Quarterly Securities Report

(The English translation of the "Shihanki-Houkokusho"
for the second quarter of the 70th term)

from March 1, 2019
to May 31, 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 Quarterly Securities Report (Shihanki-Houkokusho) submitted to the Director of the Kanto Local Finance Bureau of the Ministry of Finance of Japan on July 10, 2019. Should there be any inconsistency between the translation and the official Japanese text, the latter shall prevail.

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Company name (English):	TOSEI CORPORATION
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A. Company Information

I. Overview of the Tosei Group

1. Trends in principal management benchmarks

Term	69th term First six months	70th term First six months	69th term
Accounting period	From December 1, 2017 to May 31, 2018	From December 1, 2018 to May 31, 2019	From December 1, 2017 to November 30, 2018
Revenue (¥ thousand) [Second quarter of the current fiscal year]	32,520,695 [14,210,654]	34,452,685 [17,393,228]	61,543,319
Profit attributable to owners of the parent (¥ thousand) [Second quarter of the current fiscal year]	6,511,917	7,634,835	10,171,017
Profit attributable to owners of the parent (¥ thousand)	4,452,334 [1,604,803]	5,239,985 [3,204,303]	6,852,237
Comprehensive income for the period attributable to owners of the parent (¥ thousand)	4,486,293	5,322,766	6,856,712
Total equity (¥ thousand)	49,635,703	54,889,255	52,021,782
Total assets (¥ thousand)	134,935,647	145,858,280	138,768,538
Basic earnings per share (¥) [Second quarter of the current fiscal year]	91.97 [33.10]	108.79 [66.92]	141.36
Diluted earnings per share (¥)	91.75	108.72	141.12
Ratio of equity attributable to owners of the parent to total assets (%)	36.8	37.6	37.5
Net cash from (used in) operating activities (¥ thousand)	(400,865)	554,663	7,615,322
Net cash from (used in) investing activities (¥ thousand)	(1,723,156)	(209,509)	(10,786,784)
Net cash from (used in) financing activities (¥ thousand)	4,201,440	2,235,880	5,941,884
Cash and cash equivalents at end of period (¥ thousand)	25,827,059	29,100,675	26,520,569

Notes: 1. Filing company's trends in principal management benchmarks are not disclosed as the Company prepares quarterly consolidated financial statements.
2. Revenue does not include consumption taxes.
3. The above benchmarks are based on the quarterly consolidated financial statements and consolidated financial statements that were prepared in compliance with the International Financial Reporting Standards (hereinafter "IFRS").

2. Business description

During the six months ended May 31, 2019, there were no significant changes in business activities operated by the Tosei Group (the Company and its subsidiaries and affiliates) from the previous fiscal year. There were also no changes in principal subsidiaries and affiliates.

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

Reportable segment classifications have been changed effective from the first quarter of the fiscal year ending November 30, 2019. For details, please refer to "5. Segment information" in "IV. Accounting, 1. Condensed Quarterly Consolidated Financial Statements, (5) Notes to Condensed Quarterly Consolidated Financial Statements."

II. Review of operations

1. Business and other risks

There were no business and other risks that newly arose during the six months ended May 31, 2019. In addition, there were no significant changes in "Business and other risks" described in the annual securities report for the previous fiscal year.

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

Forward-looking statements included in this section are based on information available to the Group's management as of May 31, 2019.

(1) Operating results

During the six months ended May 31, 2019, the Japanese economy continued to make a moderate recovery, although concerns remain of an economic slowdown, with signs of a downturn in exports and movements to limit capital investment due to the effects of trade frictions between the United States and China.

In the real estate industry where Tosei Group operates, commercial real estate transactions for the three months from January to March 2019 decreased 17% year on year to ¥1.2 trillion, as real estate prices remained persistently high, with few properties on the market meeting investors' investment criteria. Sales to individual investors remain weak, as financial institutions adopt a stricter stance on lending, but sales to institutional investors and other corporations continue to be favorable (according to a survey by a private research institute).

In the real estate securitization market, the market scale continues to expand. The total value of assets under management as of April 2019 grew to ¥18.5 trillion in J-REITs, as property acquisitions continue, supported by sponsored property supply. The total value of assets under management in private placement funds was ¥17.7 trillion (as of December 2018), and the securitization market scale expanded to ¥36.2 trillion (according to a survey by a private research institute).

