & Supervisory Board Members(Kansayaku) as candidate for Directors and Audit & Supervisory Board Members(Kansayaku).

〈Director〉(appointed at the 68th Ordinary General Meeting of Shareholders of the Company held on 27 February, 2018)

⇒Reasons for nomination as candidate for Director are described in Notice of the 68th Ordinary General Meeting of Shareholders (https://www.toseicorp.co.jp/english/docs/E180201_1.pdf)

〈Audit & Supervisory Board Members〉(appointed at the Ordinary General Meeting of Shareholders of the Company held on 25 February, 2015(the 65th) and 24 February, 2017(the 67th))

⇒details are described in Section Ⅱ.1【Audit & Supervisory Board Members】

(b)The status of Directors/Audit & Supervisory Board Members(*Kansayaku*) who serves concurrently as directors, *Kansayaku* or the management at other listed companies as of 1st March, 2018

| Position | Name | Title, Listed companies |
|---|---|---|
| President and CEO | Seiichiro Yamaguchi | Non |
| Director | Katsuhito Kosuge | Non |
| Director | Noboru Hirano | Non |
| Director | Masaaki Watanabe | Non |
| Director | Hideki Nakanishi | Non |
| Director | Kenichi Shohtoku | Non |
| Director | Hiroyuki Kobayashi | Non |
| Audit & Supervisory Board Member (full-time) | Yutaka Kitamura | Non |
| Audit & Supervisory Board Member (full-time) | Hiroshi Nishinakama | Non |
| Audit & Supervisory Board Member | Tatsuki Nagano | Director of System Location Co., Ltd |
| Audit & Supervisory Board Member | Osamu Doi | Non |

(c)Summary of the analysis/evaluation result of the effectiveness of the entire Board of Directors

a. Evaluation Process

A questionnaire, given to all members of the Board of Directors (five (5) Directors and four (4) Audit & Supervisory Board Members, as of November 30, 2017), is carried out regarding:

1. Composition of the Board of Directors
2. Effectiveness of the Board of Directors (quality and amount of discussion)
3. The operation of the Board of Directors
4. The Directors' own self-assessments
5. Relation with shareholders and other stakeholders
6. Cooperation with the Audit & Supervisory Board Members (Audit & Supervisory Board)

(6 categories, 33 items) (responses from all nine (9) members are collected).

b. Analysis of Questionnaire Results

Major analysis results

- Current operation of the Board of Directors is appropriate with respect to the composition of the Board of Directors (including the composition of Executive Directors and Outside Directors), discussion matters (quality and amount), nomination of candidates for Directors, determination process of remuneration for Directors, etc.
- In the Directors' own self-assessments, each Director responded that he/she is playing a meaningful role.
- As for relation with shareholders and other stakeholders, Executive Directors are maintaining an appropriate relation, and information is shared within the Board of Directors.

- Cooperation between the Audit & Supervisory Board Members (Audit & Supervisory Board) has been pursued adequately.

c. Deliberation of evaluation
After aggregating questionnaire responses and reporting the analysis results at the Pre-Board meeting discussion held in February 2018, a discussion was held at the regular meeting of the Board of Directors held in the same month, and was resolved to include the evaluation results in the Corporate Governance Report.

d. Evaluation results
- Effectiveness of the current Board of Directors is fully secured.
- In order to expand the scope of business, promote transfer of authority to enable such expansion, and respond to the constantly changing business environment, Directors shall continue to work even harder to create opportunities for discussing important issues and management strategies, etc. at the meeting of the Board of Directors and further enhance the effectiveness of the Board of Directors.

(2) The status of implementation of the matters other than (1) is as follows.
It is provided for in Principle 1.1 of the Company's Basic Policy that in the case where the disapproval rate to agendas proposed by the Company at the General Meeting of Shareholders exceeds 25%, the Board of Directors considers whether it is necessary to have a dialog with shareholders in addition to an analysis of the causes, etc. and makes disclosure as needed. At the 68th Ordinary General Meeting of Shareholders of the Company held on February 27, 2018, the votes against the proposal pertaining to the renewal of countermeasures to large-scale acquisitions of the Company's shares (takeover defense measures) accounted for approximately 36% of the total votes.
In response to the above result, the Board of Directors of the Company confirmed at its regular meeting held on April 25, 2018 that it will sincerely analyze the cause of the result, etc. and obtain the understanding of shareholders and others about the purpose and other matters of the implementation of the takeover defense measures through proactive dialogues with them while continuously focusing on the improvement of corporate value as the Board of Directors. It also resolved at its meeting held on May 25, 2018 that it will disclose the above issues in the Corporate Governance Report of the Company.

## 2. Capital Structure

| | |
|---|---|
| Foreign shareholding ratio | Over 30% |

**【Major Shareholders】**

| Name of shareholders | Number of Owned Shares | Share Holding Ratio (%) |
|---|---|---|
| Seiichiro Yamaguchi | 12,885,500 | 26.68 |
| Zeus Capital Limited | 6,000,000 | 12.42 |
| KBL EPB S.A 107704 | 5,127,300 | 10.61 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 1,659,600 | 3.43 |

| | | |
|---|---|---|
| State Street Bank and Trust Company 505001 | 1,624,369 | 3.36 |
| GOVERNMENT OF NORWAY | 1,003,400 | 2. 07 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 919,600 | 1. 90 |
| Ueda Yagi Tanshi Co., Ltd. | 800,000 | 1.65 |
| DFA INTL SMALL CAP VALUE PORTFOLIO | 649,000 | 1. 34 |
| MSCO CUSTOMER SECURITIES | 553,764 | 1. 14 |

| | |
|---|---|
| Existence of controlling shareholders (excluding the parent company) | — |

| | |
|---|---|
| Existence of a parent company | No |

| **Supplementary explanation** |
|---|
| - |

## 3. Corporate Attributes

| | |
|---|---|
| Listed exchange and market division | Tokyo Stock Exchange, First Section |
| Fiscal year end | November |
| Category of business | Real estate business |
| Number of employees (consolidated) as of the end of the latest fiscal year | 100 to under 500 |
| Consolidated sales of the latest fiscal year | 10 to under 100 billion yen |
| Number of consolidated subsidiaries as of the end of the latest fiscal year | 10 to under 50 |

## 4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

-

## 5. Other Special Circumstances which may have Material Impact on Corporate Governance

There is no special circumstance that may affect the Company's corporate governance as the Company does not have a parent company or a listed subsidiary.

As the Company is also listed on the Mainboard of the Singapore Exchange, it is required to act in accordance with rules and regulations prescribed by the said Exchange.

## II. Business Management Organization and Other Corporate Governance System regarding Decision-making, Execution and Oversight in Management

### 1. Matters Concerning Governing Bodies and Conduct of Organizations

| | |
|---|---|
| Organizational form | Company with Audit & Supervisory Board Members |

【Board of Directors】

| | |
|---|---|
| Number of directors in the Articles of Incorporation | 10 |
| Term of directorship in the Articles of Incorporation | 2 years |
| Chairperson of Board of Directors meetings | President |
| Number of directors | 7 |
| Appointment of outside directors | Yes |
| Number of outside directors | 2 |
| Number of outside directors appointed as independent director | 2 |

| Relationship between outside directors and the company (1) |
|---|

| Name | Attributes | Relationship with the Company (*) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | a | b | c | d | e | f | g | h | i | j | k |
| Kenichi Shohtoku | Certified public accountant | | | | | | | | | | | |
| Hiroyuki Kobayashi | From other company | | | | | | | | | | | |

* Each type of the relationship with the Company is defined as follows:

* Fill in the applicable box with ○ if the person himself is applicable currently or recently, and with △ if the person himself was applicable in the past:

* Fill in the applicable box with ● if the close relative is applicable currently or recently, and with ▲ if the close relative was applicable in the past:

a Person who executes business of the listed company or its subsidiary;

b Person who executes business or director who is not executive personnel of a parent company of the listed company;

c Person who executes business of a fellow subsidiary of the listed company;

d Party for which the listed company is a major client or a person who executes its business;

e Listed company's major client or a person who executes its business;

f Consultant, accounting professional, or legal professional who receives a large amount of money or

other financial asset other than remuneration for directorship/auditorship from the listed company;

g Listed company's major shareholder (in case of a corporate shareholder, person who executes its business);

h Person who executes business of a client of the listed company which does not fall under d, e or f (the said person only);

i Person who executes business of an entity in which the outside officer has concurrent positions to serve (the said person only);

j Person who executes business of an entity to which the listed company make donations (the said person only); or

k Other

Relationship between outside directors and the Company (2)

| Name | Independent Director | Supplemental Information Concerning Eligibility for the Position | Reason for the election |
|---|---|---|---|
| Kenichi Shohtoku | Yes | - | Director Shotoku secures independence as he has no such interest that may cause any conflict of interest with general shareholders.<br>As a certified public accountant, he has an extensive experience and knowledge including those relating to overseas business. The Company believes he can provide appropriate supervisions over the Company's operation, with his objective position as an accounting professional. |
| Hiroyuki Kobayashi | Yes | - | Director Kobayashi secures independence as he has no such interest that may cause any conflict of interest with general shareholders.<br>He has extensive experience and expert knowledge, accumulated mainly at major financial institutions. Consequently, the Company is promoting a group expansion strategy, it may expect objective monitoring and proposals can be expected from him as Outside Director from the aspect of group governance drawing on his expertise in organization development and M&As. |

| | |
|---|---|
| Presence or absence of any voluntary committees corresponding to a nominating committee or a compensation committee. | Yes |

