Annual Securities Report

(Pursuant to Article 24, paragraph 1 of the Financial Instruments and Exchange Act)

(The English translation of the
"Yukashoken-Houkokusho" for the 70th term)

from December 1, 2018
to November 30, 2019

TOSEI CORPORATION

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

(E04021)

This is an English translation prepared for the convenience of non-resident shareholders by translating the Annual Securities Report (YUKASHOKEN-HOKOKUSHO) submitted to the Director of the Kanto Local Finance Bureau of the Ministry of Finance of Japan on February 27, 2020 pursuant to Article 24, paragraph 1 of the Financial Instruments and Exchange Act. Should there be any inconsistency between the translation and the official Japanese text, the latter shall prevail.

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Company name (Japanese):	トーセイ株式会社 (*Tosei Kabushiki-Kaisha*)
Company name (English):	TOSEI CORPORATION
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A. Company Information

I. Overview of the Tosei Group

1. Trends in principal management benchmarks

(1) Management benchmarks (consolidated)

Term	66th term	67th term	68th term	69th term	70th term
Accounting period	Fiscal year ended Nov. 30, 2015	Fiscal year ended Nov. 30, 2016	Fiscal year ended Nov. 30, 2017	Fiscal year ended Nov. 30, 2018	Fiscal year ended Nov. 30, 2019
Revenue (¥ thousand)	43,006,964	49,818,113	57,754,328	61,543,319	60,727,704
Profit before tax (¥ thousand)	6,040,311	8,450,048	9,049,467	10,171,017	12,090,095
Profit attributable to owners of parent (¥ thousand)	4,135,816	5,547,469	6,155,169	6,852,237	8,447,032
Comprehensive income attributable to owners of parent (¥ thousand)	4,081,386	5,509,307	6,165,615	6,856,712	8,684,946
Total equity (¥ thousand)	36,228,378	41,010,083	46,158,867	52,021,782	58,306,499
Total assets (¥ thousand)	93,196,052	121,276,292	122,550,281	138,768,538	161,894,056
Equity attributable to owners of parent per share (¥)	750.32	849.35	955.99	1,071.63	1,225.27
Basic earnings per share (¥)	85.66	114.89	127.48	141.36	176.40
Diluted earnings per share (¥)	—	—	127.41	141.12	175.83
Ratio of equity attributable to owners of parent to total assets (%)	38.9	33.8	37.7	37.5	36.0
Ratio of return on equity attributable to owners of parent (%)	12.0	14.4	14.1	14.0	15.3
Price earnings ratio (PER) (Times)	8.84	7.23	8.59	7.28	7.55
Net cash from (used in) operating activities (¥ thousand)	(4,443,093)	(7,472,487)	7,089,159	7,615,322	(3,799,892)
Net cash from (used in) investing activities (¥ thousand)	481,605	(8,193,818)	(18,800)	(10,786,784)	(2,133,119)
Net cash from (used in) financing activities (¥ thousand)	6,661,097	18,522,496	(4,962,180)	5,941,884	11,412,129
Cash and cash equivalents at end of period (¥ thousand)	18,791,081	21,640,866	23,750,239	26,520,569	31,998,929
Number of employees [Separately, average number of temporary employees] (Person)	301 [163]	368 [155]	386 [156]	431 [139]	457 [124]

Notes: 1. Revenue does not include consumption taxes.

2. Diluted earnings per share for the 66th term and 67th term are not presented because there were no potential shares that have dilutive effects.

3. The Company has been preparing its consolidated financial statements in accordance with the International Financial Reporting Standard (“IFRS”).

(2)Filing company's management benchmarks (non-consolidated)

Term	66th term	67th term	68th term	69th term	70th term
Accounting period	Fiscal year ended Nov. 30, 2015	Fiscal year ended Nov. 30, 2016	Fiscal year ended Nov. 30, 2017	Fiscal year ended Nov. 30, 2018	Fiscal year ended Nov. 30, 2019
Net sales (¥ thousand)	37,242,841	41,965,432	45,491,580	48,601,639	48,861,295
Ordinary income (¥ thousand)	5,553,118	7,123,434	7,218,097	6,770,624	9,770,383
Net income (¥ thousand)	3,906,732	4,734,766	5,449,682	5,054,356	7,273,194
Capital stock (¥ thousand)	6,421,392	6,421,392	6,421,392	6,554,139	6,579,844
Total number of shares issued (Shares)	48,284,000	48,284,000	48,284,000	48,544,800	48,595,300
Net assets (¥ thousand)	34,478,314	38,455,373	42,889,054	46,965,634	52,076,260
Total assets (¥ thousand)	88,071,296	114,085,085	115,196,337	127,844,930	149,812,509
Net assets per share (¥)	714.06	795.50	886.38	966.65	1,093.35
Dividends per share (¥) [Interim dividends per share] (¥)	16.00 [–]	22.00 [–]	25.00 [–]	30.00 [–]	42.00 [–]
Net income per share (¥)	80.91	98.06	112.87	104.27	151.89
Net income per share (diluted) (¥)	—	—	112.81	104.09	151.40
Equity ratio (%)	39.1	33.7	37.2	36.7	34.7
Return on equity (ROE) (%)	11.9	13.0	13.4	11.3	14.7
Price earnings ratio (PER) (Times)	9.36	8.47	9.70	9.87	8.76
Dividend payout ratio (%)	19.8	22.4	22.1	28.8	27.7
Number of employees [Separately, average number of temporary employees] (Person)	140 [–]	152 [–]	159 [–]	181 [–]	191 [–]
Total shareholder return(%)	107.4	120.7	160.8	155.8	203.6
(Comparativeindex1: Dividend-included TOPIX(%)	(114.2)	(108.6)	(135.2)	(128.5)	(134.3)
(Comparativeindex2: Dividend-unincluded TOPIX Sector Index (First Section, TOPIX-17 REAL ESTATE))(%)	(97.8)	(86.6)	(88.3)	(86.4)	(91.2)
Highest share prices (¥)	954	856	1,162	1,529	1,467
Lowest share prices (¥)	636	553	712	953	759

Notes: 1. Net sales do not include consumption taxes.

2. Net income per share (diluted) for the 66th term and the 67th term are not presented because there were no potential shares that have dilutive effects.

3. The highest and lowest prices were prices on the First Section of Tokyo Stock Exchange.

4. The Partial Amendments to Accounting Standard for Tax Effect Accounting (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018), etc. have been applied from the beginning of the 70th term, and indicators for the 69th term were adjusted retrospectively in accordance with the said accounting standard, etc.

2. History

Date	Details of change
February 1950	Established as Yukari Kogyo Co., Ltd. with purpose of engaging in restaurant business at location of 514 Oaza Oita, Oita-shi, Oita Prefecture, Japan (Capital: ¥500,000)
April 1952	Moved head office to Kameido, Koto-ku, Tokyo
June 1964	Added real estate trading, brokerage, rental and management businesses to scope of business purpose
May 1968	Moved head office to Sotokanda, Chiyoda-ku, Tokyo
July 1969	Changed trade name to Yukari Co., Ltd.
March 1973	Obtained license of building lots and buildings transaction business (License Number: Governor of Tokyo (1) No. 24043)
March 1983	Changed trade name to Tosei Building Co., Ltd.
April 1986	Moved head office to Iwamoto-cho, Chiyoda-ku, Tokyo
October 1994	Started sales of condominiums of "THE Palms" series
September 1995	Established Kanda Awaji-cho Building Co., Ltd.
March 1996	Changed trade name to Tosei Fudosan Co., Ltd.
April 1996	Launched revitalization business
December 1996	Moved head office to Kanda Awaji-cho, Chiyoda-ku, Tokyo
December 1997	Launched contract work, including repair and restoration, incidental to building management business upon obtaining license of specified construction business (License Number: Governor of Tokyo (Special-9) No. 107905)
July 1999	Started sales of detached houses of "Palms Court" series
February 2001	Launched asset management business upon registering general real estate investment advisory business (Registration Number: Minister of Land, Infrastructure, Transport and Tourism No. 127)
March 2001	Merged with Kabushiki Kaisha. Konmasa Shoten, Nihon Kogyo Jutaku Kabushiki Kaisha. and Hidaka Kogyo Kabushiki Kaisha. by absorption-type merger using LBO (leveraged buyout) technique
April 2001	Registered first-class architectural firm (Registration Number: Governor of Tokyo No. 46219)
November 2001	Span off Building Management Division engaged in building management services and transferred it to Tosei Community Co., Ltd. (currently consolidated subsidiary Tosei Community Co., Ltd., Japanese name of which has changed with English name unchanged)
December 2001	Established Securitization Business Division to realize full-scale entry into real estate securitization business
August 2002	Structured "Argo Fund," a private placement fund investing in trust beneficiary rights in rental condominiums, as our first real estate investment fund
December 2002	Merged with our subsidiary Kanda Awaji-cho Building Co., Ltd. by absorption-type merger
February 2004	Registered shares as over-the-counter securities at Japan Securities Dealers Association
September 2004	Obtained license of real estate specified joint enterprise (License Number: Governor of Tokyo No. 58)
December 2004	Cancelled registration as over-the-counter securities at Japan Securities Dealers Association and listed shares on Jasdaq Securities Exchange (later delisted shares in January 2008)
March 2005	Established Tosei Revival Investment Co., Ltd. (currently consolidated subsidiary Tosei Revival Investment Co., Ltd., Japanese name of which has changed with English name unchanged)
April 2005	Made Tosei Community Co., Ltd. (currently consolidated subsidiary Tosei Community Co., Ltd., Japanese name of which has changed with English name unchanged) a consolidated subsidiary by acquiring its shares
September 2005	Established Tosei REIT Advisors, Inc. (currently consolidated subsidiary Tosei Asset Advisors, Inc.)
October 2006	Changed trade name to Tosei Corporation and moved head office to Toranomon, Minato-ku, Tokyo
November 2006	Listed shares on Second Section of Tokyo Stock Exchange
September 2007	Registered type II financial instruments business and investment advisory and agency business (Registration Number: Director-General of Kanto Local Finance Bureau (Kinsho) No. 898)
September 2009	Launched "Restyling business" as a new business model of revitalization business
September 2011	Listed shares on First Section of Tokyo Stock Exchange
January 2012	Established Tosei Singapore Pte. Ltd.
December 2012	Established NAI TOSEI Japan, Inc. (Liquidation completed on August 2016)
March 2013	Listed shares on Main Board of Singapore Exchange
November 2014	Tosei Reit Investment Corporation, which is managed by Tosei Asset Advisors, Inc., a consolidated subsidiary of Tosei Corporation, listed shares on Tokyo Stock Exchange
December 2015	Made Urban Home Corporation (currently consolidated subsidiary Tosei Urban Home Co., Ltd.) a consolidated subsidiary by acquiring its shares
February 2016	Established Tosei Hotel Management Co., Ltd.
June 2017	Established Tosei Hotel Kanda Co., Ltd.
December 2017	Commenced the Hotel Business (opened the Tosei Group's first hotel, Tosei Hotel COCONE Kanda)

Date	Details of change
May 2018	Established Tosei Hotel Ueno Co., Ltd. (currently consolidated subsidiary Tosei Hotel Makuhari Co., Ltd.)
July 2018	Established Tosei Hotel Service Co., Ltd.

3. Business description

The Tosei Group is composed of Tosei Corporation ("Tosei" or the "Company") and 14 consolidated subsidiaries. Its main businesses are the Revitalization Business, the Development Business, the Rental Business, the Fund and Consulting Business, the Property Management Business and the Hotel Business.

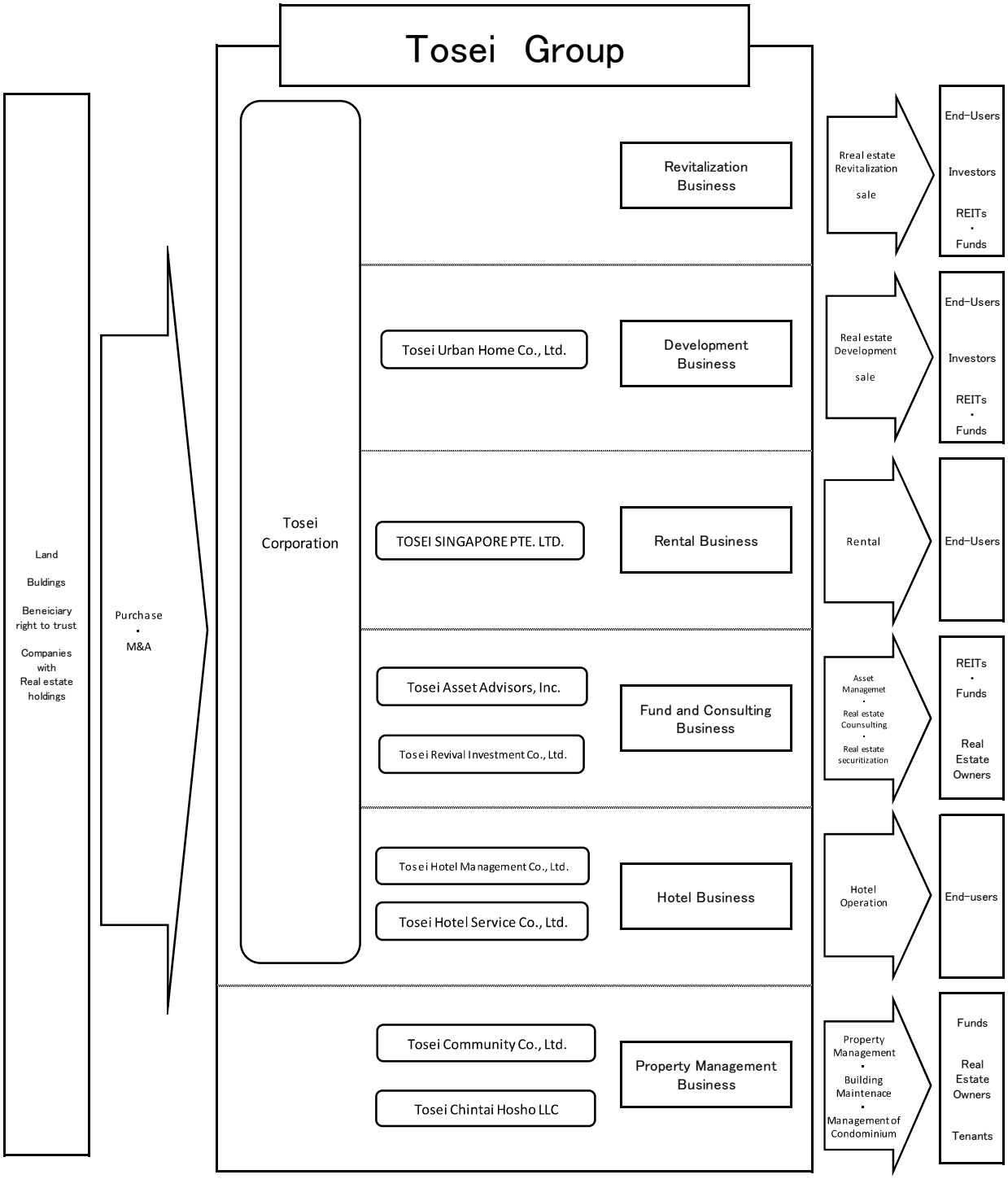
As the hotel-related business has increased in significance in the Group, from the fiscal year under review, the Hotel Business has been established as a new reportable segment.

The operations of each business segment and the main subsidiaries and/or affiliates conducting those operations are as follows.

Segment	Operations	Main Companies
Revitalization Business	The Tosei Group acquires, through diverse means (*1), office buildings, commercial facilities, apartments and other properties whose asset value has declined, boosts their value though "value-up plans" (*2) judged to best match the characteristics of the properties' areas and tenant requirements, and sells them as revitalized real estate to buyers including investors, real estate funds and individual business entities that acquire real estate for private use. In the "Restyling Business," the Group acquires income-generating condominiums and sells their units to end-users after boosting the value of common and private areas by renovation. The Tosei Group's "value-up" activities go beyond just renewing properties and involve realizing comprehensive regenerations of their values. This put a focus on not only improving the convenience and functionality of properties but also providing satisfaction to owners and giving end users a sense of pride. (*1) The Company carries out the acquisition of superior real estate through a broad range of means that include not only buying and selling actual real estate, but also acquisitions through the means of "real estate M&A" where real estate held by companies with real estate holdings and by real estate business operators is acquired through M&A, and through real estate collateralized loans and rights adjustment for substitute performance real estate. (*2) The Company's "value-up plans" consist of the three primary components of improved designs to refurbish/renovate internal and external elements that have deteriorated or become obsolete, enhanced security functions, etc., to increase the security and functionality of facilities, and incorporating eco-friendly designs and equipment that take the environment into consideration, in addition to improved profitability through conversion projects, vacancy countermeasures, rent increases, etc.	Tosei Corporation
Development Business	In the main districts of Tokyo, which form the Tosei Group's core operating area, there is a mixture of needs for office, commercial and residential space and other uses, and these different uses create significant differences between land values. Tosei verifies the characteristics of land it acquires including area, shape, intended purpose, relevant needs, rent, and selling price. Based on this, Tosei carries out development and new construction to maximize the value of the land, and then sells whole buildings or individual units. The Group is able to respond to diverse needs by developing office buildings, commercial buildings (T's BRIGHTIA series) and mixed-use buildings, hotels, logistics facilities, condominiums (THE Palms series), as well as detached houses (THE Palms Court series and Comodo Casa series). Once development is complete or tenants have been found, the properties are sold to buyers including investors, real estate funds, and end-users.	Tosei Corporation, Tosei Urban Home Co., Ltd.
Rental Business	The Tosei Group has expanded the scope of its business primarily in the main districts of Tokyo by acquiring office buildings, condominiums, stores and parking lots, and renting them out to end-users and others. As a landlord, the Tosei Group is capable of swiftly gathering accurate information on tenant needs to further enhance "value-up plans" by reflecting these needs.	Tosei Corporation

Fund and Consulting Business	The Tosei Group conducts business as a type II financial instruments business as well as an investment advisory and agency business and an investment management business as provided for in the Financial Instruments and Exchange Act. Specifically, in addition to providing Tosei Reit Investment Corporation's asset management services, the Tosei Group also provides services such as selling and brokering trust beneficiary rights, and management of income-generating properties as asset management services for real estate funds. Also, the Tosei Group provides consulting services and real estate brokerage related to corporate real estate held by business entities.	Tosei Asset Advisors, Inc
Property Management Business	This business carries out building and equipment management, and security (building maintenance) for office buildings, apartments, hotels, commercial facilities, and educational facilities; owner proxy services, tenant management, tenant solicitation, and building management (property management); and management services for condominiums. With respect to building maintenance, in order to streamline building owners' operations through building maintenance, the management of equipment, etc., the business maintains the asset values of buildings by implementing precise maintenance plans regarding the age-related deterioration of buildings. With respect to property management, the business provides comprehensive property management such as finding the most suitable tenants and proposing medium- to long-term property renewals, with the aim of realizing maximized owner profit. In the management of condominium, this business makes full use of the knowhow it has accumulated over a number of years to provide total support to management associations from their launch to helping them operate smoothly once they are started up.	Tosei Community Co., Ltd.
Hotel Business	Tosei will move forward proactively with the development of the Tosei Hotels Cocone, hotels with its own brand, and with the conversion of used office buildings into hotels in the Tokyo metropolitan area. The Company provides a range of different services, and has developed hotels utilizing the expertise and networks built up over time in areas including the Development Business, Revitalization Business, and Rental Business.	Tosei Hotel Management Co., Ltd.

A schematic diagram of the businesses of the Tosei Group is shown below.



4. Status of subsidiaries and associates

Name	Location	Capital or investment in capital (¥ thousand)	Major lines of business	Holding rate of voting rights (%)	Relationship
Consolidated subsidiaries					
Tosei Community Co., Ltd.	Minato-ku, Tokyo	99,500	Property management business	100.0	Managing the Company's real estate holdings and interlocking directorate
Tosei Asset Advisors, Inc.	Minato-ku, Tokyo	100,000	Fund and consulting business	100.0	Interlocking directorate
Tosei Revival Investment Co., Ltd.	Minato-ku, Tokyo	50,000	Real estate consulting business	100.0	Interlocking directorate
Tosei Urban Home Co., Ltd.	Machida-shi, Tokyo	100,000	Development business	100.0	
Kishino Corporation	Minato-ku, Tokyo	10,000	Revitalization business	100.0	Interlocking directorate
Masuda Kenzai-ten Co., Ltd.	Minato-ku, Tokyo	60,500	Revitalization business	100.0	
Sanki-shoji Co., Ltd.	Minato-ku, Tokyo	30,000	Revitalization business	100.0	
Tosei Hotel Management Co., Ltd.	Minato-ku, Tokyo	100,000	Hotel business	100.0	
Tosei Hotel Kanda Co., Ltd.	Minato-ku, Tokyo	10,000	Hotel business	100.0 (100.0)	
Tosei Hotel Makuhari Co., Ltd.	Minato-ku, Tokyo	10,000	Hotel business	100.0 (100.0)	
Tosei Hotel Service Co., Ltd.	Minato-ku, Tokyo	10,000	Hotel business	100.0	
Tosei Chintai Hosho LLC	Minato-ku, Tokyo	3,000	Property management business	100.0	
Tosei Singapore Pte. Ltd.	Singapore	322,787	Rental Business	100.0	
CSC	Minato-ku, Tokyo	35,000	Other business	100.0	

Notes:1. The figure in parentheses in the "Holding rate of voting rights" column is an indirect holding rate included in the figure outside the parentheses.

2. As of June 30, 2019, KS Properties Corporation has been excluded from the scope of consolidation as a result of the completion of liquidation during the fiscal year under review. And as of October 31, 2019, the Company sold all the shares in Four Big Corporation, and the said company has been excluded from the scope of consolidation.

3.As of December 13, 2018, Tosei Hotel Ueno Co. has changed its trade name to Tosei Hotel Makuhari Co., Ltd. And as of February 27, 2019 Urban Home Corporation has changed its trade name to Tosei Urban Home Co., Ltd.

5. Status of employees

(1) Consolidated companies

(As of November 30, 2019)

Segment	Number of employees (Person)	
Revitalization Business	81	[–]
Development Business	80	[3]
Rental Business	19	[–]
Fund and Consulting Business	71	[–]
Property Management Business	124	[121]
Hotel Business	24	[–]
Corporate (common)	58	[–]
Total	457	[124]

Notes: 1. The number of employees indicates the number of working employees, and the average number of temporary employees during this fiscal year is given in brackets separately.

2. The number of employees in the "Corporate (common)" row is the number of those belonging to the administrative department.

(2) Filing company (Tosei)

(As of November 30, 2019)

Number of employees (Person)	Average age (Year old)	Average years of service (Year)	Average annual salary (¥ thousand)
191	37.2	5.8	7,923

Segment	Number of employees (Person)
Revitalization Business	81
Development Business	36
Rental Business	14
Fund and Consulting Business	1
Hotel Business	1
Corporate (common)	58
Total	191

Notes: 1. The number of employees indicates the number of working employees.

2. The average annual salary includes bonuses and surplus wages.

3. The number of employees in the "Corporate (common)" row is the number of those belonging to the administrative department.

(3) Status of labor union

A labor union has not been formed. The Company maintains stable relations with its employees.

II. Review of operations

1. Management policies, management environment, and issues to be addressed, etc.

"Cabinet Office Ordinance on the Disclosure of Corporate Content etc." after revision by the "Cabinet Office Ordinance to revise a part of the Cabinet Office Ordinance on disclosure of corporate content etc." (Cabinet Office Ordinance No. 3 on January 31, 2019) The provisions of Caution (30) described in the No. 2 format have been applied from the securities report for the current fiscal year.

Forward-looking statements included in this section are based on judgement by the Group's management as of November 30, 2019.

(1) Fundamental management policy

The Tosei Group's corporate philosophy is to create new value and inspiration in all aspects of real estate as a group of global-minded and experienced professionals. With constant commitment to quality construction, the Group is striving to integrate real estate and finance. The Group is also aiming to contribute to society and increase its corporate value through these businesses.

(2) Management environment, the Company's medium- to long-term management strategies and issues to be addressed preferentially

1) Management environment

In the Tokyo metropolitan area real estate investment market, which is the Company's main target market, a continuing favorable financing environment has been spurring active real estate transactions by the likes of J-REITs, overseas investors, and ordinary enterprises. Although property prices remain high, the real estate investment market is likely to remain vibrant going forward amid a scenario where low interest rates worldwide have heightened the appeal of income-generating properties in the Tokyo metropolitan area, such that include logistics facilities which have been encountering greater demand amid growth in e-commerce, as well as offices and condominiums which have been underpinned by firm leasing demand. On the other hand, the market for wood-frame apartments and small-scale urban investment housing has entered an adjustment phase amid a situation where sales of certain asset types are being affected by more stringent financing requirements applied to income-generating properties for individual investors. Meanwhile, in the hotel market there is cause for concern regarding excessive supply amid a situation where there has been a spate of hotel openings in various places fueled by the expect of growing demand from inbound travel. As such, the Company needs to remain alert regarding signs of a deteriorating market even in the Tokyo metropolitan area where guest room occupancy rates remain at high levels. As the real estate market conditions are easily influenced by economic and financial conditions, it is necessary to keep in mind a period of change stemming from concerns over a slowdown in the global economy and monetary policy changes, and the Group recognizes that one of its important tasks is to plan and promote a management strategy in anticipation of future risks and business opportunities.

2) Company's medium- to long-term management policy and management strategies

The Group is promoting its medium-term management plan "Seamless Growth 2020" (December 2017 to November 2020) with the fiscal year ended November 30, 2018 as its first year. 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." In the fiscal year ending November 30, 2020, the final year, the Company will continue implementing its growth strategy based on this plan.

The progress of the medium-term management plan and the comparison with the plan are described in "3. Management analysis of financial position, operating results and cash flows" "(6) Objective benchmarks used to judge the achievement of management policy, management strategies and management targets".

<Basic policy of the medium-term management plan "Seamless Growth 2020">

a. Further growth and increase in operating profit of the five existing business segments*1, and realization of 50:50 ratio of the gross profit of the trading business to that of the stable business

b. Establishment of new income-generating business, following the five existing business segments*1

c. Improvement of financial structure to support the business scale expansion

d. Further strengthening of risk management and Group governance aimed at realizing an efficient organizational structure that enables business scale expansion

e. Further increase in satisfaction of Group employees, strengthening of organizational strengths and

improvement in productivity through fostering of human resources

f. Strengthening of the Tosei brand with a strong awareness of CSR and ESG

*1 The five existing business segments refer to the reportable segments at the time of formulation of the medium-term management plan (December 2017), namely the Revitalization Business, the Development Business, the Rental Business, the Fund and Consulting Business and the Property Management Business. As the hotel-related business has increased in significance in the Group, from the fiscal year ended November 30, 2019, the Hotel Business has been established as a new reportable segment.

*2 Of the five reportable business segments, the Revitalization Business and the Development Business are defined as the "trading business" and the Rental Business, the Fund and Consulting Business and the Property Management Business are defined as the "stable business." Under this plan, gross profit of the trading business excludes expenses (advertising fees, brokerage fees, etc.) pertaining to property trading.

<Quantitative plan (consolidated basis) for the medium-term management plan "Seamless Growth 2020">

	Initial numerical targets (announced on January 10, 2018)	Revised numerical targets (announced on January 9, 2020)
Consolidated revenue for the final fiscal year	¥100 billion	¥80.3 billion
Consolidated profit before tax for the final fiscal year	¥12 billion	¥13 billion
Average profit growth rate of the three years	10% or more	Unchanged
Average ROE of the three years	12% or more	Unchanged
Expansion of the ratio of stable business	To make the ratio of the gross profit of the trading business to that of the stable business 50:50 in the final fiscal year	The ratio of the gross profits of the trading business and the stable business is expected to remain at 60:40.
Guideline for equity ratio	35%	Unchanged

<Reasons of revision>

a. Consolidated revenue

The Company reviewed the sales plan and revised the revenue target downward, as the Revitalization Business has been selling properties with profit margin higher than anticipated at the time when the plan was drawn up and expects that properties can continue to be sold with the same level of profit margin in the fiscal year ending November 30, 2020.

b. Consolidated profit before tax

Having achieved its numerical target for profit before tax for the final fiscal year of the plan in the fiscal year ended November 30, 2019, one year ahead of schedule, the Company revised the target upward, aiming to continue to increase profit.

c. Expansion of the ratio of stable business

The ratio of stable business has increased steadily. The ratio of the trading business and the stable business was 57:43 for at the end of the previous medium-term management plan, 56:44 in the fiscal year ended November 30, 2018, and 55:45 in the fiscal year ended November 30, 2019. Although the Fund and Consulting Business as well as the Property Management Business showed strong performance during these two fiscal years, the ratio is expected to remain at 60:40 in the fiscal year ending November 30, 2020, due to delay in accumulation of Company-held fixed assets (property, plant and equipment and investment properties) in the Rental Business compared with the initial plan.

3) The Group's business and financial issues to be addressed preferentially

The Group's business and financial issues to be addressed preferentially are as follows:

1.Business issues

Segment	Issues to be addressed preferentially
Revitalization Business	1. Strengthen acquisitions commensurate with type and size of properties (including non-current asset properties, properties for REIT, properties for major investors, properties for individual investors, properties for companies' own use and real estate M&A)
	2. Expand value-up guidelines in response to property characteristics; and implement value-up activities aiming to improve profitability
	3. Pursue efficiency by diversifying sales channels and sales methods
	4. Develop market perspective in response to area, size, intended purpose and property characteristics; strengthen investment judgment; and nurture persons who can make investment decisions
Development Business	1. Strengthen acquisitions commensurate with type (land lots for development of income-generating properties, etc. for investors, land lots for condominium projects, land lots for detached housings, land lots for hotel projects, land lots for logistics facility projects), size and area of properties
	2. Improve profit margin of development of income-generating properties (office buildings, commercial buildings, apartments, hotel, logistics facilities, etc.)
	3. Enhance product development capabilities in the development of detached housings; shorten the period from development to sales; promote in-house production; and improve productivity of persons responsible for planning and sales
	4. Develop market perspective in response to area, size, intended purpose and property characteristics; strengthen investment judgment; nurture persons who make investment decisions; and develop area strategy (M&A of business corporations, establishment of branches, etc.) in order to increase supply volume of end-user-targeted properties (condominiums and detached housings)
Rental Business	1. Strengthen expertise in leasing (stable occupancy, early lease-up of vacancies, rent increase, etc.) which accommodates significant increase in non-current assets and increase in properties for revitalization
	2. Conduct appropriate property management (including long-term repair and reduction of management costs) for stable occupancy; and enhance efficiency of tenant management
	3. Develop and strengthen rental market perspective in response to area, size, intended purpose and property characteristics
Fund and Consulting Business	1. Increase the balance of assets under management (REIT, private placement funds, and CRE)
	2. Strengthen expertise in fund origination and execution
	3. Establish and expand direct channels with major institutional investors (including public funds); and form new funds
Property Management Business	1. Improve appropriateness of property management, building management and condominium management which accommodate significant increase in number of properties under management and conduct efficient business operations
	2. Establish ability to respond to new facilities and buildings following offices, commercial facilities, condominiums, schools and hotels
	3. Develop and strengthen rental market perspective in response to area, size, intended purpose and property characteristics
Hotel Business	1. Enhance profitability of existing hotels (Tosei Hotel COCONE Kanda and Tosei Hotel COCONE Ueno)
	2. Open new hotels (Tosei Hotel COCONE Asakusa-Kuramae, Tosei Hotel COCONE Ueno-Okachimachi and Tosei Hotel & Seminar Makuhari) and secure stable occupancy; and acquire new properties

2.Financial issues

Segment	Issues to be addressed preferentially
Financial strategy	1. Prepare for rapid changes in the real estate market conditions and financial market ・ Secure financial soundness such as capital structure (debt-equity ratio), liquidity on hand, etc. ・ Conduct stress tests on an ongoing basis in anticipation of sudden changes in real estate prices, liquidity, interest rate, etc.
	2. Make effective use of capital and funds ・ Achieve ROE of over 12% which exceeds cost of capital through business investment ・ Implement capital allocation that considers the balance of growth investment, liquidity on hand and return of profits to shareholders
	3. Enhance funding capabilities which enable the sustainable expansion of business ・ Procure low-interest and stable funds by securing an adequate amount of funds, extending borrowing period and fixing low-interest rate, etc. ・ Reduce cost of capital by conducting disclosure to financial institutions and capital markets as well as promoting dialogues

2. Business and other risks

"Cabinet Office Ordinance on the Disclosure of Corporate Content etc." after revision by the "Cabinet Office Ordinance to revise a part of the Cabinet Office Ordinance on disclosure of corporate content etc." (Cabinet Office Ordinance No. 3 on January 31, 2019) The provisions of Caution (31) described in the No. 2 format have been applied from the securities report for the current fiscal year.

Risks that have the potential to affect the performance, share price and financial position of the Tosei Group include, but are not limited to, the issues discussed below. Forward-looking statements are based on Tosei Group judgments as of November 30, 2019. The Tosei Group maintains a policy of recognizing the potential for risks to occur and working to preclude them or manage them if they arise. Furthermore, the information below is not intended to be an exhaustive list of all risks associated with the businesses of the Tosei Group or investment in the Company's shares.

(1) Trends in economic conditions

The demand for office buildings and commercial facilities owned by the Tosei Group may be affected by economic trends, and willingness of customers buying houses to buy is easily influenced by economic trends and the resulting employment situation as well as by a decline in land prices stemming from a downturn in the real estate market or other cause. Due to these factors, when worsening of domestic and foreign economic conditions results in decreased motivation to invest in real estate, a drop in real estate transactions, a rise in the vacancy rate or a decline in rent, there may be an impact on the Tosei Group's operating results and financial position.

In addition to regular monitoring of economic trends and real estate market conditions, the Tosei Group aims to mitigate these risks through measures including cultivating market judgment adapted to different areas, scales, uses and property characteristics, and strengthening investment decision-making and leasing capabilities.

(2) Disasters, etc.

The occurrence of a natural disaster such as a major earthquake in Tokyo, which is believed likely to happen in the future, destructive storm or flood, or a human disaster such as war, terrorism or fire, could cause substantial losses in the values of the real estate the Tosei Group invests in, manages, develops and controls, and therefore has the potential to affect the Tosei Group's operating results and financial position.

The Tosei Group is responding to these risks by establishing a business continuity plan (BCP) for each of the major companies in the Group, and carrying out preparations to ensure that vital businesses can be continued or promptly restored in the event of a disaster.

(3) Dependency on interest-bearing debt and interest rate trend

The Tosei Group procures debt financing, primarily from financial institutions, on a project-by-project basis, to fund expenses associated with business activities including acquisition of land and buildings and construction. Consequently, the ratio of interest-bearing debt to total assets is consistently at a certain level. In the future, if interest rates rise or the lending attitude of financial institutions changes, the cost of financing and the impact on funding could affect the Tosei Group's operating results and financial position.

In addition, lump-sum repayments due to conflicts with financial covenants on some loans, delays of project sales, and lower-than-expected sales revenues also have the potential to affect the operating results and financial position of the Tosei Group.

In addition to regular monitoring of interest rate movements and the lending posture of financial institutions, the Tosei Group is responding to these risks by striving to obtain stable and economical financing, through measures such as establishing credit lines and fixing interest rates to ensure flexible debt funding.

(4) Legal regulations

1) Legal regulations

In addition to the regulations in the Companies Act and the regulations in the Financial Instruments and Exchange Act that apply to listed companies, the main legal regulations pertaining to the businesses of the Tosei Group are as follows.

If these legal regulations are strengthened in the future, the cost of legal compliance measures could increase.

Main legal regulations
• Building Lots and Buildings Transaction Business Act • National Land Use Planning Act • City Planning Act • Building Standards Act • Construction Business Act • Act on Architects and Building Engineers • Housing Quality Assurance Act • Act on Sales, etc. of Financial Products • Real Estate Specified Joint Enterprise Act • Trust Business Act • Act on Investment Trust and Investment Corporations • Act on Securitization of Assets • Real Estate Investment Advisory Business Registration Rules • Act on Assurance of Performance of Specified Housing Defect Warranty • Act on Prevention of Transfer of Criminal Proceeds • Act on Advancement of Proper Condominium Management • Act on Maintenance of Sanitation in Buildings • Security Services Act • Fire and Disaster Management Act • Act on the Rational Use of Energy • Money Lending Business Act • Inns and Hotels Act • Food Sanitation Act

2) Licenses and permits, etc.

The Tosei Group's businesses have obtained the following related licenses and permits in accordance with the laws listed above. As Tosei Group works to observe the current requirements imposed by administrative laws and local ordinances, there has not been any issue that could result in the revocation of licenses or permits. However, the business activities of the Group could profoundly be affected in the event that revocation of licenses or permits occurred or an administrative punishment such as suspension of operating activities for a certain period is imposed due to violation of laws and regulations.

Moreover, if the Tosei Group's business activities are restricted by the strengthening of the above regulations or the introduction of new regulations, the operating results or financial position of the Group could be affected.

The Tosei Group is responding to these risks by sharing and discussing information on changes to relevant laws and regulations and outgoing documents issued by regulatory authorities at forums such as Risk Management and Compliance Committee and business law liaison meetings, and endeavoring to grasp and respond to any issues swiftly. In addition, the Group aims to ensure compliance with laws and regulations through measures such as continuing awareness programs and training related to compliance.

Tosei Corporation

Name of license or permit	Authority	Content of license or permit	Expiration	Rescission, cancellation or other reasons
Real Estate Business License	Governor of Tokyo	Tokyo Governor's License (13) No. 24043	March 23, 2022	When the license has been obtained through wrongful means, or the provisions of causes for disqualification of officers, etc. become applicable, the license shall be rescinded. (Article 66 of the Building Lots and Buildings Transaction Business Act)
Real Estate Investment Advisory Business Registration	Minister of Land, Infrastructure, Transport and Tourism	General–No. 127	February 28, 2021	When the registration has been made through wrongful means, or the provisions of causes for disqualification of officers, etc. become applicable, the registration shall be rescinded. (Article 30 of the Real Estate Investment Advisory Business Registration Rules)
Specified Construction Business License	Governor of Tokyo	Tokyo Governor's License (Special–29) No. 107905	December 9, 2022	When a situation arises so that there is no fulltime officer or employee in the company who has experience of being engaged for five (5) years or more in specified construction business, the permission shall be rescinded. (Article 29 of the Construction Business Act)
First Class Architect's Office License	Governor of Tokyo	Tokyo Governor's Registration No. 46219	April 9, 2021	When the registration has been made through wrongful means, or the provisions of causes for disqualification of the first-class registered architect, etc. become applicable, the registration shall be rescinded. (Article 26 of the Act on Architects and Building Engineers)
Real Estate Specific Joint Enterprise Permit	Financial services agency Commissioner, Minister of Land, Infrastructure, Transport and Tourism	Financial services agency Commissioner, Minister of Land, Infrastructure, Transport and Tourism No.102	–	When license of the building lots and buildings transaction business has been rescinded, or the provisions of causes for disqualification of officers, etc. become applicable, the authorization shall be rescinded. (Article 36 of the Real Estate Specified Joint Enterprise Act)
Registered Financial Instrument Business (Type 2 Financial Instrument Business, Advisor and Agency)	Financial Services Agency	Kanto Financial Bureau Chief (Financial Instruments) No. 898	–	When the registration has been made through wrongful means, or there is a risk of insolvency in the light of capital or operation or the status of property, the registration shall be rescinded. (Article 52 of the Financial Instruments and Exchange Act)

Tosei Asset Advisors, Inc.

Name of license or permit	Authority	Content of license or permit	Expiration	Rescission, cancellation or other reasons
Real Estate Business License	Governor of Tokyo	Tokyo Governor's License (3) No. 85736	April 7, 2021	When the license has been obtained through wrongful means, or the provisions of causes for disqualification of officers, etc. become applicable, the license shall be rescinded. (Article 66 of the Building Lots and Buildings Transaction Business Act)
Real Estate Specific Joint Enterprise Permit	Financial services agency Commissioner, Minister of Land, Infrastructure, Transport and Tourism	Financial services agency Commissioner, Minister of Land, Infrastructure, Transport and Tourism No.70	–	When license of the building lots and buildings transaction business has been rescinded, or the provisions of causes for disqualification of officers, etc. become applicable, the authorization shall be rescinded. (Article 36 of the Real Estate Specified Joint Enterprise Act)
Registered Financial Instrument Business (Investment Management Business, Type 2 Financial Instrument Business, Advisor and Agency)	Financial Services Agency	Kanto Financial Bureau Chief (Financial Instruments) No. 363	–	When the registration has been made through wrongful means, or there is a risk of insolvency in the light of capital or operation or the status of property, the registration shall be rescinded. (Article 52 of the Financial Instruments and Exchange Act)
License for discretionary proxy in realty trading	Minister of Land, Infrastructure, Transport and Tourism	Minister of Land, Infrastructure, Transport and Tourism No. 52	–	When the authorization has been obtained through wrongful means, or damages have been caused to another party in the course of business, the authorization shall be rescinded. (Article 67-2 of the Building Lots and Buildings Transaction Business Act)

Tosei Community Co., Ltd.

Name of license or permit	Authority	Content of license or permit	Expiration	Rescission, cancellation or other reasons
Real Estate Business License	Governor of Tokyo	Tokyo Governor's License (4) No. 80048	September 28, 2021	When the license has been obtained through wrongful means, or the provisions of causes for disqualification of officers, etc. become applicable, the license shall be rescinded. (Article 66 of the Building Lots and Buildings Transaction Business Act)
Specified Construction Business License	Governor of Tokyo	Tokyo Governor's License (Special–29) No. 119534	March 10, 2023	When a situation arises so that there is no fulltime officer or employee in the company who has experience of being engaged for five (5) years or more in specified construction business, the permission shall be rescinded. (Article 29 of the Construction Business Act)
First Class Architect's Office License	Governor of Tokyo	Tokyo Governor's Registration No. 49526	January 14, 2024	When the registration has been made through wrongful means, or the provisions of causes for disqualification of the first-class registered architect, etc. become applicable, the registration shall be rescinded. (Article 26 of the Act on Architects and Building Engineers)
Condominium Management Business	Minister of Land, Infrastructure, Transport and Tourism	Minister of Land, Infrastructure, Transport and Tourism (4) No. 030488	May 21, 2022	When the registration has been made through wrongful means, or the provisions of causes for disqualification of officers, etc. become applicable, the registration shall be rescinded. (Article 83 of the Act on Advancement of Proper Condominium Management)
Building Environmental Health Comprehensive Management Company	Governor of Tokyo	Tokyo Governor's License (Comprehensive 19) No. 273	October 3, 2025	When the registration has been made through wrongful means, or the provisions of causes for disqualification of officers, etc. become applicable, the registration shall be rescinded. (Article 12-4 of the Act on Maintenance of Sanitation in Buildings)
Security Service License	Tokyo Public Safety Commissioner	Security Service Law Authorization No. 30002591	October 14, 2021	When the recognition has been obtained through wrongful means, or the provisions of causes for disqualification are applicable, the recognition shall be rescinded. (Article 8 of the Security Services Act)

Tosei Revival Investment Co., Ltd.

Name of license or permit	Authority	Content of license or permit	Expiration	Rescission, cancellation or other reasons
Real Estate Business License	Governor of Tokyo	Tokyo Governor's License (3) No. 88903	February 22, 2023	When the license has been obtained through wrongful means, or the provisions of causes for disqualification of officers, etc. become applicable, the license shall be rescinded. (Article 66 of the Building Lots and Buildings Transaction Business Act)
Money Lending Business Registration	Governor of Tokyo	Tokyo Governor, (4) No. 31311	March 16, 2022	When the registration has been made through wrongful means, or the provisions of causes for disqualification are applicable, the registration shall be rescinded. (Article 24-6-5 of the Money Lending Business Act)

Tosei Urban Home Co., Ltd.

Name of license or permit	Authority	Content of license or permit	Expiration	Rescission, cancellation or other reasons
Real Estate Business License	Minister of Land, Infrastructure, Transport and Tourism	Minister of Land, Infrastructure, Transport and Tourism (1) No. 9038	August 19, 2021	When the license has been obtained through wrongful means, or the provisions of causes for disqualification of officers, etc. become applicable, the license shall be rescinded. (Article 66 of the Building Lots and Buildings Transaction Business Act)
Specified Construction Business License	Governor of Tokyo	Tokyo Governor's License (Special–26) No.112893	March 24, 2020	When a situation arises so that there is no fulltime officer or employee in the company who has experience of being engaged for five (5) years or more in specified construction business, the permission shall be rescinded. (Article 29 of the Construction Business Act)
First Class Architect's Office License	Governor of Tokyo	Tokyo Governor's Registration No.54776	June 24, 2023	When the registration has been made through wrongful means, or the provisions of causes for disqualification of the first-class registered architect, etc. become applicable, the registration shall be rescinded. (Article 26 of the Act on Architects and Building Engineers)

Kishino Corporation

Name of license or permit	Authority	Content of license or permit	Expiration	Rescission, cancellation or other reasons
Real Estate Business License	Governor of Tokyo	Tokyo Governor's License (1) No.99269	June 3, 2021	When the license has been obtained through wrongful means, or the provisions of causes for disqualification of officers, etc. become applicable, the license shall be rescinded. (Article 66 of the Building Lots and Buildings Transaction Business Act)

Tosei Hotel Kanda Co., Ltd.

Name of license or permit	Authority	Content of license or permit	Expiration	Rescission, cancellation or other reasons
Hotel Operating License	Mayor of Chitoda-ku,	Hotel Operating License	—	Cancellation of approvals due to the violation of structure, facility, or health standards

Masuda Kenzai-ten Co., Ltd.

Name of license or permit	Authority	Content of license or permit	Expiration	Rescission, cancellation or other reasons
Real Estate Business License	Governor of Tokyo	Tokyo Governor's License (1) No.101703	March 2, 2023	When the license has been obtained through wrongful means, or the provisions of causes for disqualification of officers, etc. become applicable, the license shall be rescinded. (Article 66 of the Building Lots and Buildings Transaction Business Act)

Sanki-shoji Co., Ltd.

Name of license or permit	Authority	Content of license or permit	Expiration	Rescission, cancellation or other reasons
Real Estate Business License	Governor of Tokyo	Tokyo Governor's License (1) No.102292	July 13, 2023	When the license has been obtained through wrongful means, or the provisions of causes for disqualification of officers, etc. become applicable, the license shall be rescinded. (Article 66 of the Building Lots and Buildings Transaction Business Act)

Tosei Hotel Management Co., Ltd

Name of license or permit	Authority	Content of license or permit	Expiration	Rescission, cancellation or other reasons
Inns and Hotels Operating License	Mayor of Taito-ku,	Hotel Operating License	—	Cancellation of approvals due to the violation of structure, facility, or health standards
Restaurant Business License	Mayor of Taito-ku,	Restaurant Business License	November 30, 2025	When the business has sold foods or used utensils that are harmful to human health, or has sold foods, used additives or utensils, or practiced false advertising that do not satisfy the conditions necessary for public health, the business shall be prohibited. (Article 55 of the Food Sanitation Act)

(5) Changes in accounting standards and the real estate tax system

Changes regarding accounting standards and the real estate tax system could cause increases in the cost of holding, acquiring and selling assets, and therefore have the potential to affect the operating results and financial position of the Tosei Group.

Regarding changes in accounting standards and changes in the real estate taxation system, the Tosei Group strives to identify the effect of these changes on the Group's performance and financial position at an early stage, by collecting timely information on changes in real estate taxation.

(6) New businesses

The Tosei Group has acquired companies, established subsidiaries, for the purpose of launching new businesses such as a hotel business, logistics facility development business, expanding the existing businesses and others. The Group is also promoting entry into the crowdfunding business. Since entry into these businesses and business performance after the entry involve various uncertainties, the Tosei Group has established the internal management system, developed human resources, obtained insurance, etc. on the assumption of all possible risks. However, there may be an impact on the Tosei Group's financial position and operating results, depending on occurrence of risks beyond the assumption or changes in laws and regulations.
In addition to measures that anticipate risks as far as possible, such as establishing internal control systems, developing human resources and obtaining insurance, the Tosei Group is responding to these risks through measures such as regular monitoring of the progress of business strategy and changes in the business environment and timely reviews of strategy in accordance with changes in the environment.

3. Management analysis of financial position, operating results and cash flows

"Cabinet Office Ordinance on the Disclosure of Corporate Content etc." after revision by the "Cabinet Office Ordinance to revise a part of the Cabinet Office Ordinance on disclosure of corporate content etc." (Cabinet Office Ordinance No. 3 on January 31, 2019) The provisions of Caution (32) described in the No. 2 format have been applied from the securities report for the current fiscal year.

The following is a summary of the Group's financial position, performance and cash flows (hereinafter, "business performance") and analysis and discussions of the Group's operating results from the viewpoint of management for the fiscal year ended November 30, 2019.

Forward-looking statements are based on Tosei Group judgments as of November 30, 2019.

(1) Analysis and discussions of the Group's operating results from the viewpoint of management

1) Recognition of business environment and business performance

During the fiscal year ended November 30, 2019, the Japanese economy continued on a path of moderate recovery. This moderate recovery is expected to continue, supported by improving employment and income environments as well as various policies, despite concerns over developments that include diminishing consumer sentiment brought about by prolonged trade friction between the United States and China coupled with effects of the consumption tax hike.

In the real estate industry where Tosei Group operates, domestic real estate transactions by listed companies and other such entities from January to September 2019, increased 2% year on year to ¥3.1 trillion. The real estate market has held firm despite real estate prices having persisted at high levels due to increasing rents, amid a scenario where appetite for real estate investment among investors has remained strong (according to a survey by a private research institute).

In the Tokyo metropolitan area condominium market, the number of units sold from January to October 2019 decreased 17.8% year on year to 21,553 units, amid a downturn in the number of units supplied due to persistently high construction costs and land acquisition difficulty. Condominium inventories carried forward at month-end stood at 7,600 units, far exceeding the 6,350 unit average for the same period of the previous fiscal year amid a scenario where the average contract rate for the first month during the same period remained below the 70% threshold from which market conditions are viewed as favorable. In the build-for-sale detached house market, housing starts from January to September 2019 numbered 47,000 units, an increase of 5.1% year on year. Favorable demand continues for detached houses amid sentiment that they are reasonably priced relative to escalating condominium prices (according to surveys by a private research institute and the Ministry of Land, Infrastructure, Transport and Tourism).

The office leasing market of Tokyo's five business wards has been performing favorably. The average vacancy rate as of October 2019 was lowest ever at 1.63% (a decrease of 0.57% year on year). The average asking rent was ¥22,010 per tsubo (1 tsubo = 3.30 square meters) (an increase of ¥1,413 year on year), rising for the 70th consecutive month. Rents are expected to continue to rise as companies continue to experience a high level of need for increased floor space, expansion and relocation, as they look toward the prospect of securing human resources and responding to work style reform. In the Tokyo metropolitan area's logistics facility leasing market, which has been attracting attention as a third class of assets after offices and condominiums in recent years, leasable stock in October 2019 amounted to 5.7 million tsubo (an increase of 15.6% year on year) given substantial supply in anticipation of growing demand. The vacancy rate remained at the low level of 2.6% amid a situation of tight supply relative to demand.

In the real estate fund market, the market scale continues to expand. The securitization market scale expanded to ¥38.1 trillion, which consists of ¥18.9 trillion in J-REIT assets under management in October 2019 (an increase of ¥1.1 trillion year on year), combined with ¥19.2 trillion in assets under management in private placement funds (as of June 2019) (according to a survey by a private research institute).

In the Tokyo business hotel market, guest room occupancy rates on a monthly basis from January to September 2019 generally exceeded the 80% threshold from which market conditions are viewed as favorable. The total

number of hotel guests in Tokyo encompassing all types of accommodation increased by 9% year on year to 49.50 million overnight stays. As for foreign tourists visiting Japan, the proportion of overseas guests was 37% (a two percentage point increase year on year) with the total number of hotel guests from overseas having increased by 16% year on year to 18.50 million overnight stays, amid ongoing growth in numbers of visitors from Southeast Asia as well as from Europe, the United States and Australia, and despite a temporary downturn in the number due to effects of natural disasters and cooling bilateral relations between Japan and South Korea (according to a survey by the Japan Tourism Agency).

As a result, consolidated revenue for the fiscal year under review totaled ¥60,727million (down 1.3% year on year), operating profit was ¥12,690 million (up 16.7%), profit before tax was ¥12,090 million (up 18.9%), and profit for the year was ¥8,447 million (up 23.3%).

Performance by business segment is shown below.

Reportable segment classifications have been changed effective from the fiscal year ending November 30, 2019, and in the following comparisons figures for the same period of the previous fiscal year have been recalculated according to the segment after such change.

Revitalization Business

During the fiscal year under review, the segment sold 53 properties it had renovated, including Seiseki C-kan Building (Tama-shi,Tokyo), Ryogoku Tosei Building I,II (Sumida-ku, Tokyo), T's garden Ojima (Koto-ku, Tokyo), Century Urawa Apartment (Saitama-shi, Saitama) and Grosvenor Square Building (Yokohama-shi, Kanagawa). In addition, the segment sold 11 units in the Restyling Business, including Hilltop Yokohama Negishi. During the fiscal year under review, it also acquired a total of 39 income-generating office buildings and apartments and four land lots for renovation and sales purposes.

As a result, revenue in this segment was ¥31,012 million (down 10.9% year on year) and the segment profit was ¥7,754 million (up 14.5%).

Development Business

During the fiscal year under review, the segment focused on the sale of condominium and detached houses for which there was firm demand. The segment sold 163 units at THE Palms Chofu Manorgarden (Chofu-shi, Tokyo), and sold 94 detached houses at such properties as THE Palms Court Funabashi Hoten (Funabashi-shi, Chiba), THE Palms Court Mitsuike-Koen II (Yokohama-shi, Kanagawa), THE Palms Court Kamakura shiromeguri (Kamakura-shi, Kanagawa), etc. In addition, the segment sold one commercial facility, one newly-built apartment and 12 land lots.

During the fiscal year under review, it acquired three land lots for hotel projects, two land lots for logistics facility projects, two land lots for commercial facility projects, three land lots for apartment projects, one land lot for income-generating office building and land lots for 141 detached houses.

As a result, revenue in this segment was 14,346million (up 8.2% year on year) and the segment profit was ¥1,528 million (up 2.8%).

Rental Business

During the fiscal year under review, while the segment sold 39 buildings of its inventory assets held for leasing purposes, it newly acquired 28 properties including income-generating office buildings and apartments. In addition, the segment made efforts to lease vacancies out following acquisitions and also focused on leasing activities for its existing non-current assets and inventory assets.

As a result, revenue in this segment was ¥5,944 million (up 0.2% year on year) and the segment profit was ¥2,367 million (down 3.5%).

Fund and Consulting Business

During the fiscal year under review, while ¥215,844 million was subtracted from the balance of Assets under management mainly due to property dispositions by funds, ¥398,963 million was added to the balance of assets under management (Note) ¥663,359 million for the end of the previous fiscal year, due to new lage asset management contracts. The balance of assets under management as of November 30, 2019, was ¥846,478 million. The acquisition of such large project contracts increased asset management fees and contributed to revenue.

As a result, revenue in this segment was ¥3,752 million (up 25.8% year on year) and the segment profit was ¥2,365 million (up 46.3%).

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

Property Management Business

During the fiscal year under review, the segment worked to win new contracts and maintain existing contracts. Consequently, the total number of properties under management was 659 as of November 30, 2019, an increase of 37 from November 30, 2018 with that total comprising 415 office buildings, hotel, schools and other such properties, and 244 condominiums and apartments.

As a result, revenue in this segment was ¥4,586 million (up 14.2% year on year) and segment profit was ¥504 million (up 11.1%).

Hotel Business

During the fiscal year under review, the Group worked towards increasing the average daily rate and occupancy rate for TOSEI HOTEL COCONE Kanda, opened in December 2017, as well as TOSEI HOTEL COCONE Ueno which newly opened in December 2018 contributed to revenue.

As a result, revenue in this segment was ¥1,086 million (up 95.5% year on year) and segment profit was ¥99 million (up 175.2%).

2) Analysis and Discussion of Operating Results

During the fiscal year under review, despite consolidated revenue having decreased by 1.3% year on year to ¥60,727 million, earnings growth was otherwise substantial with operating profit up by 16.7% year on year to ¥12,690 million, profit before tax up by 18.9% year on year to ¥12,090 million, and profit for the year up by 23.3% to ¥8,447 million. The gains are attributable to factors such that: the Revitalization Business made progress in selling off high-margin properties; the Development Business completed and sold off large, high-margin condominiums; and, the Fund and Consulting Business increased asset management fees reflecting growth in assets under management, and boosted revenues generated by business fees for property acquisitions and dispositions of funds under management. In terms of earnings, the Company was one year ahead of schedule in achieving its ¥12 billion target for consolidated profit before tax in the final fiscal year of its “Seamless Growth 2020” medium-term management plan currently in progress.

Whereas the real estate market remains strong, the greatest challenge now facing the Company is that find out investment opportunities amid a market where real estate prices persist at the higher price range. The Company aims to achieve sustainable growth by extending its business opportunities while reducing risk, which will involve managing a portfolio consisting of six diverse business segments and flexibly transforming its mix of core asset types in response to changes in market demand.

(2) Status of production, orders received and sales

1) Actual production

As the Tosei Group’s principle business activities are revitalization, development, rental, fund and consulting, property management and hotel, it is difficult to define “actual production.” Accordingly, the Company does not report actual production.

2) Actual orders received

Although subsidiaries of the Company receive orders for production, the Company does not report actual orders received because its amount is immaterial.

3) Actual sales

Consolidated actual sales for each segment in the fiscal year under review are shown below.

Segment	Fiscal year ended November 30, 2019	Comparison with the previous fiscal year (%)
	Amount (¥ thousand)	
Revitalization Business	31,012,030	(10.9)
Development Business	14,346,337	8.2
Rental Business	5,944,112	0.2
Fund and Consulting Business	3,752,874	25.8
Property Management Business	4,586,096	14.2
Hotel Business	1,086,252	95.5
Total	60,727,704	(1.3)

Notes: 1. Transactions between segments were eliminated.

2. The amounts of sales to each major customer and the ratios of the said sales to total sales in the two most recent fiscal years are as follows.

Customer	Fiscal year ended November 30, 2018		Fiscal year ended November 30, 2019	
	Amount (¥ thousand)	Ratio (%)	Amount (¥ thousand)	Ratio (%)
Tosei Reit Investment Corporation	9,556,658	15.5	8,969,028	14.8

3. The above amounts do not include consumption taxes.

(3) financial position

The consolidated financial position as of November 30, 2019 was as follows. Total assets increased 16.7% compared with the end of the previous fiscal year to ¥161,894 million, liabilities up 19.4% to ¥103,587 million, and equity rose 12.1% to ¥58,306 million. The ratio of equity attributable to owners of parent to total assets was 36.0%, compared with 37.5% at the end of the previous fiscal year.

Current assets

As of November 30, 2019, the balance of current assets was ¥109,333 million, an increase of ¥17,234 million compared with the end of the previous fiscal year.

This is mainly due to, increase in inventories (up ¥11,115 million year on year) because sales of properties in the revitalization and development businesses, which are the core operations of the Company, exceeded the number of properties the Company sold.

Non-current assets

As of November 30, 2019, the balance of non-current assets was ¥52,560 million, up ¥5,891 million compared with the end of the previous fiscal year. This is mainly due to increase in investment properties (up ¥4,115 year on year) and increase in other financial assets (up ¥2,007 year on year).

Current liabilities

As of November 30, 2019, the balance of current liabilities was ¥25,054 million, up ¥10,630 million compared with the end of the previous fiscal year.

This is mainly due to, increase in borrowings (up ¥8,982 year on year).

Non-current liabilities

As of November 30, 2019, the balance of non-current liabilities was ¥78,533 million, up ¥6,209 million compared with the end of the previous fiscal year.

This is mainly due to, increase in borrowings (up ¥5,835 year on year).

Equity

As of November 30, 2019, equity was ¥58,306 million, an increase of ¥6,284 million compared with the end of the previous fiscal year. This is mainly due to a ¥6,996 million increase in retained earnings and ¥ 999 million decrease in purchase of treasury shares.

(4) Cash flows

Cash and cash equivalents (hereinafter "cash") as of November 30, 2019 totaled ¥31,998 million, an increase of ¥5,478 million compared with November 30, 2018.

Cash Flows from Operating Activities

Net cash used in operating activities totaled ¥3,799 million (¥7,615 million provided by the same period of the previous fiscal year). This is mainly attributed to the profit for the period before tax of ¥12,090 million, an increase in inventories of ¥15,378 million, which was a result of property acquisitions in the Revitalization Business and Development Business, and income taxes paid of ¥3,876 million.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥2,133 million (down 80.2% year on year). This is mainly due to purchase of other financial assets of ¥1,811million and purchase of investment properties of ¥344 million.

Cash Flows from Financing Activities

Net cash provided by financing activities totaled ¥11,412 million (up 92.1% year on year). This mainly reflects ¥41,630 million in proceeds from non-current borrowings, despite ¥28,572 million in the repayments of non-current borrowings, ¥1,455 million in cash dividends paid and ¥999 million in the purchase of treasury shares.

Trends of cash-flow indicators

	Fiscal year ended Nov. 30, 2017	Fiscal year ended Nov. 30, 2018	Fiscal year ended Nov. 30, 2019
Ratio of equity attributable to owners of parent to total assets (%)	37.7	37.5	36.0
Market value ratio of equity attributable to owners of parent to total assets (%)	43.1	36.0	39.1
Interest-bearing debt to cash flow ratio (years)	9.5	9.9	―
Interest coverage ratio (times)	8.0	7.9	―

Ratio of equity attributable to owners of parent to total assets:	Equity attributable to owners of parent / Total assets
Market value ratio of equity attributable to owners of parent to total assets:	Market capitalization / Total assets
Interest-bearing debt to cash flow ratio:	Interest-bearing debt /Cash flows
Interest coverage ratio:	Cash flows / Interest expenses

Notes: 1. All indicators are calculated using consolidated financial figures.
2. Market capitalization is calculated based on the number of issued shares, excluding treasury shares.
3. The figures for cash flows employ net cash from operating activities.
4. Interest-bearing debt includes all debt recorded in the consolidated statement of financial position on which interest is paid.
5. Interest-bearing debt to cash flows ratio and interest coverage ratio are not presented for the consolidated fiscal year ended November 30, 2019 because net cash used in operating activities was recorded minus in the consolidated statements of cash flows for the said fiscal year.

(5)Significant accounting policies and estimates

The financial statements of the Tosei Group are prepared in accordance with IFRS. For significant accounting policies and estimates for the presentation of these consolidated financial statements, please refer to "3. Significant accounting policies" and "4. Significant accounting estimates and judgments requiring estimates" in "V. Accounting, 1. Consolidated financial statements, etc., Notes to Consolidated Financial Statements."

(6) Objective benchmarks used to judge the achievement of management policy, management strategies and management targets

As stated in "II. Review of Operations, 1. Management policies, management environment, and issues to be addressed, etc., (2) Management environment and the Company's medium- to long-term management strategies,", the Tosei Group is promoting its medium-term management plan "Seamless Growth 2020" (December 2017 to November 2020) with the fiscal year ended November 30, 2018 as its first year. The progress of the plan and results for the fiscal year under review are as follows.

Progress of the medium-term management plan

The figures of medium-term management plan

	Initial numerical targets Fiscal year ended Nov. 30, 2018 (Initial Plan)	Initial numerical targets Fiscal year ended Nov. 30, 2019 (Initial Plan)	Initial numerical targets Fiscal year ended Nov. 30, 2020 (Initial Plan)	Revised numerical targets (announced on January 9, 2020) Fiscal year ended Nov. 30, 2020
Consolidated revenue	¥67.8 billion	¥83.4 billion	¥100 billion	¥80.3 billion
Consolidated profit before tax	¥10 billion	¥11.3 billion	¥12 billion	¥13 billion
Average profit growth rate of the three years	―	―	10% or more	10% or more
Average ROE of the three years	―	―	12% or more	12% or more
The ratio of stable business (The trading business : The stable business)	―	―	50:50	60:40
Equity ratio	―	―	35%	35%

Note: "Initial plan" refers to figures in the medium-term management plan "Seamless Growth 2020," which was formulated in the fiscal year ended November 30, 2017 and announced in January 2018. Only consolidated revenue and consolidated profit before tax have been disclosed for the fiscal years ended November 30, 2018 and November 30, 2019.

Results up to the current consolidated fiscal year

	Fiscal year ended Nov. 30, 2018 (results)	Fiscal year ended Nov. 30, 2019 (results)
Consolidated revenue	¥61.5 billion	¥60.7 billion
Consolidated profit before tax	¥10.1 billion	¥12 billion
Profit growth rate of the year	12.4%	18.9%
ROE of the year	14.0%	15.3%
The ratio of stable business (The trading business : The stable business)	56:44	55:45
Equity ratio	37.5%	36.0%

Note: Overall, the Group is progressing steadily towards attaining the targets for the final fiscal year, with consolidated revenue of ¥60.7 billion, consolidated profit before tax of ¥12.0 billion, and an equity ratio of 36.0% in the fiscal year under review.

Profit growth rate and ROE for the fiscal year ended November 30, 2018 (results) and the fiscal year ended November 30, 2019 (results), have been calculated based on results for each single fiscal year.

(Results for the fiscal year under review compared to the plan)

Results for the fiscal year under review (planned and actual) are as follows.

	Initial numerical targets Nov. 30, 2019 (Initial Plan)	Revised numerical targets Fiscal year ended Nov. 30, 2019 (A)	Fiscal year ended Nov. 30, 2019 (results) (B)	Results for the fiscal year under review compared to the plan (B)-(A)
Consolidated revenue	¥83.4 billion	¥71.5 billion	¥60.7 billion	(¥10.7) billion
Consolidated profit before tax	¥11.3 billion	¥11.2 billion	¥12 billion	¥0.8 billion
Profit growth rate of the year	―	10.4%	18.9%	―
ROE of the year	―	14.0%	15.3%	―
The ratio of stable business (The trading business : The stable business)	―	57:43	55:45	―
Equity ratio	―	35.4%	36.0%	―

Note: "Fiscal year ended November 30, 2019 (initial plan)" and "Fiscal year ended November 30, 2019 (revised)" refer to figures in the medium-term management plan "Seamless Growth 2020," announced in January 2018, and the consolidated results forecast announced in January 2019, respectively.

The profit growth rate and ROE for the fiscal year ended November 30, 2019(revised) and the fiscal year ended November 30, 2019 (results), have been calculated based on plans and results for each single fiscal year.

(7) Source of equity and liquidity of funds

Funding demand of the Group's business activities are mainly related to the purchase of buildings for business use and land. The Group meets these needs through its own funds, borrowings from banks and other methods of procurement that place emphasis on flexibility and long-term stability.

(8) Information on differences in major items related to the overview of the condition of operating results, etc.

Differences between major items in consolidated financial statements prepared under IFRS and equivalent items in consolidated financial statements that would have been prepared in accordance with the Ordinance on Consolidated Financial Statements of Japan (excluding Chapters 7 and 8)

Accounting treatment for retirement benefit obligations

Under IFRS, an entity is required to recognize actuarial gains and losses that arose in other comprehensive income and does not recycle those actuarial gains and losses subsequently.

Due to this effect, retirement benefit costs in the previous fiscal year and the fiscal year under review increased by ¥847 thousand and decreased by ¥2,562 thousand, respectively, compared with those under Japanese GAAP.

Accounting treatment for accrued compensated absences payable

Under IFRS, the estimated amount of paid absences of the Company and some subsidiaries is recorded as obligations.

Due to this effect, accrued compensated absences payable (selling, general and administrative expenses) in the previous fiscal year and the fiscal year under review increased by ¥3,207 thousand and ¥5,231 thousand, respectively, compared with those under Japanese GAAP.

Reclassification of presentation

While non-operating income and expense items other than financial income and expenses, and extraordinary income and loss items are not included in operating income and expenses under Japanese GAAP, these items are included in operating income and expenses under IFRS.

4. Important operational contracts, etc.

None

5. Research and development activities

None

III. Facilities

1. Outline of capital expenditures

In the fiscal year ended November 30, 2019, we made capital expenditures totaling ¥436million. A major portion of this amount was due to acquisition of investment properties of the Rental Business.

During the fiscal year under review, there were no material transactions related to the retirement or sale etc. of facilities.

2. Main facilities

(1) Filing company (Tosei)

(As of November 30, 2019)

Office name (Location)	Segment	Description	Book value (¥ thousand)				Number of employees (Person)
			Buildings and structures	Land (Size m^2)	Other	Total	
Head office (Minato-ku, Tokyo)	Supervising administration facilities	Office facilities	944,321	2,219,719 (633.53)	40,706	3,204,746	191
Leasing properties (25 properties in Chiyoda-ku, Tokyo, etc.)	Rental Business	Rental buildings, stores, etc.	14,950,880	23,441,754 (46,084.02)	197,882	38,590,517	—
Total	–	–	15,895,201	25,661,473 (46,717.55)	238,558	41,795,264	191

Note: The above amounts do not include consumption taxes.

(2) Domestic subsidiaries

(As of November 30, 2019)

Company name	Office name (Location)	Segment	Description	Book value (¥ thousand)				Number of employees (Person)
				Buildings and structures	Land (Size m^2)	Other	Total	
Tosei Community Co., Ltd.	Leasing properties (Arakawa-ku, Tokyo)	Property Management Business	Apartment	132,184	237,850 (485.51)	—	370,035	—
Tosei Revival Investment Co., Ltd.	Leasing properties (2 properties in Arakawa-ku, Tokyo, etc.)	Rental Business	Apartment , Rental building	345,037	496,030 (915.95)	4	841,072	—
Tosei Urban Home Co., Ltd.	Head office (Machida-shi, Tokyo)	Development business	Office facilities	64,323	185,346 (420.71)	12,342	262,012	44
Kishino Corporation	Leasing properties (2 properties in Toshima-ku, Tokyo, etc.)	Rental Business	Rental building	170,257	2,656,008 (394.84)	—	2,826,266	—

Note: The above amounts do not include consumption taxes.

3. Plans for new installation and retirement of facilities

None

IV. Filing company

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

(1) Total number of shares authorized, etc.

1) Total number of shares authorized

Class	Total number of shares authorized (Share)
Ordinary shares	150,000,000
Total	150,000,000

2) Number of shares issued

Class	Number of shares issued (Share; as of Nov. 30, 2019)	Number of shares issued (Share; as of the date of filing: Feb. 27, 2020)	Name of financial instruments exchange where shares of Tosei are traded or name of authorized financial instruments firms association where Tosei is registered	Details
Ordinary shares	48,595,300	48,624,300	Tokyo Stock Exchange (First Section) and Main Board of Singapore Exchange	Share unit number: 100 shares
Total	48,595,300	48,624,300	–	–

Note: Shares issued through the exercise of stock acquisition rights between February 1, 2020 and the submission date of this Annual Securities Report are not included under "Number of shares issued."

(2) Status of stock acquisition rights

1) The detail of the stock option system

Date of resolution	October 28, 2015	April 25, 2019
Title and number of grantees	The Company's directors: five persons (including two outside directors) The Company's executive officers: seven persons The Company's employees: 193 persons Directors of the Company's subsidiaries: four persons	The Company's directors: seven persons (including two outside directors) The Company's executive officers: five persons The Company's employees: 264 persons Directors of the Company's subsidiaries: four persons
Number of stock acquisition rights (Note1)	1,947 [1,657] (Note 2)	7,250 (Note 2)
Number of shares delivered upon exercise of stock acquisition rights (shares) (Note1)	Ordinary shares 194,700 [165,700] (Note 2)	Ordinary shares 725,000 (Note 2)
Amount to be paid in upon exercise of stock acquisition rights (¥) (Note1)	803 (Note 3)	1,006 (Note 3)
Period during which stock acquisition rights may be exercised (Note1)	From January 10, 2018 to October 28, 2020	From May 1, 2021 to April 25, 2024
Issue price and amount capitalized of shares when issued through the exercise of stock acquisition rights (¥) (Note1)	Issue price: 803 Amount capitalized: 401.5	Issue price: 1,016 Amount capitalized: 503
Terms and conditions for exercising stock acquisition rights	(Note 4)	(Note 4)
Transfer of stock acquisition rights (Note1)	Acquiring stock acquisition rights through transfer shall require approval by resolution of the Company's Board of Directors.	Acquiring stock acquisition rights through transfer shall require approval by resolution of the Company's Board of Directors.
Delivery of stock acquisition rights in line with acts of structural reorganization (Note1)	(Note 5)	(Note 5)

Notes: 1. The information is as of the end of fiscal year(November 30, 2019). Regarding items for which a change has occurred during the period from the end of the fiscal year under review until the end of the last month before the filing

date (January 31, 2020), information as of the end of the last month before the filing date is shown in square brackets. With regard to other items, there is no change from the information as of the end of the fiscal year under review.

2. The number of shares delivered upon exercise of each of the stock acquisition rights (the "Number of Shares Granted") shall be 100 shares.In the event that the Company conducts a share split (including allotment of ordinary shares of the Company without contribution; hereinafter the same for a share split) or a consolidation of shares, of ordinary shares of the Company after the date on which the allotment of stock acquisition rights is conducted (the "Allotment Date"), the Number of Shares Granted shall be adjusted according to the following formula. However, the relevant adjustment shall only be made to the number of shares to be delivered upon exercise of stock acquisition rights that have not yet been exercised as of the relevant point in time. Any fraction less than one (1) share resulting from this adjustment shall be rounded down.

$$\text{Number of Shares Granted after adjustment} = \text{Number of Shares Granted before adjustment} \times \text{Ratio of share split or consolidation}$$

In the event that the Company conducts a share split, the Number of Shares Granted after adjustment shall apply on and after the following day of the base date of the share split (or on and after the effective date if no base date is set). In the event of a consolidation of shares, the Number of Shares Granted after adjustment shall apply on and after its effective date. However, in the event that a share split is conducted under the condition that a proposal to decrease surplus and increase capital stock or legal capital surplus is approved at a general meeting of shareholders of the Company ("General Meeting of Shareholders"), and a date before the date of conclusion of the General Meeting of Shareholders is set as the base date of the share split, the Number of Shares Granted after adjustment shall apply on and after the following day of the date of conclusion of the General Meeting of Shareholders.

In addition, in the event that, after the Allotment Date, the Company conducts a merger, a company split or a share exchange, and in any event equivalent to these in which it becomes necessary to adjust the Number of Shares Granted, the Company may make the adjustment that the Board of Directors deems necessary.

3. In the event that, after the Allotment Date, the Company conducts the following (1) or (2) regarding its ordinary shares, the Exercise Value shall be adjusted according to the respective formula below (the "Exercise Value Adjustment Formula"). Any fraction less than one (1) yen resulting from this adjustment shall be rounded up.