Committee's Name, Composition, and Attributes of Chairperson

| | Committee's Name | All Committee Members | Full-time Members | Inside Directors | Outside Directors | Outside Experts | Other | Chairperson |
|---|---|---|---|---|---|---|---|---|
| Committee Corresponding to Nominating Committee | Nominating and Compensation Advisory Committee | 5 | 0 | 2 | 2 | 0 | 1 | Outside director |
| Committee Corresponding to Compensation Committee | Nominating and Compensation Advisory Committee | 5 | 0 | 2 | 2 | 0 | 1 | Outside director |

Supplementary Explanation

The Company established the Nominating and Compensation Advisory Committee voluntarily as a consultative body to the Board of Directors to ensure appropriateness and transparency in such matters as the process of selecting candidates in connection with director election proposals submitted to the general meeting of shareholders and resolutions of the Board of Directors relating to allocation of remuneration, etc. to individual directors.

The constituent members of the committee include a representative director (one person), a full-time director (one person), outside director(s) (independent director(s), one person or more), and a full-time audit & supervisory board member (outside audit & supervisory board member, one person). An outside director who is a committee member will assume the office of the chair of committee.

The Board of Directors will continue to fulfill its mandate from the Company's shareholders and investors by respecting the recommendations of the committee to the maximum extent and developing an appropriate governance system.

## 【Audit & Supervisory Board Members】

| | |
|---|---|
| Existence of Audit & Supervisory Board | Yes |
| Number of Audit & Supervisory Board Members in the Articles of Incorporation | 6 |
| Number of Audit & Supervisory Board Members | 4 |

Cooperation among Audit & Supervisory Board Members, accounting auditors and internal audit department

**1. Cooperation between Audit & Supervisory Board Members and accounting auditors**

In the course of auditing activities conducted in accordance with the annual audit plan, the Audit & Supervisory Board Members closely work with the accounting auditors by regularly exchanging information and opinions. The Audit & Supervisory Board Members receive the audit plans and results

from the accounting auditors, and witness the audits performed by the accounting auditors from time to time. The meetings for the accounting auditors to report to the Audit & Supervisory Board Members (Audit & Supervisory Board) were held six times during the year ended November 30, 2017. Furthermore, to enhance the threefold auditing structure, the fulltime Audit & Supervisory Board Members, the accounting auditors and internal audit department held the opinion-exchanging meeting in September 2017.

**2. Cooperation between Audit & Supervisory Board Members and internal audit department**

The Audit & Supervisory Board Members and the internal audit department meet to exchange opinions every other month, and the internal audit department also reports to the Audit & Supervisory Board Members in a timely manner as to the internal audit results. While the full-time Audit & Supervisory Board Members meet with the general managers of internal audit department on a weekly basis, both sides work in concert with each other to enhance the quality of its audits and to efficiently conduct audits.

| | |
|---|---|
| Appointment of outside Audit & Supervisory Board Members | Yes |
| Number of outside Audit & Supervisory Board Members | 4 |
| Number of outside Audit & Supervisory Board Members appointed as independent auditor | 4 |

Relationship between outside Audit & Supervisory Board Members and the Company (1)

| Name | Attributes | Relationship with the Company (*) | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | a | b | c | d | e | f | g | h | i | j | k | l | m |
| Yutaka Kitamura | From other company | | | | | | | | | | | | | |
| Hiroshi Nishinakama | From other company | | | | | | | | | | | | | |
| Tatsuki Nagano | From other company | | | | | | | | | | | | | |
| Osamu Doi | From other company | | | | | | | | | | | | | |

* Each type of the relationship with the Company is defined as follows:

* Fill in the applicable box with ○ if the person himself is applicable currently or recently, and with △ if the person himself was applicable in the past:

* Fill in the applicable box with ● if the close relative is applicable currently or recently, and with ▲ if the close relative was applicable in the past:

a Person who executes business of the listed company or its subsidiary;

b Director or accounting advisor who is not executive personnel of the listed company or its subsidiary;

c Person who executes business or director who is not executive personnel of a parent company of the listed company;

d Audit & Supervisory Board Member of a parent company of the listed company;

e Person who executes business of a fellow subsidiary of the listed company;

f Party for which the listed company is a major client or a person who executes its business;

g. Listed company’s major client or a person who executes its businessy;

h Consultant, accounting professional, or legal professional who receives a large amount of money or other financial asset other than remuneration for directorship/auditorship from the listed company

i Listed company's major shareholder (in case of a corporate shareholder, person who executes its business)

j Person who executes business of a client of the listed company which does not fall under f, g or h (the said person only);

k Person who executes business of an entity in which the outside officer has concurrent positions to serve (the said person only);

l Person who executes business of an entity to which the listed company make donations (the said person only); or

m Other

Relationship between outside Audit & Supervisory Board Members and the Company (2)

| Name | Independent Audit & Supervisory Board Member | Notes Concerning Eligibility for the Outside/Independent Audit & Supervisory Board Member | Reason for the election |
|---|---|---|---|
| Yutaka Kitamura | Yes | - | Audit & Supervisory Board Member Kitamura secures independence as he has no such interest that may cause any conflict of interest with general shareholders.<br>He has gained abundant experience including overseas assignments primarily at a major financial institution, as well as professional knowledge in this field. The Company believes that he will be a contributor in ensuring the adequacy and appropriateness of the management of the Company, particularly in financial and global aspects. |
| Hiroshi Nishinakama | Yes | - | Audit & Supervisory Board Member Nishinakama secures independence as he has no such interest that may cause any conflict of interest with general shareholders.<br>He has extensive experience and expert knowledge, accumulated mainly at major financial institutions including work overseas. Consequently, the Company believes that he can perform a role in ensuring the adequacy and appropriateness |

| | | | |
|---|---|---|---|
| | | | of the Company's management, particularly from a financial and global viewpoint. |
| Tatsuki Nagano | Yes | - | Audit & Supervisory Board Member Nagano secures independence as he has no such interest that may cause any conflict of interest with general shareholders.<br>He has experience at a major financial institution and continues to be involved in the business management. The Company believes that he will contribute to the Company in ensuring the adequacy and appropriateness of the management of the Company, with his extensive experience and high level of professional knowledge. |
| Osamu Doi | Yes | - | Audit & Supervisory Board Member Doi secures independence as he has no such interest that may cause any conflict of interest with general shareholders.<br>The Company believes that he will contribute to the Company in ensuring the adequacy and appropriateness of the business management of the Company with his abundant experience and professional knowledge he acquired in his past careers at a major securities firm and an investment banking firm. |

## 【Independent Directors/Audit & Supervisory Board Members】

| | |
|---|---|
| Number of independent directors/Audit & Supervisory Board Members | 6 |

Other Matters Concerning Independent Directors/Audit & Supervisory Board Members

All eligible outside directors are designated as independent directors.

## 【Incentives for Directors】

| | |
|---|---|
| Implementation of initiatives to offer incentives to directors | Stock option system introduced |

Supplementary explanation concerning the above

The Company introduced stock options to further incentivize people to work to improve the performance and enhance the corporate value of the Group.

The 65th Ordinary General Meeting of Shareholders of the Company held on February 25, 2015, passed a resolution approving the amount and other details of remuneration provided as stock options to directors, and on October 28, 2015, the Board of Directors resolved to issue stock acquisition rights as stock options to directors, executive officers, and employees of the Company (including persons who are seconded to the Company's subsidiaries), and directors of the Company's subsidiaries. On November 26, 2015, the stock acquisition rights were allotted to those eligible in accordance with a resolution of the Board of Directors made on November 25, 2015.

| | |
|---|---|
| Eligible persons for stock options | Inside directors, outside directors, and employees of the Company, and directors of the Company's subsidiaries |

Supplementary explanation concerning the above

On October 28, 2015, the Board of Directors resolved to issue stock acquisition rights as stock options to directors, executive officers, and employees of the Company (including persons who are seconded to the Company's subsidiaries), and directors of the Company's subsidiaries. On November 26, 2015, the stock acquisition rights were allotted with the conditions below in accordance with a resolution of the Board of Directors made on November 25, 2015.