(1) When the Company conducts a share split or a consolidation of shares:

$$\text{Exercise Value after adjustment} = \text{Exercise Value before adjustment} \times \frac{1}{\text{Ratio of share split or consolidation}}$$

(2) When the Company issues new shares or disposes of its treasury shares for a value less than the market value (excluding the following cases: sale of treasury shares due to "a demand for sale of shares less than one unit by a holder of shares less than one unit" stipulated in Article 194 of the Companies Act, transfer of treasury shares in accordance with Article 5, paragraph 2 of the Supplementary Provisions of the Act for Partial Amendment, etc. of the Commercial Code, etc. (Act No. 79 of 2001), exercise of subscription rights to shares under Article 280-19 of the Commercial Code before the enforcement of the Act Partially Amending the Commercial Code, etc. (Act No. 128 of 2001), conversion of securities that are or may be converted to the ordinary shares of the Company, and exercise of stock acquisition rights that may claim to deliver the ordinary shares of the Company including stock acquisition rights incidental to bonds with stock acquisition rights):

$$\text{Exercise Value after adjustment} = \text{Exercise Value before adjustment} \times \frac{\text{Number of shares outstanding} + \dfrac{\text{Number of shares newly issued} \times \text{Amount to be paid in per share}}{\text{Market Value}}}{\text{Number of shares outstanding} + \text{Number of shares newly issued}}$$

i. The "Market Value" used in the Exercise Value Adjustment Formula shall be the average value of the closing price (including a quotation; hereinafter the same) for regular transactions of the ordinary shares of the Company at the Tokyo Stock Exchange (excluding any day on which no closing price is made) for 30 transaction days starting on the 45th transaction day preceding "the date on which the Exercise Value after adjustment shall apply" stipulated in (3) below (the "Application Date"). The "average value" shall be calculated to two decimal places and rounded off to one decimal place.

ii. The "Number of shares outstanding" shall be obtained by subtracting the number of own ordinary shares held by the Company as of the base date, if any, or the day one month before the Application Date in other cases from the total number of the ordinary shares issued as of such date.

iii. In the event that the Company disposes of its treasury shares, the "Number of shares newly issued" shall be deemed to be replaced with the "Number of treasury shares to be disposed of."

(3) The date on which the Exercise Value after adjustment applies is stipulated as follows.

i. If adjusted in accordance with (1) above, the Exercise Value after adjustment shall apply on and after the following day of the base date (or on and after the effective date if no base date is set) in the case of a share split,

or on and after the effective date in the case of a consolidation of shares. However, in the event that a share split is conducted under the condition that a proposal to decrease surplus and increase capital stock or legal capital surplus is approved at a General Meeting of Shareholders, and a date before the date of conclusion of the General Meeting of Shareholders is set as the base date of the share split, the Exercise Value after adjustment shall retroactively apply on the following day of such a base date, on and after the following day of the conclusion date of the General Meeting of Shareholders.

Further, in the case set forth in the preceding proviso, the ordinary shares of the Company shall be delivered to a holder of stock acquisition rights who has exercised stock acquisition rights during the period from the following day of the base date of a share split to the date of conclusion of the General Meeting of Shareholders according to the following formula (the number of shares to be delivered upon exercise of such stock acquisition rights is hereinafter referred to as the "Number of Shares Exercised before a share split"). Any fraction less than one (1) share resulting from this adjustment shall be rounded down.

$$\text{Number of Shares} = \frac{(\text{Exercise Value before adjustment} - \text{Exercise Value after adjustment}) \times \text{Number of Shares Exercised before a share split}}{\text{Exercise Value after adjustment}}$$

ii. The Exercise Value after adjustment adjusted in accordance with (2) above shall apply on and after the following day of the payment due date (the last day of the payment period if such a period is set) of issuance or disposal (on and after the following day of the base date if such a date is set).

(4) In addition to the case stipulated in (1) and (2) above, in the event that the Company conducts a merger, a company split or a share exchange after the Allotment Date, and in any event equivalent to these in which it becomes necessary to adjust the Exercise Value, the Company may make the adjustment that the Board of Directors deems necessary.

4. Terms and conditions for exercising stock acquisition rights are as follows:

(1) Terms and conditions for respective segment of persons

i. Directors of the Company

Holders of stock acquisition rights are required to have the rank of Director of the Company at the time of exercising the stock acquisition rights; provided, however, that this shall not apply to holders of stock acquisition rights who no longer have the rank of Director due to retirement at the expiration of the period in office or due to resignation at the request of the Company.

ii. Executive Officers and employees of the Company, and directors of subsidiaries of the Company

Holders of stock acquisition rights are required to have either the rank of Director, Audit & Supervisory Board Member, Executive Officer, or employee of the Company or a subsidiary of the Company; provided, however, that this shall not apply to holders of stock acquisition rights who no longer have the rank of Director or Audit & Supervisory Board Member of the Company or a subsidiary of the Company due to retirement at the expiration of the period in office, or who no longer have the rank of Executive Officer or employee of the Company or a subsidiary of the Company due to retirement at mandatory age. In addition, this shall not apply in the event that persons with the rank of Director, Audit & Supervisory Board Member, Executive Officer, or employee of the Company or a subsidiary of the Company lose such a rank based on justifiable grounds.

(2) Terms and conditions for all the holders of stock acquisition rights

i. Inheritance of stock acquisition rights shall not be permitted.

ii. Pledging of stock acquisition rights or any other disposition shall not be permitted.

5. Matters regarding delivery of stock acquisition rights associated with organizational restructuring are as follows:

In the event that the Company conducts a merger (limited to the case where the Company is to be absorbed as a result of the merger), an absorption-type company split or incorporation-type company split (limited to the case where the Company is to be a split company in both company splits), a share exchange or a share transfer (limited to the case where the Company is to be a wholly-owned company in both types of restructuring) (collectively "Organizational Restructuring"), the stock acquisition rights of a company listed in Article 236, paragraph 1, item 8 (a) through (e) of the Companies Act (the "Reorganized Company") shall be delivered respectively to a holder of stock acquisition rights who owns the remaining unexercised stock acquisition rights (the "Remaining Stock Acquisition Rights") immediately before the date when Organizational Restructuring takes effect (the date when an absorption-type merger takes effect, the date when a stock company is incorporated through an incorporation-type merger, the date when an absorption-type company split takes effect, the date when a stock company is incorporated through an incorporation-type company split, the date when a share exchange takes effect, or the date when a wholly owning parent company is incorporated through a share transfer; hereinafter the same), provided that such effect by which the stock acquisition rights of the Reorganized Company shall be delivered in accordance with the following items shall be stipulated in an absorption-type merger agreement, an incorporation-type merger agreement, an absorption-type company split agreement, an incorporation-type company split plan, a share exchange agreement, or a share transfer plan.

(1) Number of stock acquisition rights of the Reorganized Company to be delivered

The number of stock acquisition rights of the Reorganized Company to be delivered shall equal the number of the Remaining Stock Acquisition Rights held by the holders of stock acquisition rights.

(2) Class of shares delivered upon exercise of stock acquisition rights of the Reorganized Company

The class of shares shall be ordinary shares of the Reorganized Company.

(3) Number of shares delivered upon exercise of stock acquisition rights of the Reorganized Company

The number of shares shall be determined in accordance with the preceding "Number of shares," taking into account conditions of the Organizational Restructuring, etc.

(4) Value of property to be contributed upon exercise of stock acquisition rights

The value of property to be contributed upon exercise of each of the stock acquisition rights to be delivered shall be an amount obtained by multiplying the Exercise Value after Organizational Restructuring, which is obtained by adjusting the Exercise Value stipulated in the preceding "Amount to be paid in upon exercise of stock acquisition rights " in consideration of conditions of the Organizational Restructuring, etc., by the number of shares delivered upon exercise of stock acquisition rights of the Reorganized Company, which shall be determined in accordance with (3) above.

(5) Period during which stock acquisition rights may be exercised

The period during which stock acquisition rights may be exercised shall start on either the commencing date of the exercisable period of stock acquisition rights stipulated in the preceding "Period during which stock acquisition rights may be exercised" or the effective date of the Organizational Restructuring, whichever is later, and end on the expiration date of the exercisable period of stock acquisition rights stipulated in the preceding "Period during which stock acquisition rights may be exercised".

(6) Matters regarding amount of increase of capital stock and legal capital surplus through issuing shares upon exercise of stock acquisition rights

Matters regarding capital stock and legal capital surplus to be increased shall be determined in accordance with the matters set forth in the Remaining Stock Acquisition Rights.

(7) Restriction on acquisition of stock acquisition rights by transfer

Any acquisition of stock acquisition rights by transfer shall be subject to the approval of the Board of Directors of the Reorganized Company.

(8) Terms and conditions for exercising stock acquisition rights

Terms and conditions for exercising stock acquisition rights shall be determined in accordance with the preceding "Terms and conditions for exercising stock acquisition rights."

(9) Terms of acquisition of stock acquisition rights

The Company may acquire stock acquisition rights at no charge on the date stipulated separately by the Board of Directors in the event that the any of the following proposals (i) through (v) is approved by a General Meeting of Shareholders (or resolution is made by the Board of Directors or by Executive Officers who are delegated such a decision pursuant to the provisions of Article 416, paragraph 4 of the Companies Act, if the resolution of the General Meeting of Shareholders is not required).

(i) Proposal for approval of a merger agreement under which the Company becomes an absorbed company
(ii) Proposal for approval of a company split agreement or plan under which the Company becomes a split company
(iii) Proposal for approval of a share exchange agreement or share transfer plan under which the Company becomes a wholly-owned company
(iv) Proposal for approval to change the relevant provisions of the Articles of Incorporation of the Company which stipulate that approval by the Company is required for share transfer of all kinds of shares of the Company
(v) Proposal for approval to change the relevant provisions of the Articles of Incorporation of the Company which stipulate that approval by the Company is required for share transfer of the shares underling stock acquisition rights, or that the Company may obtain all of the said shares by the resolution of the General Meeting of Shareholders.

2) Details of rights plan

None

3) Details of other stock acquisition rights, etc.

None

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

None

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

Date	Fluctuation in the number of shares issued (Shares)	Balance of shares issued (Shares)	Fluctuation in share capital (¥ thousand)	Balance of share capital (¥ thousand)	Fluctuation in legal capital surplus (¥ thousand)	Balance of legal capital surplus (¥ thousand)
Dec. 1, 2017 to Nov. 2018 (Notes)1	260,800	48,544,800	132,747	6,554,139	132,747	6,637,615
Dec. 1, 2018 to Nov. 2019 (Notes)1	50,500	48,595,300	25,704	6,579,844	25,704	6,663,319

Notes: 1.The increases were due to the exercise of stock acquisition rights.

2. Between December 1, 2019 and January 31, 2020, the total number of issued shares increased by 29,000 shares and the amount of share capital and capital reserve increased by ¥14,761 thousand, respectively, due to exercise of subscription rights to shares.

(5) Shareholder composition

(As of November 30, 2019)

Category	Shareholder composition (Share unit number: 100 shares)								Shares less than one unit (Share)
	Public sector	Financial institutions	Financial instruments business operators	Other corporations	Foreign investors		Individuals, etc.	Total	
					Other than Individuals.	Individuals			
Number of shareholders (Person)	―	20	24	118	192	17	14,048	14,419	―
Number of shares held (Unit)	―	45,370	9,631	60,442	170,956	18	199,489	485,906	4,700
Holding rate of shares (%)	―	9.34	1.98	12.44	35.19	0.00	41.05	100.00	―

Note:1. 1,008,805 shares of treasury stock are included 10,088 unit in "individuals, etc.", 5 shares in "Shares less than one unit".

2.The number of “Other corporations” includes 4 units in the name of Japan Securities Depository Center, Inc.

(6) Status of major shareholders

(As of November 30, 2019)

Name of shareholder	Address	Number of shares held (Share)	Ownership percentage to the number of issued shares (excluding treasury stock) (%)
Seiichiro Yamaguchi	Shibuya-ku, Tokyo, Japan	12,885,500	27.07
Zeus Capital Limited	2-22-26-103 Uehara, Shibuya-ku, Tokyo, Japan	6,000,000	12.60
KBL EPB S.A 107704 (Standing proxy: Mizuho Bank, Ltd., Settlement &cleaning Services Division)	43, Boulevard Royal, L-2955 Luxembourg (2-15-1 Konan, Minato-ku, Tokyo, Japan)	4,546.800	9.55
SSBTC CLIENT OMNIBUS ACCOUNT (Standing proxy: Hongkong And Shanghai Banking Corporation Limited, Tokyo Branch)	ONE LINCOLN STRREET, BOSTON MA USA 02111 (3-11-1 Nihonbashi,Chuo-ku, Tokyo, Japan)	1,920,000	4.03
Government of NORWAY (Standing proxy: Citibank, N.A., Tokyo Branch)	Bankplassen 2, 0107 Oslo 1 Oslo 0107 NO (6-27-30 Shinjuku, Shinjuku-ku, Tokyo, Japan)	1,259,300	2.64
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3, Hamamatsucho, Minato-ku, Tokyo, Japan	1,254,400	2.63
JPMC GOLDMAN SACHS TRUST JASDEC LENDING ACCOUNT (Standing proxy: MUFG Bank, Ltd.)	GOLDMAN SACHS AND CO, 180 MAIDEN LANE, 37/90TH FLOOR, NEW YORK, NY 10038 U.S.A. (2-7-1 Marunouchi, Chiyoda-ku, Tokyo, Japan)	1,020,900	2.14
Japan Trustee Services Bank, Ltd. (Trust Account)	1-8-11, Harumi, Chuo-ku, Tokyo, Japan	985,900	2.07
NORTHERN TRUST CO. (AVFC) RE IEDU UCITS CLIENTS NON LENDING 15 PCT TREATY ACCOUNT (Standing proxy: Hongkong And Shanghai Banking Corporation Limited, Tokyo Branch)	50 BANK STREET CANARY WHARF LONDON E14 5NT, UK (3-11-1 Nihonbashi,Chuo-ku, Tokyo, Japan)	730,400	1.53
GOLDMAN, SACHS& CO. REG (Standing proxy: Goldman Sachs Japan Co., Ltd.)	200 WEST STREET NEW YORK, NY, USA (6-10-1, Roppongi, Minato-ku, Tokyo, Japan	569,813	1.19
Total	–	31,173,013	65.50

Notes: 1. Ownership percentage to the number of issued shares (excluding treasury stock) is rounded down to the second decimal place.

2. The number of shares of treasury stock (1,008,805 of shares) is not included in the chart above.

(7) Status of voting rights

1) Shares issued

(As of November 30, 2019)

Classification	Number of shares (Share)	Number of voting rights	Details
Shares without voting rights	–	–	–
Shares with restricted voting rights (Treasury shares, etc.)	–	–	–
Shares with restricted voting rights (Other)	–	–	–
Shares with full voting rights (Treasury shares, etc.)	(Treasury shares held) Ordinary shares 1,008,800	–	–
Shares with full voting rights (Other)	Ordinary shares 47,581,800	475,818	–
Shares less than one unit	Ordinary shares 4,700	–	–
Total number of shares issued	48,595,300	–	–
Total number of voting rights	–	475,818	–

Note1: The number of "Shares with full voting rights (Other)" includes 400 shares in the name of Japan Securities Depository Center, Inc. "Number of voting rights" includes 4 units of voting rights related to shares with full voting rights in its name.

2: Number of ordinary shares in "Shares less than one unit" includes 5 shares of treasury shares.

2) Treasury shares, etc.

(As of November 30, 2019)

Name of shareholders	Address	Number of shares held under own name (Share)	Number of shares held under the name of others (Share)	Total number of shares held (Share)	Percentage of number of shares held in total number of shares issued (%)
(Treasury shares held) TOSEI CORPORATION	4-2-3, Toranomon, Minato-ku, Tokyo, Japan	1,008,800	–	1,008,800	2.07
Total	–	1,008,800	–	1,008,800	2.07

2. Acquisition of treasury shares

[Class of shares] Acquisition of common shares in accordance with Article 155, item 3

(1) Acquisition by resolution of the General Meeting of Shareholders

None

(2) Acquisition by resolution of the Board of Directors

Category	Number of shares (shares)	Value (¥ thousand)
Status of resolution at the Board of Directors (February 5, 2019) (Acquisition period: February 7, 2019 to August 31, 2019)	1,200,000	1,000,000
Treasury shares acquired prior to the fiscal year ended November 30, 2019	—	—
Treasury shares acquired during the fiscal year ended November 30, 2019	1,008,700	999,909
Total number and value of remaining shares with voting rights	191,300	91
Unexercised portion as of the end of the fiscal year ended November 30, 2019 (%)	15.94	0.00
Treasury shares acquired during the period under review	—	—
Unexercised portion as of the date of filing (%)	15.94	0.00

(3) Items not based on resolutions of the General Meeting of Shareholders or Board of Directors

None

(4) Status of disposal and ownership of acquired treasury shares

Category	Fiscal year ended November 30, 2019		Period under review	
	Number of shares (shares)	Total processing value (¥ thousand)	Number of shares (shares)	Total processing value (¥ thousand)
Acquired treasury shares for which subscribers were solicited	—	—	—	—
Acquired treasury shares that were canceled	—	—	—	—
Acquired treasury shares that were transferred in association with a merger, share exchange, or company split	—	—	—	—
Other (-)	—	—	—	—
Treasury shares held	1,008,805	—	1,008,805	—

Note: Number of shares acquired through purchasing shares less than one unit between February 1, 2020 and the submission date of this Annual Securities Report are not included under treasury shares held during the period under review.

3. Dividend policy

Tosei's fundamental earnings distribution policy is to strive to continuously provide stable dividends while comprehensively considering operating results, the future operating environment and progress in its business plan to balance dividends with the need for internal capital resources to generate long-term growth in corporate value by taking highly profitable business opportunities.

It is also a basic policy of Tosei to pay a year-end dividend annually, determined by the General Meeting of Shareholders.

Based on the above policy, Tosei decided to pay an annual dividend of ¥42 per share for the fiscal year under review. As a result, the Company's consolidated dividend payout ratio came to 23.8% for the fiscal year ended November 30, 2019.

Tosei plans to use its internal reserves for future business expansion and to strengthen the management quality.

Tosei's articles of incorporation stipulate that "Tosei may pay interim dividends to shareholders with the record date of May 31 each year, upon a resolution by the Board of Directors."

The dividend for the fiscal year ended November 30, 2019 is as follows:

Resolution date	Total amount of dividends (¥ thousand)	Dividends per share (¥)
Ordinary General Meeting of Shareholders held on Feb. 26, 2020	1,998,632	42

4. Status of corporate governance, etc.

(1) Status of corporate governance

"Cabinet Office Ordinance on the Disclosure of Corporate Content etc." after revision by the "Cabinet Office Ordinance to revise a part of the Cabinet Office Ordinance on disclosure of corporate content etc." (Cabinet Office Ordinance No. 3 on January 31, 2019) The provisions of Caution (54) c described in the No. 2 format have been applied from the securities report for the current fiscal year.

1) 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 redible to investors, as a financial instruments business operator.

2) Summary of the Corporate Governance System and the 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.

In addition, the Company has established the Nomination and Compensation Advisory Committee as an optional advisory body of the Board of Directors. And the Corporate Governance Meeting, consisting of directors and full-time audit & supervisory board members, is held monthly.

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.

Details of each body related to corporate governance established by the Company are as stated in “3) Other matters related to corporate governance” “(a) Basic explanation of internal company bodies.”

Constituent members of each body is as follows ("◎" indicates chairman).

Post	Name	Operation of Board of Directors	Auditing by audit & supervisory board	Nomination and Compensation Advisory Committee	Corporate governance meeting
President and CEO	Seiichiro Yamaguchi	◎		○	◎
Director Senior Executive Officer	Noboru Hirao	○		○	○
Director Managing Executive Officer	Masaaki Watanabe	○			○
Director Managing Executive Officer	Hideki Nakanishi	○			○
Director Executive officer	Shunsuke Yamaguchi	○			○
Director Executive officer	Hitoshi Oshima	○			○
Outside director	Kenichi Shohtoku	○		◎	
Outside director	Hiroyuki Kobayashi	○		○	
Outside director	Masao Yamanaka	○		○	
Audit & Supervisory Board Member (full-time))	Yutaka Kitamura	○	◎	○	○
Audit & Supervisory Board Member (full-time))	Hitoshi Yagi	○	○		○
Audit & Supervisory Board Member	Tatsuki Nagano	○	○		
Audit & Supervisory Board Member	Osamu Doi	○	○		

3) Other matters related to corporate governance

(a) Basic explanation of internal company bodies

i) Operation of Board of Directors

The Board of Directors is composed of nine directors, three of whom are outside directors. Based on the regulations of the Board of Directors, regular meetings of the Board of Directors are held every month and extraordinary meetings are held as necessary. As the highest management decision-making body, the Board of Directors makes resolutions on management policy and important matters, and also supervises the execution of duties by directors.

ii) Nomination and Compensation Advisory Committee

The Company has set up the Nomination and Compensation Advisory Committee as a voluntary advisory body for the Board of Directors for the purpose of ensuring appropriateness and transparency of each resolution of the Board of Directors on the process of selecting candidates proposed in a proposal for appointing directors that is submitted to the General Meeting of Shareholders and on allocation of remuneration, etc. for 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 develop an appropriate governance system to respond to the mandate of shareholders and investors with full respect for the content of reports made by this committee.

iii) Auditing by audit & supervisory board members

The Company employs an audit & supervisory board member system with two full-time audit & supervisory board members and two part-time audit & supervisory board members. All of these four persons are outside audit & supervisory board members. Meetings of the Audit & Supervisory Board are held once a month in principle. At these meetings, the four audit & supervisory board members deliberate on necessary items and work to share information by having the full-time audit & supervisory board members report to the part-time audit & supervisory board members about their auditing activities.

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 meeting of the Board of Directors are confirmed in advance, as well as the management meeting (constituted by the Executive Officers appointed by the President and CEO), which is an advisory body regarding matters to be approved by the President and CEO.

The auditing activities of audit & supervisory board members are performed in accordance with a yearly audit plan. Since such activities are carried out in coordination with the accounting auditor and the Internal Audit Department, an efficient and effective auditing system is in place. Furthermore, the full-time audit & supervisory board members work to gain an understanding of the status of the execution of business by holding regular interviews with each director and those in charge of each division.

iv) Executive officer system

The Company employs an executive officer system, under which executive officers appointed by the Board of Directors execute and exert control over the Company's business in accordance with internal regulations, in addition to matters designated by resolution of the Board of Directors.

In addition, the President and CEO holds management meetings twice a month in principle, at which advance consultation is provided for important decisions to be made by the President and CEO, and matters for resolution at the Board of Directors are deliberated in advance.

v) Corporate governance meeting

With the aim of continuous strengthening of corporate governance, the Company holds corporate governance meetings consisting of full-time directors and full-time audit & supervisory board members once a month in principle.

At the meeting, directors and audit & supervisory board members check and deliberate over corporate governance concerns for improving corporate value and items regarding internal control. Where necessary, they receive advice from outside experts such as corporate attorneys and certified public accountants.

vi) Internal auditing

The Internal Audit Department under the direct supervision of the President and CEO perform audits of the entire Group in accordance with a yearly plan. If they discover inadequacies, they demand improvements by providing recommendations for their rectification to the audited division. Audits are performed effectively, with matters for rectification handled through enhanced follow-up work including deliberation with the audited division and the provision of detailed guidance.

vii) Information disclosure

The Company not only prepares documents, etc. in accordance with laws and regulations such as the Companies Act and the Financial Instruments and Exchange Act and discloses information based on the regulations set forth by securities exchanges, but also provides timely and appropriate corporate information to stakeholders including shareholders and investors by such means as investor relations activities and its website.

viii) Auditing by accounting auditor

The Company's accounting auditor is Shinsoh Audit Corporation, with which the Company has concluded an auditing agreement in accordance with the Companies Act and the Financial Instruments and Exchange Act. On this basis, Shinsoh Audit Corporation performs audits in accordance with a yearly audit plan.

(b) Status of internal company bodies and establishment of internal control system

Regarding systems to ensure that directors' execution of their duties is in compliance with laws and regulations and the Articles of Incorporation and other systems necessary to ensure the properness of a company's operations (internal control system).

i) Basic policies for compliance with laws and regulations

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

ii) Basic policies for storing and managing information

- Ensure awareness among all officers and employees regarding the importance of storing and managing information.
- Enhance the measures for preventing the leakage of material information.
- Ensure thorough familiarity with material information and information requiring timely disclosure and prevention of misstatements or material omissions.

iii) Basic policies for management of risk of loss

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

iv) Basic policies for efficient execution of duties by Directors

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

v) Basic policies for properness of the operations of the entire Group

- 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.
- 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.
- Formulate a medium-term management plan, business plans for single fiscal year 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.
- 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.
- Enhance the system for ensuring the appropriateness of financial reporting relating to the entire Group.
- Eliminate wrongful acts and/or irregular transactions using the Group.

vi) Basic policies for systems to ensure effective audits by Audit & Supervisory Board Members

- 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.
- Ensure the independence of the aforementioned members of staff from Directors and obtain prior consent from the Audit & Supervisory Board for personnel affairs matters for the said members of staff such as transfers and performance evaluations.
- 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 Audit & Supervisory Board Members.
- 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.
- 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 each of the Group companies to Audit & Supervisory Board Members.
- Develop a whistle-blowing system across the entire Group and promptly report to Audit & Supervisory Board Members if whistle-blowing occurs.
- 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.
- Directors are to make efforts to understand and support audits by Audit & Supervisory Board Members and proactively work to improve issues raised by Audit & Supervisory Board Members.
- In order to accomplish adequate audits of the entire Group performed by Audit & Supervisory Board Members, Directors are to cooperate with Audit & Supervisory Board Members as necessary.

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, 2019 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 Member (as observer)

i) Compliance with laws and regulations, etc.

・Ensure awareness regarding compliance with laws and regulations

At the beginning of each fiscal year a risk management and 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 to identify problems and consider countermeasures.

During the fiscal year under review, we invited a corporate lawyer as a lecturer to discuss the fundamentals of compliance and the Financial Instruments and Exchange Act. (for executives and employees).

In addition, the Risk Management and Compliance Committee's meeting (attended by all heads of each department) 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.

・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 once 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 conducting business audits of the Company's business by full-time corporate auditors, 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.

・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.

・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.

ii) Storing and managing information

・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 strengthen penalties for those who violate the rules, we have continued to educate and inculcate rules for the handling of important information.

・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.

During the fiscal year under review, we have begun research on the use of IT to promote paperless use in order to prevent information leakage that may occur due to inadequate management of paper media.

・Thorough understanding of important information and timely disclosure information, prevention of false descriptions

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.

iii) Management of risk of loss

・Ensure understanding, analysis and assessment of risks

In accordance with the risk management and compliance program formulated at the beginning of each fiscal year, we implement a survey on 30 significant risks (once a year), and stress tests (twice a year) in relation to real estate market conditions, transaction conditions, and the financing status of financial institutions. The results are reported at the Board of Directors' meetings.

Regarding the hotel operations business that we started in the previous year, we have identified 10 significant risks including emergency accidents and fires, formulated and set up a manual for business execution procedures to follow in the event of an accident, and implemented drills and trainings regularly in each hotels.

・Enhance monitoring of risk management

At monthly Risk Management and Compliance Committee's meeting, the states of our responses to emerging risks are checked, information gathering efforts on latent risks are continued, and the details are reported at the Board of Directors' meeting held each month, in addition to which the outcomes of the responses are monitored by the Internal Audit Department.

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

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.

・Promptly react to any occurrence of contingencies and disclose information

In case of occurrence of a contingency, a natural disaster, etc., 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.

In addition, the Crisis PR Manual is reviewed periodically, and we are continuously considering crisis assumptions and countermeasures in response to the current situation.

iv) Efficient execution of duties by Directors

・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 every month) and pre-Board meeting discussions to confer beforehand on matters to be resolved by the Board of Directors.

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

Annual business plans and budgets are prepared toward the achievement of the three-year medium-term management plan.

When drawing up the business plans and budgets, we analyze 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 without setting goals that are over-ambitious, and the Board of Directors make final decisions as the consolidated budget.

・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 including new businesses, and the increase in the number of Group companies, etc.

In preparation for the new fiscal year, the structure of the Asset Solution Division has been reorganized to strengthen the organizational responsiveness of the Development Business segment where the variety of products, such as hotels and logistics facilities, is increasing recently. In order to realize the distribution of human resources, the organizational functions have been reviewed and duties have been changed.

v) Properness of operations of entire Group

・Ensure compliance with laws and regulations by officers and employees of each Group company

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. Also, we conduct the compliance and the Company's corporate philosophy questionnaire every fiscal year for all officers and employees in the Group, identify issues of each company, and consider responses to such issues.

・Ensure understanding, analysis and assessment of operational risks related to each Group company, and responses to contingencies

Regarding the management of each Group company and significant risks (30 items) related to their business, risk evaluations are conducted each fiscal year. At the same time, the Company's full-time Directors, Executive Officers in the Administrative Division, etc. are concurrently appointed as Director or Audit & Supervisory Board Member for each Group company with the remit of monitoring and supervising each company's responses to risks. Every month, each Group company reports management conditions and their responses to risks at the meeting of the Board of Directors of the Company or the pre-Board meeting and also the Risk Management and Compliance Committee's meeting. Moreover, the response of these companies and the results thereof are 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.

・Formulate a medium-term management plan, annual business plans and budgets relating to the entire Group, manage the progress of these plans, and respond to new issues appropriately

Annual business plans and budgets are prepared for each company, aimed toward the achievement of the Group's three-year medium-term management plan.

When drawing up the business plans and budgets, we analyze the economic environment in Japan and overseas as well as the environment for the business of each Group company, then make final decisions as the consolidated budget based on separate discussions with each Group company so as to avoid setting goals that are over-ambitious.

The progress of the business plans and budgets is reported by representative directors of each company at the Board of Directors' meeting 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 Group company on a half-yearly basis.

・Establish a system for prompt reporting of significant matters of each Group company to the Company

With regard to important matters in the management and latent risks of each company, reports are made each month at meetings of the Board of Directors and the Risk Management and Compliance Committee of the Company.

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.

・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 Corporate Management 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 assessments and the audit corporation conducts audits.

・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 at the pre-Board meeting discussions each month, opinion-exchanging meetings (twice a year) attended by full-time Audit & Supervisory Board Members of the Company with representative directors of major Group companies, and the investigation of subsidiaries by full-time Audit & Supervisory Board Members (once a year). 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.

vi) System to ensure effective auditing by Audit & Supervisory Board Members

・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.

・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.

・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).

In addition, opinion-exchanging meetings concerning threefold auditing are held regularly (twice a year), between the Company's full-time Audit & Supervisory Board Members, the Internal Audit Department, and the audit corporation.

Regarding the whistle-blowing system, besides informing the employees of the Company that full-time Audit & Supervisory Board Members of the Company will act as regular contact points, reports made to the internal contact point (the chairman of the Risk Management and Compliance Committee) or to the external contact point (an external agency) will all be promptly reported to full-time Audit & Supervisory Board Members. Therefore, the system is designed so that reported facts are swiftly transmitted to full-time Audit & Supervisory Board Members.

・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 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, each Group company is required to report occurrence and signs of any material losses and significant risks associated with management of the Group company.

All officers and employees of the Group are continuously informed at morning briefings and training sessions 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.

・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. Such policy is continuously informed at training sessions, etc., and is also stated in the explanation of systems on the Company's intranet and in leaflets, etc. distributed to employees.

・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. 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.

In addition, 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.

・Expenses associated with execution of duties of Audit & Supervisory Board Members

Expenses required for audit activities by and the studies of 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.

・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 their monthly audit reports.

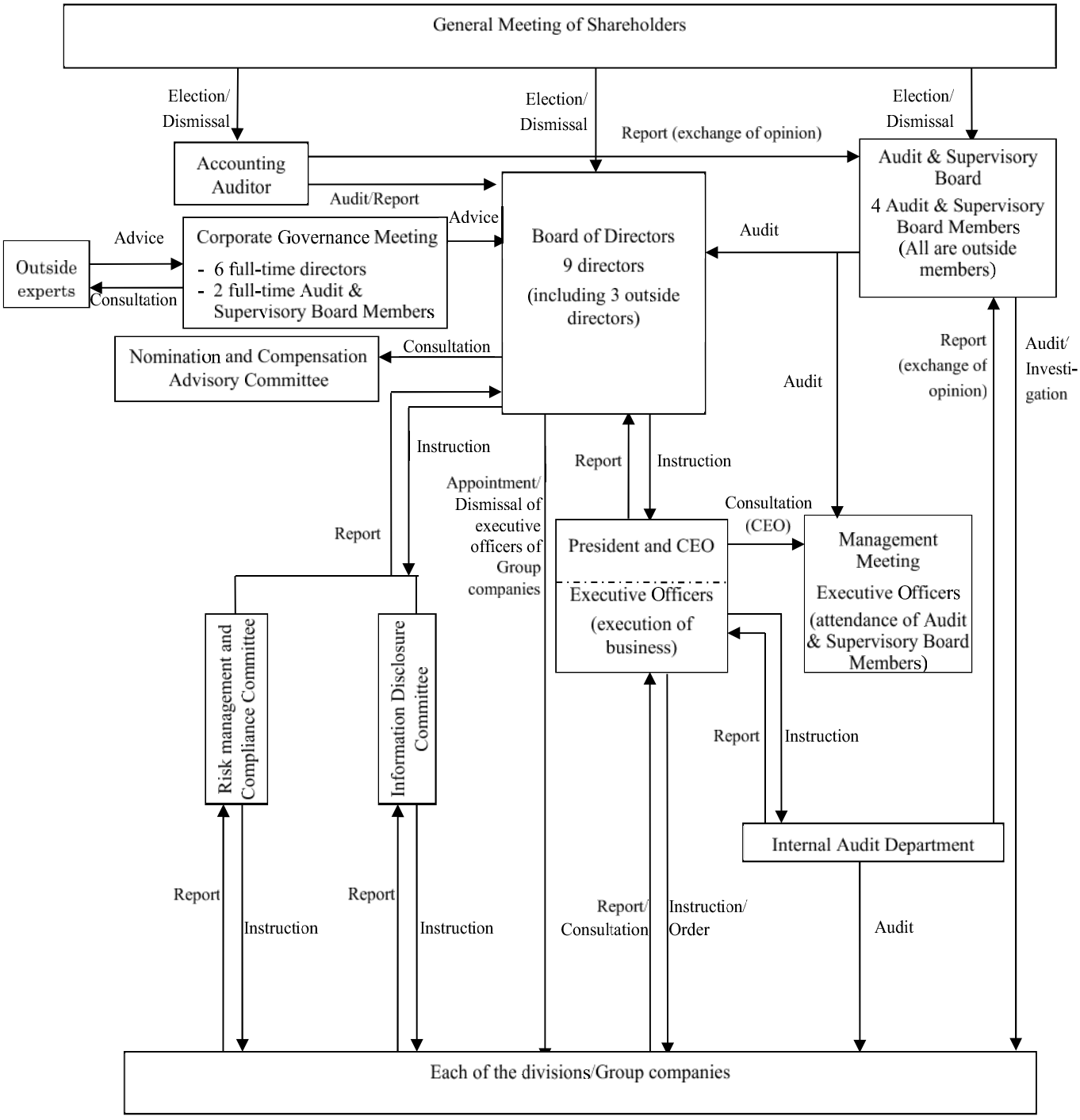
・Cooperation by Directors aiming to enhance audits by Audit & Supervisory Board Members across the entire Group

At the Board of Directors' meetings, the pre-Board meeting discussions, management meetings, and the Risk Management and Compliance Committee's 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.

(c) Basic explanation of internal company bodies

To achieve centralized and cross-sectional risk management and compliance promotion of the Group, the Company established the Risk Compliance Committee. This committee examines the company-wide policy, annual plan and other matters for risk management and compliance and assesses the status of risk management and compliance of each group company.

(d) The following is an outline of the Company's corporate governance and internal management system



4) Basic policy regarding the persons who control decisions on the Company's financial and business policies

The Company has established a basic policy on how to control the decisions on financial and business policies, and the details (items listed in Article 118, item 3 of the Enforcement Regulations of the Companies Act) are as follows.

(a) Details of the basic policy

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

The Company believes that ultimately its shareholders as a whole must make the decision on any proposed acquisition that would involve a change of control of the Company. Also, the Company will not

reject a large-scale acquisition of the shares in the Company if it will contribute to the corporate value of the Company and, in turn, the common interests of its shareholders.

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

It is particularly necessary and essential for the persons who make decisions on the Company's financial and business policies to (i) maintain the system under which the Company group covers with its comprehensive capability the diverse 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 persons who would make a large-scale acquisition of the shares in the Company in a manner that does not contribute to the corporate value of the Company or the common interests of its shareholders would be inappropriate as persons that control decisions on the Company's financial and business policies. The Company believes that it is necessary to ensure the corporate value of the Company and, in turn, the common interests of its shareholders by taking necessary and reasonable countermeasures against a large-scale acquisition by such persons.

(b) Special measures to realize the basic policy

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

In the medium-term management plan called "Seamless Growth 2020" (the targeted period of the plan is three years from December 2017 to November 2020), which kicked off in the fiscal year ended November 30, 2018, the major policy is "to continue growth as a Group to build a firm position as an original comprehensive real estate company."

The Revitalization Business will revitalize and create added value for existing properties and aim to expand operations through initiatives such as product line expansion and diversification of sales methods. With regard to the acquisition of properties, the Company will actively increase the number of small- to medium-size and high liquid property in the metropolitan area and acquire over ¥2.0 billion of medium- to large-size and profitable property, while paying attention to the portfolio.

The Development Business, as a strategy in the business environment of lack of land, we will consider development of various asset types, such as homes and offices, which we have been focusing on sale, as well as logistics facilities and hotels newly added as a product group. Create development opportunities by addressing complex rights relationships, challenging projects that require surrender or alternative facility placement. In addition, we will promote more efficient sales and higher profitability of detached houses and condominiums for end users. In the Stock and Fee Business, the Company's stable source of income, the Company will enhance its acquisition strategy in addressing challenges encountered by the Rental Business with respect to expanding Company-held fixed assets.In the Fund and Consulting Business and the Property Management Business, the Company will seek to expand all segments by accumulating properties under management as well as heightening and streamlining quality control.

In fiscal 2020, Tosei Hotel & Seminar Makuhari which is undergoing substantial renovations, as well as TOSEI HOTEL COCONE Asakusa-Kuramae and TOSEI HOTEL COCONE Ueno-Okachimachi which are being developed by the Company, are scheduled to commence their operation. The Company will endeavor to spur growth of its Hotel Business and improve the Tosei brand.

Moreover, in fiscal year 2020, Tosei Hotel & Seminar Makuhari, which is undergoing a major renovation, and Tosei Hotel Cocone Asakusa Kuramae and Tosei Hotel Cocone Ueno Okachimachi, which are developed by the Company, are scheduled to open. The Company will work to grow the hotel business and improve the Tosei brand.

(c) Overview of measures to prevent decisions on the Company's financial and business policies from being controlled by persons deemed inappropriate under the basic policy

The plan is a measure to prevent decisions on the Company's financial and business policies (hereafter "business plan") from being controlled by persons deemed inappropriate under the above basic policy, and

its objective is to ensure and enhance the Company's corporate value and, in turn, the common interests of its shareholders.

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

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

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

When (i) the acquisition is not in compliance with the procedures prescribed in the plan or (ii) it threatens to cause obvious harm to the corporate value of the Company, and, in turn, to the common interests of shareholders, (iii) and it is reasonable to implement the gratis allotment of stock acquisition rights, the independent committee will recommend the implementation the gratis allotment of stock acquisition rights to the Company's board of directors. In addition, when a meeting of shareholders is convened to confirm the intent of the Company's shareholders, the Company's board of directors will respond to the shareholders' intent. These stock acquisition rights will be allotted with an exercise condition that does not allow, as a general rule, the acquirer to exercise the rights and an acquisition provision to the effect that the Company may acquire the stock acquisition rights in exchange for shares in the Company from persons other than the acquirer. The Company's board of directors, in exercising its role under the Companies Act, will pass a resolution relating to the implementation or non-implementation of the gratis allotment of stock acquisition rights, respecting the recommendation of the Independent Committee to the maximum extent. In addition, when a meeting of shareholders is convened to confirm the intent of the Company's shareholders, the Company's board of directors will respond to the shareholders' intent. If the procedures for the plan have commenced, the acquirer must not effect an acquisition until and unless the Company's board of directors resolves not to trigger the plan. The effective period of the plan expires at the conclusion of the ordinary general meeting of shareholders for the last fiscal year ending within three years after the conclusion of the 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.

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

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

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

5) Outline of contracts for limitation of liability

Pursuant to the provisions of Article 427, paragraph 1 of the Companies Act, the Company has entered into contracts with its outside directors and outside audit & supervisory board members that limits their liability for damages provided for in Article 423, paragraph 1 of the same Act. The maximum amount of liability for

damages under the contract will be the amount prescribed by laws and regulations.

6) Stipulations of Articles of Incorporation regarding number, etc. of directors

(a) Number of directors

The Company stipulates in its Articles of Incorporation that the number of directors of the Company shall be 12 persons or less.

(b) Requirements for resolutions regarding election and dismissals of directors

The Company stipulates in its Articles of Incorporation that resolutions for election of directors shall be decided by a majority of the voting rights of the shareholders present at a meeting where the shareholders holding one third or more of the voting rights of the shareholders who are entitled to exercise their voting rights are present, and shall not be effected by cumulative voting

Regarding resolutions for dismissal of directors, the Company stipulates in its Articles of Incorporation that they shall be decided by two thirds or more of the voting rights of the shareholders present at a meeting where the shareholders holding a majority of the voting rights of the shareholders who are entitled to exercise their voting rights are present.

7) In cases where the Company stipulates that items for resolution at General Meeting of Shareholders may be resolved by Board of Directors, applicable items and reasons for the stipulation

(a) Acquisition of treasury shares

The Company stipulates in its Articles of Incorporation that the Company can acquire its treasury shares by resolution of the Board of Directors as provided for in Article 165, paragraph 2 of the Companies Act. The purpose of this is for the Company to acquire its own shares in market transactions and the like in order to enable the execution of a flexible capital policy in response to changes in the management environment.

(b) Exemption from liability of directors and audit & supervisory board members

The Company stipulates in its Articles of Incorporation that directors and audit & supervisory board members (including those who previously held these positions) may be exempted from liability to the extent provided for in laws and regulations in relation to acts provided for in Article 423, paragraph 1 of the Companies Act by resolution of the Board of Directors, as provided for in Article 426, paragraph 1 of the same Act. The purpose of this is to provide an environment in which directors and audit & supervisory board members can make use of their abilities sufficiently and fulfill the roles expected of them when carrying out their duties.

(c) Payment of interim dividend

The Company stipulates in its Articles of Incorporation that an interim dividend may be paid with a record date of May 31 each year by resolution of the Board of Directors as provided for in Article 454, paragraph 5 of the Companies Act, in order to flexibly distribute profits to shareholders.

8) Requirements for special resolutions of General Meeting of Shareholders

The Company stipulates in its Articles of Incorporation that special resolutions of the General Meeting of Shareholders provided for in Article 309, paragraph 2 of the Companies Act shall be passed by two thirds or more of the voting rights of the shareholders present at the meeting where the shareholders holding one third or more of the voting rights of the shareholders who are entitled to exercise their voting rights are present. The purpose of this is to operate the General Meeting of Shareholders smoothly by easing the quorum required for special resolutions at the General Meeting of Shareholders.

(2) Status of officers

1) List of officers

13 male officers and 0 female officers (Percentage of women in officers: 0%)

Post	Name	Date of birth	Career summary	Term of office	Number of shares held (Share)
President and CEO	Seiichiro Yamaguchi	Jan. 5, 1961	Apr. 1983 Entered Mitsui Real Estate Sales Co., Ltd. (the predecessor of Mitsui Fudosan Realty Co., Ltd.) Apr. 1986 Entered Tosei-Shoji Corporation Aug. 1990 Director of the Company Jun. 1994 President and Representative Director of the Company (current position) Dec. 1995 Representative Director of Palms Community Management Co. Ltd. (the predecessor of Tosei Community Co., Ltd.) Jul. 2004 President and CEO of the Company (current position)	Note 3	12,885,500
CFO and Senior Executive Officer of Administrative Division; in charge of Human Resource Department	Noboru Hirano	Oct. 17, 1959	Apr. 1982 Entered Kokubu & Co., Ltd. Apr. 1991 Entered Tosei-Shoji Corporation May 1995 Director of Tosei-Shoji Corporation Mar. 2001 General Manager of Finance and Accounting Department of the Company Oct. 2002 Managing Director of the Company Jul. 2004 Director and Managing Executive Officer of the Company Mar. 2005 Audit & Supervisory Board Member of Tosei Revival Investment Co., Ltd. Apr. 2005 Audit & Supervisory Board Member of Tosei Community Co., Ltd. Sep. 2005 Representative Director of Tosei REIT Advisors, Inc. (the predecessor of Tosei Asset Advisors, Inc.) Feb. 2006 CFO and Senior Executive Officer of Administrative Division of the Company Dec. 2007 Representative Director of Tosei Revival Investment Co., Ltd. Jan. 2013 Representative Director of Tosei Revival Investment Co., Ltd. Feb. 2013 Director of Tosei Community Co., Ltd. (current position) Feb. 2016 Director of Tosei Asset Advisors, Inc. (current position) Apr. 2017 CFO, Senior Executive Officer of Administrative Division and in charge of Human Resource Department of the Company (current position) Feb. 2020 Representative Director of Tosei Revival Investment Co., Ltd. (current position)	Note 3	150,000
Director, Managing Executive Officer, Deputy Chief of Business Division and in charge of Asset Solution Department 5	Masaaki Watanabe	Jan. 25, 1963	Apr. 1986 Entered Towa Real Estate Development Co., Ltd. (the predecessor of Mitsubishi Jisho Residence Co., Ltd.) Dec. 1990 Entered Heisei Kouhatsu Co., Ltd. Apr. 1993 Seconded to Ohmon Club Co., Ltd. Feb. 1998 Entered the Company Aug. 2006 Director of Tosei Revival Investment Co., Ltd. Mar. 2008 Executive Officer of the Company Jun. 2015 Managing Executive Officer, Deputy Chief of Business Division of the Company Feb. 2018 Director and Managing Executive Officer, Deputy Chief of Business Division of the Company Dec. 2019 Director, Managing Executive Officer, Deputy Chief of Business Division and in charge of Asset Solution Department 5 of the Company (current position)	Note 3	29,100

Post	Name	Date of birth	Career summary	Term of office	Number of shares held (Share)
Director, Managing Executive Officer, Deputy Chief of Business Division and in charge of Asset Solution Department 1	Hideki Nakanishi	Jun. 17, 1967	Apr. 1990 Entered the Yasuda Trust & Banking Co., Ltd. (the predecessor of Mizuho Trust & Banking Co., Ltd.) Jun. 1999 Entered Gold Crest Co., Ltd. Oct. 2001 Entered HUSER Corporation Apr. 2006 Entered the Company Mar. 2013 Executive Officer of the Company Feb. 2016 Director of Tosei Revival Investment Co., Ltd. (current position) Mar. 2017 Managing Executive Officer of the Company Feb. 2018 Director and Managing Executive Officer of the Company Dec. 2018 Director and Managing Executive Officer, Deputy Chief of Business Division and in charge of Asset Solution Department 1 (current position)	Note 3	20,100
Director, Executive Officer in charge of Group Strategy Department (the predecessor of M&A・Group Strategy Department) and General Affairs Department	Shunsuke Yamaguchi	Jul. 26, 1964	Apr. 1988 Joined TOKYU CONSTRUCTION CO., LTD. Dec. 2001 Joined the Company Oct. 2006 Director in charge of Administrative Division of Fusion Partner, Inc. Aug. 2007 Joined the Company Oct. 2007 Director of Tosei Asset Management, Corp. Apr. 2008 Director of Tosei Asset Advisors, Inc. Dec. 2012 Director of NAI Tosei Japan, Inc. Mar. 2013 Executive Officer of the Company Feb. 2018 Audit & Supervisory Board Member of Tosei Asset Advisors, Inc. (current position) Feb. 2020 Director and Executive Officer in charge of Group Strategy Department (the predecessor of M&A・Group Strategy Department) and General Affairs Department of the company (current position)	Note 3	7,200
Director, Executive Officer in charge of Asset Solution Department 4	Hitoshi Oshima	Nov. 19, 1964	Apr. 1988 Joined The Sanwa Bank, Ltd. (the predecessor of MUFG Bank, Ltd.) Jun. 2006 Joined J-REP Co. Ltd. (the predecessor of Goodman Japan Limited) Jan. 2009 Joined NATIONAL STUDENTS INFORMATION CENTER CO., LTD. Dec. 2011 Joined the Company Jul. 2012 Director of Tosei Revival Investment Co., Ltd. Mar. 2014 Managing Director of Tosei Community Co., Ltd. Jun. 2014 Representative Director of Crystal Sports Club (the predecessor of CSC) (current position) Dec. 2016 Director of Tosei Community Co., Ltd. Mar. 2017 Executive Officer of the Company Dec. 2020 Direcotr, Executive Officer in charge of Asset Solution Department 4 of the Company (current position)	Note 3	—

Post	Name	Date of birth	Career summary	Term of office	Number of shares held (Share)
Director	Kenichi Shohtoku	Jan. 20, 1971	Oct. 1995 Entered Asahi & Co., Ltd. (the predecessor of KPMG AZSA LLC) Sep. 1999 Transferred to Arthur Andersen & Co., Kuala Lumpur Office Sep. 2002 Entered SCS Global Accounting Co., Ltd. (the predecessor of SCS Global Consulting (S) Pte Ltd) Nov. 2003 Representative Director of SCS Global Accounting Co., Ltd. (the predecessor of SCS Global Consulting (S) Pte Ltd) (current position) Sep. 2005 Director of O-RID GLOBAL BPO PTE. LTD. Dec. 2010 Statutory Auditor of ROKI TECHNO CO., LTD Feb. 2012 Director of the Company (current position) Jan. 2013 Audit & Supervisory Board Member of ROKI GROUP HOLDINGS CO., LTD. (current position)	Note 3	–
Director	Hiroyuki Kobayashi	Mar. 3, 1965	Apr. 1987 Entered the Industrial Bank of Japan, Ltd. (the predecessor of Mizuho Bank, Ltd.) Apr. 2002 Seconded to Mizuho Securities Co., Ltd. Apr. 2003 Head of Advisory Department No.4 of Mizuho Securities Co., Ltd. Jul. 2005 Entered Sofia, Inc. Apr. 2006 Vice President and Director of Sofia, Inc. Dec. 2006 Entered Mizuho Securities Co., Ltd. Jun. 2008 Deputy General Manager, General Planning Department of Mizuho Securities Co., Ltd. Dec. 2011 General Manager, Corporate Communications Department of Mizuho Securities Co., Ltd. Apr. 2014 Senior Corporate Officer attached to Retail Division of Mizuho Securities Co., Ltd. Apr. 2015 Head of Wealth Management Division, Retail Division of Mizuho Securities Co., Ltd. Apr. 2017 President & CEO of Social Capital Management, Inc. (current position) Feb. 2018 Director of the Company (current position) Apr. 2018 Executive Vice President of PRECIOUS SQARE .inc (current position) Jun. 2019 Outside Auditor of Tohto Suisan Co., Ltd. (current position) Aug. 2019 Director of SEIWA Co., Ltd. (current position)	Note 3	–
Director	Masao Yamanaka	Jul. 24,1962	Apr. 1997 Registered as attorney-at-law (Daini Tokyo Bar Association) Jan. 2003 Established Yamanaka Law Office Apr. 2008 Joined RENAISS Law Office (current position) May 2012 Outside Auditor of Chiyoda Co., Ltd. (current position) Jun. 2015 Outside Auditor of System Location Co., Ltd. (current position) Jun. 2018 Outside Director of ACE SECURITIES CO., LTD. (current position) Feb. 2020 Director of the Company (current position)	Note 3	–
Audit & Supervisory Board Member (full-time)	Yutaka Kitamura	Feb. 27, 1950	Apr. 1972 Entered The Yasuda Trust and Banking Co., Ltd. (the predecessor of Mizuho Trust & Banking Co., Ltd.) May 1996 General Manager of Singapore Branch of The Yasuda Trust & Banking Co., Ltd. (the predecessor of Mizuho Trust & Banking Co., Ltd.) Apr. 1999 General Manager of Pension Business Promotion Department III of The Yasuda Trust & Banking Co., Ltd. (the predecessor of Mizuho Trust & Banking Co., Ltd.) Oct. 2000 General Manager of Niigata Branch of The Mizuho Trust & Banking Co., Ltd. Jun. 2003 General Manager of Pension Business Osaka Department of The Mizuho Trust & Banking Co., Ltd. Mar. 2005 Full-time Audit & Supervisory Board Member of Nippon Carbon Co., Ltd. Jun. 2010 Full-time Audit & Supervisory Board Member of J-COACH Corporation Feb. 2013 Full-time Audit & Supervisory Board Member of the Company (current position) Feb. 2013 Audit & Supervisory Board Member of Tosei Community Co., Ltd.	Note 4	–

Title	Name	Date of birth	Career summary	Term of office	Number of shares held (Share)
Audit & Supervisory Board Member (full-time)	Hitoshi Yagi	Oct. 2, 1958	Apr. 1982 Joined The Nippon Credit Bank, Ltd. (the predecessor of Aozora Bank, Ltd.) Apr. 1999 Head of Real Estate Research Office, Sales Strategy Division II of The Nippon Credit Bank, Ltd. Aug. 2000 Senior Manager of Real Estate Finance Group, Investment Banks Division of The Nippon Credit Bank, Ltd. Aug. 2004 Joint General Manager of Corporate Business Division V of The Nippon Credit Bank, Ltd. Aug. 2009 Joint General Manager of Human Resources Division of The Nippon Credit Bank, Ltd. Oct. 2011 Joint General Manager of Internal Audit Division of The Nippon Credit Bank, Ltd. Feb. 2019 Full-time Audit & Supervisory Board Member of the Company (current position) Feb. 2020 Audit & Supervisory Board Member of Tosei Hotel Management Co., Ltd. (current position) Audit & Supervisory Board Member of Tosei Hotel Service Co., Ltd. (current position)	Note 5	–
Audit & Supervisory Board Member	Tatsuki Nagano	Apr. 16, 1959	Apr. 1983 Entered The Chuo Trust & Banking Co., Ltd. (the predecessor of Sumitomo Mitsui Trust Bank, Limited) Jul. 1995 Financial Planning Chief of Corporate Planning Dept. at headquarters of The Chuo Trust & Banking Co., Ltd. (the predecessor of Sumitomo Mitsui Trust Bank, Limited) Jul. 2000 Management Director of RG Asset Management PTE. LTD. Jul. 2004 Director of Reference Group Holdings Ltd. Aug. 2004 Representative Director of RG Asset Management Co., Ltd. Feb. 2012 Audit & Supervisory Board Member of the Company (current position) Apr. 2013 Director of RG Asset Management Services Limited (BVI) Apr. 2013 Director and Representative Partner of RG Asset Management Services Limited (HK) Jun. 2014 Director of System Location, Co., Ltd. (current position) Feb. 2016 Managing Director, Head of the Management Headquarters of All Nippon Asset Management, Co., Ltd. Jun. 2019 Vice President and Representative Director of All Nippon Asset Management, Co., Ltd. (current position)	Note 4	–
Audit & Supervisory Board Member	Osamu Doi	Feb. 23, 1964	Apr. 1987 Entered The Nikko Securities Co., Ltd. (the predecessor of SMBC Nikko Securities Inc.) Jul. 1993 Transferred to Nikko Europe PLC Feb. 1998 Returned to The Nikko Securities Co., Ltd. (the predecessor of SMBC Nikko Securities Inc.) Apr. 2002 Entered FinTech Global Incorporated Oct. 2005 Senior Vice President of Structured Finance Division of FinTech Global Incorporated Oct. 2006 Deputy Head of Investment Banking Division of FinTech Global Incorporated Apr. 2007 Head of Investment Department of FinTech Global Incorporated Feb. 2013 Audit & Supervisory Board Member of the Company (current position)	Note 4	–
Total					13,091,900

Notes: 1. Kenichi Shohtoku, Hiroyuki Kobayashi and Masao Yamanaka are outside directors.
2. Yutaka Kitamura, Hitoshi Yagi, Tatsuki Nagano and Osamu Doi are outside audit & supervisory board members.
3. Two-year period from the conclusion of the Ordinary General Meeting of Shareholders held February 26, 2020.
4. Four-year period from the conclusion of the Ordinary General Meeting of Shareholders held February 24, 2017.
5. Four-year period from the conclusion of the Ordinary General Meeting of Shareholders held February 27, 2019.

2) Status of Outside Directors

The Company has three outside directors and four outside audit & supervisory board members.

With regard to the nomination of Outside Directors, the Company elects persons who can oversee the management from an independent and objective standpoint and be expected to provide constructive advice and recommendations to Directors concurrently serving as Executive Officers. In nominating Outside Audit & Supervisory Board Members, the Company elects persons who can be deemed to audit the operation of the Board of Directors and execution of duties of Directors from an independent standpoint, and who are expected to provide constructive advice and recommendations for the increase of corporate value with their knowledge.

Standards for independence provided by the Company are as follows:

(i) He/she has not been an officer/employee of the Group in the past 10 years;

(ii) He/she is not or was not an employee of any business partner whose value of transaction with the Group accounts for 2% or more of the Company's consolidated sales (except for a former employee with respect to whom three years or more have passed since he/she ceased to belong to such business partner);

(iii) He/she is not a major shareholder of the Company (holding 10% or more of the total voting rights) or a person who executes its business;

(iv) He/she is not a person with respect to whom the Group holds 10% or more of the total voting rights or a person who executes its business;

(v) He/she is not an attorney, accountant, etc. who receives remuneration of ¥10 million or more per annum from the Group other than remuneration for officers; and

(vi) There are otherwise no circumstances with respect to him/her that may cause doubt as to the independence in executing duties as Independent Outside Director.

Outside Director Kenichi Shohtoku has contributed to strengthening the governance system of the Company and the Group by providing valuable advice on various occasions including the Board of Directors meetings and liaison meetings with the Audit & Supervisory Board Members of the Company since assuming office of Outside Director of the Company in February 2012, while leading SCS Global Consulting (S) Pte Ltd as a representative director. In addition, with respect to the overseas activities, etc. of the Company, the Company benefits from his suggestions based on the expertise cultivated through his abundant overseas experiences mainly in consulting as a certified public accountant. In view of the growth of the Group in terms of management over the medium- to long-term, including overseas expansion, the Company deems that his reappointment will contribute to the interests of the Group, and in turn, common interests of its shareholders.

Outside Director Hiroyuki Kobayashi has abundant experience at a bank and a securities company which is extremely valuable in ensuring the effectiveness of its Board of Directors, as the Company operates the financial instruments business. In addition, as 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. In light of the mid- to long-term growth of the management of the Group, we determined that electing him would contribute to the interests of the Group and, turn, the common interests of its shareholders.

Outside Director Masao Yamanaka has provided many companies with legal advice and involved in multiple large-scale corporate legal affairs. He possesses abundant experience as an attorney-at-law and a high level of expertise on corporate legal affairs. In addition, as 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. In light of the mid- to long-term growth of the management of the Group, we determined that electing him would contribute to the interests of the Group and, turn, the common interests of its shareholders.

Full-time outside audit & supervisory board member Yutaka Kitamura has abundant experience including overseas assignment primarily at a major financial institution as well as specialist knowledge. As such, 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 standpoint.

Full-time outside audit & supervisory board member Hitoshi Yagi has abundant experience and specialist knowledge acquired at audit divisions of major financial institutions As such, the Company believes that he can fulfill his responsibilities of securing adequacy and appropriateness in the Company's management.

Outside audit & supervisory board member Tatsuki Nagano has experience at major financial institutions and continues to be involved in corporate management and the Company believes that he can utilize his extensive experience and a high level of expert insight to perform a role in ensuring the adequacy and appropriateness of the Company's management.

The Company believes that Osamu Doi can perform a role in ensuring the adequacy and appropriateness of the Company's management based on his abundant experience at major securities

companies and at companies that conduct investment banking activities as well as his specialist knowledge.

3) Audits and supervision by Outside Directors and Outside Audit & Supervisory Board Members, coordination between internal audits, audits by Audit & Supervisory Board Members and accounting audits, and their relationship with the Internal Control Division

Through attendance at important meetings such as the Board of Directors' meetings, Outside Directors and Outside Audit & Supervisory Board Members receive, directly and indirectly, reports concerning internal audits, audits by Audit & Supervisory Board Members, accounting audits, and internal control. They enhance the effectiveness of supervision and audits by exchanging information as appropriate and expressing opinions as necessary.

(3) Status of audit

"Cabinet Office Ordinance on the Disclosure of Corporate Content etc." after revision by the "Cabinet Office Ordinance to revise a part of the Cabinet Office Ordinance on disclosure of corporate content etc." (Cabinet Office Ordinance No. 3 on January 31, 2019) The provisions of Caution (56) a (b) and d (a) ii described in the No. 2 format have been applied from the securities report for the current fiscal year.

1) Status of Auditing by audit & supervisory board members

The Company employs an audit & supervisory board member system with two full-time audit & supervisory board members and two part-time audit & supervisory board members. All of these four persons are outside audit & supervisory board members. Meetings of the Audit & Supervisory Board are held once a month in principle. At these meetings, the four audit & supervisory board members deliberate on necessary items and work to share information by having the full-time audit & supervisory board members report to the part-time audit & supervisory board members about their auditing activities.

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 meeting of the Board of Directors are confirmed in advance, as well as the management meeting (constituted by the Executive Officers appointed by the President and CEO), which is an advisory body regarding matters to be approved by the President and CEO.

(a)Number of Meetings of the Audit & Supervisory Board and attendance of each audit members

The Audit & Supervisory Board met 16 times during the fiscal year, and attendance status of each Audit members are as follows.

Name	Attendance	Note
Yutaka Kitamura	16	
Hitoshi Yagi	11	Hitoshi Yagi attended all 11 meetings of the Audit & Supervisory Board held after he was appointed on February 27, 2019.
Tatsuki Nagano	15	
Osamu Doi	15	

(b) Main matters considered by the Audit & Supervisory Board

In the fiscal year under review, the main matters considered by the Audit & Supervisory Board included decisions on the audit policy, audit plan, auditing method, and the division of duties among the Audit & Supervisory Board Members, evaluation and consent to the reappointment of the accounting auditor, receiving briefings on the yearly audit plan from the audit corporation and consenting to audit fees for the audit corporation, consent to performance evaluations for staff assisting in audit work and corporate performance evaluations, and information sharing based on monthly activity reports by full-time Audit & Supervisory Board Members.

(c) Audit activities by full-time Audit & Supervisory Board Members

In the fiscal year under review, full-time Audit & Supervisory Board Members engaged in audit activities in accordance with the yearly audit plan. Since such activities are carried out in coordination with the accounting auditor and the Internal Audit Department, an efficient and effective auditing system is in place. Furthermore, the full-time Audit & Supervisory Board Members work to gain an understanding of the status of the execution of business by holding regular interviews with each Director and those in charge of each division, as well as carrying out business audits throughout the year.

2) Status of The Internal Audit Department

The Internal Audit Department under the direct supervision of the President and CEO conducts audits of the entire Group based on the annual plan with a system of four members, If they discover inadequacies, they demand improvements by providing recommendations for their rectification to the audited division. Audits are performed effectively, with matters for rectification handled through enhanced follow-up work including deliberation with the audited division and the provision of detailed guidance.

3) Coordination between Audit & Supervisory Board Members and accounting auditor

In the course of their auditing activities in accordance with the yearly audit plan, the Audit & Supervisory Board Members regularly exchange opinions with the accounting auditor, as well as receive reports on the results of audits by the accounting auditor. In addition, the accounting auditor coordinates closely with Audit & Supervisory Board Members by such means as observing their audits as appropriate, and holding biannual opinion-exchanging meetings concerning threefold auditing with the accounting auditor and the General Manager of the Internal Audit Department.

4) Coordination between Audit & Supervisory Board Members and the Internal Audit Department

The Audit & Supervisory Board Members hold a regular exchange of opinions session with the Internal Audit Department once every two months, and the full-time Audit & Supervisory Board Members receive reports every other week on all aspects of internal auditing work from the General Manager of the Internal Audit Department, and exchange opinions.
In addition, members of the Internal Audit Department attend hearings conducted by full-time Audit & Supervisory Board Members with the accounting auditor and heads of divisions as assistants to the Audit & Supervisory Board Members. Through such activities, the Company works to enhance the quality of the Internal Audit Department and to carry out efficient internal audits.

5) Accounting audits

(a) Name of audit corporation

Shinsoh Audit Corporation

(b) Years of continuous auditing

11 years

(c) Names of certified public accountants who executed audit

Designated and Engagement Partner	Sakashita Takayuki
Designated and Engagement Partner	Atushi Iijima

(d) Breakdown of assistants in auditing operations

Certified public accountants: 10 persons
Other: 1 person

(e) Method and reasons for selecting the audit corporation

The Audit & Supervisory Board selects an audit corporation in accordance with the selection criteria established by the Audit & Supervisory Board (Selection Criteria for Candidates for Accounting Auditor). The selection is based on consideration of the appropriateness of factors such as the specific audit plan and audit fees proposed by the audit corporation, and confirmation of any conflicts with Article 340, paragraph 1 of the Companies Act, after evaluation of the audit corporation’s independence and reliability, and whether the auditing system meets to the Company’s criteria in terms of audit quality standards and the scale and characteristics of the Company’s business.

(f) Evaluation of the audit corporation by Audit & Supervisory Board Members and the Audit & Supervisory Board

The Audit & Supervisory Board evaluates the audit corporation each fiscal year, in accordance with the Evaluation Criteria for the Accounting Auditor established by the Audit & Supervisory Board. The evaluation is based on hearings conducted into the opinions of relevant departments in the Tosei Group, as well as reports received as appropriate from the accounting auditor on quality control systems, independence, the audit plan, overviews of audit results and other matters.

6) Audit fees

(a) Audit fees paid to certified public accountants, etc.

Classification	Fiscal year ended Nov. 30, 2018		Fiscal year ended Nov. 30, 2019	
	Fees for audit attestation services (¥ thousand)	Fees for non-audit services (¥ thousand)	Fees for audit attestation services (¥ thousand)	Fees for non-audit services (¥ thousand)
Filing company	36,000	–	37,500	–
Consolidated subsidiaries	5,000	–	7,000	–
Total	41,000	–	44,500	–

(b) Fees to Shinsoh Audit Corporation, which belongs to the same network as the Company's accounting auditor (excluding (a))

None

(c) Other important fees of Audit

None

(d) Policy for determining audit fees

The Company decides on the audit fees paid to certified public accountants, etc. upon comprehensive consideration of factors including the audit quality based on the Company's size and the nature of its business activities, and the number of audit days based on the audit plan, after discussion with the certified public accountants, etc., and subject to the consent of the Audit & Supervisory Board.

(e) Reasons for consent by the Audit & Supervisory Board to fees for the accounting auditor

The Audit & Supervisory Board consents to fees for the accounting auditor after confirmation and consideration of matters including the content of the audit plan developed by the accounting auditor, status of the accounting auditor's performance of duties, historical trends in audit fees, and the basis used to calculate estimates of audit fees etc., based on the Practical Guidelines for Coordination with Accounting Auditors published by the Japan Audit & Supervisory Board Members Association (a Public Interest Incorporated Association).

(4) Remuneration, etc. of officers

1) The policy on determining the amount of remuneration for officers or the method of calculation

(a) Authority to determine policies concerning the amount, composition, and amount of remuneration for directors

Maximum total amount of Directors' remuneration is set at ¥500 million (including a maximum of ¥80 million of Outside Directors' remuneration; excluding employee salaries) per year as determined at the 70th Ordinary General Meeting of Shareholders held on February 26, 2020. In addition to this, Directors' remuneration as stock options within the range of ¥100 million per year (including ¥10 million or less for Outside Directors) was approved at the 69th Ordinary General Meeting of Shareholders held on February 27, 2019.

And the number of directors is stipulated in the Articles of Incorporation to be no more than 12.

Remuneration for full-time Directors consists of monetary remuneration, comprising a "fixed salary" which is scaled according to duties, "performance evaluation remuneration" which is based on the achievement of individual goals such as the performance of each full-time Director, and "Directors' bonuses" which are linked to consolidated profit before tax, and "stock options" which are aimed to increase the desire and motivation to contribute to the medium- to long-term enhancement of corporate value.

Due to the emphasis on their supervisory function from a standpoint independent of the execution of business, Outside Directors' remuneration is composed of a "fixed salary" and "stock options" only. No "performance evaluation remuneration" or "Directors' bonuses" are paid to Outside Directors.

The Representative Director drafts proposals for each Director's remuneration, which are discussed by the Nomination and Compensation Advisory Committee, before being decided by resolution of the Board of Directors.

"fixed salary"

On the basis of comparisons with the results of surveys of Directors' remuneration at listed companies,

conducted by external specialist agencies, and surveys of the levels of Directors' remuneration at the Company's competitors, conducted by the Company, as well as comparison with the highest amounts of remuneration paid to employees of the Company, the Company has established fixed salary scaling guidelines, based on Directors' duties and posts held by Directors concurrently serving as Executive Officers. Remuneration for each individual Director is discussed by the Nomination and Compensation Advisory Committee, before being decided by the Board of Directors.

"Performance-linked remuneration" (performance evaluation remuneration and Bonus)
The "performance evaluation remuneration" for full-time Directors is based on their individual achievement of single-year performance targets. A "standard evaluation remuneration amount" equal to 33% of the fixed salary is paid monthly together with the fixed salary, and where there is an adjustment based on the achievement of performance targets (of between +55% and -50% of the standard evaluation remuneration), this will be paid as a lump sum together with Directors' bonuses after the conclusion of the Ordinary General Meeting of Shareholders held during the fiscal year.
"Directors' bonuses," which are linked to single-year consolidated profit before tax, are calculated by multiplying the fixed salary per annum by a factor, which is the sum of a predetermined factor based on the level of profit before tax, and an extra factor where the single-year target profit before tax has been achieved. This is paid as a lump sum after the conclusion of the Ordinary General Meeting of Shareholders held during the fiscal year.
The ratio of fixed salary to performance-linked remuneration (comprising performance evaluation remuneration and Directors' bonuses) is kept at around 60:40. The ratio for the fiscal year under review (the 70th term) is 56:44.
"Reasons for selecting consolidated profit before tax as the index for Directors' bonuses, and consolidated profit before tax targets and results in recent fiscal years"
As directors of a listed company, engaged in consolidated management, the Company's Directors are charged with the important tasks of maintaining and increasing the level of consolidated profit before tax, and achieving the consolidated profit before tax targets each fiscal year. For these reasons, consolidated profit before tax is used to index Directors' bonuses.
Remuneration for each individual Director is discussed by the Nomination and Compensation Advisory Committee, evaluates the level of contribution to governance of the Company and the Group as a whole, achievement of the department in charge, and maintenance / improvement of consolidated management indicators (ROE, stock price, etc.), before being decided by the Board of Directors.

(Consolidated profit before tax targets and results in recent fiscal years)

Profit before tax (consolidated)	68th term	69th term	70th term
	Fiscal year ended Nov. 30, 2017	Fiscal year ended Nov. 30, 2018	Fiscal year ended Nov. 30, 2019
Targets	¥9.0 billion	¥10.0 billion	¥11.2 billion
Results	¥9.0 billion	¥10.1 billion	¥12.0 billion

"Stock options"
In order to practice corporate management with a focus on enhancing corporate value over the medium- to long-term, the President and Representative Director drafts proposals for the number of stock options to be granted to each Director, based on the Director's duties as well as posts held concurrently by the Director as Executive Officer, for each medium-term management plan. These proposals are examined by the Nomination and Compensation Advisory Committee, before being decided by the Board of Directors.
A fixed number of stock options are granted to Outside Directors, considering the importance of their management monitoring and supervisory function aimed at enhancing corporate value.

(b) Authority to determine policies concerning the amount, composition, and amount of remuneration for Audit & Supervisory Board Members

Maximum total amount of Audit & Supervisory Board Members' remuneration is set at ¥60 million per year as determined at the 54th Ordinary General Meeting of Shareholders held on February 28, 2004.
And the number of Audit & Supervisory Board Members is stipulated in the Articles of Incorporation to be no more than 6.
Audit & Supervisory Board Members, considering their role, are remunerated with a fixed salary only.
Remuneration for each Audit & Supervisory Board Member is decided through discussion of the Audit & Supervisory Board, within the limits of the maximum total amount.

2) Total amount of remuneration, etc. by position, total amount by type of remuneration, etc., and number of recipients at the Company

Position	Total amount of remuneration, etc. (¥ thousand)	Total amount by type of remuneration, etc. (¥ thousand)				Number of recipients (Person)
		Basic remuneration	performance evaluation remuneration	Bonus	Stock Option	
Directors (excluding outside directors)	224,778	125,149	41,716	55,313	2,599	5
Audit & supervisory board members (excluding outside audit & supervisory board members)	—	—	—	—	—	—
Outside officers	43,861	43,740	—	—	121	7

3) Total amount of consolidated remuneration, etc. by each officer of the Company

Since there is no officer for whom the total amount of remuneration, etc. is ¥100 million or more, this information is omitted.

4) Significant items among employee salaries paid to officers concurrently serving as employees

None

5) Activities of the Board of Directors and the Nomination and Compensation Advisory Committee of the submitting company in the process of determining the remuneration of directors for the current fiscal year

Date	Meeting name	Discussion / Resolution
Jan. 25 2019	the Nomination and Compensation Advisory Committee	· Monthly fixed salary for seven (7) Directors for the 12 months from March 2019 to February 2020
Feb. 27 2019	the Board of Directors	· Monthly fixed salary for seven (7) Directors for the 12 months from March 2019 to February 2020
Apr. 19 2019	the Nomination and Compensation Advisory Committee	· Review of remuneration for full-time Directors for the 70th term (the fiscal year ended November 30, 2019) and granting of the Sixth Series of stock options
Apr. 25 2019	the Board of Directors	· Issue the Sixth Series of Stock Acquisition Rights as stock options to be granted to the Company's Directors, Executive Officers and employees, and Directors of the Company's subsidiaries
Aug. 25 2019	the Nomination and Compensation Advisory Committee	· Review of the basic policy on remuneration for officers
Nov. 25 2019	the Nomination and Compensation Advisory Committee	· Establishment of the basic policy on remuneration for officers · Establishment of remuneration guidelines for full-time Directors
Dec. 20 2019	the Nomination and Compensation Advisory Committee	· Establishment of the basic policy on remuneration (remuneration guidelines) for full-time Directors · Performance evaluation for each of the full-time Directors for the 70th term (the fiscal year ended November 30, 2019), based on the establishment of remuneration guidelines for full-time Directors · Payment of Directors' bonuses for the 70th term (the fiscal year ended November 30, 2019)
Dec. 25 2019	the Board of Directors	· Establishment of the basic policy on remuneration (remuneration guidelines) for full-time Directors · Performance evaluation for each of the full-time Directors for the 70th term (the fiscal year ended November 30, 2019), based on the establishment of remuneration guidelines for full-time Directors · Payment of Directors' bonuses to full-time Directors for the 70th term (the fiscal year ended November 30, 2019)

(5) Status of stocks held

1) Criteria and concept on stocks for investment

The Company classifies investment shares as follows.

(a) Investment shares held for pure investment purposes

Shares that are held purely for the purposes of gaining from changes in share prices and receiving dividends

(b) Investment shares held for purposes other than pure investment

・Strategic shareholdings

Shares of other listed companies held strategically, in order to maintain and strengthen business relationships within the Tosei Group

・Shares other than those in (a) above

2) Stocks for investment held for any purposes other than pure investment purpose

(a) Shareholding policy, methods used to validate shareholding rationale, and validation of the appropriateness of each shareholding by the Board of Directors

The Company may hold investment shares for purposes other than pure investment where it determines that this is useful for the business of the Tosei Group, after validating the medium- to long-term economic rationale, including the balance of risk and return.