・Number of shares to be delivered upon exercise of each stock acquisition right 100 shares
・Persons to whom stock acquisition rights were allotted, and number of stock acquisition rights allotted
Directors of the Company Five persons (of whom two were outside directors), 340 units (of which 40 were allotted to outside directors)
Executive officers of the Company Seven persons, 490 units
Employees of the Company 193 persons, 3,980 units
Directors of the Company's subsidiaries Four persons, 250 units
・Allotment date November 26, 2015
・Exercise period January 10, 2018, through October 28, 2020
・Exercise value Yen 803

## 【Directors' Remuneration】

| | |
|---|---|
| Disclosure of remuneration of each director | Remuneration of each director is not disclosed. |

Supplementary explanation concerning the above

The remuneration paid to the directors is as follows:

Total amount of the remuneration paid to the directors: Yen 161,262 thousand
(from the Annual Securities Report for the 68th Fiscal Period (December 1, 2016 - November 30, 2017))

| | |
|---|---|
| Existence of Policies for determining remuneration amounts and calculation method | Yes |

Disclosed details of the policies for determining remuneration amounts and calculation method

The maximum amounts of remuneration to be paid to the directors and to the Audit & Supervisory Board Members are determined by a resolution made at the General Meeting of Shareholders. Remuneration for each director shall consist of fixed salary according to their duties, performance-linked bonuses and stock options that can be exercised after a defined period of time. After the discussion on the adequacy of its contents in the Nomination and Compensation Advisory Committee, the Board of Directors shall make decision thereof by its resolution. The remuneration of Audit & Supervisory Board Member is determined by the deliberation of the Audit & Supervisory Board Members.

**【Support System Provided for Outside Directors/Outside Audit & Supervisory Board Members】**

**1. Support System Provided for Outside Directors**

The Company, as a form of information distribution for the outside directors, sends out materials and the minutes of the Pre-Board meeting discussion (constituted by full-time directors and full-time audit and supervisory board members), and shares information about proposal details before board meetings are held. Notices for periodical board meeting are sent out three days prior to the meeting, and also distributes the meeting agendas/materials in advance. The meeting agendas/materials for extraordinary board meeting are also distributed in advance of the meeting, as a general rule. When there is an absentee, the Administration Department informs him/her of the matters resolved at such meetings.

**2. Support System Provided for Outside Audit & Supervisory Board Members**

There are four outside Audit & Supervisory Board Members and two of them are part-time. The agendas to be submitted at the board meeting are pre-discussed by both full-time and part-time Audit & Supervisory Board Members at the management meeting (constituted by the executive officers appointed by the President and CEO. held twice a month) or the Pre-Board meeting discussion. The meeting agendas/materials are distributed to them the day before either meeting. In the event any of the part-time Audit & Supervisory Board Members are unable to attend either the management meeting or the Pre-Board meeting discussion, the matters discussed at either meeting are delivered by the full-time Audit & Supervisory Board Members at the meeting of the Audit & Supervisory Board. The assistance duties for the Audit & Supervisory Board Members as well as the administrative tasks for the meeting of the Audit & Supervisory Board are undertaken by the Internal Audit Department.

## 2. Matters Concerning Business Execution, Audit/Supervision, Appointment of Officers, and Determination of Remuneration (Overview of the Current Corporate Governance System)

1. Operation of the Meetings of Board of Directors

The Board of Directors is constituted by seven directors, two of whom are outside directors. Based on the regulations of the Board of Directors, the directors hold regular meetings every month, and extraordinary meetings are held as necessary. As the highest management decision-making body, the Board of Directors makes resolutions on management policies and material issues and also supervises the execution of duties by the directors. In addition, the outside directors (the independent directors), by sharing their opinions from their objective standpoint, provide advices and suggestions to ensure the adequateness and appropriateness of the decisions made by the Board of Directors.

2. Nominating and Compensation Advisory Committee

The Company established the Nominating and Compensation Advisory Committee voluntarily as a consultative body to the Board of Directors to ensure appropriateness and transparency in such matters as the process of selecting candidates in connection with director election proposals submitted to the general meeting of shareholders and resolutions of the Board of Directors relating to allocation of remuneration, etc. to individual directors. The constituent members of the committee include a representative director (one person), a full-time director (one person), outside director(s) (independent director(s), one person or more), and a full-time audit & supervisory board member (outside audit & supervisory board member, one person). An outside director who is a committee member will assume the office of the chair of committee. The Board of Directors will continue to fulfill its mandate from the Company's shareholders and investors by respecting the recommendations of the committee to the maximum extent and developing an appropriate governance system.

3. Audits Performed by Audit & Supervisory Board Members

The Company has adopted the Audit & Supervisory Board Member system and has the Audit & Supervisory Board with two full-time and two part-time Audit & Supervisory Board Members. All of these four persons fall under the definition of outside Audit & Supervisory Board Members as stipulated in Article 2, Item 16 of the Companies Act. The meetings of the Audit & Supervisory Board are held once a month as a general rule, and the matters of concern are discussed and resolved at such meeting. The activities conducted by the full-time Audit & Supervisory Board Members are also reported to the part-time Audit & Supervisory Board Members so that the information is commonly shared by all the Audit & Supervisory Board Members. The Audit & Supervisory Board Members also attend the meeting of the Board of Directors, the Pre-Board meeting discussion where matters to be resolved at the board meetings are confirmed in advance, as well as the management meeting, which serves as a consultative body for the matters to be approved by CEO.

The auditing activities by the Audit & Supervisory Board Members are performed in accordance with an annual audit plan. By cooperating with the accounting auditors as well as with the Audit Department, the Company has developed an efficient and viable auditing system. Furthermore, the full-time Audit & Supervisory Board Members regularly meet with each of the directors and officers in charge of each department, so as to fully understand the status of the business execution.

Such activities conducted by the Audit & Supervisory Board Members have worked effectively as an auditing function for the Company's business management and have delivered positive effects to the Company.

4. Executive Officer System

The Company has adopted the executive officer system in order to more clearly segregate the monitoring/supervision of the Company's business management, which is the duty and responsibility of the directors, from the execution of the business. The executive officers are appointed at the board meetings and the representative director and president has assumed the position of the chief executive officer.

All of the Company's executive officers adhere to its internal rules and regulations as well as to the resolutions of the Board of Directors in executing and controlling the business operations of the

Company. In addition, CEO holds the management meetings twice a month as a general rule to seek for consultations on the material issues to be decided by him, and to discuss the matters to be resolved at the board meetings in advance.

5. Corporate Governance Meeting

With the aim of continuously strengthening its corporate governance, the Company holds the corporate governance meetings constituted by the full-time directors and the full-time Audit & Supervisory Board Members monthly.

At the meetings, the directors and the Audit & Supervisory Board Members review and discuss the corporate governance concerns and the internal control matters in an effort to increase the corporate value of the Company, and where necessary, they receive advices from the outside experts such as corporate attorneys and/or certified public accountants.

6. Internal Audit

The Internal Audit Department under the direct supervision of the President and CEO performs audits for the entire Group in accordance with their annual auditing plan. In the event any inadequacy is discovered, recommendations for corrective actions are made to the audited departments. The audit has been quite effective as the Internal Audit Department discusses with the audited departments as to the issues in need of corrective actions and follows up with specific guidance.

7. Information Disclosure

The Company discloses various documents required by the relevant laws and regulations such as the Companies Act and the Financial Instruments and Exchange Act, and also discloses information required by the stock exchanges. The Company provides information to its stakeholders including shareholders and investors in appropriate and timely manners, though its IR activities as well as via its website. Further, with the listing on the Singapore Exchange, the Company has been making disclosures in accordance with the rules prescribed by the said exchange.

8. Audit by Accounting Auditors

The Company has entered into an auditing agreement with Shinsoh Audit Corporation in accordance with the Companies Act and the Financial Instruments and Exchange Act, and the audit of the Company's accounts is performed by Shinsoh Audit Corporation based on the annual audit plan. In addition to the full-year audit performed at the end of the fiscal years, Shinsoh conducts reviews at each quarter end.

The details of the Company's accounting auditor are as follows:

| | |
|---|---|
| Name of Audit Corporation： | Shinsoh Audit Corporation |
| Designated Partner/Engagement Partner: | Takayuki Sakashita, CPA<br>(Number of continuing audit years including the current fiscal year: 4) |
| Designated Partner/Engagement Partner: | Atushi Iijima, CPA<br>(Number of continuing audit years including the current fiscal year: 3) |

9. Limited Liability Agreement

The Company has concluded contracts for limitation of liability with Kenichi Shotoku and Hiroyuki Kobayashi as Outside Directors of the Company, and Yutaka Kitamura, Hiroshi Nishinakama, Tatsuki Nagano and Osamu Doi as Outside Audit & Supervisory Board Members pursuant to the provisions of Article 427, paragraph 1 of the Companies Act for the liability for damages provided for in Article 423, paragraph 1 of the same, and limits their liability to the amount provided by relevant laws and regulations.