In addition, where some or all of these shares are strategic shareholdings, the Board of Directors examines the details of the shareholding each fiscal year, including the appropriateness of the holding purpose and whether the benefits and risks of the shareholding are commensurate with the cost of capital, validates the appropriateness of the shareholding, and discloses the results of this validation. The Company has no strategic shareholdings as of the end of the fiscal year under review.

(b) Number of stocks and total of the amounts recorded in the balance sheet

	Number of stocks	Total of the amounts recorded in the balance sheet (¥ thousand)
Unlisted stocks	3	48,200
Stocks other than unlisted stocks	—	—

(Stocks of which the number increased during the current fiscal year)

None

(Stocks of which the number decreased during the current fiscal year)

	Number of stocks	Sale related to decrease in number of shares Total value (¥ thousand)
Unlisted stocks	1	151,509
Stocks other than unlisted stocks	—	—

(c) Information regarding the number of stocks, amounts recorded in the balance sheet, etc., by each stock for "Specific stocks for investment" and "Stocks subject to deemed holding"

None

3) Stocks for investment held solely for investment purpose

Category	Fiscal year ended Nov. 30, 2019		Fiscal year ended Nov. 30, 2018	
	Number of stocks	Total of the amounts recorded in the balance sheet (¥ thousand)	Number of stocks	Total of the amounts recorded in the balance sheet (¥ thousand)
Unlisted stocks	—	—	—	—
Stocks other than unlisted stocks	1	110,600	1	56,835

Category	Fiscal year ended Nov. 30, 2019		
	Total amount of dividends received (¥ thousand)	Total amount of sales gain or loss (¥ thousand)	Total amount of gain or loss on valuation (¥ thousand)
Unlisted stocks	—	—	—
Stocks other than unlisted stocks	790	—	5,402

4) Changes in the purpose of holding investment shares from net investment to non-net investment during the current fiscal year

None

5) Changes in the purpose of holding investment shares from non-net investment purposes to net investment purposes during the current fiscal year

None

V. Accounting

1. Preparation policy of the consolidated and non-consolidated financial statements

(1) Tosei prepares consolidated financial statements in accordance with the International Financial Reporting Standard (IFRS), an international accounting standard designated in Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976).

(2) Tosei prepares non-consolidated financial statements in accordance with the Ordinance on Terminology, Forms, and Preparation Methods of Financial Statements, etc. (Ordinance of the Ministry of Finance No. 59 of 1963. Hereinafter referred to as the "Ordinance on Financial Statements, etc.").

The financial statements for the fiscal year under review (from December 1, 2018 to November 30, 2019) have been prepared in accordance with the amended regulations on financial statements prescribed in the Cabinet Office Ordinance for Amendments to the Regulation on Terminology, Forms, and Preparation Methods of Financial Statements (Cabinet Office Ordinance No. 29, issued on June 8, 2018) Supplementary Provisions Article 2, proviso.

The Company falls under the category of companies allowed to file specified financial statements and prepares financial statements pursuant to Article 127 of the Ordinance on Financial Statements, etc.

2. Audit attestation

Pursuant to Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act, the consolidated financial statements for the fiscal year ended November 30, 2019(from December 1, 2018 to November 30, 2019) and the non-consolidated financial statements for the fiscal year ended November 30, 2019 (from December 1, 2018 to November 30, 2019) were audited by Shinsoh Audit Corporation.

3. Special efforts made to ensure the properness of consolidated financial statements, etc. and establishment of a system that enables appropriate preparation of consolidated financial statements, etc. under IFRS

Tosei is carrying out the special efforts in order to ensure the properness of consolidated financial statements, etc.

(1) For the purpose of both ensuring that Tosei has an appropriate grasp of the contents of Accounting Standards and related regulations, and establishing a system by which it is possible to ensure appropriateness of consolidated financial statements, etc., Tosei became a member of the Financial Accounting Standards Foundation, and is kept informed of changes in Accounting Standards and other events. In addition, Tosei participates in seminars and other events hosted by the foundation.

(2) In applying IFRS, Tosei receives press releases and standards published by the International Accounting Standards Board as needed to keep itself informed of latest standards. In addition, for accounting procedures in accordance with IFRS, it strives to make the Group conduct uniform accounting treatments by making accounting policies in accordance with IFRS well known to group companies.

1. Consolidated financial statements, etc.

(1) Consolidated financial statements

1) Consolidated statements of financial position

(¥ thousand)

	Note	As of November 30, 2018	As of November 30, 2019
Assets			
Current assets			
Cash and cash equivalents	7	26,520,569	31,998,929
Trade and other receivables	9	3,090,237	3,747,782
Inventories	10	62,457,864	73,573,663
Other current assets	11	30,495	13,247
Total current assets		92,099,167	109,333,622
Non-current assets			
Property, plant and equipment	12	8,785,869	8,671,827
Investment properties	13	33,752,847	37,868,133
Intangible assets	14	87,966	87,760
Trade and other receivables	9	865,235	1,102,277
Other financial assets	8	2,244,831	4,252,691
Deferred tax assets	15	903,707	573,729
Other non-current assets	11	28,914	4,014
Total non-current assets		46,669,371	52,560,434
Total assets		138,768,538	161,894,056
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	16	4,075,579	6,448,300
Borrowings	17	7,308,494	16,291,247
Current income tax liabilities	15	2,445,597	1,658,894
Provisions	18	593,669	655,782
Total current liabilities		14,423,341	25,054,225
Non-current liabilities			
Trade and other payables	16	3,708,969	3,761,836
Borrowings	17	67,716,752	73,552,021
Retirement benefits obligations	19	493,554	521,213
Provisions	18	6,817	6,971
Deferred Tax Liabilities	15	397,320	691,288
Total non-current liabilities		72,323,414	78,533,331
Total Liabilities		86,746,756	103,587,557
Equity			
Share capital	20	6,554,139	6,579,844
Capital reserves	20	6,544,924	6,575,240
Retained earnings		38,843,309	45,839,423
Treasury shares	20	(128)	(1,000,037)
Other components of equity	20	79,537	312,028
Total equity attributable to owners of parent		52,021,782	58,306,499
Total equity		52,021,782	58,306,499
Total liabilities and equity		138,768,538	161,894,056

2) Consolidated statements of comprehensive income

(¥ thousand)

	Note	Fiscal year ended November 30, 2018	Fiscal year ended November 30, 2019
Revenue	22	61,543,319	60,727,704
Cost of revenue	23	42,820,221	39,886,774
Gross profit		18,723,097	20,840,930
Selling, general and administrative expenses	24, 25	7,860,072	8,203,399
Other income	26	147,032	64,335
Other expenses	27	134,249	10,907
Operating profit		10,875,807	12,690,958
Finance income	28	85,743	154,466
Finance costs	28	790,534	755,329
Profit before tax		10,171,017	12,090,095
Income tax expense	15	3,318,779	3,643,062
Profit for the year		6,852,237	8,447,032
Other comprehensive income			
Items that will not be reclassified to net profit or loss			
Net change in financial assets measured at fair values through other comprehensive income	29	—	242,805
Remeasurements of defined benefit pension plans	29	(11,038)	5,423
Total items that will not be reclassified to net profit or loss		(11,038)	248,228
Items that may be reclassified to net profit or loss			
Exchange differences on translation of foreign operations	29	(881)	(7,352)
Net change in fair values of available-for-sale financial assets	29	13,480	—
Net change in fair values of cash flow hedges	29	2,913	(2,961)
Total items that may be reclassified to net profit or loss		15,513	(10,313)
Other comprehensive income for the period, net of tax		4,474	237,914
Total comprehensive income for the year		6,856,712	8,684,946
Profit attributable to:			
Owners of parent		6,852,237	8,447,032
Total comprehensive income attributable to:			
Owners of parent		6,856,712	8,684,946
Profit for the year attributable to owners of parent			
Basic earnings per share (¥)	30	141.36	176.40
Diluted earnings per share (¥)	30	141.12	175.83

3) Consolidated statements of changes in equity

Fiscal year ended November 30, 2018 (Dec. 1, 2017– Nov. 30, 2018)

(¥ thousand)

	Note	Share capital	Capital reserves	Retained earnings	Treasury shares	Other components of equity	Total equity attributable to owners of parent	Total equity
Balance as of December 1, 2017		6,421,392	6,464,240	33,209,210	—	64,024	46,158,867	46,158,867
Profit for the year				6,852,237			6,852,237	6,852,237
Other comprehensive income						4,474	4,474	4,474
Total comprehensive income for the year		—	—	6,852,237	—	4,474	6,856,712	6,856,712
Amount of transactions with owners								
Issuance of new shares	20	132,747	75,748				208,495	208,495
Purchase of treasury shares	20				(128)		(128)	(128)
Dividends of surplus	21			(1,207,100)			(1,207,100)	(1,207,100)
Share-based payment	35		4,935				4,935	4,935
Transfer from other components of equity to retained earnings				(11,038)		11,038	—	—
Balance as of November 30, 2018		6,554,139	6,544,924	38,843,309	(128)	79,537	52,021,782	52,021,782

Fiscal year ended November 30, 2019 (Dec. 1, 2018– Nov. 30, 2019)

(¥ thousand)

	Note	Share capital	Capital reserves	Retained earnings	Treasury shares	Other components of equity	Total equity attributable to owners of parent	Total equity
Balance as of December 1, 2018		6,554,139	6,544,924	38,843,309	(128)	79,537	52,021,782	52,021,782
Profit for the year				8,447,032			8,447,032	8,447,032
Other comprehensive income						237,914	237,914	237,914
Total comprehensive income for the year		—	—	8,447,032	—	237,914	8,684,946	8,684,946
Amount of transactions with owners								
Issuance of new shares	20	25,704	14,506				40,210	40,210
Purchase of treasury shares	20		(2,711)		(999,909)		(1,002,620)	(1,002,620)
Dividends of surplus	21			(1,456,340)			(1,456,340)	(1,456,340)
Share-based payment	35		18,521				18,521	18,521
Transfer from other components of equity to retained earnings				5,423		(5,423)	—	—
Balance as of November 30, 2019		6,579,844	6,575,240	45,839,423	(1,000,037)	312,028	58,306,499	58,306,499

4) Consolidated statements of cash flows

(¥ thousand)

	Note	Year ended Nov. 30, 2018 (Dec. 1, 2017 – Nov. 30, 2018)	Year ended Nov. 30, 2019 (Dec. 1, 2018 – Nov. 30, 2019)
Cash flows from operating activities			
Profit before tax		10,171,017	12,090,095
Depreciation expense		621,108	873,834
Increase (decrease) in provisions and retirement benefits obligations		112,683	106,807
Interest and dividends income		(85,743)	(154,466)
Interest expenses		790,534	755,329
Loss on retirement of property, plant and equipment		791	—
Decrease (increase) in trade and other receivables		(827,489)	(765,621)
Decrease (increase) in inventories		(932,707)	(15,378,771)
Increase (decrease) in trade and other payables		(14,822)	2,445,402
Other, net		(79,792)	2,079
Subtotal		9,755,580	(25,311)
Interest and dividends income received		85,743	102,094
Income taxes paid		(2,226,001)	(3,876,675)
Net cash from (used in) operating activities		7,615,322	(3,799,892)
Cash flows from investing activities			
Proceeds from withdrawal of time deposits		—	20,000
Purchase of property, plant and equipment		(72,169)	(62,602)
Purchase of investment properties		(8,714,445)	(344,209)
Purchase of intangible assets		(33,450)	(29,351)
Payments of loans receivable		—	(126,730)
Collection of loans receivable		77	17,034
Purchase of other financial assets		(473,717)	(1,811,147)
Collection of other financial assets		1,907	26,426
Proceeds from sales of other financial assets		3,458	151,509
Purchase of investments in subsidiaries resulting in change in scope of consolidation		(1,502,160)	—
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation		—	536
Other, net		3,715	25,413
Net cash from (used in) investing activities		(10,786,784)	(2,133,119)
Cash flows from financing activities			
Net increase (decrease) in current borrowings		117,500	1,738,500
Proceeds from non-current borrowings		41,148,950	41,630,045
Repayments of non-current borrowings		(33,360,923)	(28,572,289)
Proceeds from issuance of new shares		208,086	40,060
Cash dividends paid		(1,206,976)	(1,455,240)
Interest expenses paid		(960,968)	(963,688)
Purchase of treasury shares		(128)	(999,909)
Other, net		(3,654)	(5,349)
Net cash from (used in) financing activities		5,941,884	11,412,129
Net increase (decrease) in cash and cash equivalents		2,770,422	5,479,116
Cash and cash equivalents at beginning of year	7	23,750,239	26,520,569
Effect of exchange rate change on cash and cash equivalents		(92)	(757)
Cash and cash equivalents at end of year	7	26,520,569	31,998,929

[Notes to Consolidated Financial Statements]

1. Reporting entity

TOSEI CORPORATION (hereinafter, the "Company") is a share company located in Japan whose shares are listed on the First Section of the Tokyo Stock Exchange and the Mainboard of Singapore Exchange. The Company and its consolidated subsidiaries (hereinafter collectively, the "Group") engage in the following six business operations: Revitalization Business, Development Business, Rental Business, Fund and Consulting Business , Property Management Business and Hotel Business. The operations of each business segment are presented in "6. Segment information" in the notes.

2. Basis of preparation

(1) Compliance with IFRS

Since the Company qualifies as a "Designated International Financial Reporting Standards specified company" as provided in Article 1-2 of the "Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements" (Ordinance of the Ministry of Finance No. 28 of 1976), its consolidated financial statements have been prepared in accordance with IFRS under the provision of Article 93 of the said ordinance.

These consolidated financial statements were approved by Seiichiro Yamaguchi, the Company's President and CEO, and Noboru Hirano, Director and CFO, on February 21, 2020.

(2) Basis of measurement

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

(3) Presentation currency and unit

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

3. Significant accounting policies

The significant accounting policies applied to these consolidated financial statements are consistent throughout all the periods presented therein.

(1) Basis of consolidation

1) Subsidiaries

Subsidiaries are entities that the Group controls. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date when control is obtained until the date when it is lost.

Intra-Group balances of payables and receivables and intra-Group transactions, as well as unrealized gains or losses arising from intra-Group transactions, are offset in preparing the consolidated financial statements.

2) Business combinations

The Group has applied the acquisition method to account for business combinations. The considerations transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, liabilities incurred, and the equity interests issued by the Group. The considerations transferred also include the fair value of assets or liabilities arising from contingent consideration arrangements. Acquisition-related costs are recognized as expenses when incurred. The identifiable assets acquired, the liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. If the considerations transferred are greater than the fair value of identifiable assets acquired and liabilities assumed, then goodwill will be measured, if lower, negative goodwill will be measured. The measured goodwill or negative goodwill is promptly recognized in profit or loss.

(2) Foreign currency translation

1) Foreign currency transactions

Foreign currency transactions are translated into the functional currencies of each entity in the Group using the exchange rates at the date of the transactions. Assets and liabilities denominated in foreign currencies to be remeasured at the end of each reporting period are retranslated into the functional currencies using the exchange rates at that date. Non-monetary assets and liabilities measured at fair value in foreign currencies are retranslated into the functional currencies using the exchange rates at the date when the fair value was determined.

Foreign exchange differences arising on the settlement of such transactions, and exchange differences

arising on translating foreign currency-denominated monetary assets and liabilities using the exchange rates at the end of the reporting period, are recognized in profit or loss. However, when a gain or loss on a non-monetary item is recognized in other comprehensive income, the foregoing exchange differences are also recognized in other comprehensive income.

2) Overseas operations

Assets and liabilities of overseas operations are translated into Japanese yen using the exchange rate at the reporting date. Income and expenses are translated into Japanese yen using the average exchange rate for the period. However, if such an average exchange rate is not considered as a reasonable approximation of the cumulative effect of the exchange rates at the transaction dates, the exchange rates at the transaction dates are used.

Exchange differences arising on translating financial statements of overseas operations are recognized in other comprehensive income. On the disposal of the interest in an overseas operation involving loss of control or significant influence, the cumulative amount of the exchange differences in connection with the foreign operation is recognized in profit or loss in the period during which the interest is disposed of.

(3) Cash and cash equivalents

Cash and cash equivalents are cash on hand, demand deposits, and short-term investments with maturities of three months or less from the date of acquisition that are readily convertible to cash and subject to an insignificant risk of changes in value.

(4) Financial instruments

1) Valuation basis and methods for financial assets

The Group classifies investments in financial assets in three categories: financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income, and financial assets measured at fair value through profit or loss. This classification is made according to the nature of assets and for what purpose the assets were acquired. The classification of investments is determined on initial recognition, and whether the classification is appropriate is reassessed at each reporting date.

(i) Classification of financial assets

(a) Financial assets measured at amortized cost

Financial assets are classified as financial assets measured at amortized cost, if both of the following conditions are met:

- The asset is held based on a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(b) Financial assets measured at fair value through other comprehensive income (debt financial assets)

Financial assets are classified as financial assets measured at fair value through other comprehensive income, if both of the following conditions are met:

- The asset is held based on a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After the initial recognition, the assets are measured at fair value and subsequent changes are recognized in other comprehensive income. As of the end of the fiscal year under review, no financial assets measured at fair value through other comprehensive income (debt financial assets) were held by the Group.

(c) Financial assets measured at fair value through other comprehensive income (equity financial assets)

Equity financial assets are classified as financial assets measured at fair value through other comprehensive income, with the exception of some assets.

Of the financial assets measured at fair value through other comprehensive income (equity financial

assets) held by the Group, the fair value of listed securities is measured at quoted market prices. For financial assets for which there is no active market and unlisted securities, the Group calculates fair value using certain valuation techniques, in particular, which include recent cases of arm's length transactions, references to prices of other financial instruments that are substantially equivalent, the discounted cash flow method, and others.

(d) Financial assets measured at fair value through profit or loss

Financial assets other than financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income are classified as financial assets measured at fair value through profit or loss.

(ii) Recognition and subsequent measurement

Purchase and sale of a financial asset are recognized at the transaction date, which is the date on which the Group commits itself to purchase or sell the asset. A financial asset is derecognized when the rights to receive cash flows from the asset are extinguished or transferred, and the Group has substantially transferred all the risks and economic value incidental to ownership of the asset. Financial instruments are initially recognized at the fair value plus directly attributable transaction costs, and subsequently measured at the fair value.

(iii) Impairment

The Group assesses financial assets or financial asset groups on a quarterly basis on whether there is any objective evidence that the asset or asset group is impaired. When there is objective evidence, impairment losses are recognized. Of financial assets measured at amortized cost, objective evidences for impairment of trade and other receivables are debtors' financial difficulties, possibility of bankruptcy, or impossibility or significant delays of payments. Book values of such assets are written down using allowance based on the amount of impairment loss calculated as the difference between the present value of estimated future cash flows discounted at the initial effective interest rate and the book value. If the asset becomes unrecoverable, the amount of impairment loss is directly reduced from the book value of the financial asset.

Reversal of an amount previously amortized is recognized in the profit or loss item in which impairment loss is accounted for. If such amount can be objectively measured because the amount of impairment loss has decreased resulting from an increase in the present value of estimated future cash flows discounted at the initial effective interest rate, the amount of decrease in the allowance is recognized in profit or loss in subsequent accounting periods. The book value of assets previously impaired are increased within the scope of amount not exceeding the amortized cost that are assumed in case of non-impairment.

For equity financial assets, the possibility that the cost of investment is not recoverable and whether there is a significant or long-term decrease of fair value, which are included in information on significant changes that have adverse effects arising in the business environment where an issuer runs its business, are also taken into account in assessing whether there is any objective evidence for impairment. When there is objective evidence of impairment for equity financial assets, losses, which are measured as the difference between the acquisition cost and the fair value at the reporting date less impairment losses of the financial assets that were previously recognized in profit or loss, are transferred to profit or loss.

(iv) Derivatives and hedge

The Group uses derivatives (interest rate swaps) to hedge interest rate risk. In addition, Derivatives and hedging are described in "(17) Derivatives and hedging".

2) Valuation basis and methods for financial liabilities

The Group recognizes a financial liability at the transaction date on which the Group becomes a party to the contract of the financial instrument.

The Group derecognizes a financial liability when it is extinguished, that is, when the contractual obligation is either discharged, cancelled, or expires.

Furthermore, the Group initially recognizes a financial liability at fair value and subsequently measures at amortized cost based on the effective interest method.

(5) Inventories

Inventories are assessed at cost or, if lower, at net realizable value. Net realizable value is calculated by deducting costs to sell from the estimated selling price.

The cost of inventories is comprised of purchase prices, development expenses, borrowing costs and separately identified expenditure including other related expenditure.

Borrowing costs for borrowings for developed real estate are capitalized as part of cost of the developed real estate over the period up to the end of the development, based on the specific identification method.

(6) Property, plant and equipment

The Group applies the cost model in measurement of property, plant and equipment.

Property, plant and equipment are stated at the book value amount, which is calculated as cost less any accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes cost directly incidental to the acquisition of assets, and costs of dismantling and removing the assets and restoring the site on which they have been located, and borrowing costs directly attributable to the acquisition, construction or production of qualifying assets.

Subsequent expenditures on property, plant and equipment that have already been recognized are included in the book value of the assets only if it is highly probable to generate future economic benefits related to the items for the Group and the expenditures can be measured reliably. Costs of the day-to-day servicing of property, plant and expenditure are recognized in profit or loss when incurred.

Depreciation of assets except for land and construction in progress is principally computed under the straight-line method over the following estimated useful lives. The declining balance method is applied, if depreciation based on the declining balance method better reflects the pattern in which the future economic benefits embodied in the asset are expected to be consumed by the entity.

Buildings and structures	3 to 50 years
Tools, furniture and fixtures	3 to 20 years

The estimated useful lives, residual values, and depreciation methods are reviewed at the end of each year, and changed if necessary.

(7) Intangible assets

The Group applies the cost model in measurement of intangible assets. An intangible asset is stated at the book value , which is calculated as cost less any accumulated amortization and any accumulated impairment losses.

Subsequent expenditures on intangible assets that have already been recognized are included in the book value of the assets only if it is highly probable to generate future economic benefits related to the items for the Group and the expenditures can be measured reliably. Other expenditures are recognized in profit or loss when incurred.

1) Software

Acquired software is initially recognized at cost including purchase consideration (net of discounts and rebates) and expenditures directly attributable to the preparation for the asset for the intended use.

After the acquisition, software is amortized under the straight-line method over its estimated useful life. The estimated useful life and amortization method are reviewed in each fiscal year, and changed if necessary.

(8) Leases

1) Lessee

Leases are classified as finance leases when all the risks and economic value incidental to ownership of an asset in a lease arrangement are substantially transferred to the lessee. All leases other than finance leases are classified as operating leases.

The Group’s assets under finance leases are tools, furniture and fixtures and are capitalized at amounts equal to the fair value of leased property at the inception of the lease or, if lower, at the present value of the minimum lease payments. Leased assets are depreciated on a straight-line basis over the estimated useful lives or, if shorter, the lease terms. Lease obligations are recognized as liability in the consolidated statement of financial position.

Operating lease payments are recognized in profit or loss on a straight-line basis over the lease term.

Contingent rent expense is recognized in profit or loss for the period during which it is incurred.

2) Lessor

Leases of investment properties are classified as operating leases when all the risks and rewards incidental to ownership of an asset in a lease arrangement are substantially held by the Group. Lease income from operating leases (net of incentives provided to the lessee) is recognized in profit or loss on a straight-line basis.

Initial direct costs incurred to the Group at the inception of operating leases are added to the book value

of the leased assets, and are recognized in profit or loss on the same basis as lease income over the lease term.

Contingent rent income is recognized in profit or loss for the period during which it is incurred.

(9) Investment properties

Investment properties are properties held to earn rentals or for capital gain or both, and do not include properties for sale in the ordinary course of business or used for administrative purposes.

The Group applies the cost model in measurement of investment properties.

Investment properties are initially recognized at cost, and subsequently stated at the book value amount, which is calculated as cost less any accumulated depreciation and accumulated impairment losses. Depreciation of investment properties is principally computed under the straight-line method over the following estimated useful lives. The declining balance method is applied, if depreciation based on the declining balance method better reflects the pattern in which the future economic benefits embodied in the asset are expected to be consumed by the entity.

Buildings and structures	3 to 50 years
Tools, fixtures and fixtures	3 to 10 years

The estimated useful lives, residual values, and depreciation methods are reviewed at the end of each year, and changed if necessary.

(10) Impairment of non-financial assets

The Group assesses whether there is any indication of impairment on a quarterly basis for the book value of non-financial assets except inventories and deferred tax assets. If any such indication exists, the recoverable amount of the asset or each cash-generating unit (CGU) to which the asset belongs is estimated.

The recoverable amount is the higher of its fair value less costs to sell and its value in use. When the recoverable amount of the asset (or CGU) falls below the book value, the book value of the asset (or CGU) is reduced to the recoverable amount.

Difference between the book value and the recoverable amount is recognized as impairment losses in profit or loss.

When impairment losses are reversed after recognition, the book value of the asset (or CGU) is increased to the revised estimated recoverable amount. However, the reversal of the impairment loss does not exceed the book value that would have been determined had no impairment loss been recognized for the asset (or CGU).

The reversal of impairment losses is immediately recognized through profit or loss.

(11) Trade and other payables

Trade and other payables are obligations to pay for goods or services provided to the Group in the ordinary course of business and others. Trade and other payables are classified as current liabilities when such payables are due within one year or within the normal operating cycle, and otherwise, presented as non-current liabilities.

Trade and other payables are initially recognized at fair value and subsequently at amortized cost calculated using the effective interest method.

(12) Borrowings

Borrowings consist of borrowings and lease obligations. Borrowings are initially recognized at fair value and subsequently recognized at amortized cost. Difference between net proceeds net of transaction costs and the repayment amount is recognized in profit or loss over the borrowing period using the effective interest method.

Borrowings are recorded as current liabilities unless the Group has unconditional rights to reschedule the repayment for at least 12 months after the reporting date.

(13) Provisions

Provisions are legal or constructive obligations as a result of past events. They are recognized if it is highly probable that outflows of economic benefits will be required to settle the obligations, and reliable estimates can be made of the amount of obligations.

(14) Employment benefits

1) Defined benefit pension plans

Liabilities associated with defined benefit pension plans are calculated by discounting the estimated amount of future benefits obtained in return for services that employees rendered in prior years or the fiscal year under review to the present value. The yield of gilt-edged corporate bonds of which the maturity largely matches that of the Group's debts is used as the discount rate. These liabilities are calculated by actuaries using the projected unit credit method. Remeasurement amounts arising from defined benefit pension plans are recognized as other comprehensive income and the amounts are transferred to retained earnings.

2) Defined-contribution pension plans

Defined-contribution pension plans are post-employment benefit plans in which an employer pays fixed contributions to a separate entity and will have no obligation to pay further contributions.

Contributions associated with defined-contribution pension plans are recognized in profit or loss in the period during which employees render services.

3) Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are recognized as profit or loss when the related service is rendered.

Bonus accrual and paid absences are recognized as liabilities, when the Group has present legal or constructive obligations to pay, and when a reliable estimate of the amount of obligations can be made.

(15) Revenue

1) Revenue from contracts with customers

The Group recognizes revenue from contracts with customers based on the five-step approach shown below.

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract(s)
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Group's major businesses are "Revitalization Business," "Development Business," "Rental Business," "Fund and Consulting Business," "Property Management Business" and "Hotel Business." Revenue generated from these businesses is recorded in accordance with contracts with customers, and recorded at the fair value of the consideration received for the sale of properties and services or receivables net of discounts, rebates and consumption taxes, etc., less internal sales. Revenue is recognized as follows. If consideration is received from a customer before satisfying the performance obligations, it is recognized as a contract liability.

• Sale of properties

With regard to sale of properties, the Group is obliged to transfer a property to a customer based on a property sale and purchase contract with the customer. Such performance obligation is satisfied at a point in time when the property is transferred, and revenue is recognized when the property is transferred.

• Rendering of services

With regard to the rendering of services, revenue is recognized according to the stage of provision of services or when provision of services is finished, and the point at which a performance obligation is satisfied is determined in accordance with the content of a contract with a customer.

2) Operating lease of rental properties

Revenue associated with operating lease is recognized on a straight-line basis over the lease period.

3) Interest income

Interest income is recognized using the effective interest method.

4) Dividend income

Dividend income is recognized when the right to receive dividend is vested.

(16) Borrowing costs

The Group adds borrowing costs directly attributable to acquisition, construction or production of assets that require a reasonable period of time before intended use or sale becomes possible, or qualifying assets, to the cost of these assets until the intended use or sale of the assets effectively becomes possible.

Borrowing costs other than those described above are recognized in profit or loss in the period during which these costs are incurred using the effective interest method.

(17) Derivatives and hedges

Derivatives are initially recognized at fair value on the day when the derivative contract is entered into, and subsequently remeasured at fair value at each reporting date.

The Group has concluded interest rate swap contracts in order to hedge changes in future cash flows associated with floating-rate borrowings. At the inception of the hedge, concluded derivatives are designated as cash flow hedge and documented.

The Group also assesses whether a derivative used in the hedge transaction is highly effective in offsetting fair value of the hedged item or changes in cash flows, at the inception of the hedge or on an ongoing basis.

Changes in fair value of derivative transactions that are designated as cash flow hedge and qualify for cash flow hedge are recognized in equity through other comprehensive income. Of changes in fair value of derivative transactions, ineffective portion is immediately recognized in profit or loss.

(18) Income tax expense

Income tax expense is comprised of current taxes and deferred taxes and recognized in profit or loss, except for the taxes which arise from business combinations or are recognized either directly in equity or in other comprehensive income.

Current taxes are computed by adding adjustments of the amount of expected tax payment or expected refund up to the previous fiscal year to the estimated amount of expected tax payment or expected refund on taxable profits or losses in the current year which are multiplied by tax rates that are enacted or substantially enacted at the reporting date.

Deferred tax assets and liabilities are recognized for temporary differences between accounting book value of assets and liabilities and amounts of them for tax purpose. For differences associated with initial recognition of assets or liabilities in transactions that have no effect on any profit and loss for both accounting and tax purposes, except for business combinations, deferred tax assets and liabilities are not recognized. Deferred tax assets and liabilities are measured using the tax rate that is expected to be applied when the temporary differences will reverse under the law which is in effect or substantially in effect at the reporting date. Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to offset current tax assets against current tax liabilities, and they are related to income taxes levied by the same taxation authority on the same taxable entity.

Deferred tax assets are recognized only for the carry-forward of unused tax losses, unused tax credits and deductible temporary differences, to the extent that it is highly probable that taxable profit will be available against which they can be utilized in the future. Deferred tax assets are reviewed at each reporting date, and reduced by the amount that is highly unlikely to be utilized.

(19) Earnings per share

The Group discloses basic and diluted earnings per share (attributable to owners of the parent) related to ordinary shares. Basic earnings per share are calculated by dividing profit for the year attributable to owners of the parent, by the weighted average number of ordinary shares issued during the reporting period that is adjusted by the number of treasury shares.

(20) Segment information

Operating segments are components of the Group that engage in business activities from which the Group may earn revenues and incur expenses. These are components for which discrete financial information is available, and whose operating results are regularly reviewed by the Board of Directors of the Company to make decisions about resources to be allocated to the segments and assess their performances.

Reportable segments are determined on the basis of the operating segments.

Segment information includes items that are directly attributable to the segments and items that are allocated to the segments on a reasonable basis.

(21) Share-based compensation

The Company employs a stock option system as an equity-settled share-based compensation system. Stock options, which are estimated at fair value as of the grant date, are recognized as expenses in the consolidated

statements of comprehensive income over the vesting period with the number of stock options that are expected to be eventually vested taken into account, and the same amount is recognized as an increase in equity in the consolidated statement of financial position.

(Changes in accounting policies)

The Group applied the following standards effective from the fiscal year ending November 30, 2019.

Standard	Name of standard	Overview of new establishment and amendment
IFRS 9	Financial Instruments	Replacement of IAS 39 with IFRS 9 regarding classification, measurement and impairment of financial assets, classification and measurement of financial liabilities, and hedge accounting
IFRS 15	Revenue from Contracts with Customers	Accounting for and disclosure of revenue recognition for contracts with customers
IAS 40	Investment properties	Clarification of requirements for transfers to, or from, investment properties

The above standards have no material impact on the condensed consolidated financial statements.

(1) IFRS 9 Financial Instruments

1) Classification and measurement of financial instruments

Regarding financial instruments, the Group classified as “Financial instruments measured at amortized cost,” “Financial instruments measured at fair value through other comprehensive income” and “Financial instruments measured at fair value through profit or loss.”

Equity instruments previously classified as “Available-for-sale financial assets” are now classified into “Financial assets measured at fair value through other comprehensive income” and “Financial assets measured at fair value through profit or loss.” “Available-for-sale financial assets” have been reclassified to “Other financial assets” in the Condensed Consolidated Statement of Financial Position.

2) Impairment loss of financial assets

The method of recognizing impairment on financial assets measured at amortized cost has been changed to recognize a loss allowance for expected credit losses on these assets.

3) Adjustment from IAS 39 to classification according to IFRS 9

a) Changes in book value amount to financial assets measured at amortized cost

(¥ thousand)

	IAS 39 Book value As of Dec. 1, 2018	Changes in classification	remeasurement	IFRS 9 Book value As of Dec. 1, 2018
Loans receivables and other receivables				
Cash and cash equivalents	26,520,569	(26,520,569)	—	—
Trade and other receivables	2,751,391	(2,751,391)	—	—
Total	29,271,960	(29,271,960)	—	—
Financial assets measured at amortized cost				
Cash and cash equivalents	—	26,520,569	—	26,520,569
Trade and other receivables	—	2,751,391	—	2,751,391
Total	—	29,271,960	—	29,271,960
Total of changes in book value to financial assets measured at amortized cost	29,271,960	—	—	29,271,960

b) Changes in book value to financial liabilities measured at amortized cost

(¥ thousand)

	IAS 39 Book value As of Dec. 1, 2018	Changes in classification	remeasurement	IFRS 9 Book value As of Dec. 1, 2018
Financial liabilities measured at amortized cost				
Trade and other payables	6,138,677	—	—	6,138,677
Borrowings	75,025,247	—	—	75,025,247
Total	81,163,925	—	—	81,163,925

c) Changes in the book value of financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss

(¥ thousand)

	IAS 39 Book value As of Dec. 1, 2018	Changes in classification	remeasurement	IFRS 9 Book value As of Dec. 1, 2018
Available-for-sale financial assets				
Available-for-sale financial assets	2,244,831	(2,244,831)	—	—
Total	2,244,831	(2,244,831)	—	
Financial assets measured at fair value through other comprehensive income				
Other financial assets	—	1,828,163	—	1,828,163
Financial assets measured at fair value through profit or loss				
Other financial assets	—	416,667	—	416,667
Total	—	2,244,831	—	2,244,831
Total of Changes in the book value of financial assets measured at fair value	2,244,831	—	—	2,244,831

(2) IFRS 15 Revenue from Contracts with Customers

With the application of IFRS 15, revenue from contracts with customers is recognized based on the five-step approach shown below. In applying IFRS 15, the Group applies the transition provisions and recognizes the cumulative effect of the standard at the date of initial application. For this reason, the Group has not applied IFRS 15 retrospectively to consolidated financial statements for each past reporting period.

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract(s)
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Group's accounting policy for revenue recognition based on IFRS 15 is described in "(15) Revenue".

(Changes in prersentation)

"Purchase of treasury shares," which were included in "other, net" under cash flows from financing activities in the previous fiscal year, have increased in monetary significance in the fiscal year under review, and are therefore presented as an separate item. To reflect this change in presentation method, ¥(3,783) thousand included in "other, net" under cash flows from financing activities for the previous fiscal year has been reclassified as "purchase of treasury shares" of ¥(128) thousand and "other, net" of ¥(3,654)thousand.

4. Significant accounting estimates and judgments requiring estimates

The preparation of the consolidated financial statements in compliance with IFRS requires the management of the Group to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses. However, actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Changes to accounting

estimates are recognized in the period in which the estimates are changed and in future periods in which the change affects.

The management's judgments and estimates that have a significant impact on amounts in the consolidated financial statements are as follows:

- Measurement of inventories (Note 10)
- Impairment of non-financial assets (Notes 12, 13 and 14)
- Estimates of useful life and residual value of property, plant and equipment, investment properties and intangible assets (Notes 12, 13 and 14)
- Recoverability of deferred tax assets (Note 15)
- Accounting treatment for and valuation of provisions (Note 18)
- Employee benefits (Note 19)
- Measurement of the fair value of financial instruments (Note 31)
- Share-based compensation (Note 35)
- Measurement of the fair value of assets acquired or liabilities assumed arising from contingencies in business combinations (Note 37)

5. New standards not yet applied

The main standards and interpretations issued or revised by the date of approval of the consolidated financial statements are as follows, and the Group has not applied these as of the end of the current consolidated fiscal year. There is no significant impact of standards applied to the fiscal year ending November 30, 2020 on the Group's consolidated financial statements.

Standard	Name of standard	Timing of mandatory application (fiscal year in which the application commences)	Fiscal year in which the Company applies the standard	Overview of new establishment and amendment
IFRS 16	Lease	Jan. 1, 2019	Fiscal year ending Nov. 30, 2020	Replacement of IAS 17 with IFRS 16 regarding lease accounting

6. Segment information

(1) Summary of reportable segments

The Group's reportable segments are components of the Group about which separate financial information is available that the Board of Directors regularly conducts deliberations to determine the allocation of management resources and to assess the performance. The Group draws up comprehensive strategies for each of the following six business segments and conducts business activities accordingly; "Revitalization Business", "Development Business", "Rental Business", "Fund and Consulting Business", "Property Management Business" and "Hotel Business". In the Revitalization Business, the Group acquires the properties whose asset values have declined, renovates, and resells them. In the Development Business, the Group sells condominium units and detached houses to individual customers as well as apartment and office buildings to investors. In the Rental Business, the Group leases office buildings and apartments. The Fund and Consulting Business mainly provides asset management services for the properties placed in real estate funds. The Property Management Business provides comprehensive property management services. The Hotel Business provides mainly hotel operating services.