## 3. Reasons for Adopting the Current Corporate Governance System

The Company has set up the Board of Directors and the Audit & Supervisory Board. While appointing from outside its outside directors and all of its Audit & Supervisory Board Members, it has also adopted an executive officer system, for the purpose of operating its businesses with high transparency.

All of the Audit & Supervisory Board Members of the Company have been outside Audit & Supervisory Board Members since the time of listing. The Audit & Supervisory Board Members have always performed audits of the business management of the Company from the viewpoints of ensuring and increasing the Company's corporate value and the common interests of its shareholders. The Company further enhances its supervisory function over its management by inviting outside directors to the Board of Directors. On the management side, the Company has employed the executive officer system so as to achieve optimal distribution of decision-making functions and operational duties, as well as encouraging the delegation of authority in executing the businesses, in an attempt to strengthen its corporate governance.

As stated above, the management of the Company and the current system of monitoring and supervision over the management is adequately functioning, and the Company continues to maintain the system currently in place.

## III. Implementation of Measures for Shareholders and Other Interested Parties

### 1. Efforts for Active General Shareholders Meetings and Smooth Exercises of Voting Rights

| | Supplementary Explanation |
|---|---|
| Early Notification of General Shareholders Meeting | The Company has implemented "early notification" (sending at least 3 business days prior to the statutory date). |
| Avoidance of Peak Day | Not applicable (As the general shareholders meeting of the Company is held in February) |
| Exercise of Voting Rights by Electronic Means | The Company has implemented "the exercise of voting rights via the internet". |
| Participation in Electronic Voting Platform as well as Improving the Environment for Voting by Institutional Investors | The Company implements "the exercise of voting rights via the internet" as well as participation in the platform for electronic exercise of voting rights for institutional investors operated by ICJ Inc. since ordinary general meeting of shareholders held in February 2015. |
| Preparation of Convocation Notice (a summary of the original) in English | Convocation notice is provided in English. |
| Others | In order to foster a better understanding among the shareholders, the Company is conducting 1) the general shareholders meetings with visual presentations and 2) the post-meeting explanatory sessions on the Company's future business strategies. In addition, the convocation notice of the general shareholders meeting has been posted on its corporate website in both Japanese and English before it is dispatched. |

### 2. Status of Investor Relations Activities

| | Supplemental Information | Presentation by the Company representative |
|---|---|---|
| Establishment and Disclosure of Disclosure Policies | Disclosure policies have been established and disclosed on the Company's corporate website. | |
| Periodical Briefing Sessions for Individual Investors | Periodical briefing sessions are held for the purpose of communicating with individual investors. | Yes |
| Periodical Briefing Sessions for Analysts and Institutional Investors | Large meetings (following full year and half year operating results announcements) are organized. | Yes |

| | |
|---|---|
| Availability of IR Materials on the Corporate Website | IR information platform is posted on the Company's corporate website, and "News Release" discloses the latest information. "IR Library" page contains the Company's financial statements and the Annual Securities Reports. The quarterly presentation videos are also posted with the presentation slides. The English versions of the IR materials and the presentation videos are disclosed as well. |
| Designation of a Department (or person) responsible for Investor Relations | Accounting Department |

## 3. Status of Measures to Ensure Due Respect for Stakeholders

| | Supplemental Information |
|---|---|
| Provision of Rules on Respect for the Positions of the Stakeholders under the Internal Regulations of the Company | The Company has established the information disclosure regulations, effective from December 2006. |
| Conducting of Environmental Preservation Activities and CSR Activities | As a way to contribute to the natural environment through its business activities, the Company develops environmentally-friendly office buildings/housing and promotes revitalization of existing properties. The Company also works on in-house energy savings as well as promoting tree-planting activities. Since 2011, it has also conducted volunteer activities to support the areas affected by the Great East Japan Earthquake.<br>The details of the aforementioned activities are reported in "Tosei Group's CSR Activity Report" on a yearly basis and disclosed on the Company's corporate website. |
| Establishment of Policies Concerning Provision of Information to Stakeholders | The disclosure policies have been established and put into effect. |

## IV. Matters Concerning Internal Control System

### 1. Basic Policy of Internal Control Systems and the Progress of the System Development

The Company's basic policies of internal control system are currently as stated below. The progress of system development as of November 30, 2017 is also provided later in this section.

Basic Policies for "Ensuring Appropriate Company Management"

1. Basic Policies for Compliance with Laws and Regulations

   (1) Ensure awareness among all officers and employees regarding compliance with laws and regulations.
   (2) Strengthen the checking function for breach of laws and regulations.
   (3) Promptly react to any breach of laws and regulations, and make timely and appropriate information disclosure concerning such breaches.
   (4) Eliminate any association with anti-social forces.

2. Basic Policies for Storing and Managing of Information

   (1) Ensure awareness among all officers and employees regarding the importance of storing and managing information.
   (2) Enhance the initiatives for preventing the leakage of material information.
   (3) Ensure thorough familiarity with important information and information requiring timely disclosure and prevention of misstatements or material omissions.

3. Basic Policies for Management of Risk of Loss

   (1) Ensure thorough understanding, analysis and assessment of risks that may hinder the continuation of the Company's corporate activities.
   (2) Enhance monitoring of risk management.
   (3) Establish a proper whistle-blowing system for any occurrences and/or signs of surfacing of contingencies.
   (4) Promptly react to any occurrence of contingencies and/or accidents, and make timely and appropriate disclosure of information regarding such occurrences.

4. Basic Policies for Efficient Execution of Duties by Directors

   (1) Carry out deliberation and decision-making on the important management matters of the Company, in efficient, timely and appropriate manners.
   (2) Eliminate excessive pursuit of efficiencies in the management plans and/or the business targets and make balanced decisions considering the soundness of the Company.
   (3) Establish a system to allow appropriate and efficient execution of business in accordance with the rules on delegation of operational authority.

5. Basic Policies for Properness of the Operations of the Entire Group

   (1) Strive for a full penetration of the understanding of the Company's corporate philosophy and awareness for the compliance among the officers and the employees of each of the Group companies and ensure that each of the Group companies complies with laws and regulations.
   (2) Strive for full awareness, analysis and evaluation of risks that impede the sustenance and

continuation of the businesses of each of the Group companies, prepare for contingencies, and establish a system to compel prompt reporting if contingencies occur.

(3) Formulate a medium-term management plan, business plans for single fiscal years and budgets for the same relating to the entire Group, periodically check the progress of these plans, and compel timely reporting on newly occurring problems and appropriately handle such problems.

(4) For matters that are important and those for which timely disclosure is required at each of the Group companies, and other matters relating to execution of duties by officers and employees at each of the Group companies, establish a system to compel prompt reporting from each of the Group companies to the Company.

(5) Enhance the system for ensuring the appropriateness of the financial reporting relating to the entire Group.

(6) Eliminate wrongful acts and/or irregular transactions using the Group.

6. Basic Policies for Systems to Ensure Effective Audits by the Audit & Supervisory Board Members

(1) Designate members of staff to assist Audit & Supervisory Board Members in their duties, and have them carry out assistance duties under the command of the Audit & Supervisory Board Members.

(2) Ensure the independence of the aforementioned members of staff from directors and obtain concurrence from the Audit & Supervisory Board for personnel matters for the said members of staff such as transfers and performance evaluations.

(3) In addition to deliberations on proposals and reports on important matters at the Board of Directors, have Audit & Supervisory Board Members attend important meetings for business execution, and carry out periodic interviews with Directors and important employees. Furthermore, ensure prompt reporting to Audit & Supervisory Board Members from all officers and employees who have identified any material loss and signs of the same or any breach of regulations or misconduct, and prompt reporting to the same in response to demands from them.

(4) Establish a system to compel prompt reporting to Audit & Supervisory Board Members from all officers and employees at each of the Group companies who have identified any material loss caused by management at each of the Group companies and signs of the same or any breach of laws and regulations or misconduct, or from officers and employees of the Company who have received reports from such persons, and strive for its full implementation, and also compel prompt reporting if reporting is demanded by Audit & Supervisory Board Members.

(5) Ensure full notification of policy not to mete out disadvantageous treatment for the reason of a report described in the preceding two paragraphs made by officers and employees of the Company and the Group companies to Audit & Supervisory Board Members.

(6) Develop a whistle-blowing system across the entire Group and promptly report to Audit & Supervisory Board Members if whistle-blowing occurs.

(7) When Audit & Supervisory Board Members request advance payments, etc. of expenses, promptly handle the said expenses or debt obligations, except in cases where they are deemed unnecessary for the execution of duties.

(8) The directors are to make efforts to understand and support the audits by the Audit & Supervisory Board Members and proactively work to improve the issues raised by the Audit & Supervisory Board Members.

(9) In order to accomplish adequate audits of the entire Group performed by the Audit & Supervisory Board Members, the directors are to provide necessary cooperation to the Audit & Supervisory Board Members.