The Tosei Group has made changes to its reportable segments, increasing the number of such segments from five up through the end of the previous fiscal year to six as of the fiscal year ending November 30, 2019. Accordingly, the reportable segments are now: the Revitalization Business, Development Business, Rental Business, Fund and Consulting Business, Property Management Business and Hotel Business.

As the quantitative importance of "Hotel Business", which was included in " Rental Business " and "Others", increased, it is now classified as a separate reportable segment.

Segment information for the fiscal year ended November 30, 2018 has been prepared in accordance with the new reportable segment classifications.

(2) Method for calculating revenue, profit or loss and other items by reportable segment

The methods of accounting applied in the reported operating segments are consistent with the accounting policies adopted by the Group.

The reportable segment profit is calculated on an operating profit basis. Intersegment revenue or transfers are based on actual market prices.

The Group's revenue and profit by reportable segment are as follows:

Fiscal year ended November 30, 2018
(December 1, 2017 – November 30, 2018)

(¥ thousand)

	Reportable Segments						Adjustment	Total
	Revitalization Business	Development Business	Rental Business	Fund and Consulting Business	Property Management Business	Hotel Business		
Revenue								
Revenue from external customers	34,793,585	13,261,604	5,934,901	2,982,251	4,015,450	555,525	—	61,543,319
Intersegment revenue	—	—	44,221	56,356	1,216,701	2,240	(1,319,519)	—
Total	34,793,585	13,261,604	5,979,123	3,038,607	5,232,152	557,765	(1,319,519)	61,543,319
Segment profit	6,770,700	1,487,253	2,453,492	1,616,478	453,725	36,194	(1,942,038)	10,875,807
Finance income/costs, net								(704,790)
Profit before tax								10,171,017
Other items								
Depreciation expense	—	5,041	489,601	11,669	23,385	42,392	49,018	621,108

Notes: 1. The details of adjustment are as follows:
(1) Adjustment of segment profit of ¥(1,942,038) thousand includes eliminations of intersegment transactions of ¥57,743 thousand and corporate expenses that are not allocated to any particular reportable segment of ¥(1,999,782) thousand. Corporate expenses mainly consist of selling, general and administrative expenses of the parent that are not attributable to any particular reportable segment.
(2) Adjustment of depreciation of ¥49,018 thousand consists of corporate expenses that are not attributable to any particular reportable segment.
2. Segment profit is adjusted to operating profit in the consolidated statements of comprehensive income.

Fiscal year ended November 30, 2019
(December 1, 2018 – November 30, 2019)

(¥ thousand)

	Reportable Segments						Adjustment	Total
	Revitalization Business	Development Business	Rental Business	Fund and Consulting Business	Property Management Business	Hotel Business		
Revenue								
Revenue from external customers	31,012,030	14,346,337	5,944,112	3,752,874	4,586,096	1,086,252	—	60,727,704
Intersegment revenue	—	—	49,689	20,327	1,302,183	3,160	(1,375,361)	—
Total	31,012,030	14,346,337	5,993,801	3,773,202	5,888,280	1,089,412	(1,375,361)	60,727,704
Segment profit	7,754,590	1,528,591	2,367,533	2,365,114	504,043	99,620	(1,928,535)	12,690,958
Finance income/costs, net								(600,863)
Profit before tax								12,090,095
Other items								
Depreciation expense	—	5,293	551,109	10,787	27,060	232,527	47,055	873,834

Notes: 1. The details of adjustment are as follows:
(1) Adjustment of segment profit of ¥(1,928,535) thousand includes eliminations of intersegment transactions of ¥945 thousand and corporate expenses that are not allocated to any particular reportable segment of ¥(1,929,480) thousand. Corporate expenses mainly consist of selling, general and administrative expenses of the parent that are not attributable to any particular reportable segment.
(2) Adjustment of depreciation of ¥47,055 thousand consists of corporate expenses that are not attributable to any particular reportable segment.
2. Segment profit is adjusted to operating profit in the consolidated statements of comprehensive income.

(3) Income from principal products and services

This information is omitted since similar information is disclosed in "(2) Method for calculating revenue, profit or loss and other items by reportable segment."

(4) Information by geographical area

This information is omitted since the amount of non-current assets located in Japan and revenue from external customers in Japan account for large portions of non-current assets and total revenue, respectively.

(5) Information on major customers

Fiscal year ended November 30, 2018
(December 1, 2017 – November 30, 2018)

(¥ thousand)

Name	Net sales	Related segment
Tosei Reit Investment Corporation	9,556,658	Revitalization Business, Fund and Consulting Business, Property Management Business

Fiscal year ended November 30, 2019
(December 1, 2018 – November 30, 2019)

(¥ thousand)

Name	Net sales	Related segment
Tosei Reit Investment Corporation	8,969,028	Revitalization Business, Fund and Consulting Business, Property Management Business

7. Cash and cash equivalents

Components of cash and cash equivalents are as follows:

(¥ thousand)

	As of November 30, 2018	As of November 30, 2019
Cash and deposits	26,520,569	31,998,929
Total	26,520,569	31,998,929

8. Other financial assets

Components of other financial assets are as follows:

(¥ thousand)

	As of November 30, 2018	As of November 30, 2019
Shares	256,544	163,283
Investment trust beneficiary certificate	1,556,209	3,651,885
Investments in investment limited partnerships	413,530	413,530
Other	18,547	23,992
Total	2,244,831	4,252,691

Non-current assets	2,244,831	4,252,691

9. Trade and other receivables

Components of trade and other receivables are as follows:

(¥ thousand)

	As of November 30, 2018	As of November 30, 2019
Trade notes and accounts receivable	928,435	2,106,441
Short-term loans receivable	79	22,847
Other accounts receivable	1,048,141	396,342
Prepaid expenses	303,035	385,429
Current advances to suppliers	519,449	235,402
Long-term loans receivable	2,910	89,838
Deposits and guarantee money	656,603	755,235
Claims provable in bankruptcy, claims provable in rehabilitation and other	7,750	24,661
Other	497,910	859,740
Allowance for credit losses	(8,843)	(25,878)
Total	3,955,472	4,850,060

Current assets	3,090,237	3,747,782
Non-current assets	865,235	1,102,277

The amount net of allowance for credit losses is presented in the consolidated statement of financial position.

10. Inventories

Components of inventories are as follows:

(¥ thousand)

	As of November 30, 2018	As of November 30, 2019
Real estate for sale	50,716,466	45,469,765
Real estate for sale in process	11,741,397	28,103,898
Total	62,457,864	73,573,663
Inventories scheduled to be sold after 12 months	29,344,441	32,524,058

Inventories recognized as expenses in the previous fiscal year and the fiscal year under review were ¥36,789,697 thousand and ¥33,217,594 thousand, respectively.

Inventories recorded at fair value net of selling expenses at the end of the previous fiscal year and the fiscal year under review were ¥4,948,646 thousand and ¥2,968,144 thousand, respectively.

Of the Group's inventory balance, ¥55,167,549 thousand and ¥69,803,910 thousand were pledged as collateral on borrowings as of November 30, 2018 and 2019, respectively.

The above figures include real estate for sale and real estate for sale in process to be sold after 12 months after respective fiscal years. However, since these properties are held within the normal operating cycle, they are included in inventories.

Borrowing costs capitalized in the previous fiscal year and the fiscal year under review were ¥102,472 thousand and ¥158,372 thousand, respectively.

Components of expenses for inventories recognized as loss on valuation are as follows:

(¥ thousand)

	Fiscal year ended November 30, 2018	Fiscal year ended November 30, 2019
Loss on valuation	(456,914)	(400,879)

11. Other assets

Components of other assets are as follows:

(¥ thousand)

	As of November 30, 2018	As of November 30, 2019
Raw materials	584	358
Supplies	9,910	12,889
Membership	28,914	4,014
Other	20,000	—
Total	59,409	17,261

Current assets	30,495	13,247
Non-current assets	28,914	4,014

12. Property, plant and equipment

Changes in acquisition cost, accumulated depreciation and accumulated impairment loss of property, plant and equipment are as follows:

(¥ thousand)

	Buildings and structures	Land	Other	Total
Acquisition cost				
Balance as of December 1, 2017	2,311,338	3,257,914	256,082	5,825,336
Acquisition	77,952	—	55,671	133,624
Sales or disposal	(3,045)	—	(16,153)	(19,198)
Tansfer	1,878,626	1,577,372	—	3,455,998
Balance as of November 30, 2018	4,264,872	4,835,287	295,601	9,395,760
Acquisition	31,141	—	58,218	89,359
Sales or disposal	(222)	—	(9,698)	(9,920)
Transfer	—	—	—	—
Balance as of November 30, 2019	4,295,791	4,835,287	344,121	9,475,200
Accumulated depreciation and impairment loss				
Balance as of December 1, 2017	353,565	—	166,117	519,683
Depreciation expense	66,066	—	38,528	104,595
Sales or disposal	(2,253)	—	(12,133)	(14,387)
Balance as of November 30, 2018	417,378	—	192,512	609,891
Depreciation expense	157,048	—	46,353	203,402
Sales or disposal	(222)	—	(9,698)	(9,920)
Balance as of November 30, 2019	574,205	—	229,167	803,372
Book value				
As of December 1, 2017	1,957,773	3,257,914	89,964	5,305,652
As of November 30, 2018	3,847,493	4,835,287	103,088	8,785,869
As of November 30, 2019	3,721,586	4,835,287	114,953	8,671,827

The book value of leased assets under finance leases as of November 30, 2018 and 2019 were ¥5,624 thousand and ¥25,778 thousand, respectively.

Of the balance of the Group's property, plant and equipment as of November 30, 2018 and 2019, ¥8,608,451 thousand and ¥8,475,298 thousand were pledged as collateral on loans payable, espectively. Depreciation expense is recorded in "Cost of revenue" and "Selling, general and administrative expenses" in the consolidated statement of comprehensive income.

13. Investment properties

(1) Changes in acquisition cost, accumulated depreciation and accumulated impairment loss of investment properties are as follows:

(¥ thousand)

	Fiscal year ended November 30, 2018	Fiscal year ended November 30, 2019
Acquisition cost		
Balance at beginning of period	29,794,430	35,533,780
Acquisition	8,723,692	351,710
Transfer	(2,984,342)	4,393,773
Balance at end of period	35,533,780	40,279,263
Accumulated depreciation and impairment loss		
Balance at beginning of period	1,434,882	1,780,932
Depreciation expense	486,918	640,875
Transfer	(140,868)	(10,677)
Balance at end of period	1,780,932	2,411,130
Book value at end of period	33,752,847	37,868,133

Depreciation expense is recorded in "Cost of revenue" in the consolidated statement of comprehensive income.

Of the balance of the Group's investment properties as of November 30, 2018 and 2019, ¥27,044,816 thousand and ¥28,266,898 thousand were pledged as collateral on loans payable, respectively.

(2) Fair value

(¥ thousand)

	Fiscal year ended November 30, 2018	Fiscal year ended November 30, 2019
Fair value	51,411,724	63,338,068
Rent income from investment properties	3,235,798	3,254,465
Direct expenses incidental to rent income	1,429,556	2,127,704

The fair value of investment properties was internally calculated in accordance with the Real Estate Appraisal Standards.

14. Intangible assets

Changes in acquisition cost, accumulated amortization and accumulated impairment loss of intangible assets are as follows:

(¥ thousand)

	Software	Software in progress	Other	Total
Acquisition cost				
Balance as of December 1, 2017	156,237	—	1,889	158,126
Acquisition	7,848	27,115	—	34,963
Sales or disposal	(6,060)	—	—	(6,060)
Balance as of November 30, 2018	158,026	27,115	1,889	187,030
Acquisition	4,246	25,105	0	29,351
Transfer	7,115	(7,115)	—	—
Balance as of November 30, 2019	169,387	45,105	1,889	216,381
Accumulated amortization and accumulated impairment loss				
Balance as of December 1, 2017	74,581	—	—	74,581
Amortization expense	30,542	—	—	30,542
Sales or disposal	(6,060)	—	—	(6,060)
Balance as of November 30, 2018	99,064	—	—	99,064
Amortization expense	29,557	—	—	29,557
Balance as of November 30, 2019	128,621	—	—	128,621
Book value				
As of December 1, 2017	81,655	—	1,889	83,544
As of November 30, 2018	58,962	27,115	1,889	87,966
As of November 30, 2019	40,766	45,105	1,889	87,760

Amortization expense of intangible assets is recorded in “Selling, general and administrative expenses” in the consolidated statement of comprehensive income.

15. Deferred taxes and income tax expense

(1) Deferred taxes

Main components of deferred tax assets and liabilities are as follows:

Fiscal year ended November 30, 2018 (December 1, 2017 – November 30, 2018)

(¥ thousand)

	As of December 1, 2017	Recognized through profit or loss	Recognized in other comprehensive income	Others	As of November 30, 2018
Deferred tax assets					
Accrued enterprise taxes, currently not deductible	88,883	95,136	—	16,127	200,147
Estimated expenses, currently not deductible	10,876	(7,222)	—	—	3,654
Provision for loss on rental business	1,102	(1,102)	—	—	—
Unrealized gain from substitute performance	148,441	(443)	—	—	147,998
Provision for bonuses	145,272	34,308	—	—	179,580
Liability for retirement benefits to employees	150,817	16,831	—	—	167,648
Liability for retirement benefits to key management personnel	10,264	(6,170)	—	—	4,093
Long-term accounts payable-other for directors	144,445	15,598	—	—	160,043
Carry-forward of unused tax losses	118,248	8,935	—	190,162	317,346
Other	106,055	4,060	(1,386)	—	108,729
Subtotal	924,407	159,931	(1,386)	206,290	1,289,242
Valuation reserves	(220,959)	96,685	—	(190,162)	(314,436)
Total	703,448	256,616	(1,386)	16,127	974,805
Deferred tax liabilities					
Valuation difference on other financial assets	(25,076)	21	(5,985)	—	(31,040)
Revaluation of fair value arising from assets and liabilities of subsidiaries	(160,783)	177,568	—	(454,162)	(437,378)
Total	(185,860)	177,589	(5,985)	(454,162)	(468,418)
Deferred tax assets, net	517,587	434,206	(7,371)	(438,035)	506,386

Fiscal year ended November 30, 2019 (December 1, 2018 – November 30, 2019)

(¥ thousand)

	As of December 1, 2018	Recognized through profit or loss	Recognized in other comprehensive income	Others	As of November 30, 2019
Deferred tax assets					
Accrued enterprise taxes, currently not deductible	200,147	(63,937)	—	—	136,210
Estimated expenses, currently not deductible	3,654	(2,395)	—	—	1,258
Unrealized gain from substitute performance	147,998	—	—	—	147,998
Provision for bonuses	179,580	18,464	—	—	198,044
Liability for retirement benefits to employees	167,648	11,984	—	—	179,632
Liability for retirement benefits to key management personnel	4,093	(1,533)	—	—	2,560
Long-term accounts payable-other for directors	160,043	(50,155)	—	—	109,887
Carry-forward of unused tax losses	317,346	111,727	—	—	429,074
Other	108,729	86,335	1,232	—	196,296
Subtotal	1,289,242	110,489	1,232	—	1,400,963
Valuation reserves	(314,436)	(8,721)	—	—	(323,158)
Total	974,805	101,767	1,232	—	1,077,805
Deferred tax liabilities					
Valuation difference on other financial assets	(31,040)	—	(107,158)	—	(138,199)
Reserve for tax purpose reduction entry of non-current assets	—	—	—	(679,277)	(679,277)
Revaluation of fair value arising from assets and liabilities of subsidiaries	(437,378)	59,491	—	—	(377,887)
Total	(468,418)	59,491	(107,158)	(679,277)	(1,195,364)
Deferred tax assets (liabilities), net	506,386	161,258	(105,926)	(679,277)	(117,559)

In recognizing deferred tax assets, the Group takes into account the possibility that deductible temporary differences or carry-forward of unused tax losses can be utilized for taxable income. In assessing the recoverability of deferred tax assets, the Group considers scheduled reversal of deferred tax liabilities, expected future taxable income and tax planning.

As a result of the assessment of recoverability of deferred tax assets as stated above, the Group has not recognized deferred tax assets for some of deductible temporary differences and carry-forward of unused tax losses. The amounts of deductible temporary differences and deferred tax assets (after tax effected) have not been recognized are as follows:

(¥ thousand)

	As of November 30, 2018	As of November 30, 2019
Deductible temporary differences	10,563	6,724
Carry-forward of unused tax losses	303,873	316,434
Total	314,436	323,158

The expiry dates of carry-forward of unused tax losses for which deferred tax assets have not been recognized are as follows:

(¥ thousand)

	As of November 30, 2018	As of November 30, 2019
First year	―	86,344
Second year	87,916	―
Third year	―	65,811
Fourth year	65,811	92,791
Fifth year or after	733,946	677,801
Total	887,673	922,747

For taxable temporary differences associated with investments in subsidiaries, as the Company may control their reversal and there is high possibility that the temporary differences will not be reversed within a foreseeable period, deferred tax liabilities are not recognized. Such taxable temporary differences were ¥6,733,994 thousand and ¥7,443,182 thousand as of November 30, 2018 and 2019, respectively.

(2) Income tax expense

In the previous fiscal year and the fiscal year under review, major income taxes imposed on the Company were corporate tax, inhabitant tax and office tax, and the resulting statutory effective tax rate was 30.86% and 30.62%, respectively. However, overseas subsidiaries are subject to corporate tax and other taxes applicable in their location.

Components of current and deferred tax expenses are as follows:

(¥ thousand)

	Fiscal year ended November 30, 2018	Fiscal year ended November 30, 2019
Current tax expense		
Current tax expense on profit for the year	3,748,528	3,126,089
Total current tax expense	3,748,528	3,126,089
Deferred tax expense		
Origination and reversal of temporary differences	(437,939)	516,973
Differences due to changes in tax rates	8,190	―
Total deferred tax expense	(429,748)	516,973
Income tax expense	3,318,779	3,643,062

Current tax expense includes tax losses used to reduce tax expense for which tax effects were not recognized previously, or benefits arising from temporary differences in past years. The resulting decreases in current tax expense in the previous fiscal year and the fiscal year under review are immaterial.

Deferred tax expense includes tax losses for which tax effects were not recognized previously, or benefits arising from temporary differences in past years. The resulting decreases in current tax expense in the previous fiscal year and the fiscal year under review are immaterial.

Reconciliation between income tax expense calculated at the statutory effective tax rate and income tax expense recognized in the consolidated statement of comprehensive income is as follows. The statutory effective tax rate of 30.86% and 30.62% in the previous fiscal year and the fiscal year under review, respectively, were applied.

(¥ thousand)

	Fiscal year ended November 30, 2018	Fiscal year ended November 30, 2019
Profit before tax	10,171,017	12,090,095
Income tax expense based on the statutory effective tax rate	3,138,775	3,701,987
Adjustments		
Expenses (profits) not deductible permanently	27,076	35,778
Changes in temporary differences, etc. for which deferred tax assets were not recognized	745	25,389
Differences due to changes in tax rates	8,190	—
Differences in tax rates of subsidiary companies	203,889	123,860
Tax exemption	(68,884)	—
Impact due to consolidation eliminations of the sale of shares of subsidiaries	—	(240,170)
Other	8,985	(3,782)
Income tax expense	3,318,779	3,643,062

16. Trade and other payables

Components of trade and other payables are as follows:

(¥ thousand)

	As of November 30, 2018	As of November 30, 2019
Trade notes and accounts payable	1,186,431	1,268,751
Other accounts payable	827,755	812,455
Advances received	1,358,417	2,830,635
Guarantee deposits	3,194,533	3,389,107
Other	1,217,410	1,909,186
Total	7,784,548	10,210,136

Current liabilities	4,075,579	6,448,300
Non-current liabilities	3,708,969	3,761,836

17. Borrowings

Components of borrowings are as follows:

(¥ thousand)

	As of November 30, 2018	As of November 30, 2019	Average interest rate (%)	Repayment due
Current liabilities				
Current borrowings	219,000	1,995,500	1.24	–
Current portion of non-current borrowings	7,085,840	14,286,638	1.13	–
Lease obligations	3,654	9,109	–	–
Total	7,308,494	16,291,247		
Non-current liabilities				
Non-current borrowings	67,714,333	73,533,291	1.03	2020-2047
Lease obligations	2,419	18,730	–	2020-2024
Total	67,716,752	73,552,021		

Notes: 1. The average interest rate is a weighted-average coupon rate on the balance at the end of the fiscal year under review.

2. Borrowings at the end of the previous fiscal year and the fiscal year under review include secured debts of ¥74,772,773 thousand and ¥89,614,307 thousand, respectively. Some of inventories, Property, plant and equipment and investment properties have been pledged as collateral.

18. Provisions

Components and changes of provisions are as follows:

Fiscal year ended November 30, 2018 (December 1, 2017 – November 30, 2018)

(¥ thousand)

	Provision for bonuses	Accrued compensated absences payable	Asset retirement obligations	Provision for loss on rental business	Provision for warranties for completed construction	Total
Balance as of December 1, 2017	444,079	36,619	19,197	3,573	400	503,868
Increase during the fiscal year	551,529	40,829	—	1,060	—	593,419
Decrease during the fiscal year (specific purposes)	(444,079)	(36,619)	—	(3,573)	—	(484,271)
Decrease during the fiscal year (reversal)	—	—	(12,530)	—	(150)	(12,680)
Discounted interest costs	—	—	150	—	—	150
Balance as of November 30, 2018	551,529	40,829	6,817	1,060	250	600,487

Fiscal year ended November 30, 2019 (December 1, 2018 – November 30, 2019)

(¥ thousand)

	Provision for bonuses	Accrued compensated absences payable	Asset retirement obligations	Provision for loss on rental business	Provision for warranties for completed construction	Total
Balance as of December 1, 2018	551,529	40,829	6,817	1,060	250	600,487
Increase during the fiscal year	608,919	46,402	—	—	210	655,532
Decrease during the fiscal year (specific purposes)	(551,529)	(38,927)	—	(1,060)	—	(591,517)
Decrease during the fiscal year (reversal)	—	(1,901)	—	—	—	(1,901)
Discounted interest costs	—	—	154	—	—	154
Balance as of November 30, 2019	608,919	46,402	6,971	—	460	662,753

(¥ thousand)

	As of November 30, 2018	As of November 30, 2019
Current liabilities	593,669	655,782
Non-current liabilities	6,817	6,971

As asset retirement obligations, the disposal costs of some investment properties held by the Company, which contain asbestos or polychlorinated biphenyl (PCB) that must be treated in special ways specified by laws and regulations when they are dismantled or removed, are recognized.

These costs are expected to be paid principally after one year or more passed. However, the timing is affected by future business plans and other factors.

Other provisions are expected to be expensed principally in the following fiscal year.

19. Employee benefits

(¥ thousand)

	As of November 30, 2018	As of November 30, 2019
Liability for retirement benefits to employees	481,719	505,157
Liability for retirement benefits to key management personnel	11,834	16,056
Total	493,554	521,213

(1) Retirement benefits for employees

To cover payments of retirement benefits for employees, the Group has adopted defined benefit plans and defined contribution plans. The amount of benefits is determined based on salary level at the time of retirement, period of service and other factors. Defined benefit plans are exposed to actuarial risks.

1) Defined benefit plans

Components of Liability for retirement benefits to employees

(¥ thousand)

	As of November 30, 2018	As of November 30, 2019
Defined benefit obligations (with no plan assets)	481,719	505,157
Defined benefit obligations in the consolidated statement of financial position	481,719	505,157

The components of retirement benefit costs recognized in profit or loss are as follows:

(¥ thousand)

	Fiscal year ended November 30, 2018	Fiscal year ended November 30, 2019
Current service costs	66,077	66,055
Interest costs	1,692	1,975
Total retirement benefit costs (Note)	67,769	68,030

Note: Retirement benefit costs are recorded in “Selling, general and administrative expenses.”

Changes in the present value of defined benefit plan obligations are as follows:

(¥ thousand)

	Fiscal year ended November 30, 2018	Fiscal year ended November 30, 2019
Balance at beginning of period	442,900	481,719
Current service costs	66,077	66,055
Interest costs	1,692	1,975
Benefits paid	(44,892)	(36,776)
Actuarial gains and losses arising from changes in financial assumptions	15,941	(7,816)
Balance at end of period	481,719	481,719

The weighted average term for the Group's defined benefit obligations in the previous fiscal year and the fiscal year under review is 9.7 years and 9.7 years, respectively.

Major assumptions used in actuarial calculation are as follows:

(%)

	As of November 30, 2018	As of November 30, 2019
Discount rate	0.41	0.35
Rate of salary increase	4.02	4.02

The effects of a change in the discount rate on defined benefit obligations are as follows. This analysis assumes that change factors other than the discount rate are constant.

Negative values represent a decline in defined benefit obligations, while positive values represent an increase in those obligations.

(¥ thousand)

	As of November 30, 2018	As of November 30, 2019
0.5% increase in the discount rate	(22,072)	(22,896)
0.5% decrease in the discount rate	23,843	24,734

2) Defined contribution plans

The amount of the entire Group's contributions is as follows:

(¥ thousand)

	Fiscal year ended November 30, 2018	Fiscal year ended November 30, 2019
Contributions	31,172	37,796

(2) Retirement benefits to key management personnel

(¥ thousand)

	Fiscal year ended November 30, 2018	Fiscal year ended November 30, 2019
Balance at beginning of period	29,674	11,834
Provision for the benefits	6,998	6,021
Payment of the benefits	(24,838)	(1,800)
Balance at end of period	11,834	16,056

The above provisions are recorded at the amount the Group companies would be required to pay based on their internal regulations if all eligible such personnel retired at the end of the period.

It is deemed difficult to make actuarial estimates and discount liability for retirement benefits to key management personnel highly reliably since the number of key management personnel subject to the Group's retirement benefits is small and their age distribution is biased.

The Group believes the foregoing amount that would be required to pay at the end of the period is the best estimate of liability for retirement benefits to key management personnel.

20. Equity and other components of equity

(1) Share capital and capital reserves

	Total number of shares authorized (shares)	Total number of shares issued (shares)	Share capital (¥ thousand)	Capital reserves (¥ thousand)
Balance as of December 1, 2017	150,000,000	48,284,000	6,421,392	6,464,240
Change	—	260,800	132,747	80,683
Balance as of November 30, 2018	150,000,000	48,544,800	6,554,139	6,544,924
Change	—	50,500	25,704	30,315
Balance as of November 30, 2019	150,000,000	48,595,300	6,579,844	6,575,240

Notes: 1. Shares issued by the Company are ordinary shares without par value.
2. Issued shares are fully paid up.
3. Capital reserves are mainly consisted of legal capital surplus.
4. The increases were due to the exercise of stock acquisition rights.

(2) Treasury shares

	Number of shares (shares)	Treasury shares (¥ thousand)
Balance as of December 1, 2017	—	—
Change	105	(128)
Balance as of November 30, 2018	105	(128)
Change	1,008,700	(999,909)
Balance as of November 30, 2019	1,008,805	(1,000,037)

Note: The number of "Change" were due to purchase shares less than one unit and the acquisition under the Articles of Incorporation pursuant to Article 165, Paragraph 2 of the Companies Act. The Company has resolved and implemented the following at the Board of Directors' Meeting held on February 5, 2019.

Class of shares	Common share of Tosei Corporation
Total number of the purchase treasury shares	1,008,700shares
Total value of the purchase treasury shares	¥999,909thousand
Period for the purchase	From Feb. 7 2019 To Apr. 23 2019
Method of the purchase	Discretionary investment by a securities company

(3) Capital reserves

Capital reserves are composed of legal capital surplus and other capital surplus. The Companies Act mandates that at least half of paid-in capital be appropriated as share capital and the rest be appropriated as legal capital surplus.

(4) Retained earnings

Retained earnings are composed of legal retained earnings and other retained earnings. The Companies Act requires that ten percent of retained earnings appropriated for dividends be retained until the total amount of earned reserves included in legal capital surplus and legal retained earnings reach a quarter of the nominal value of share capital.

(5) Other components of equity

Fiscal year ended November 30, 2018 (December. 1, 2017 – November 30, 2018)

(¥ thousand)

	Exchange differences on translation of foreign operations	Net change in fair values of available-for-sale financial assets	Net change in fair values of cash flow hedges	Total
Balance as of December 1, 2017	10,717	56,852	(3,545)	64,024
Other comprehensive income	(881)	13,480	2,913	15,513
Balance as of November 30, 2018	9,836	70,332	(631)	79,537

Fiscal year ended November 30, 2019 (December. 1, 2018 – November 30, 2019)

(¥ thousand)

	Exchange differences on translation of foreign operations	Net change in fair values of available-for-sale financial assets	Net change in financial assets measured at fair values through other comprehensive income	Net change in fair values of cash flow hedges	Total
Balance as of December 1, 2018	9,836	70,332	—	(631)	79,537
Cumulative effects of changes in accounting policies	—	(70,332)	70,332	—	—
Balance at beginning of current period reflecting changes in accounting policies As of Dec. 1 2018	9,836	—	70,332	(631)	79,537
Other comprehensive income	(7,352)	—	242,805	(2,961)	232,491
Balance as of November 30, 2019	2,483	—	313,137	(3,592)	312,028

1) Exchange differences on translation of foreign operations

These are exchange differences that arise when foreign operations' financial statements prepared in foreign currencies are consolidated.

2) Net change in financial assets measured at fair values through other comprehensive income

This is unrealized gains and losses of financial assets measured at fair values through other comprehensive income .

3) Net change in fair values of cash flow hedges

This is the portion considered effective of changes in fair values of derivative transactions that are designated as cash flow hedge.

21. Dividends

(1) Dividends paid

Fiscal year ended November 30, 2018 (December 1, 2017 – November 30, 2018)				
Resolution	Dividends per share (¥)	Total dividends (¥ thousand)	Record date	Effective date
Ordinary General Meeting of Shareholders held on Feb. 27, 2018	25	1,207,100	Nov. 30, 2017	Feb. 28, 2018

Fiscal year ended November 30, 2019 (December 1, 2018 – November 30, 2019)				
Resolution	Dividends per share (¥)	Total dividends (¥ thousand)	Record date	Effective date
Ordinary General Meeting of Shareholders held on Feb. 27, 2019	30	1,456,340	Nov. 30, 2018	Feb. 28, 2019

(2) Dividends whose record date is included in the fiscal year under review and effective date is after the end of the fiscal year under review

Fiscal year ended November 30, 2019 (December 1, 2018 – November 30, 2019)				
Resolution	Dividends per share (¥)	Total dividends (¥ thousand)	Record date	Effective date
Ordinary General Meeting of Shareholders held on Feb. 26, 2020	42	1,998,632	Nov. 30, 2019	Feb. 27, 2020

22. Sales Revenue

(1) Components of revenue recognized from contracts with customers are as follows:

The details of the sales revenue for the previous fiscal year are as follows. The details for the fiscal year under review are not shown, due to the adoption of IFRS 15.

(¥ thousand)

	Fiscal year ended November 30, 2018
Revenue from real estate for sale	48,055,190
Revenue from services	13,488,128
Total	61,543,319

Note: Revenue from services includes revenue recognized under IAS 17 Leases and IFRS 9 Financial Instruments.

(2) Components of revenue are as follows:

The Group draws up comprehensive strategies for each of the following six business segments and conducts business activities accordingly; “Revitalization Business”, “Development Business”, “Rental Business”, “Fund and Consulting Business”, “Property Management Business” and “Hotel Business”.

The relationship between the sales revenue of each reportable segment and the sales revenue classified according to type is shown below.

(Fiscal year ended November 30, 2019 (December. 1, 2018 – November 30, 2019)

(¥ thousand)

	Revitalization Business	Development Business	Rental Business	Fund and Consulting Business	Property Management Business	Hotel Business	Total
Sales of real estate	31,012,030	14,346,337	—	—	—	—	45,358,368
Revenue from services	—	—	642,976	3,740,070	4,586,096	961,947	9,931,091
Revenue recognized from other sources	—	—	5,301,135	12,803	—	124,305	5,438,244
Total	31,012,030	14,346,337	5,944,112	3,752,874	4,586,096	1,086,252	60,727,704

Note: Revenue recognized from other sources is revenue recognized under IAS 17 Leases and IFRS 9 Financial Instruments.

(3) Performance obligations

The usual timing, etc. of the Tosei Group's fulfillment of performance obligations is as stated in "Significant accounting policies (15) Revenue." As the Group has no significant transactions where the expected duration of any individual contract exceeds one year, information related to remaining performance obligations is omitted. In addition, there is no significant part of the consideration that arises from contracts with customers that is not included in the transaction price.

(4) Contract balance

(¥ thousand)

	As of Dec. 1 2018	As of Nov.30 2019
Receivables arising from contracts with customers	928,435	2,106,441
contractual liabilities	1,358,417	2,830,635

Note1: Receivables arising from contracts with customers are included in "trade and other receivables" on the consolidated statements of financial position, while contractual liabilities are included in trade and other payables.

2: Contract liabilities are mainly related to advances received from customers. Of the income recognized in the fiscal year under review, ¥1,162,193 thousand was included in the balance of contract liabilities as of December 1, 2018.

(5) Amount of the transaction price allocated to remaining performance obligations

The Tosei Group has no significant transactions where the duration of any individual contract exceeds one year. In addition, there is no significant part of the consideration that arises from contracts with customers that is not included in the transaction price.

(6) Contract costs

The Tosei Group has recognized no assets from the costs incurred in gaining or fulfilling contracts with customers.

23. Cost of revenue

Components of cost of revenue are as follows:

(¥ thousand)

	Fiscal year ended November 30, 2018	Fiscal year ended November 30, 2019
Cost of inventories sold	36,332,783	32,816,715
Depreciation expense	533,733	776,332
Gain or loss on valuation of inventories	456,914	400,879
Outsourcing costs and others	5,496,790	5,892,846
Total	42,820,221	39,886,774

24. Selling, general and administrative expenses

Components of selling, general and administrative expenses are as follows:

(¥ thousand)

	Fiscal year ended November 30, 2018	Fiscal year ended November 30, 2019
Employee benefits expense	4,120,507	4,425,496
Sales expenses (Revitalization)	655,740	491,968
Sales expenses (Development)	948,176	896,613
Advertising expenses	217,269	239,422
Compensations	133,030	141,468
Commission fee	423,005	549,444
Taxes and dues	657,601	548,522
Transportation expenses	79,696	80,028
Communication expenses	60,364	62,349
Stationery expenses	58,221	54,160
Depreciation and amortization expense	87,375	97,501
Provision of allowance for credit losses	(948)	18,091
Other	420,031	598,329
Total	7,860,072	8,203,399

25. Personnel cost

Components of personnel cost are as follows:

(¥ thousand)

	Fiscal year ended November 30, 2018	Fiscal year ended November 30, 2019
Salaries, bonuses and allowances	3,311,489	3,572,447
Retirement benefit costs	107,379	112,302
Legal welfare expenses	440,153	489,787
Expenses for the share-based compensation	4,935	18,521
Other short-term employee benefits	256,549	232,437
Total	4,120,507	4,425,496

26. Other income

Components of other income are as follows:

(¥ thousand)

	Fiscal year ended November 30, 2018	Fiscal year ended November 30, 2019
Gain on negative goodwill	87,970	―
Gain on sales of non-current assets	―	2,228
Miscellaneous income	59,061	62,106
Total	147,032	64,335

Notes: The "Gain on negative goodwill" in the previous fiscal year under review was primarily the result of considerations paid following the acquisition of shares in Masuda Kenzai-ten Co., Ltd. being lower than the fair value of said company's identifiable assets acquired and liabilities assumed.

27. Other expenses

Components of other expenses are as follows:

(¥ thousand)

	Fiscal year ended November 30, 2018	Fiscal year ended November 30, 2019
Loss on retirement of non-current assets	791	―
Stock acquisition related expenses	77,220	―
Loss on sales of stocks of subsidiaries and affiliates	―	2,045
Miscellaneous losses	56,237	8,862
Total	134,249	10,907

Note: "Miscellaneous losses" as of November 30, 2018 and 2019 includes losses on exchange differences on translation of ¥469 thousand and ¥3,024 thousand.

28. Finance income/costs

Components of finance income/costs are as follows:

(¥ thousand)

	Fiscal year ended November 30, 2018	Fiscal year ended November 30, 2019
Interest income		
Financial assets measured at amortized cost	462	1,124
Dividends income		
Financial assets measured at fair value through other comprehensive income	85,281	153,341
Total finance income	85,743	154,466
Interest expenses (Note)		
Financial liabilities measured at amortized cost	790,534	755,329
Total finance costs	790,534	755,329

Note: Commission expense incurred from financial liabilities not measured by fair values that were charged to profit and loss in the fiscal years ended November 30, 2018 and 2019 are ¥95,127 thousand and ¥41,052 thousand, respectively.