Under the basic policies above, in a continuous effort to develop the internal control system, the Company establishes plans for implementation and operation of the internal control system annually taking into consideration of revisions of relevant laws and regulations, changes in the business environment of the Group, expansion of the businesses, etc.
The internal control system of the Group implemented and operated as of November 30, 2017 is as follows :

*Major meetings cited in the text

| Meeting name | Frequency of meeting | Attendees |
|---|---|---|
| Board of Directors' meeting | Monthly + Extraordinary | Directors and Audit & Supervisory Board Members |
| Pre-Board meeting discussion | Monthly + Extraordinary | Full-time Directors, full-time Audit & Supervisory Board Members, Executive Officer in charge of administrative department, and person responsible for briefing on the agenda |
| Corporate governance meeting | Monthly | Full-time Directors and full-time Audit & Supervisory Board Member |
| Management meeting | Twice a month + Extraordinary | All Executive Officers and Audit & Supervisory Board Members (as observers) |
| Risk Management and Compliance Committee's meeting | Monthly | Senior Executive Officers, all heads of each division, those responsible for risk management and compliance at each Group company, and full-time Audit & Supervisory Board Members (as observers) |
| Information Disclosure Committee's meeting | Monthly + Extraordinary | Senior Executive Officers, heads of departments involved in information disclosure, those responsible for internal control at the major Group companies, and full-time Audit & Supervisory Board Members (as observers) |

1. Compliance with Laws and Regulations

(1) Ensure awareness regarding compliance with laws and regulations

At the beginning of each fiscal year a risk compliance program is drawn up, and trainings in the relevant laws and regulations, measures to cultivate awareness of legal issues have been implemented, in addition to which a compliance questionnaire is circulated every fiscal year to all officers and employees of the Group.

In addition, the Risk Management and Compliance Committee's meeting (attended by all heads of each departments) and a business law liaison meeting (attended by all heads of the operational

divisions) are held every month, during which participants are duly made familiar with amendments to laws and regulations, etc. and notices from ministries with jurisdiction etc., while the results of deliberations by the Committee are reported to the monthly meetings of the Board of Directors.

During the fiscal year under review, we revised the Risk Management and Compliance Guidebook and distributed its copies to all officers and employees of the Group to keep them informed.

(2) Strengthen the checking function for breaches of laws and regulations

As well as monitoring and supervising by two Outside Directors and four Audit & Supervisory Board Members (all Outside Audit & Supervisory Board Members) at the Board of Directors' meeting, periodic meetings are held to exchange opinions between Audit & Supervisory Board Members and Outside Directors (held twice during the fiscal year under review), and between Audit & Supervisory Board Members and legal advisors (held three times during the fiscal year under review), so as to check for any signs of breaches of laws and regulations by the Directors responsible for executing business.

Moreover, while the Internal Audit Department conducts internal audits on the Company and the Group companies and self-inspections at the departmental level are implemented, the Company continues to operate the whistle-blowing system providing three points of contact, internal, external and through Audit & Supervisory Board Members.

During the fiscal year under review, we further disseminated the whistle-blowing system to all officers and employees of the Group.

(3) Promptly react to any breach of laws and regulations, and make information disclosure

At important meetings and committees attended by full-time Directors, including those of the Board of Directors, checks are made for signs, or actual occurrences, of breaches of laws and regulations, instructions are given regarding responses, and status reports are made. Also, the Company has prescribed internal rules regarding the establishment of a crisis management office headed by the President and CEO, and timely and appropriate information disclosure in the event that serious breaches and/or incidents occur.

(4) Eliminate any association with anti-social forces

The Company continues screening of counterparties at the inception of transactions and carries out trainings on action against anti-social forces for all officers and employees of the Group in order to completely eliminate any association with anti-social forces.

At training sessions provided during the fiscal year under review, many specific cases were taken up in an effort to prevent the training from losing substance.

2. Storing and managing information

(1) Ensure awareness regarding the importance of storing and managing information

Every fiscal year we implement training for the information asset management, including personal information, and for the prevention of insider trading for all employees of the Company, and by doing so, we have continued to educate and inculcate rules for the handling of important information.

(2) Enhance the initiatives for preventing the leakage of important information

With regard to the state of compliance with rules for the handling of information assets (printed and electronic information), in addition to self-inspections implemented at all departments and audits conducted by the Internal Audit Department, we have strengthened the penalties for

breaches and continued targeted guidance for those who infringe the rules.

(3) Ensure thorough familiarity with material information and information for timely disclosure and prevention of misstatements

The Information Disclosure Committee meets on a monthly and a temporary basis to understand which information is subject to timely disclosure, and to confirm information disclosure methods, etc. In addition, any changes in the rules regarding timely disclosure in connection with amendments of listing rules, etc. are reviewed on a monthly basis by the Committee and reported to the monthly meetings of the Board of Directors.

3. Management of Risk of Loss

(1) Ensure thorough understanding, analysis and assessment of risks

As part of the risk compliance program, an annual plan for risk management is drawn up and implemented.

Additionally, we implement stress tests on a half-yearly basis in relation to the Group's business environment. The results are reported at the Board of Directors' meetings.

For 30 significant risks relevant to overall operations as well as individual businesses, in addition to conducting an assessment every fiscal year, new risks that should be added are extracted, and preventive measures and responses in the event of the risk materializing are considered.

(2) Enhance monitoring of risk management

At monthly corporate governance meetings, full-time Directors report to full-time Audit & Supervisory Board Members regarding latent and fully emerged risks to execution of business and the states of responses.

Furthermore, at the Risk Management and Compliance Committee's meeting, the states of our responses to emerging risks are checked and the detail is reported to the Board of Directors each month, in addition to which the outcomes of the responses are monitored by the Internal Audit Department.

(3) Establish a proper internal reporting system for any occurrences and/or signs that contingencies may occur

In order to enable the early detection of, and prompt response to, unexpected situations, business-related troubles and complains, all employees are kept informed through morning briefings, training sessions and meetings, of duty to promptly report to the heads of each department and duty of the heads of each department to report to full-time Directors and Audit & Supervisory Board Members.

(4) Promptly react to any occurrence of contingencies and disclose information

In case of occurrence of a contingency, a natural disaster, etc. that may have significant effects on the operation of the Company, a crisis management office directed by the President and CEO as the head will be established to collect information, confirm facts and circumstance, develop and implement countermeasures, and properly disclose information in a timely manner.

During the fiscal year under review, we implemented comprehensive disaster drills in cooperation with each Group company, assuming that a massive earthquake directly hit the Tokyo metropolitan area.

4. Efficient Execution of Duties by the Directors

(1) Carry out deliberation and decision-making on the important management matters, in an efficient,

timely and appropriate manner

In order to further enrich and to make more efficient the deliberations of the Board of Directors (held on a regular and a temporary basis), we have implemented management meetings (held twice a month), and pre-Board meeting discussions to confer beforehand on matters to be resolved by the Board of Directors.

(2) Eliminate excessive pursuit of efficiencies in the management plans, etc. and pursue the balance with the soundness

Under the three-year medium-term management plan in line with the Group's philosophy, annual business plans and budgets are prepared toward the achievement of such plan.

With regard to the business plans and budgets, we draw up guidelines based on the economic environment in Japan and overseas and the operating environment in the real estate market, conduct separate discussions with each department and Group company, and then make our final decisions.

(3) Establish a system to allow appropriate and efficient execution of business

We have been implementing organizational changes and other modifications in order to execute business appropriately and efficiently. This is in response to changes in the content of the businesses, the increase in the number of employees associated with the expansion of business, and the increase in the number of Group companies, etc.

During the fiscal year under review, the Administration and Human Resource Department was separated into the Administration Department and the Human Resource Department to efficiently execute business in response to the expansion of the organization and the increase in the number of employees.

In addition, the Group decided in the fiscal year under review toward the new fiscal year to establish the Group Strategy Department (the predecessor of the M&A・Group Strategy Department), which is responsible for the risk management of each Group company and comprehensively controls Group expansion strategies including promotion of M&A transactions, with a view to further enhancing group governance; and to change the structure of the Asset Solution Department 1 and the Asset Solution Department 3, which respectively comprise two sections, to a three-section structure.

5. Properness of operations of entire Group

(1) Ensure compliance with laws and regulations by officers and employees of each Group companies

Through various trainings, etc. conducted by the Company and each Group company, we are striving for a full penetration of the understanding of the Group's philosophy and improvement of compliance awareness.

In addition, we share information on compliance through implementation of the risk management and compliance program, established by the Company and each Group company, and attendance of responsible personnel of each Group company to meetings of the Company's Risk Management and Compliance Committee. Furthermore, the Company's in-house booklets about compliance with laws and regulations, called the Compliance Mind, are distributed to the Group companies to keep them informed of the importance of compliance.

The compliance questionnaire is conducted every fiscal year in order to assess the effectiveness of compliance trainings and the degree of awareness, identify issues of each company, and consider responses to such issues.

(2) Ensure thorough understanding, analysis and assessment of operational risks related to each Group company, and responses to contingencies

The Company's full-time Directors or employees are assigned as Director or Audit & Supervisory Board Member for each Group company with the remit of monitoring and supervising the Directors and the Board of each company.

Every month, each Group company reports management issues, any problems that have emerged and responses to latent risks at the meeting of the Board of Directors of the Company or the pre-Board meeting discussions, as well as at the Risk Management and Compliance Committee's meeting.

Moreover, the response of these companies to problems that have emerged is continuously audited or monitored by the Company's Internal Audit Department, which may also conduct checks using external agencies as necessary, with the results being reported at the Board of Directors' meeting.

(3) Formulate a medium-term management plan, business plans for single fiscal year and budgets relating to the entire Group, manage the progress of these plans, and respond to new issues appropriately

Under the three-year medium-term management plan in line with the Group's philosophy, annual business plans and budgets are prepared toward the achievement of such plan.

With regard to the business plans and budgets, we draw up guidelines based on the economic environment in Japan and overseas, the environment for the business of each Group company, then make final decisions based on separate discussions with each Group company.

The progress of the business plans and budgets is reported by representative directors of each company at the Board of Directors' meeting or the pre-Board meeting discussion of the Company on a monthly basis, and also, responses to new issues are deliberated and areas to be focused during the next half-year period are specified at the growth strategy meeting held with each company on a half-yearly basis.

(4) Establish a system for prompt reporting of significant matters of each Group company to the Company

Through the monthly reports described in iii) above, and reports at the meetings of the Risk Management and Compliance Committee and the Information Disclosure Committee of the Company, we confirm occurrence of matters that should be disclosed.

Any contingencies, if occurred, are immediately reported to the chairman of the Risk Management and Compliance Committee of the Company, and a contingency management meeting composed of members including officers of the Company and each Group company is established to deliberate and implement countermeasures as a Group and to disclose information in a timely and appropriate manner.

(5) Enhance the system for ensuring the appropriateness of the financial reporting relating to the entire Group

In order to ensure the appropriateness of the financial reporting and the expeditious consolidated financial closing, the Accounting Department of the Company holds a meeting with the accounting department of each Group company for every quarterly closing to share information and provide instructions.

Furthermore, annual plans for internal control (J-SOX) are prepared to ensure the appropriateness of the financial reporting, and the Internal Audit Department of the Company conducts self-assessments and the audit corporation conducts independent assessments.

(6) Eliminate wrongful acts and/or irregular transactions using the Group

Wrongful acts and/or irregular transactions are monitored by Directors and Audit & Supervisory Board Members of the Company through management reports of each Group company and opinion-exchanging meetings (twice a year) attended by Audit & Supervisory Board Members of the Company with representative directors of major Group companies. Also, internal rules have been established requiring any significant transactions by a Group company with the Company or other Group companies to be reported in advance to the Board of Directors of the Company.

6. System to ensure effective auditing by Audit & Supervisory Board Members

(1) Designate members of staff to assist Audit & Supervisory Board Members in their duties
The Internal Audit Department has been assigned as the department in charge, and the personnel of the Internal Audit Department provide assistant duties under the command of Audit & Supervisory Board Members and carry out administrative duties for the Audit & Supervisory Board.

(2) Ensure the independence of the aforementioned members of staff from Directors
Evaluations, rewards and punishments, and transfers of personnel of the Internal Audit Department are carried out after the concurrence from the Audit & Supervisory Board is obtained in advance.

(3) Ensure prompt reporting to Audit & Supervisory Board Members from all officers and employees who have identified occurrence or signs of any material losses, any breach of laws and regulations or misconduct, and prompt responses to the inquiry from Audit & Supervisory Board Members
Reports are made in a timely and appropriate manner at corporate governance meetings, comprising full-time Directors and full-time Audit & Supervisory Board Members (held monthly), as well as in the interviews by full-time Audit & Supervisory Board Members with the President and CEO (once a month), other full-time Directors (once a quarter), and heads of each department (twice a year).

(4) Ensure prompt reporting to Audit & Supervisory Board Members from all officers and employees of each Group companies who have identified occurrence and signs of any material losses attributable to the management of each Group company, any breach of laws and regulations or misconduct, and prompt responses to the inquiry from Audit & Supervisory Board Members
At the Board of Directors' meetings or the pre-Board meeting discussions of the Company, where each Group company makes the monthly management reporting, and at interviews by full-time Audit & Supervisory Board Members of the Company with representative directors of each Group company held on a regular basis (the investigation of subsidiaries (once) and opinion-exchanging meetings (twice a year)), each Group company is required to report occurrence and signs of any material losses and significant risks associated with management of the Group company.
At morning briefings and training sessions, all officers and employees of the Group are continuously informed that those who identify any breach of laws and regulations or misconduct have a duty to report Audit & Supervisory Board Members of the Company promptly.

(5) Ensure full notification of prohibition of disadvantageous treatments for the reason of a report by officers and employees of the Company and the Group companies to Audit & Supervisory Board Members
Regulations of the Company explicitly state that those who report Audit & Supervisory Board Members or whistle-blowers are protected from any disadvantageous treatments, and such policy

is continuously informed at training sessions, etc.

(6) Develop a whistle-blowing system across the entire Group and promptly report to Audit & Supervisory Board Members if whistle-blowing occurs

The Company continues to operate a whistle-blowing system that provides three contact points, internal, external, and through Audit & Supervisory Board Members of the Company.

All officers and employees of the Group are provided with a pocket-size card on which the contact points of the whistle-blowing system are listed, and are continuously informed of the system through various training sessions relating to compliance, morning briefings, and the publication of notice, etc.

Reports to the internal and external contact points, if any, are promptly reported to Audit & Supervisory Board Members, and when no whistle-blowing has occurred, this fact is reported on a monthly basis.

(7) Allowance for expenses associated with execution of duties of Audit & Supervisory Board Members

Expenses required for audit activities by Audit & Supervisory Board Members are appropriated in the budget, and expenditures are reimbursed in a timely manner. Also, any unbudgeted expenditures required for audit activities are properly handled.

(8) Directors' understanding of and support for the audits by Audit & Supervisory Board Members and proactive improvement of the issues raised by Audit & Supervisory Board Members

At the Board of Directors' meeting subsequent to the Ordinary General Meeting of Shareholders, the Directors receive explanations of Audit & Supervisory Board Members' annual audit plans and make efforts to understand such plans and cooperate in their implementation. At the Board of Directors' meeting once every three months, Directors report the status of their responses to the issues raised by full-time Audit & Supervisory Board Members in the monthly audit reports.

In order to enable the Audit & Supervisory Board Members (Audit & Supervisory Board), the audit corporation, and the Internal Audit Department to cooperate with one another, Directors provide appropriate cooperation for various measures, including holding of opinion-exchanging meeting concerning threefold auditing, to further enhance the threefold auditing structure.

(9) Cooperation by Directors aiming to enhance audits by Audit & Supervisory Board Members across the entire Group

At the Board of Directors' meetings, the pre-Board meeting discussions and other important meetings, Directors report the management conditions of the entire Group, risk information, etc. to Audit & Supervisory Board Members and share information. Furthermore, the periodic interviews by full-time Audit & Supervisory Board Members with full-time Directors including the President and CEO, heads of each department, and representative directors of major Group companies, as well as the liaison meetings of Audit & Supervisory Board Members of the Group companies (on a half-yearly basis) are held with necessary cooperation by full-time Directors.

## 2. Basic Policies for Eliminating Anti-social Forces and Progress of System Establishment

The Company recognizes any association with anti-social forces will result in a breach of laws and regulations. The Company always treats this as a critical matter and takes countermeasures so as to refuse any transaction with such. In the event any dispute arises between the Company and anti-social forces, it will stand firmly against them.

In ordinary times, the Company makes it a rule to research and confirm that new business counterparty

is not one of the anti-social forces, prior to the commencement of any transaction. If any issue arises, it will be handled, not by an individual, but by a team including the Administration Department (to which an officer responsible for unreasonable claim preventions belongs), and the Company will also coordinate closely with the legal counsel and the office of police responsible for the area. In addition to developing “The manual for acting against anti-social forces”, the Company has provided the basic policies for eliminating any contact with anti-social forces and the checkpoints on the specific actions in the Company’s compliance guidebook. The Company annually offers a training session and educate its employees in coping with such anti-social forces.

## V. Others

### 1. Whether Takeover Defense Measures Are in Place

| | |
|---|---|
| Whether Takeover Defense Measures Are in Place | Yes |

Supplementary Explanation Concerning the Subject Matter

Basic Policy as to How the Persons Who Control Decision-making of the Financial and Business Policies of the Company Should Be

(1) Contents of the basic policy

The Company believes it is necessary for the persons who control decision-making regarding the Company's financial and business policies to have a sufficient understanding of the financial and business affairs of the Company and the source of its corporate value, and to be capable of continuously and sustainably ensuring and enhancing the Company's corporate value and, in turn, the common interests of its shareholders.