29. Other comprehensive income

For each item of comprehensive income, the amount arising during the period and reclassification adjustments to profit and loss and tax effect amount, which are included in “Other comprehensive income” in each fiscal year, are as follows:

Fiscal year ended November 30, 2018 (December 1, 2017 – November 30, 2018)

(¥ thousand)

	Amount arising during the period	Reclassification adjustments	Before tax effect	Tax effect	After tax effect
Items that will not be reclassified to net profit or loss					
Remeasurements of defined benefit pension plans	(15,941)	—	(15,941)	4,902	(11,038)
Total items that will not be reclassified to net profit or loss	(15,941)	—	(15,941)	4,902	(11,038)
Items that may be reclassified to net profit or loss					
Exchange differences on translation of foreign operations	(881)	—	(881)	—	(881)
Net change in fair values of available-for-sale financial assets	19,322	143	19,465	(5,985)	13,480
Net change in fair values of cash flow hedges	4,300	—	4,300	(1,386)	2,913
Total items that may be reclassified to net profit or loss	22,741	143	22,885	(7,371)	15,513
Total	6,799	143	6,943	(2,469)	4,474

Fiscal year ended November 30, 2019 (December 1, 2018 – November 30, 2019)

(¥ thousand)

	Amount arising during the period	Reclassification adjustments	Before tax effect	Tax effect	After tax effect
Items that will not be reclassified to net profit or loss					
Net change in financial assets measured at fair values through other comprehensive income	349,963	—	349,963	(107,158)	242,805
Remeasurements of defined benefit pension plans	7,816	—	7,816	(2,392)	5,423
Total items that will not be reclassified to net profit or loss	357,780	—	357,780	(109,551)	248,228
Items that may be reclassified to net profit or loss					
Exchange differences on translation of foreign operations	(7,352)	—	(7,352)	—	(7,352)
Net change in fair values of cash flow hedges	(4,193)	—	(4,193)	1,232	(2,961)
Total items that may be reclassified to net profit or loss	(11,545)	—	(11,545)	1,232	(10,313)
Total	346,234	—	346,234	(108,319)	237,914

30. Earnings per share

	Fiscal year ended November 30, 2018	Fiscal year ended November 30, 2019
Profit attributable to owners of the parent (¥ thousand)	6,852,237	8,447,032
Net income used to figure diluted net income per share (¥ thousand)	6,852,237	8,447,032
Weighted average number of outstanding ordinary shares (shares)	48,472,355	47,884,495
The number of increased ordinary shares used to figure diluted earnings per share (shares)	85,411	156,333
The weighted-average number of ordinary shares used to figure diluted earnings per share (shares)	48,557,766	48,040,828
Basic earnings per share (¥)	141.36	176.40
Diluted net income per share (¥)	141.12	175.83

Note: Basic earnings per share is calculated by dividing profit attributable to owners of the parent, by the weighted average number of outstanding ordinary shares during the reporting period.

31. Financial instruments

(1) Capital control

The Group recognizes that it is necessary to secure sufficient fund-raising capacity in order to make flexible investments for achieving sustainable growth. To this end, the Group strives to ensure financial soundness and flexibility for future investments in businesses and establish a capital structure with balanced return on investment.

The Group is careful about the balance between cash and cash equivalents, interest-bearing debts and equity.

As of the end of each fiscal year, balances of cash and cash equivalents, interest-bearing debts and total equity are as follows:

(¥ thousand)

	As of November 30, 2018	As of November 30, 2019
Cash and cash equivalents	26,520,569	31,998,929
Interest-bearing debt	75,025,247	89,843,269
Equity	52,021,782	58,306,499

Some of the Company's bank loan contracts include financial covenants with requirements such as the maintenance of a certain level of equity. The Group carries out monitoring to maintain the level required under the said covenants.

(2) Risk management

The Group is exposed to financial risks (exchange risk, interest rate risk, credit risk, liquidity risk and price risks) in the course of operating activities. In order to mitigate these financial risks, the Group conducts risk management. For risks that fundamentally cannot be prevented from arising from the cause (risk aversion) or avoided, the Group tries to reduce such risks. In addition, as its policy, the Group does not carry out trading of derivatives and shares, etc. for speculation purposes.

(3) Exchange risks

Exchange risks arise from transactions denominated in currencies other than the Group's functional currency. Because there is no significant foreign currency transaction in the Group's operating activities, the Group is not exposed to significant exchange risks.

Furthermore, though other comprehensive income fluctuates due to currency transaction of financial statements of the Group's foreign operations, it believes that the impact on the Group is not significant.

(4) Interest rate risks

Interest risks principally arise from borrowings with floating interest rate from financial institutions. For management of these risks, periodically makes a list of interests on borrowings for each financial institution and monitors the fluctuations of interests on borrowings.

Interest rate sensitivity analysis

For borrowings with floating interest rate held by the Group as of the end of each fiscal year, the impact of a 1.0% increase in the interest rate on profit before tax in the consolidated statement of comprehensive income is as follows:

(¥ thousand)

	Fiscal year ended November 30, 2018	Fiscal year ended November 30, 2019
Impact on profit before tax	(723,472)	(863,502)

(5) Credit risks

Financial assets included in trade and other receivables are exposed to credit risks of customers. With respect to these risks, the due dates and outstanding balances are managed for each business partner. Past due receivables are periodically reported to the management meeting and individually monitored and responded to.

The maximum exposure to credit risks of financial assets is the book value of financial assets after impairment presented in the consolidated financial statement.

Fiscal year ended November 30, 2018

1) Past due financial assets

The age analysis of financial assets included in trade and other receivables that were past due but not impaired as of the end of fiscal year is as follows:

(¥ thousand)

	As of November 30, 2018
Within 3 months' past due	55,239
Over 3 months and within 6 months' past due	546
Over 6 months' past due	419
Total	56,205

2) Impaired financial assets

The Group individually reviews financial position, credit status and collection of receivables and other factors of major business partners to establish allowance for credit losses.

Trade and other receivables that were individually determined as impaired at the end of fiscal year are as follows:

(¥ thousand)

	As of November 30, 2018
Trade and other receivables	8,612
Allowance for credit losses	(8,431)
Total	180

3) Changes in allowance for credit losses

If a financial assets are impaired, the Group records allowance for credit losses for the impairment rather than directly decreasing the book value of the financial asset. Changes in allowance for credit losses are as follows:

(¥ thousand)

	Fiscal year ended November 30, 2018
Balance at beginning of period	10,195
Amount provided in the fiscal year	230
Decrease during the fiscal year (reversal)	(166)
Decrease during the fiscal year (utilization of allowance)	(1,416)
Balance at end of period	8,843

Fiscal year ended November 30, 2019

Quantitative and qualitative information on the amount of expected credit losses

1) Age analysis of financial assets

The age analysis of trade and other receivables at the end of the consolidated fiscal year is as follows.

(¥ thousand)

	Financial assets for which the allowance for credit losses is calculated at an amount equal to 12 months of expected credit losses	Expected credit losses over the entire period		Total
		Financial assets for which the allowance for credit losses is always measured at an amount equal to expected credit losses over the entire period	Credit-impaired financial assets	
Within due date	3,305,139	—	—	3,305,139
Within 3 months' past due	145,411	—	—	145,411
Over 3 months and within 1 years' past due	1,624	170	16,956	18,750
Over 1 years' past due	419	—	7,705	8,124
Total	3,452,595	170	24,661	3,477,426

2) Changes in allowance for credit losses

The Group individually reviews financial position, credit status and collection of receivables and other factors of major business partners to establish allowance for credit losses. And if a financial asset is impaired, the Group records allowance for credit losses for the impairment rather than directly decreasing the book value of the financial asset. Changes in allowance for credit losses are as follows:

	Financial assets for which the allowance for credit losses is calculated at an amount equal to 12 months of expected credit losses	Expected credit losses over the entire period		Total
		Financial assets for which the allowance for credit losses is always measured at an amount equal to expected credit losses over the entire period	Credit-impaired financial assets	
Balance at December 1, 2018	411	180	8,250	8,843
New occurrence or collection during the fiscal year	720	85	16,956	17,761
Decrease due to reverse	—	—	—	—
Decrease due to intended use	—	—	(726)	(726)
Transferred to credit-impaired financial assets	—	(180)	180	—
Balance at November 30, 2019	1,132	85	24,661	25,878

(6) Liquidity risks

Since the Group raises funds through borrowings from financial institutions, it is exposed to liquidity risks of failure to make payments on due dates because of deterioration in the financing environment, etc.

The Company periodically grasps and aggregates information on the situations of liquidity on hand and interest-bearing debts, etc. and reports such information to the management meeting.

The balances of financial liabilities by due date are as follows:

(¥ thousand)

	Within 1 year	Over 1 year within 5 years	Over 5 years	Total
As of November 30, 2018				
Non-derivative financial liabilities				
Trade and other payables	2,439,178	3,478,724	220,775	6,138,677
Borrowings	7,308,494	46,648,296	21,068,456	75,025,247
Derivative financial liabilities				
Trade and other payables	—	9,469	—	9,469
As of November 30, 2019				
Non-derivative financial liabilities				
Trade and other payables	2,695,818	3,517,073	231,099	6,443,992
Borrowings	16,291,247	50,849,480	22,702,541	89,843,269
Derivative financial liabilities				
Trade and other payables	—	13,663	—	13,663

(7) Price risks

The Group is exposed to price risks of financial instruments arising from investments classified as other financial assets. These financial instruments are primarily listed securities and investments in privately placed funds. To manage the price risks arising from the said financial instruments, the Company periodically reports holding amounts of listed securities and investments in privately placed funds to the management meeting.

If the prices of the listed securities were to fluctuate by 10% as of November 30, 2018 and 2019, assuming all other variable factors including tax rates to be fixed, the impact of the fluctuation on total comprehensive income for the year and equity would be ¥111,913 thousand and ¥261,041 thousand, respectively.

(8) Investments in equity instruments measured at fair value through other comprehensive income

The Group designates investments in equity instruments, held for reasons such as accumulating business expertise and collecting information, as equity instruments measured at fair value through other comprehensive income, based on their holding purpose.

1) Fair value by major issuers

The fair value of investments in equity instruments measured at fair value through other comprehensive income by major issuers is as follows:

(¥ thousand)

	Fiscal year ended November 30, 2019
Tosei Reit Investment Corporation	3,651,885
Other	179,705
Total	3,831,590

2) Dividends income

The following is a breakdown of the dividends received during the fiscal year under review that are related to investments held as of the last day of the fiscal year and investments derecognized during the fiscal year:

(¥ thousand)

	Fiscal year ended November 30, 2019
Related to investments held as of the end of the fiscal year	153,122
Investments derecognized during the fiscal year	215
Total	153,337

3) Equity financial instruments measured at fair value through other comprehensive income derecognised during the period

The Group has disposed of certain financial assets measured at fair value through other comprehensive income through sale and has derecognized them, by reviewing business relationships etc. The fair value of the securities sold during the period at the time of the sale, and the total gain or loss on the sale are as follows:

(¥ thousand)

	Fiscal year ended November 30, 2019
Fair value	151,509
Accumulated gain or loss	—

(9) Fair value measurement

1) Fair values and book value

Fair values of financial assets and liabilities and their book value presented in the consolidated statement of financial position are as follows:

(¥ thousand)

	As of November 30, 2018		As of November 31, 2019	
	Book value	Fair value	Book value	Fair value
Financial assets				
Loans receivables and other receivables				
Cash and cash equivalents	26,520,569	26,520,569	—	—
Trade and other receivables	3,955,472	3,955,472	—	—
Available-for-sale financial assets				
Available-for-sale financial assets	2,244,831	2,244,831	—	—
Financial assets measured at amortized cost				
Cash and cash equivalents	—	—	31,998,929	31,998,929
Trade and other receivables (Note1)	—	—	4,850,060	4,850,060
Financial assets measured at fair value through other comprehensive income				
Other financial assets	—	—	3,831,590	3,831,590
Financial assets measured at fair value through profit or loss				
Other financial assets	—	—	421,101	421,101
Financial liabilities				
Financial liabilities measured at amortized cost				
Trade and other payables (Note2)	7,784,548	7,784,548	10,210,136	10,210,136
Borrowings	75,025,247	75,035,318	89,843,269	89,851,347

Notes: 1. The above book value shows the figure in the consolidated statement of financial position. Of these amounts, financial assets at amortized cost, which are financial instruments, as of November 30, 2018 and 2019 are ¥2,751,391 thousand and ¥3,451,548 thousand, respectively.

2. The above book value shows the figure in the consolidated statement of financial position. Of these amounts, financial liabilities at amortized cost, which are financial instruments, as of November 30, 2018 and 2019 are ¥6,138,677 thousand and ¥6,443,992 thousand, respectively.

Method for measuring fair value of financial instruments

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

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

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

Other financial assets

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

Non-current borrowings

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

2) Fair value hierarchy

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

Level 1: Fair values measured at a price quoted in an active market
Level 2: Fair values calculated directly or indirectly using an observable price except for level 1
Level 3: Fair values calculated through valuation techniques, including inputs that are not based on observable market data

(¥ thousand)

	As of November 30, 2018			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	1,613,044	―	631,787	2,244,831
Financial liabilities measured at fair value with the change in fair value recognized through other comprehensive income (derivative) (Note)	―	9,469	―	9,469

(¥ thousand)

	As of November 30, 2019			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value with the change in fair value recognized through other comprehensive income	3,762,485	―	69,105	3,831,590
Financial assets measured at fair value through profit or loss	―	―	421,101	421,101
Financial liabilities measured at fair value through other comprehensive income (derivative) (Note)	―	13,663	―	13,663

Note: These are interest rate swap contracts concluded in order to hedge changes in future cash flows associated with floating-rate borrowings. The estimated period of cash flows arising in association with designated cash flow hedges and the period in which they are expected to have impact on profit or loss is five years or less after the end of the fiscal year under review.

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

(¥ thousand)

	Fiscal year ended November 30, 2018	Fiscal year ended November 30, 2019
Balance at beginning of period	475,145	631,787
Acquisition	152,799	5,357
Comprehensive income		
Profit (loss) (Note 1)	5,749	13,722
Other comprehensive income (Note2)	―	6,313
Disposal	(1,907)	(166,973)
Balance at end of period	631,787	490,206

Notes1: All of the amounts are related to the Fund and Consulting Business, which are included in “Revenue” or “Cost of revenue” in each fiscal year.

2: Gains or losses recognized in other comprehensive income are shown in “Net changes in financial assets measured through other comprehensive income” in the consolidated statement of comprehensive income.

32. Operating leases

1) Lessee

The Group rents offices from non-related parties under operating lease contracts, some of which contain the clause that specifies the contract is irrevocable for a certain period of time. Future minimum lease payments under irrevocable operating leases are as follows:

(¥ thousand)

	Fiscal year ended November 30, 2018	Fiscal year ended November 30, 2019
Due within 1 year	508,659	558,370
Due over 1 year through 5 years	504,237	167,107
Total	1,012,897	725,477

Notes1: Lease payments recognized as expenses under revocable or irrevocable operating lease contracts as of November 30, 2018 and 2019 were ¥621,398 thousand and ¥616,337 thousand respectively.

2: The minimum amounts of sub-lease payments that the Group expects to receive in the future from irrevocable sub-lease contracts as of the end of the previous fiscal year and the fiscal year under review are ¥158,587 thousand and ¥117,130 thousand, respectively.

2) Lessor

The Group lends offices etc. to non-related parties under operating lease contracts, some of which contain the clause that specifies the contract is irrevocable for a certain period of time. Future minimum lease payments received under irrevocable operating leases are as follows:

(¥ thousand)

	Fiscal year ended November 30, 2018	Fiscal year ended November 30, 2019
Due within 1 year	375,548	392,315
Due over 1 year through 5 years	450,721	587,258
Over 5 years	100,394	324,988
Total	926,664	1,304,562

Note : The amount of variable lease income recognized as income during the fiscal year under review was ¥83,211 thousand.

33. Related parties

(1) Transactions with related parties

The Group conducts transactions with key management personnel as follows:

(¥ thousand)

	Fiscal year ended November 30, 2018	Fiscal year ended November 30, 2019
Trade and other receivables	21	―
Trade and other payables	493,954	349,044
Revenue	30	120
Selling, general and administrative expenses	1,785	1,296
Total	495,792	350,461

Transactions with related parties are conducted on the same terms as ordinary business transactions.

At the Ordinary General Meeting of Shareholders held on February 25, 2015, the Company resolved to make final payments of retirement benefits to retiring officers upon abolition of its Retirement Benefits Plan for Officers. The full amount of the Company's "Provision for directors' retirement benefits" has been reversed and an unpaid portion in final payments has been presented as included in "Trade and other payables" in non-current liabilities. The unpaid portion presented as included in "Trade and other payables" for the previous fiscal year and the fiscal year under review is ¥348,641 thousand and ¥348,641 thousand, respectively.

(2) Compensation for principal key management personnel

Compensation for principal key management personnel is as follows:

(¥ thousand)

	Fiscal year ended November 30, 2018	Fiscal year ended November 30, 2019
Short-term employee benefits	430,555	410,613
Retirement benefits	52,598	6,021
Total	483,154	416,635

34. Structured entities

The Company and certain consolidated subsidiaries are involved with structured entities whose purpose is to invest in real estate, through investments, asset management service, etc., and these structured entities are not consolidated.

The balance of assets under our management for the unconsolidated structured entities in the fiscal year ended November 30, 2018 and the fiscal year ended November 30, 2019 is ¥499,184,396 thousand and ¥683,138,188 thousand, respectively, while fees received from these entities in the fiscal year ended November 30, 2018 and the fiscal year ended November 30, 2019 are ¥1,812,740 thousand and ¥2,851,866 thousand, respectively.

These structured entities procure funds principally via real estate non-recourse loans.

The book value of assets recognized in the consolidated statement of financial position in association with the involvement with the unconsolidated structured entities are as follows. These book value are the maximum exposure.

(¥ thousand)

	As of November 30, 2018	As of November 30, 2019
Trade and other receivables	329,318	1,376,423
Other financial assets	426,667	432,122
Total	755,986	1,808,546

The maximum exposure is the maximum amount of losses that may arise due to a decline in the value of assets held by the structured entities, and does not represent the amount of losses that are expected from the involvement with these entities.

35. Share-based compensation

(1) Details of the share-based compensation system

The Company employs a stock option system and grants stock options to the Company's directors, executive officers and employees as well as to directors of its consolidated subsidiaries. This system is designed to further increase motivation and morale for improving the Group's business performance and corporate value.

The period during which stock options may be exercised is a period specified in the allotment agreement of stock acquisition rights. Stock options that are not exercised in the period are forfeited. Holders of stock acquisition rights are required to have either the rank of Director, Audit & Supervisory Board Member, Executive Officer, or employee of the Company, however, if the grantee retires or resigns from the Company by the vesting date, his or her options are also forfeited, except in cases allowed in the stock acquisition rights allotment agreement such as resignation due to the expiration of the grantee's term of office.

Stock options under the Company's share-based compensation system are accounted for as equity-settled share-based compensation. Expenses for the equity-settled share-based compensation transactions for the fiscal year ended November 30, 2018 and 2019 were ¥4,935 thousand and ¥18,521 thousand for the fiscal year under review respectively.

The Group's stock option system that exists in the fiscal year under review is as follows:

	Number of stock options granted (shares)	Grant date	Period during which stock options may be exercised	Exercise price (¥)
Fifth Series of Stock Acquisition Rights	506,000	November 26, 2015	January 10, 2018 to October 28, 2020	803
Sixth Series of Stock Acquisition Rights	725,000	May 27, 2019	May 1, 2021 to April 25, 2024	1,006

(2) Total number of exercisable shares and weighted average exercise price of stock options

Fifth Series of Stock Acquisition Rights

	Fiscal year ended November 30, 2018	Fiscal year ended November 30, 2019
Exercise price (¥)	803	803
Unexercised, outstanding stock options at the beginning of the year (shares)	506,000	245,200
Granted during the year (shares)	—	—
Forfeited during the year (shares)	—	—
Exercised during the year (shares)	260,800	50,500
Expired during the year (shares)	—	—
Unexercised, outstanding stock options at the end of the year (shares)	245,200	194,700
Exercisable, outstanding stock options at the end of the year (shares)	245,200	194,700

Notes: 1. The weighted average price of stock options exercised during the last fiscal year and the current fiscal year under review as of the date on which stock options were exercised is ¥1,321 and ¥1,055.
2. 62,000 shares and 64,200 shares of treasury stock acquisition rights held by the Company are included in the unexercised, outstanding stock options and the exercisable, outstanding stock options as of the end of the last fiscal year and the current fiscal year under review.
3. The weighted average remaining contractual term for unexercised stock options are 1.9 years and 0.9 years for the last fiscal year and the current fiscal year under review.

Sixth Series of Stock Acquisition Rights

	Fiscal year ended November 30, 2019
Exercise price (¥)	1,006
Unexercised, outstanding stock options at the beginning of the year (shares)	—
Granted during the year (shares)	725,000
Forfeited during the year (shares)	—
Exercised during the year (shares)	—
Expired during the year (shares)	—
Unexercised, outstanding stock options at the end of the year (shares)	725,000
Exercisable, outstanding stock options at the end of the year (shares)	—

(3) Fair value measurement for stock options

The fair value of equity-settled share-based compensation is evaluated using the Black-Scholes model. Assumptions used to measure the fair value are as follows:

	Sixth Series of Stock Acquisition Rights
Fair value on the grant date (¥)	114
Share price on the grant date (¥)	908
Exercise price (¥)	1,006
Expected volatility (Note 1)	31.46%
Expected remaining period (Note 2)	3.43 years
Expected dividend (Note 3)	¥37 per share
Risk-free interest rate (Note 4)	(0.175%)

Notes: 1. The fair value was calculated based on the actual share prices during the period from October 2015 to April 2019.
2. Since it is difficult to make a reasonable estimate due to insufficient data accumulation, the expected life was estimated on the assumption that these rights are exercised at the midpoint of the period during which the rights may be exercised.
3. Based on dividends with the record date of November 30, 2018.
4. This rate is a government bond yield corresponding to the expected life.

36. Cash flow information

The major changes in liabilities arising from financing activities are those arising from financing cash flows, and there are no significant non-cash changes.

37. Business combinations

Fiscal year ended November 30, 2018 (December 1, 2017 – November 30, 2018)

(Acquisition of Masuda Kenzai-ten Co., Ltd)

On December 26, 2017, the Company acquired 100% of the shares in Masuda Kenzai-ten Co., Ltd, company owning income-generating properties mainly in Toda-shi, Saitama and Fuchu-shi, Tokyo, and engaging in the rental business.

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

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

	Amount (¥ thousand)
Fair value of consideration paid (Note)	2,017,155
Fair values of assets acquired and liabilities assumed	
Current assets	2,737,726
[Of which, cash and cash equivalents]	[682,039]
Non-current assets	15,251
Current liabilities	(181,895)
Non-current liabilities	(484,252)
Net assets	2,086,829
Gain on negative goodwill	(69,674)
Total	2,017,155

Note: Consideration paid was in cash.

As stated above, gain on negative goodwill ¥69,674 thousand is attributable to the net asset (subtracting "the fair values of liabilities assumed" from "fair values of assets acquired") exceeded "the fair value of consideration paid". It is recorded as "other income" in the Condensed Consolidated Statement of Comprehensive Income.

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

Acquisition costs related to these business combinations, of ¥60,720 thousand, were recorded as "other expenses." in Condensed Consolidated Statement of Comprehensive Income.

Profit and loss information and pro forma profit and loss information for these business combinations after

the acquisition date are not stated, as its amount of impact on the condensed quarterly consolidated financial statements is immaterial.

Fiscal year ended November 30, 2019 (December 1, 2018 – November 30, 2019)
None

38. Contingencies

None

39. Subsequent events

None

40. Significant subsidiaries

The Company's significant subsidiaries are as described in "I. Overview of the Tosei Group, 4. Status of subsidiaries and associates."

(2)Others

Quarterly data of the fiscal year ended November 30, 2019

(Cumulative period)	First quarter (Three months ended Feb. 28, 2019)	Second quarter (Six months ended May 31, 2019)	Third quarter (Nine months ended Aug. 31, 2019)	Fiscal year ended November 30, 2019
Revenue (¥ thousand)	17,059,457	34,452,685	45,742,345	60,727,704
Profit before tax (¥ thousand)	2,987,175	7,634,835	11,163,236	12,090,095
Profit for the period (year) attributable to owners of parent (¥ thousand)	2,035,682	5,239,985	7,649,892	8,447,032
Basic earnings per share (¥)	41.97	108.79	159.44	176.40

(Each quarter)	First quarter (Dec. 1, 2018 – Feb. 28, 2019)	Second quarter (Mar. 1, 2019 – May 31, 2019)	Third quarter (Jun. 1, 2019 – Aug. 31, 2019)	Fourth quarter (Sep. 1, 2019 – Nov. 30, 2019)
Basic earnings per share (¥)	41.97	66.92	50.69	16.76

2. Non-consolidated financial statements, etc.

(1) Non-consolidated financial statements

1) Non-consolidated balance sheets

(¥ thousand)

		As of November 30, 2018		As of November 30, 2019
Assets				
Current assets				
Cash and deposits		18,747,826		25,270,442
Accounts receivable-trade	*2	119,547	*2	145,048
Real estate for sale	*1	45,077,095	*1	43,201,715
Real estate for sale in process	*1	10,917,460	*1	27,147,207
Supplies		5,761		6,774
Short-term loans receivable from subsidiaries and affiliates		70,000		55,000
Accounts receivable-other	*2	938,635	*2	419,524
Advance payments-trade		500,205		227,625
Prepaid expenses		259,258		348,259
Other	*2	278,280	*2	546,144
Allowance for credit losses		(471)		(428)
Total current assets		76,913,598		97,367,313
Non-current assets				
Property, plant and equipment				
Buildings	*1	16,434,105	*1	15,895,418
Structures		28,956		33,463
Machinery and equipment		22,895		20,541
Vehicles		12,128		8,089
Tools, furniture and fixtures		33,502		31,679
Land	*1	24,021,186	*1	25,682,668
Lease assets		5,624		6,345
Construction in progress		400		173,110
Total property, plant and equipment		40,558,800		41,851,316
Intangible assets				
Software		25,411		19,537
Software in progress		23,105		45,105
Telephone subscription right		1,889		1,889
Total intangible assets		50,405		66,531
Investments and other assets				
Investment securities		2,194,930		4,192,054
Stocks of subsidiaries and affiliates		6,390,866		4,752,166
Investments in capital		4,150		4,150
Long-term loans receivable		2,910		89,838
Long-term loans receivable from subsidiaries and affiliates		473,000		478,000
Long-term prepaid expenses		195,863		254,744
Long-term accounts receivable-other	*2	47,092	*2	59,554
Claims provable in bankruptcy, claims provable in rehabilitation and other		3,627		20,538
Lease and guarantee deposits		603,566		693,363
Deferred tax assets		405,748		―
Other		4,014		4,014
Allowance for credit losses		(3,645)		(21,077)
Total investments and other assets		10,322,125		10,527,347
Total non-current assets		50,931,331		52,445,195
Total assets		127,844,930		149,812,509

(¥ thousand)

		As of November 30, 2018		As of November 30, 2019
Liabilities				
Current liabilities				
Accounts payable-trade	*2	810,375	*2	837,386
Short-term loans payable		—	*1	1,978,000
Current portion of long-term loans payable	*1, 4	6,283,260	*1, 4	13,832,430
Lease obligations		3,654		3,629
Accounts payable-other	*2	540,829	*2	534,705
Accrued expenses		77,190		93,241
Income taxes payable		837,448		889,324
Accrued consumption taxes		—		496,376
Advances received		1,215,569		2,609,597
Deposits received	*2	164,446	*2	274,126
Provision for bonuses		281,962		316,888
Provision for loss on rental business		1,060		—
Total current liabilities		10,215,798		21,865,706
Non-current liabilities				
Long-term loans payable	*1, 4	66,853,583	*1, 4	71,442,365
Guarantee deposits	*2	3,081,544	*2	3,309,553
Lease obligations		2,419		3,224
Asset retirement obligations		6,817		6,971
Provision for retirement benefits		366,943		391,525
Long-term accounts payable-other for directors		348,641		348,641
Derivative liabilities		3,546		9,048
Deferred tax liabilities		—		359,212
Total non-current liabilities		70,663,496		75,870,542
Total liabilities		80,879,295		97,736,249

(¥ thousand)

	As of November 30, 2018	As of November 30, 2019
Net assets		
Shareholders' equity		
Capital stock	6,554,139	6,579,844
Capital surplus		
Legal capital surplus	6,637,615	6,663,319
Total capital surplus	6,637,615	6,663,319
Retained earnings		
Legal retained earnings	7,250	7,250
Other retained earnings		
Reserve for tax purpose reduction entry of non-current assets	—	1,539,134
General reserve	15,000	15,000
Retained earnings brought forward	33,644,067	37,921,787
Total other retained earnings	33,659,067	39,475,921
Total retained earnings	33,666,317	39,483,171
Treasury shares	(128)	(1,000,037)
Total shareholders' equity	46,857,944	51,726,298
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	70,332	308,757
Deferred gains (losses) on hedges	(2,460)	(6,277)
Total valuation and translation adjustments	67,871	302,479
Stock acquisition rights	39,818	47,481
Total net assets	46,965,634	52,076,260
Total liabilities and net assets	127,844,930	149,812,509

2) Non-consolidated statements of operations

(¥ thousand)

		Fiscal year ended November 30, 2018		Fiscal year ended November 30, 2019
Net sales	*1	48,061,639	*1	48,861,295
Cost of sales	*1	36,911,353	*1	34,513,514
Gross profit		11,150,286		14,347,781
Selling, general and administrative expenses	*1,2	4,819,863	*1,2	4,709,542
Operating income		6,330,422		9,638,238
Non-operating income				
Interest income	*1	14,436	*1	7,913
Dividends income	*1	1,142,368	*1	788,700
Reversal of allowance for doubtful accounts		921		―
Miscellaneous income	*1	53,448	*1	62,578
Total non-operating income		1,211,174		859,191
Non-operating expenses				
Interest expenses		758,957		719,259
Share issuance cost		1,335		491
Foreign exchange losses		359		2,966
Miscellaneous loss		10,320		4,330
Total non-operating expenses		770,973		727,047
Ordinary income		6,770,624		9,770,383
Extraordinary income				
Gain on sale of investment securities		―		95,083
Total extraordinary income		―		95,083
Extraordinary loss				
Loss on sales of non-current assets		304		―
Loss on retirement of non-current assets		568		―
Total extraordinary loss		872		―
Income before income taxes		6,769,751		9,865,466
Income taxes-current		1,781,756		1,930,851
Income taxes-deferred		(66,361)		661,419
Total income taxes		1,715,394		2,592,271
Net income		5,054,356		7,273,194

Detailed schedule of cost of sales

Schedule of the cost in the Revitalization Business

Accounts	Notes	Fiscal year ended November 30, 2018		Fiscal year ended November 30, 2019	
		Amounts (¥ thousand)	Ratio (%)	Amounts (¥ thousand)	Ratio (%)
I. Land		14,318,421	57.6	14,574,428	68.6
II. Acquisition and improvement cost of buildings		10,089,348	40.6	6,401,217	30.1
III. Book values written down following a decline in the revenue		454,496	1.8	272,406	1.3
Total		24,862,265	100.0	21,248,052	100.0

Note: The cost is calculated based on specific-order cost system.

Schedule of the cost in the Development Business

Accounts	Notes	Fiscal year ended November 30, 2018		Fiscal year ended November 30, 2019	
		Amounts (¥ thousand)	Ratio (%)	Amounts (¥ thousand)	Ratio (%)
I. Land costs		4,761,566	54.7	4,893,052	50.6
II. Construction costs		3,944,623	45.3	4,760,973	49.2
III. Book values written down following a decline in the revenue		—	—	14,962	0.2
Total		8,706,190	100.0	9,668,988	100.0

Note: The cost is calculated based on specific-order cost system.

Schedule of the cost in the Rental Business

Accounts	Notes	Fiscal year ended November 30, 2018		Fiscal year ended November 30, 2019	
		Amounts (¥ thousand)	Ratio (%)	Amounts (¥ thousand)	Ratio (%)
I. Outsourcing costs		579,168	18.3	598,067	18.4
II. Miscellaneous expenses		2,584,055	81.7	2,648,075	81.6
[Of which taxes and dues]		[401,873]		[427,948]	
[Of which depreciation and amortization]		[441,745]		[539,773]	
[Of which water and power]		[534,968]		[544,357]	
Total		3,163,224	100.0	3,246,143	100.0

Schedule of the cost in the Fund and Consulting Business

Accounts	Notes	Fiscal year ended November 30, 2018		Fiscal year ended November 30, 2019	
		Amounts (¥ thousand)	Ratio (%)	Amounts (¥ thousand)	Ratio (%)
Miscellaneous expenses		942	100.0	6,383	100.0
Total		942	100.0	6,383	100.0

Schedule of the cost in the Hotel Business

Accounts	Notes	Fiscal year ended November 30, 2018		Fiscal year ended November 30, 2019	
		Amounts (¥ thousand)	Ratio (%)	Amounts (¥ thousand)	Ratio (%)
I. Outsourcing costs		3,516	2.0	11,855	3.4
II. Miscellaneous expenses		175,214	98.0	332,091	96.6
[Of which taxes and dues]		[64,976]		[83,096]	
[Of which depreciation and amortization]		[72,636]		[217,165]	
[Of which water and power]		[5,330]		[9,713]	
Total		178,730	100.0	343,947	100.0

3)Non-consolidated statements of changes in net assets

Fiscal year ended November 30, 2018
(December 1, 2017 – November 30, 2018)

(¥ thousand)

		Shareholders' equity						
		Capital surplus			Retained earnings			
					Other retained earnings			
	Capital stock	Legal capital surplus	Total capital surpluses	Legal retained earnings	Reserve for tax purpose reduction entry of non-current assets	General reserve	Retained earnings brought forward	Total retained earnings
Balance at the beginning of the year	6,421,392	6,504,868	6,504,868	7,250	—	15,000	29,796,811	29,819,061
Changes of items during the year								
Issuance of new shares	132,747	132,747	132,747					
Dividends from surplus							(1,207,100)	(1,207,100)
Net income							5,054,356	5,054,356
Purchase of treasury shares								
Net changes of items other than shareholders' equity								
Total changes of items during the year	132,747	132,747	132,747	—	—	—	3,847,256	3,847,256
Balance at the end of the year	6,554,139	6,637,615	6,637,615	7,250	—	15,000	33,644,067	33,666,317

	Shareholders' equity		Valuation and translation adjustments			Stock acquisition rights	Total net assets
	Treasury shares	Total share-holders' equity	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Total valuation and translation adjustments		
Balance at the beginning of the year	–	42,745,321	57,003	(4,224)	52,778	90,954	42,889,054
Changes of items during the year							
Issuance of new shares		265,494					265,494
Dividends from surplus		(1,207,100)					(1,207,100)
Net income		5,054,356					5,054,356
Purchase of treasury shares	(128)	(128)					(128)
Net changes of items other than shareholders' equity		–	13,329	1,763	15,093	(51,136)	(36,043)
Total changes of items during the year	(128)	4,112,622	13,329	1,763	15,093	(51,136)	4,076,579
Balance at the end of the year	(128)	46,857,944	70,332	(2,460)	67,871	39,818	46,965,634

Fiscal year ended November 30, 2019
(December 1, 2018 – November 30, 2019)

(¥ thousand)

		Shareholders' equity						
		Capital surplus			Retained earnings			
					Other retained earnings			
	Capital stock	Legal capital surplus	Total capital surpluses	Legal retained earnings	Reserve for tax purpose reduction entry of non-current assets	General reserve	Retained earnings brought forward	Total retained earnings
Balance at the beginning of the year	6,554,139	6,637,615	6,637,615	7,250	—	15,000	33,644,067	33,666,317
Changes of items during the year								
Issuance of new shares	25,704	25,704	25,704					
Dividends from surplus							(1,456,340)	(1,456,340)
Net income							7,273,194	7,273,194
Purchase of treasury shares								
Provision of reserve for tax purpose reduction entry of non-current assets					1,539,134		(1,539,134)	—
Net changes of items other than shareholders' equity								
Total changes of items during the year	25,704	25,704	25,704	—	1,539,134	—	4,277,719	5,816,853
Balance at the end of the year	6,579,844	6,663,319	6,663,319	7,250	1,539,134	15,000	37,921,787	39,483,171

	Shareholders' equity		Valuation and translation adjustments			Stock acquisition rights	Total net assets
	Treasury shares	Total share-holders' equity	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Total valuation and translation adjustments		
Balance at the beginning of the year	(128)	46,857,944	70,332	(2,460)	67,871	39,818	46,965,634
Changes of items during the year							
Issuance of new shares		51,409					51,409
Dividends from surplus		(1,456,340)					(1,456,340)
Net income		7,273,194					7,273,194
Purchase of treasury shares	(999,909)	(999,909)					(999,909)
Provision of reserve for tax purpose reduction entry of non-current assets		—					—
Net changes of items other than shareholders' equity			238,424	(3,816)	234,607	7,663	242,271
Total changes of items during the year	(999,909)	4,868,353	238,424	(3,816)	234,607	7,663	5,110,625
Balance at the end of the year	(1,000,037)	51,726,298	308,757	(6,277)	302,479	47,481	52,076,260

[Notes to Non-consolidated Financial Statements]

Significant accounting policies

1. Valuation basis and methods for assets

(1) Valuation basis and methods for securities

1) Stocks of subsidiaries	Stated at cost determined by the moving-average method
2) Other securities	
• With market value	Stated at fair value based on market value and others as of the balance sheet date (unrealized gains and losses, net of applicable taxes, are reported in a separate component of net assets, and costs of securities sold are determined by the moving-average method).
• Without market value	Stated at cost determined by the moving-average method

(2) Valuation basis and method for Derivatives

Derivatives	Stated at fair value

(3) Valuation basis and methods for inventories

The cost method (the book value in the non-consolidated balance sheet are written down due to a decline in profitability of assets) is used as the valuation basis.

1) Real estate for sale and real estate for sale in process
Specific identification method
2) Supplies
Last purchase price method

2. Depreciation methods for non-current assets

(1) Property, plant and equipment (excluding lease assets)	The straight-line method is applied. For certain assets, the declining balance method is applied.
(2) Intangible assets (excluding lease assets)	
• Internal use software	Amortized by the straight-line method over the estimated useful life.
(3) Lease assets	Lease assets are depreciated by the straight-line method over the lease term with no residual value.