The Company also believes that decisions regarding takeover propositions involving a change of control of the Company should ultimately be made based on the will of the shareholders of the Company as a whole. Furthermore, the Company will not reject a large-scale acquisition offer of the shares of the Company if it will contribute to the corporate value of the Company and, in turn, the common interests of its shareholders.

Nevertheless, among them are not a few forms of large-scale acquisition of shares that benefit neither the corporate value of the target company nor the common interests of its shareholders. Such acquisitions include those with a purpose that would apparently harm the corporate value of the target company and the common interests of its shareholders, those with the potential to practically 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 offer, 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 than those originally 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 group covers with its comprehensive capability the five business fields and peripheral fields 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 those businesses with knowledge and experience specializing in real estate and finance, etc., (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 a person who undertakes 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 will not be the right person to control decisions on the Company's financial and business policies. The Company believes that it needs to secure the corporate value of the Company and, in turn, the common interests of its shareholders, by taking necessary and appropriate countermeasures against such large-scale acquisition offers,

(2) Overview of the special measures to realize the basic policy

The Company group established its three-year medium-term management plan aiming to further increase the Company group's corporate value and is pushing ahead with business under the plan.

Under the previous medium-term management plan called "Seamless Growth 2020" (the targeted period of the plan is three years from December 2017 to November 2020), the major policy of the plan is "to continue growth as a Group to build a firm position as an original comprehensive real estate company," under which we aim to establish new income-generating business, while targeting further growth of the five existing businesses and increases in their operating profit. In addition, we will endeavor to increase profits from the Rental, Fund and Consulting and Property Management Businesses, which are positioned as the stable businesses, to enable a structural balance between profits from the Revitalization and Development Businesses so as to reinforce our resilience to changes in the business environment. On the financial front, we will enhance funding capabilities, through methods such as the extension of borrowing periods to maintain a sound financial structure as the infrastructure that supports the expansion of business scale, while aiming at effective investments. In addition, as the composition of the Company group's trade diversifies in line with the expanding business scale, we will further enhance the quality of internal control, namely, compliance, risk management, and disclosure, to establish an optimum corporate governance structure.

Furthermore, we recognize that human resources that are the most important assets of the Company, and to leverage these assets, we will drive ahead with the development of next-generation executives, all officers and employees and the fostering of human resources for the improvement of productivity, while increasing the satisfaction of employees of the entire Group. At the same time, we will strive to establish a corporate brand befitting the firm position as a group of original comprehensive real estate companies and reinforce the attractiveness of our product brand that will be trusted by the market.

(3) Overview of the measures to prevent persons deemed as inappropriate, in view of the basic policy, from controlling the decisions on the Company's financial and business policies

This plan is a measure to prevent persons deemed as inappropriate, in view of the aforementioned basic policy, from controlling the decisions on the Company's financial and business policies, 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 to be followed in an acquisition, etc. of shares, etc. of the Company ((A) a purchase and/or other acquisition of the shares and the like issued by the Company that would result in the holding ratio of share certificates, etc. *(kabuken tou hoyuu wariai)* of a holder *(hoyuusha)* of 20% or more; or (B) a tender offer *(koukai kaitsuke)* with respect to the shares, etc. issued by

the Company that would result in the sum of the offeror's ownership ratio, and that of the persons having a special relationship with the offeror, of 20% or more; or any actions similar to (A) or (B) above) by those trying to acquire (hereinafter, the "Acquirer").

Specifically, the Acquirer must provide the Company a statement of undertaking and an acquisition document that includes necessary information, prior to making an acquisition.

Upon receiving these documents, an independent committee will conduct the review 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, the review of alternative plans, etc. presented by the Company's board of directors, and discussions and negotiations with the Acquirer, while obtaining advice from independent experts. In the meantime, the Company will disclose information in a timely manner.

When the acquisition is not in compliance with the procedures stipulated in the plan, and/or there is possibility of such offer to apparently cause harm to the corporate value of the Company and, in turn, to the common interests of shareholders, and it is appropriate for the Company 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 comply with 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 will acquire the stock acquisition rights in exchange for shares of the Company from persons other than the Acquirer. The Company's board of directors will resolve, as an agency stipulated by the Companies Act, as to the implementation or non-implementation of the gratis allotment of stock acquisition rights, fully respecting the recommendation of the Independent Committee. 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 follow the shareholders' intent. If the procedures under this plan have commenced, the Acquirer must refrain from making any acquisition until the Company's board of directors resolves not to trigger the plan. The plan will remain in effect until the conclusion of the ordinary general meeting of shareholders for the last fiscal year ending within three years of the conclusion of the 68th 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.

(4) Assessment by the Company's board of directors regarding specific measures and reasons thereof

Company's board of directors is of the view that the various measures to enhance the corporate value, including the new medium-term management plan and other measures to strengthen corporate governance have been established as specific actions to continuously and sustainably enhance the corporate value of the Company and, in turn, the common interests of its shareholders, and that these are in line with the basic policy, do not undermine the common interests of the Company's shareholders and are not for the purpose of maintaining the positions of the Company's corporate officers.

In addition, the Company's board of directors is of the view that the plan is in line with the basic policy, does not undermine the common interests of the Company's shareholders, and is not for the purpose

of maintaining the positions of the Company's corporate officers, based on the following reasons: an approval at the general meeting of shareholders has been obtained for its renewal; its maximum effective period is stipulated to be 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 comprised of the members that are independent of the management of the Company, has been established and the countermeasures stipulated in the plan requires the decision by the independent committee for actual executions; 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.

## 2. Other Matters Concerning the Corporate Governance System

1. Overview of the Corporate Governance System

Tosei Group has implemented the "system to ensure that directors' execution of duties comply with relevant laws and regulations as well as the articles of incorporation, and other systems to ensure appropriateness in the operations of the Company", as stipulated in the Company Act (so called "an internal control system"). (Please refer to "Basic Policies of Internal Control Systems and the Progress of the System Development" for the detail.) Furthermore, the Group works to enhance its risk management system and offers compliance training for all of its employees in the Group, as well as to develop and enhance the timely information disclosure system. The Group also supports the preservation of the natural environment through its business activities such as promoting the development and/or refurbishment of environmentally-friendly office/condominium buildings and promoting in-house energy savings as well as tree-planting activities. Since 2011, the company has also been conducting the volunteer activities to support those areas affected by the Great East Japan Earthquake.

2. Overview of Timely Information Disclosure System

**(1) Basic Policy**

Tosei Corporation takes its stand on the viewpoint of corporate governance and the company's social responsibility, as well as on the understanding that the enterprise value is the standard of the market. Therefore, it believes that a proper management of the corporate information and a timely and rational disclosure of the important information is the most important responsibility of a corporation. Hence, the Company is making efforts to develop necessary internal systems for its timely information disclosure, in order to firmly establish the investors' trust in the Company and the credit standing of the Company in the capital market.

**(2) System for a Timely Information Disclosure**

(A) The Officers/Department in Charge of Information Disclosure

(i) The Officers/Departments in Charge of Information Disclosure
The executive responsible for the Company's information disclosure is the Senior Executive Officer of Administrative Division and the department in charge is the Accounting Department.

(ii) Information Disclosure Committee

The Company has a deliberation body, the Information Disclosure Committee which consolidates and then shares all the relevant information, reviews and determines necessity and contents of the disclosure, in order to ensure a proper and timely disclosure of the corporate information.

Chaired by the executive in charge of information disclosure, the Disclosure Committee is constituted by Company's the Senior Executive Officers of each division, and the Executive Officers of each department appointed by the chair in charge of information disclosure, Accounting Department functioning as a secretarial office. The Disclosure Committee is responsible for ensuring the Company's disclosure in accordance with the relevant laws and regulations described in (C) below.

(B) Identifying and Verifying Information to be Disclosed

In order for the Company to disclose its corporate information in a proper and timely manner, the Accounting Department in charge of the information disclosure works to establish a system which enables close communications with the Board of Directors, the Management Committee, the operational and administrative departments, as well as the Company's subsidiaries.

(i) The Board of Directors, Pre-Board meeting discussion, and Management Committee Meetings
The officer in charge of information disclosure is a constituent member of the Board of Directors, the Pre-Board meeting discussion and the Management Committee Meeting, and the Company maintains a system which allows prompt identification of the matters that may require timely disclosures.

(ii) The Operational and Administrative Divisions
As for the operational and administrative divisions, the Administration Department reviews the circulated approval request memorandums, from the compliance standpoint. This enables the Accounting Department to identify the matters which may be subject to information disclosure.

(iii) The Subsidiaries
We are striving to verify conditions of the Company's subsidiaries by requiring a monthly report regarding the operational conditions of the Company's subsidiaries at the Pre-Board meeting discussion, in addition to requiring an operational report from the Board of Directors once a quarter. Also, the Company maintains a system through which it acquires their information requiring information disclosure by such measures as sending directors to the subsidiaries.