3. Recognition of allowances

(1) Allowance for credit losses	To cover losses from bad debts, allowance for credit losses is provided in the amount expected to be uncollectible based on historical experience of bad debts for general receivables and individual collectability for specific receivables such as doubtful receivables.
(2) Provision for bonuses	To cover bonus payments to employees, provision for bonuses is provided in the amount for the fiscal year based on the estimated amount of payment.
(3) Provision for retirement benefits	To cover retirement benefits to employees, the amount that would be required to pay if all eligible employees retired at the fiscal year-end is provided based on the estimated amount of retirement benefit obligations as of the fiscal year-end. In calculating retirement benefit obligations, the portion of expected benefits attributed to the periods up to the fiscal year-end is determined using the benefit formula basis.

	Actuarial differences are amortized on a straight-line basis over a period equal to or less than the average remaining service period of eligible employees at the time of occurrence.
(4) Provision for loss on rental business	To cover losses from sublease contracts, etc., provision for loss on rental business is provided in the amount of total rent and other payment obligations less expected total rental revenue, etc. from subleases.

4. Other significant matters for preparing financial statements

(1) Accounting for consumption taxes	Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.
(2) Translation of assets and liabilities denominated in foreign currencies into Japanese currency	Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rate prevailing at the balance sheet date, and differences arising from such translation are recognized in the non-consolidated statement of operations.
(3) Method for hedge accounting	1) Method for hedge accounting Based on the deferred hedge accounting. 2) Hedging instrument and hedged item - Hedging instrument: interest rate swaps - Hedged item: interest on borrowings 3) Hedging policy To mitigate risks of fluctuations in interest rates on borrowings and improve the financial account balance, the Company hedges interest volatility risks within the scope of the hedged items. 4) Method for assessing hedge effectiveness The Company compares cumulative changes in the market price or cumulative changes in cash flows of the hedged item with cumulative changes in the market price or cumulative changes in cash flows of the hedging instrument semi-annually, and assesses hedge effectiveness based on the amount of these changes of both and other factors.

Changes in accounting policies

(Application of Accounting Standard for Revenue Recognition, etc.)

As the Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 30, 2018) and the Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018) became applicable from the beginning of the fiscal year started on and after April 1, 2018, the Accounting Standard for Revenue Recognition, etc. have been applied from the beginning of the fiscal year under review. There is no significant impact of this change.

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

The Revised Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, February 16, 2018), etc. have been applied from the fiscal year under review.
This change in accounting policy has been applied retrospectively, and the non-consolidated financial statements for the previous fiscal year have been prepared after retrospective application. As a result, on the non-consolidated balance sheets as of the end of the previous fiscal year, deferred tax assets and retained earnings brought forward are each ¥315,966 thousand less than before retrospective application. On the non-consolidated statements of operations for the previous fiscal year, income taxes-deferred are ¥315,966 thousand greater, and net income is ¥315,966 thousand less than before retrospective application. Retained earnings brought forward at the beginning of the fiscal year under review have therefore been reduced by ¥315,966 thousand by this retrospective application. Net assets per share at the end of the previous fiscal year are ¥6.51 less than before retrospective application, and net income per share for the previous fiscal year is ¥6.52 less than before retrospective application.

Changes in presentation

(Application of Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.)

The Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018), etc. have been applied from the beginning of the fiscal year under review, and deferred tax assets are presented in investments and other assets, while deferred tax liabilities are presented in non-current liabilities. As a result, “deferred tax assets” of ¥196,562 thousand that were included in “current assets” on the non-consolidated balance sheets for the previous fiscal year have been included in “deferred tax assets” of ¥405,748 thousand in “investments and other assets.”

Additional information

(Change in holding purpose of assets)

Leasehold property previously held as property, plant and equipment of ¥29,567 thousand was transferred to real estate for sale due to the change in business policy.

Leasehold property previously held as real estate for sale of ¥1,723,473 thousand was transferred to property, plant and equipment due to the change in business policy.

Notes to non-consolidated balance sheets

*1. Pledged assets and secured debts are as follows:

Pledged assets

(¥ thousand)

	As of November 30, 2018	As of November 30, 2019
Real estate for sale	43,417,765	42,165,097
Real estate for sale in process	10,717,994	26,356,800
Buildings	15,009,633	13,580,540
Land	18,755,471	18,948,339
Total	87,900,865	101,050,777

Debts secured by security interests

(¥ thousand)

	As of November 30, 2018	As of November 30, 2019
Short-term loans payable	—	1,978,000
Current portion of long-term loans payable	6,283,260	13,882,430
Long-term loans payable	66,853,583	71,442,365
Total	73,136,843	87,252,795

*2. Monetary receivables from and payables to subsidiaries and affiliates

(¥ thousand)

	As of November 30, 2018	As of November 30, 2019
Short-term monetary receivables	33,685	127,387
Long-term monetary receivables	46,892	59,554
Short-term monetary payables	73,383	94,793
Long-term monetary payables	154,742	159,137

3. Contingent liabilities

The Company guarantees the borrowings of the following companies from financial institutions as follows:

(¥ thousand)

	As of November 30, 2018	As of November 30, 2019
Tosei Revival Investment Co., Ltd.	729,640	668,320
Tosei Community Co., Ltd.	62,346	56,164
Tosei Urban Home Corporation	—	370,000
Kishino Corporation	—	673,600

*4. Financial covenants

As of November 30, 2018

(1) Of the Company's loans payable, special contract of individual cash loan with The Bank of Mitsubishi UFJ, Ltd. (outstanding balance: ¥1,200,000 thousand) includes financial covenants. If the Company violates any two or more items of the following covenants, the Company may repay the amount of the relevant loan to the lender in a lump sum.

Covenants

- In the consolidated statement of financial position as of the end of the fiscal year, total equity must be kept at 75% or more of the higher of total equity as of the end of the fiscal year ended November 30, 2016, and total equity as of the end of the previous fiscal year.
- In the consolidated statement of comprehensive income, profit before tax must be kept at ¥0 or more.
  * However, the value calculated by adding loss on valuation of inventories included in cost of sales, which is described in the notes to consolidated statement of comprehensive income, to profit before tax shall be used as profit before tax in the formula above.
- In the consolidated statement of financial position and the consolidated statement of comprehensive income, the reference value, which is calculated by the formula below, must be 2.8 or less.
  Reference value = Total interest-bearing debt ÷ Total equity
  * Total interest-bearing debt = Corporate bonds + Loans payable + Trade and other payables

(2) Of the Company's loans payable, special contract of individual cash loan with The Bank of Mitsubishi UFJ, Ltd. (outstanding balance: ¥605,750 thousand) includes financial covenants. If the Company violates any two or more items of the following covenants, the Company may repay the amount of the relevant loan to the lender in a lump sum.

Covenants

- In the consolidated statement of financial position as of the end of the fiscal year, total equity must be kept at 75% or more of the higher of total equity as of the end of the fiscal year ended November 30, 2014, and total equity as of the end of the previous fiscal year.
- In the consolidated statement of comprehensive income, profit before tax must be kept at ¥0 or more.
  * However, the value calculated by adding loss on valuation of inventories included in cost of sales, which is described in the notes to consolidated statement of comprehensive income, to profit before tax shall be used as profit before tax in the formula above.
- In the consolidated statement of financial position and the consolidated statement of comprehensive income, the reference value, which is calculated by the formula below, must be 2.8 or less.
  Reference value = Total interest-bearing debt ÷ Total equity
  * Total interest-bearing debt = Corporate bonds + Loans payable + Trade and other payables

(3) Of the Company's loans payable, special contract of individual cash loan with The Bank of Mitsubishi UFJ, Ltd. (outstanding balance: ¥683,088 thousand) includes financial covenants. If the Company violates any two or more items of the following covenants, the Company may repay the amount of the relevant loan to the lender in a lump sum.

Covenants

- In the consolidated statement of financial position as of the end of the fiscal year, total equity must be kept at 75% or more of the higher of total equity as of the end of the fiscal year ended November 30, 2016, and total equity as of the end of the previous fiscal year.
- In the consolidated statement of comprehensive income, profit before tax must be kept at ¥0 or more.
  * However, the value calculated by adding loss on valuation of inventories included in cost of sales, which is described in the notes to consolidated statement of comprehensive income, to profit before tax shall be used as profit before tax in the formula above.
- In the consolidated statement of financial position and the consolidated statement of comprehensive income, the reference value, which is calculated by the formula below, must be 2.8 or less.
  Reference value = Total interest-bearing debt ÷ Total equity

* Total interest-bearing debt = Corporate bonds + Loans payable + Trade and other payables

(4) Of the Company's loans payable, loan contract with Sumitomo Mitsui Banking Corporation (outstanding balance: ¥9,578,020 thousand) includes financial covenants. If the Company violates any items of the following covenants, the Company may repay the amount of the relevant loan to the lender in a lump sum.

Covenants

・In the consolidated statement of financial position as of the end of the fiscal year, total equity must be kept at 75% or more of total equity as of the end of the fiscal year ended November 30, 2016, and total equity as of the end of the previous fiscal year.

・In the consolidated statement of comprehensive income, operating profit must not be less than ¥0 for two consecutive periods.

* However, the value calculated by adding loss on valuation of inventories included in cost of sales, which is described in the notes to consolidated statement of comprehensive income, to operating profit shall be used as operating profit in the formula above.

(5) Of the Company's loans payable, loan contract with Sumitomo Mitsui Banking Corporation (outstanding balance: ¥670,000 thousand) includes financial covenants. If the Company violates any items of the following covenants, the Company may repay the amount of the relevant loan to the lender in a lump sum.

Covenants

・In the consolidated statement of financial position as of the end of the fiscal year, total equity must be kept at 75% or more of total equity as of the end of the fiscal year ended November 30, 2017, and total equity as of the end of the previous fiscal year.

・In the consolidated statement of comprehensive income, operating profit must not be less than ¥0 for two consecutive periods.

* However, the value calculated by adding loss on valuation of inventories included in cost of sales, which is described in the notes to consolidated statement of comprehensive income, to operating profit shall be used as operating profit in the formula above.

As of November 30, 2019

(1) Of the Company's loans payable, special contract of individual cash loan with The Bank of Mitsubishi UFJ, Ltd. (outstanding balance: ¥1,200,000 thousand) includes financial covenants. If the Company violates any two or more items of the following covenants, the Company may repay the amount of the relevant loan to the lender in a lump sum.

Covenants

・ In the consolidated statement of financial position as of the end of the fiscal year, total equity must be kept at 75% or more of the higher of total equity as of the end of the fiscal year ended November 30, 2016, and total equity as of the end of the previous fiscal year.

・ In the consolidated statement of comprehensive income, profit before tax must be kept at ¥0 or more.

* However, the value calculated by adding loss on valuation of inventories included in cost of sales, which is described in the notes to consolidated statement of comprehensive income, to profit before tax shall be used as profit before tax in the formula above.

・ In the consolidated statement of financial position and the consolidated statement of comprehensive income, the reference value, which is calculated by the formula below, must be 2.8 or less.

Reference value = Total interest-bearing debt ÷ Total equity

* Total interest-bearing debt = Corporate bonds + Loans payable + Lease obligations

(2) Of the Company's loans payable, special contract of individual cash loan with The Bank of Mitsubishi UFJ, Ltd. (outstanding balance: ¥539,150 thousand) includes financial covenants. If the Company violates any two or more items of the following covenants, the Company may repay the amount of the relevant loan to the lender in a lump sum.

Covenants

・ In the consolidated statement of financial position as of the end of the fiscal year, total equity must be kept at 75% or more of the higher of total equity as of the end of the fiscal year ended November 30, 2014, and total equity as of the end of the previous fiscal year.

・ In the consolidated statement of comprehensive income, profit before tax must be kept at ¥0 or more.

* However, the value calculated by adding loss on valuation of inventories included in cost of sales, which is described in the notes to consolidated statement of comprehensive income, to profit before tax shall be used as profit before tax in the formula above.

・ In the consolidated statement of financial position and the consolidated statement of comprehensive income, the reference value, which is calculated by the formula below, must be 2.8 or less.

Reference value = Total interest-bearing debt ÷ Total equity

* Total interest-bearing debt = Corporate bonds + Loans payable + Trade and other payables

(3) Of the Company's loans payable, special contract of individual cash loan with The Bank of Mitsubishi UFJ, Ltd. (outstanding balance: ¥655,404 thousand) includes financial covenants. If the Company violates any two or more items of the following covenants, the Company may repay the amount of the relevant loan to the lender in a lump sum.

Covenants

- In the consolidated statement of financial position as of the end of the fiscal year, total equity must be kept at 75% or more of the higher of total equity as of the end of the fiscal year ended November 30, 2016, and total equity as of the end of the previous fiscal year.
- In the consolidated statement of comprehensive income, profit before tax must be kept at ¥0 or more.
  * However, the value calculated by adding loss on valuation of inventories included in cost of sales, which is described in the notes to consolidated statement of comprehensive income, to profit before tax shall be used as profit before tax in the formula above.
- In the consolidated statement of financial position and the consolidated statement of comprehensive income, the reference value, which is calculated by the formula below, must be 2.8 or less.
  Reference value = Total interest-bearing debt ÷ Total equity

* Total interest-bearing debt = Corporate bonds + Loans payable + Lease obligations

(4) Of the Company's loans payable, special contract of individual cash loan with The Bank of Mitsubishi UFJ, Ltd. (outstanding balance: ¥2,534,000 thousand) includes financial covenants. If the Company violates any two or more items of the following covenants, the Company may repay the amount of the relevant loan to the lender in a lump sum.

Covenants

- In the consolidated statement of financial position as of the end of the fiscal year, total equity must be kept at 75% or more of the higher of total equity as of the end of the fiscal year ended November 30, 2017, and total equity as of the end of the previous fiscal year.
- In the consolidated statement of comprehensive income, profit before tax must be kept at ¥0 or more.
  * However, the value calculated by adding loss on valuation of inventories included in cost of sales, which is described in the notes to consolidated statement of comprehensive income, to profit before tax shall be used as profit before tax in the formula above.
- In the consolidated statement of financial position and the consolidated statement of comprehensive income, the reference value, which is calculated by the formula below, must be 2.8 or less.
  Reference value = Total interest-bearing debt ÷ Total equity

* Total interest-bearing debt = Corporate bonds + Loans payable + Lease obligations

(5) Of the Company's loans payable, special contract of individual cash loan with The Bank of Mitsubishi UFJ, Ltd. (outstanding balance: ¥691,252 thousand) includes financial covenants. If the Company violates any two or more items of the following covenants, the Company may repay the amount of the relevant loan to the lender in a lump sum.

Covenants

- In the consolidated statement of financial position as of the end of the fiscal year, total equity must be kept at 75% or more of the higher of total equity as of the end of the fiscal year ended November 30, 2018, and total equity as of the end of the previous fiscal year.
- In the consolidated statement of comprehensive income, profit before tax must be kept at ¥0 or more.
  * However, the value calculated by adding loss on valuation of inventories included in cost of sales, which is described in the notes to consolidated statement of comprehensive income, to profit before tax shall be used as profit before tax in the formula above.
- In the consolidated statement of financial position and the consolidated statement of comprehensive income, the reference value, which is calculated by the formula below, must be 2.8 or less.
  Reference value = Total interest-bearing debt ÷ Total equity

* Total interest-bearing debt = Corporate bonds + Loans payable + Lease obligations

(6) Of the Company's loans payable, loan contract with Sumitomo Mitsui Banking Corporation (outstanding balance: ¥9,180,580 thousand) includes financial covenants. If the Company violates any items of the following covenants, the Company may repay the amount of the relevant loan to the lender in a lump sum.

Covenants

・In the consolidated statement of financial position as of the end of the fiscal year, total equity must be kept at 75% or more of total equity as of the end of the fiscal year ended November 30, 2016, and total equity as of the end of the previous fiscal year.

・In the consolidated statement of comprehensive income, operating profit must not be less than ¥0 for two consecutive periods.

* However, the value calculated by adding loss on valuation of inventories included in cost of sales, which is described in the notes to consolidated statement of comprehensive income, to operating profit shall be used as operating profit in the formula above.

(7) Of the Company's loans payable, loan contract with Sumitomo Mitsui Banking Corporation (outstanding balance: ¥670,000 thousand) includes financial covenants. If the Company violates any items of the following covenants, the Company may repay the amount of the relevant loan to the lender in a lump sum.

Covenants

・In the consolidated statement of financial position as of the end of the fiscal year, total equity must be kept at 75% or more of total equity as of the end of the fiscal year ended November 30, 2017, and total equity as of the end of the previous fiscal year.

・In the consolidated statement of comprehensive income, operating profit must not be less than ¥0 for two consecutive periods.

* However, the value calculated by adding loss on valuation of inventories included in cost of sales, which is described in the notes to consolidated statement of comprehensive income, to operating profit shall be used as operating profit in the formula above.

(8) Of the Company's loans payable, loan contract with Sumitomo Mitsui Banking Corporation (outstanding balance: ¥1,050,000 thousand) includes financial covenants. If the Company violates any items of the following covenants, the Company may repay the amount of the relevant loan to the lender in a lump sum.

Covenants

・In the consolidated statement of financial position as of the end of the fiscal year, total equity must be kept at 75% or more of total equity as of the end of the fiscal year ended November 30, 2018, and total equity as of the end of the previous fiscal year.

・In the consolidated statement of comprehensive income, operating profit must not be less than ¥0 for two consecutive periods.

* However, the value calculated by adding loss on valuation of inventories included in cost of sales, which is described in the notes to consolidated statement of comprehensive income, to operating profit shall be used as operating profit in the formula above.

(9) Of the Company's loans payable, loan contract with Chiba Kogyo Bank (outstanding balance: ¥700,000 thousand) includes financial covenants. If the Company violates any items of the following covenants, the Company may repay the amount of the relevant loan to the lender in a lump sum.

Covenants

・In the consolidated statement of financial position as of the end of the fiscal year, total equity must be kept at 75% or more of total equity as of the end of the fiscal year ended November 30, 2018, and total equity as of the end of the previous fiscal year.

・In the consolidated statement of comprehensive income, operating profit must not be less than ¥0 for two consecutive periods.

* However, the value calculated by adding loss on valuation of inventories included in cost of sales, which is described in the notes to consolidated statement of comprehensive income, to operating profit shall be used as operating profit in the formula above.

(10) Of the Company's loans payable, loan contract with Chiba Bank (outstanding balance: ¥137,000 thousand) includes financial covenants. If the Company violates any items of the following covenants, the Company may repay the amount of the relevant loan to the lender in a lump sum.

Covenants

・In the consolidated statement of financial position as of the end of the fiscal year, total equity must be kept at 75% or more of total equity as of the end of the fiscal year ended November 30, 2018, and total equity as of the end of the previous fiscal year.

・In the consolidated statement of comprehensive income, operating profit must not be less than ¥0 for two

consecutive periods.

* However, the value calculated by adding loss on valuation of inventories included in cost of sales, which is described in the notes to consolidated statement of comprehensive income, to operating profit shall be used as operating profit in the formula above.

(11) Of the Company's loans payable, loan contract with Kansai Mirai Bank (outstanding balance: ¥567,000 thousand) includes financial covenants. If the Company violates any items of the following covenants, the Company may repay the amount of the relevant loan to the lender in a lump sum.

Covenants

- In the non consolidated statement of financial position as of the end of the fiscal year, total equity must be kept at 75% or more of total equity as of the end of the previous fiscal year.
- In the consolidated statement of financial position as of the end of the fiscal year, total equity must be kept at 75% or more of total equity as of the end of the previous fiscal year.
- In the non consolidated statement of comprehensive income, operating profit must not be less than ¥0 for two consecutive periods.
- In the consolidated statement of comprehensive income, operating profit must not be less than ¥0 for two consecutive periods.

(12) Of the Company's loans payable, loan contract with Chiba Bank (outstanding balance: ¥560,000 thousand) includes financial covenants. If the Company violates any items of the following covenants, the Company may repay the amount of the relevant loan to the lender in a lump sum.

Covenants

- In the consolidated statement of financial position as of the end of the fiscal year, total equity must be kept at 75% or more of total equity as of the end of the fiscal year ended November 30, 2017, and total equity as of the end of the previous fiscal year.
- In the consolidated statement of comprehensive income, operating profit must not be less than ¥0 for two consecutive periods.

* However, the value calculated by adding loss on valuation of inventories included in cost of sales, which is described in the notes to consolidated statement of comprehensive income, to operating profit shall be used as operating profit in the formula above.

Notes to non-consolidated statements of operations

*1. The following shows the item that includes transactions with associated companies.

(¥ thousand)

	Fiscal year ended November 30, 2018	Fiscal year ended November 30, 2019
Net Sales	179,438	398,975
Purchase amount	1,111,964	1,077,717
Other business turnover	74,578	96,207
Transaction volume other than business turnover	1,084,578	662,525

*2. The approximate ratio to selling expenses is 36.1% in the fiscal year ended November 30, 2018 and 32.8% in the fiscal year ended November 30, 2019, while the approximate ratio to general and administrative expenses is 63.9% in the fiscal year ended November 30, 2018 and 67.2% in the fiscal year ended November 30, 2019. Main components of selling, general and administrative expenses are as follows:

(¥ thousand)

	Fiscal year ended November 30, 2018	Fiscal year ended November 30, 2019
Sales expenses (Revitalization)	633,212	495,996
Sales expenses (Development)	979,366	901,457
Salaries and allowances	1,007,898	1,089,777
Provision for bonuses	281,962	316,093
Retirement benefit expenses	56,270	58,050
Provision of allowance for credit losses	―	17,945
Taxes and dues	614,590	502,026
Depreciation	49,012	47,051

Securities

As of November 30, 2018

As shares in subsidiaries (book value in the balance sheet: ¥6,390,866 thousand) have no quoted market prices and, at the same time, it is considered extremely difficult to determine the fair values, they are omitted.

As of November 30, 2019

As shares in subsidiaries (book value in the balance sheet: ¥4,752,166 thousand) have no quoted market prices and, at the same time, it is considered extremely difficult to determine the fair values, they are omitted.

Tax effect accounting

1. Significant components of deferred tax assets and liabilities

(¥ thousand)

	As of November 30, 2018	As of November 30, 2019
Deferred tax assets		
Accrued enterprise taxes, currently not deductible	60,212	66,376
Provision for bonuses	86,337	97,031
Provision for retirement benefits	112,358	119,885
Long-term accounts payable-other for directors	106,753	106,753
Dividends income as withdrawal of investments	315,966	523,727
Other	71,127	66,284
Subtotal	752,755	980,058
Valuation reserves	(315,966)	(523,727)
Total deferred tax assets	436,788	456,331
Deferred tax liabilities		
Valuation difference on other securities	(31,040)	(136,266)
Reserve for tax purpose reduction entry of non-current assets	—	(679,277)
Total deferred tax liabilities	(31,040)	(815,544)
Net deferred tax assets and liabilities	405,748	(359,212)

2. The account for the difference between the statutory effective tax rate and the effective tax rate after adoption of tax-effect accounting

	As of November 30, 2018	As of November 30, 2019
Statutory effective tax rate	30.86%	30.62%
(Adjustments)		
Expenses not deductible permanently such as entertainment expenses	0.18	0.23
Profits not deductible permanently such as dividends income	(9.07)	(6.82)
Tax exemption	(1.02)	—
Change in valuation reserves	4.21	2.11
Other	0.18	0.14
Effective tax rates after adoption of tax effect accounting	25.34	26.28

Revenue recognition

Notes to this section have been omitted, as the same information is shown in “Notes to Consolidated Financial Statements 22. Sales revenue.”

Important subsequent events

None

4) Supplementary statements

[Detailed schedule of property, plant and equipment and others]

(¥ thousand)

Cate-gory	Type of assets	Balance as of Dec. 1, 2018	Increase in the fiscal year ended Nov. 30, 2019	Decrease in the fiscal year ended Nov. 30, 2019	Depreciation during the fiscal year ended Nov. 30, 2019	Balance as of Nov. 30, 2019	Accumulated depreciation or amortization as of Nov. 30, 2019
Property, plant and equipment	Buildings	16,434,105	232,096	4,067	766,715	15,895,418	2,684,034
	Structures	28,956	6,550	—	2,043	33,463	11,277
	Machinery and equipment	22,895	1,750	—	4,105	20,541	14,589
	Vehicles	12,128	—	—	4,038	8,089	6,962
	Tools, furniture and fixtures	33,502	8,916	—	10,740	31,679	89,562
	Land	24,021,186	1,686,982	25,500	—	25,682,668	—
	Lease assets	5,624	4,478	—	3,757	6,345	11,668
	Construction in progress	400	172,710	—	—	173,110	—
	Total	40,558,800	2,113,484	29,567	791,401	41,851,316	2,818,095
Intangible assets	Software	25,411	6,716	—	12,589	19,537	—
	Software in progress	23,105	25,105	3,105	—	45,105	—
	Telephone subscription right	1,889	—	—	—	1,889	—
	Total	50,405	31,821	3,105	12,589	66,531	—

Note: In the increase in the fiscal year ended Nov. 30, 2019, principal events are as follows:

Buildings: Transfer from real estate for sale in process (2 properties) ¥128,965 thousand

Land: Transfer from real estate for sale in process (2 properties) ¥1,594,508 thousand

[Detailed schedule of allowances]

(¥ thousand)

Category	Balance as of Dec. 1, 2018	Increase in the fiscal year ended Nov. 30, 2019	Decrease in the fiscal year ended Nov. 30, 2019	Balance as of Nov. 30, 2019
Allowance for doubtful accounts	4,116	17,945	555	21,506
Provision for bonuses	281,962	316,888	281,962	316,888
Provision for loss on rental business	1,060	—	1,060	—

(2) Principal assets and liabilities

This information is omitted since the consolidated financial statements have been prepared.

(3) Others

No item to report.

VI. Outline of filing company's business concerning shares

Business year	From December 1 to November 30
Ordinary General Meeting of Shareholders	February
Record date	November 30
Record dates for dividends from surplus	May 31 November 30
Share unit number	100 shares
Purchase of shares less than one unit: Office for handling business Shareholder registry administrator Forwarding office Handling charge for purchase	 1-4-5, Marunouchi, Chiyoda-ku, Tokyo Corporate Agency Department, Mitsubishi UFJ Trust and Banking Corporation 1-4-5, Marunouchi, Chiyoda-ku, Tokyo Mitsubishi UFJ Trust and Banking Corporation – No charge
Method of public notice	Electronic public notice will be made. URL for public notice: https://www.toseicorp.co.jp/ir/publicly/index.html However, if it is impossible to publish public notices electronically because of an accident or other unavoidable circumstances, the public notices shall be made by publication in the Nihon Keizai Shimbun.
Special benefits for shareholders	Status of Shareholders eligible for the program (1) Shareholders eligible for the program Shareholders eligible for the program are those holding at least one trading unit (100 shares) of the Company's shares as of the record date November 30 of each fiscal year. (2) Details of the shareholder benefit program The Company's original QUO CARD, equivalent to 1,000 yen, shall be presented once a year. Note: Shareholders of shares listed on the Singapore Exchange market shall receive once a year a gift certificate (CapitaVoucher) equivalent to 1,000 yen, valid in Singapore. (3) Delivery period The benefits are scheduled to be dispatched in late February of each year.

Notes: 1. Pursuant to the provisions of the Company's Articles of Incorporation, the Company's shareholders may not exercise any right, in relation to their holding shares less than one unit, other than the rights set forth in each of the following items:
(1) Rights set forth in each item of Article 189, paragraph 2 of the Companies Act
(2) A right to claim that is set forth in the provisions of Article 166, paragraph 1 of the Companies Act
(3) A right to receive allocation of shares and stock acquisition rights for subscription according to the number of shares held by shareholders

2. Due to the enforcement of the Act for Partial Revision of the Act on Transfer of Bonds, etc. for Achieving Rationalization of Settlements for Transactions of Shares, etc. and Other Acts (June 9, 2004, Act No. 88), treatment of shares including purchase and sale of shares less than one unit shall be conducted via securities brokers and other account management institutions in principle. However, shares recorded in special accounts are directly dealt with by Mitsubishi UFJ Trust and Banking Corporation , which is the account management institution of special accounts.

VII. Reference information on filing company

1. Information on filing company's parent company

Tosei does not have a parent company as described by the provisions of Article 24-7, paragraph 1 of the Financial Instruments and Exchange Act.

2. Other reference information

From the beginning of this fiscal year until the filing date of this Annual Securities Report, Tosei has filed the following documents.

(1) Annual Securities Report and Appendices, and Confirmation Letter

69th term; from December 1, 2017 to November 30, 2018, filed to Director-General of Kanto Local Finance Bureau on February 28, 2019.

(2) Internal Control Report and Appendices

Filed to Director-General of Kanto Local Finance Bureau on February 28, 2019.

(3) Quarterly Securities Reports and Confirmation Letter

First quarter of the 70th term; from December 1, 2018 to February 28, 2019, filed to Director-General of Kanto Local Finance Bureau on April 10, 2019.
Second quarter of the 70th term; from March 1, 2019 to May 31, 2019, filed to Director-General of Kanto Local Finance Bureau on July 10, 2019.
Third quarter of the 70th term; from June 1, 2019 to August 31, 2019, filed to Director-General of Kanto Local Finance Bureau on October 10, 2019.

(4) Extraordinary Reports

Filed to Director-General of Kanto Local Finance Bureau on February 28, 2019.

Extraordinary Report based on Article 19, paragraph 2, item 9-2 (Results of Exercise of Voting Rights) of the Cabinet Office Ordinance on the Disclosure of Corporate Affairs, etc.

Filed to Director-General of Kanto Local Finance Bureau on April 25, 2019.

Extraordinary Report based on Article 19, paragraph 2, item 2-2 (Issuance of Stock Acquisition Rights) of the Cabinet Office Ordinance on the Disclosure of Corporate Affairs, etc.

Filed to Director-General of Kanto Local Finance Bureau on February 27, 2020.

Extraordinary Report based on Article 19, paragraph 2, item 9-2 (Results of Exercise of Voting Rights) of the Cabinet Office Ordinance on the Disclosure of Corporate Affairs, etc.

(5) Amendment Report for Extraordinary Report

Filed to Director-General of Kanto Local Finance Bureau on May 27, 2019.

Amendment Report for the Extraordinary Report filed on April 25, 2019.

(6) Share buyback report

Filed to Director-General of Kanto Local Finance Bureau on March 4, 2019, April 5, 2019, May 9, 2019, June 4, 2019, July 5, 2019, August 5, 2019 and September 4, 2019.

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

No items to report

Independent Auditors' Audit Report and Internal Control Audit Report

February 21, 2020

To the Board of Directors of
Tosei Corporation

Shinsoh Audit Corporation

Designated and Engagement Partner,
Certified Public Accountant:

Takayuki Sakashita (Seal)

Designated and Engagement Partner,
Certified Public Accountant:

Atushi Iijima (Seal)

[Audit of Financial Statements]
Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements included in the Accounting Section, namely, the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, consolidated statement of cash flows and the notes to the consolidated financial statements of Tosei Corporation for the fiscal year from December 1, 2018 to November 30, 2019.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards, pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion from an independent perspective on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tosei Corporation and consolidated subsidiaries as of November 30, 2019, and the consolidated results of their operations and their cash flows for the year then ended in conformity with IFRS.

[Audit of Internal Control over Financial Reporting]
Pursuant to the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited management's report on internal control over financial reporting of Tosei Corporation as of November 30, 2019.

Management's Responsibility for the Management's Report
Management is responsible for designing and operating internal control over financial reporting, and for the preparation and fair presentation of the Management's Report in accordance with standards for assessment of internal control over financial reporting generally accepted in Japan.
Internal control over financial reporting may not prevent or detect misstatements.

Auditor's Responsibility
Our responsibility is to express an opinion from an independent perspective on the Management's Report based on our internal control audit. We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Management's Report is free from material misstatement.

An internal control audit involves performing procedures to obtain audit evidence about the result of management's assessment on internal control over financial reporting in the Management's Report. The procedures selected depend on the auditor's judgment, including the materiality of effect on the reliability of financial reporting. An internal control audit also includes evaluating the overall presentation of the Management's Report, including disclosures on scope, procedures and conclusions of management's assessment of internal control over financial reporting.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the Management's Report referred to above, which represents that the internal control over financial reporting as at November 30, 2019 of Tosei Corporation is effective, present fairly, in all material respects, the result of management's assessment on internal control over financial reporting in conformity with standards for assessment of internal control over financial reporting generally accepted in Japan.

Conflicts of Interest
We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

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*1. The above is a digitization of the text contained in the original copy of the Audit Report, which is in the custody of the Company as attachments to the financial statements.
*2. XBRL data is excluded from the scope of the audit.

* The English version of the financial statements consists of an English translation of the audited Japanese financial statements. The actual text of the English translation of the financial statements was not covered by our audit. Consequently, for the auditor's report of the English financial statements, the Japanese original is the official text, and the English version is a translation of that text. Should there be any inconsistency between the translation and the official Japanese text, the latter shall prevail.

Independent Auditors' Audit Report

February 21, 2020

To the Board of Directors of
Tosei Corporation

Shinsoh Audit Corporation

Designated and Engagement Partner,
Certified Public Accountant:

Takayuki Sakashita (Seal)

Designated and Engagement Partner,
Certified Public Accountant:

Atushi Iijima (Seal)

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the financial statements included in the Accounting Section, namely, the balance sheets and the related statements of operations and changes in net assets, the significant accounting policies, the other related notes and supplementary schedules of Tosei Corporation for the 70th fiscal year from December 1, 2018 to November 30, 2019.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion from an independent perspective on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. The purpose of an audit of the financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the non-consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tosei Corporation as of November 30, 2019, and its financial performance for the year then ended in conformity with accounting principles generally accepted in Japan.

Conflicts of Interest
We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

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*1. The above is a digitization of the text contained in the original copy of the Audit Report, which is in the custody of the Company as attachments to the financial statements.
2. XBRL data is excluded from the scope of the audit.

* The English version of the financial statements consists of an English translation of the audited Japanese financial statements. The actual text of the English translation of the financial statements was not covered by our audit. Consequently, for the auditor's report of the English financial statements, the Japanese original is the official text, and the English version is a translation of that text. Should there be any inconsistency between the translation and the official Japanese text, the latter shall prevail.

[Cover]

Document to be filed:	Management's Report on Internal Control
Provisions to base upon:	Article 24-4-4, paragraph 1 of the Financial Instruments and Exchange Act
Filing to:	Director-General of the Kanto Local Finance Bureau
Date of filing:	February 27, 2020
Company name (Japanese):	トーセイ株式会社 (*Tosei Kabushiki-Kaisha*)
Company name (English):	TOSEI CORPORATION
Title and name of representative:	Seiichiro Yamaguchi, President and CEO
Title and name of Chief Financial Officer	Noboru Hirano, Director and CFO
Location of head office:	4-2-3, Toranomon, Minato-ku, Tokyo, Japan
Places where the document to be filed is available for public inspection:	Tokyo Stock Exchange, Inc. (2-1, Nihonbashi-kabutocho, Chuo-ku, Tokyo)

1. Basic Framework of Internal Control Over Financial Reporting

Seiichiro Yamaguchi, President and CEO of TOSEI CORPORATION (the "Company") and Noboru Hirano, CFO Senior Executive Officer of the Company, having the responsibility to design and operate internal control over financial reporting of the Company and its consolidated subsidiaries (hereinafter collectively, the "Group"), designs and operates such internal control of the Company in accordance with the basic framework set forth in "On the Setting of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)" published by the Business Accounting Council.

Note that internal control aims at achieving its objectives to a reasonable extent given that all individual components of internal control are integrated, and function as a whole. Thus, internal control over financial reporting may not be able to completely prevent or detect misstatement in financial reporting.

2. Scope of Assessment, Assessment Date and Assessment Procedure

Assessment of internal control over financial reporting was performed as of November 30, 2019(i.e., the last day of this fiscal year) in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

In this assessment, the management first assessed company-level control which would have a material impact on the reliability of overall financial reporting on a consolidated basis, and based on such result, the management then selected the business processes to be assessed. In the process-level control assessment, the management assessed the effectiveness of internal control by analyzing the business processes in scope, identifying key controls that would have a material impact on the reliability of the financial reporting, and assessing the design and operation of such key controls.

Management determined the scope of assessment of internal control over financial reporting, by selecting the Company, consolidated subsidiaries and companies accounted for by the equity method based on their materiality of impacts on the reliability of financial reporting. The materiality of the impacts on the reliability of financial reporting was determined in consideration of both quantitative and qualitative aspects, and the management reasonably determined the scope of assessment of process-level control based on the result of the company-level control assessment, which included the Company and its 5 significant consolidated subsidiaries.

For the purpose of determining the scope of process-level control assessment, 1 business location was selected as "Significant Business Locations", which comprises the Company and its consolidated subsidiaries selected in descending order based on their fiscal year's consolidated net sales (after elimination) and contributed approximately two-thirds of the Company's consolidated net sales in the aggregate. Note that the management confirmed that the scope of internal control assessment was sufficient based on this fiscal year's consolidated net sales. In such Significant Business Locations, all business processes related to the accounts that are closely associated with the Company's business objectives, such as sales, accounts receivable, and inventory were included in the scope of assessment. Furthermore, regardless of the Significant Business Locations, certain business processes related to significant accounts involving estimates and management's judgment and business processes on businesses or operations in which transactions involving significant risks are conducted were added to the scope of assessment as "business processes with material impacts on financial reporting."

3. Assessment Result

Based on the above mentioned assessment results, the management concluded that the internal control over financial reporting of the Group at the end of this fiscal year was effective.

4. Supplementary Information

None

5. Special Affairs

None

This is an English translation prepared for the convenience of non-resident shareholders by translating the Management's Report on Internal Control submitted to the Director of the Kanto Local Finance Bureau of the Ministry of Finance of Japan on February 27, 2020 pursuant to Article 24-4-4, paragraph 1 of the Financial Instruments and Exchange Act. Should there be any inconsistency between the translation and the official Japanese text, the latter shall prevail.