(C) The Guidelines for Timely Information Disclosure

The following laws and regulations are referred to by the Company as the basis in determining the necessity of timely disclosure of its corporate information:

(i) Companies Act, Financial Instruments and Exchange Act, and other relevant laws and regulations

(ii) Rules and regulations of the Tokyo Stock Exchange

(iii) Rules and regulations of the Singapore Exchange, which the Company is required to comply with because of its secondary listing on the said Exchange

(iv) The Articles of Incorporation of the Company

(v) The Insider Trading Prevention Regulations of the Company

(vi) The Information Disclosure Regulations of the Company

(vii) The Disclosure Policies of the Company (available on the Company's website)

(D) Operational Flow of the Information Disclosure (Please refer to the appendix.)

- The significant information of the Company as determined in our Information Disclosure Regulations, such as "information legally required to be disclosed", "information required to be timely disclosed", "information based on fair disclosure rules" or "information required to be disclosed by the Singapore Exchange", is promptly reported by the relevant operational department to the Corporate Planning Department, a secretarial office of the Company's management committee meetings, or to the Administration Department, a secretarial office of the board meetings. The Corporate Planning Department and/or the Administration Department then instruct the subject departments to carefully manage such information and review the details of such information if necessary and promptly make a report to the Accounting Department.

- The Accounting Department as the office of the Information Disclosure Committee reports such pieces of information to the Committee for its review, and the Committee determines whether the disclosure is necessary.

- With respect to the information whose disclosure is decided to be necessary, the Accounting Department drafts up the disclosure documents, with the advice/guidance of the legal counsels and/or the accounting auditors as appropriate, and the Administration Department confirms the contents of the disclosure. In finalizing the contents of the disclosure, the Corporate Planning Department further obtains a resolution from the Board of Directors on those matters requiring the board resolutions, and/or an approval by the President and CEO for other matters requiring the Company's approvals.

(E) Procedures for a Timely Disclosure

(i) General Procedure

The Accounting Department makes timely disclosure though the "Timely Disclosure Network (TDnet)" operated by the Tokyo Stock Exchange. It also discloses the same information in English simultaneously through "SGXNET" operated by the Singapore Exchange. Upon such disclosure, the Company also distributes an announcement on the disclosed information to press clubs and other media immediately. Such announcement is also posted on the Company's corporate website. The Company actively discloses other information which is not subject to the timely disclosure requirements on the website, from the standpoint of investors' fairness.

(ii) Emergency Case Procedure

The information is disclosed promptly based on the judgment by the President and CEO or the Senior Executive Officer in charge of the information disclosure.

**(3) Managing Corporate Information**

(A) Preventing Information Leakage

In accordance with the Insider Trading Prevention Regulations, the Executive Officer of Administrative Division serves as the person responsible for management of the significant insider information within the Company, communication with the Japan Securities Dealers Association, and management of a timely disclosure of the Company's internal control (the Officer in Charge of Information Handling). With respect to the insider information, access and utilization are limited only to those whose access is deemed as necessary in the course of business duty. Further, the General Managers of each department take such measures as placing strict controls over the storage of documents and electronic data that contain such insider information he/she obtained in the course of duty, so as to prevent any leakage. In the event drafting of document and/or preparation of material is outsourced, the Company takes appropriate actions to ensure confidentiality.

(B) Insider Trading Regulation

In an effort to prevent its employees and officers from committing insider trading , the Company has set out the items to be observed by its employees and officers with respect to handling of the Company's insider information they obtained in the course of their duty, restrictions on trading of the Company's shares and other transactions, as well as fulfilling their operational duties, in accordance with the Insider Trading Prevention Regulations. Further, it works to enhance the effectiveness of the regulations by requiring the following specific actions:

(i) Restrictions on the trading conducted by the Company's employees and directors

The Company requires its employees and directors, as a base rule, to submit an "application for trading of shares, etc." to the officer in charge of handling insider information for his/her approval, when they are to transact in the shares of the Company. It also requires them to report the results of such trading to the officer in charge of handling insider information, using the "report of securities trading results".

(ii) Managing of insider Information

In the event where any information of the Company or other listed companies that may be deemed insider information came to the knowledge of the Company's employees and/or directors, the Company requires them to submit "report on accessing internal information of the Company" or "report on accessing internal information of other companies", and reports to the officer responsible for handling internal information.

(iii) Periodical activity reports by Information Disclosure Committee at the board meetings

With respect to the "activities done by the Information Disclosure Committee", the Company designates such activities as one of the agenda items to be regularly reported

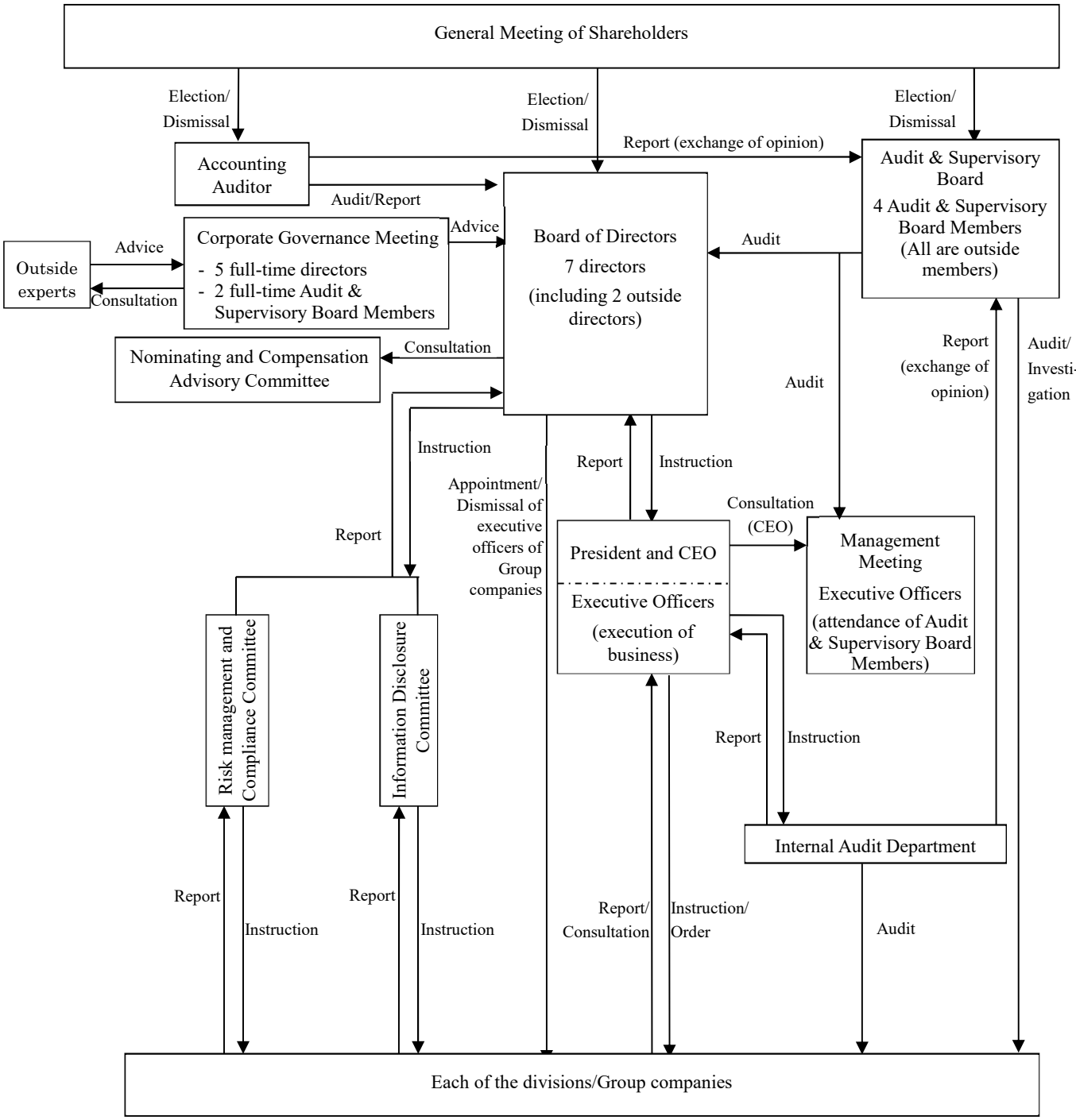
at the monthly board meetings (the party in charge of the regular reporting agenda is the Administration Department), to ensure that its directors are fully aware of the current status of the Company's timely disclosure and information control.

(iv) Educating employees and directors of the Company

The Company tries to educate and enlighten its employees and directors regarding the insider trading issues, during the training sessions organized by the Administration Department.

The End of Document

Tosei Corporation's Corporate Governance System - Diagram



Tosei Corporation's Information Disclosure - Operational Flow