In the Tokyo metropolitan area condominium market, the number of newly supplied units from January to April 2019 decreased 13.6% year on year to 8,900 units, as each company limited new supply and concentrated on the sale of existing inventory. Despite a continuing increase in selling prices per unit of higher price range, the average contract rate for the first month remained below the 70% threshold from which market conditions are viewed as favorable during the same period. In the build-for-sale detached house market, housing starts from January to April 2019 numbered 21,000 units, an increase of 8.1% year on year. Despite little evidence of a spike in demand in anticipation of the consumption tax increase, favorable demand continues for detached houses, which appear reasonably priced relative to condominiums (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 April 2019 was 1.7% (a decrease of 1.0% year on year), the lowest monthly vacancy rate since January 2002. The average asking rent was ¥21,279 (an increase of ¥1,383 year on year), rising for the 64th consecutive month. Rent is expected to continue to rise, as prospective tenants have largely been arranged for the large-scale building developments due for completion in 2019 (according to a survey by a private research institute).

In the Tokyo business hotel market, monthly guest room occupancy rates from January to March 2019 increased year on year. The number of foreign visitors to Japan is predicted to increase into the future, and demand for accommodation is expected to grow (according to a survey by the Japan Tourism Agency).

Amid this operating environment, in the Revitalization Business, the Group made steady progress in selling assets such as income-generating office buildings and apartments, while in the Development Business, the Group pushed ahead with sales of condominiums, detached houses and commercial facilities. In addition, the Group also proceeded with the proactive acquisition of income-generating properties and land for development as future sources of income.

As a result, consolidated revenue for the six months ended May 31, 2019 totaled ¥34,452 million (up 5.9% year on year), operating profit was ¥7,964 million (up 15.6%), profit before tax was ¥7,634 million (up 17.2%), and profit for the period was ¥5,239 million (up 17.7%).

Performance by business segment is shown below.

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

Revitalization Business

During the six months ended May 31, 2019, the segment sold 28 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). In addition, the segment sold five units in the Restyling Business from Hilltop Yokohama Negishi (Yokohama-shi, Kanagawa) etc.

During the six months ended May 31, 2019, it also acquired a total of 18 income-generating office buildings and apartments and two land lots for renovation and sales purposes.

As a result, revenue in this segment was ¥17,075 million (down 2.9% year on year) and the segment profit was ¥5,027 million (up 18.9%).

Development Business

During the six months ended May 31, 2019, the segment focused on the sale of condominium and detached houses for which there was firm demand. The segment sold 138 units at THE Palms Chofu Manorgarden (Chofu-shi, Tokyo) etc. and sold 37 detached houses at such properties as THE Palms Court Funabashi Hoten (Funabashi-shi, Chiba), THE Palms Court Kamakura shiromeguri (Kamakura-shi, Kanagawa). In addition, the segment sold one commercial facility, one newly-built apartment and six land lots.

During the six months ended May 31, 2019, it also acquired three lots for hotel projects, one land lot for logistics facility project, one land lot for commercial facility project and land lots for 56 detached houses.

As a result, revenue in this segment was ¥10,226million (up 18.7% year on year) and the segment profit was ¥1,541 million (up 9.5%).

Rental Business

During the six months ended May 31, 2019, while the segment sold 21 buildings of its inventory assets held for leasing purposes, it newly acquired 10 properties including income-generating office buildings and apartments. In addition, the segment made efforts to lease vacancies out following acquisitions and also focused on leasing activities for its existing non-current assets and inventory assets.

As a result, revenue in this segment was ¥2,934 million (up 4.9% year on year) and the segment profit was ¥1,182 million (down 1.5%).

Fund and Consulting Business

During the six months ended May 31, 2019, while ¥28,842 million was added to the balance of assets under management (Note), due to new asset management contracts, ¥41,582 million was subtracted from the balance of Assets under management ¥663,359 million for the end of the previous fiscal year, mainly due to property dispositions by funds. The balance of assets under management as of May 31, 2019, was ¥650,619 million.

As a result, revenue in this segment was ¥1,309 million (down 1.2% year on year) and the segment profit was ¥690 million (down 2.5%).

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

Property Management Business

During the six months ended May 31, 2019, the segment made efforts to win new contracts and maintain existing contracts. Consequently, the total number of properties under management was 632 as of May 31, 2019, a decrease of 35 from May 31, 2018, with the total comprising 399 office buildings, hotels, schools and other such properties, and 233 condominiums and apartments.

As a result, although the total number of properties under management decreased, revenue in this segment was ¥2,317 million (up 19.5% year on year) and segment profit was ¥289 million (up 41.4%).

Hotel Business

During the six months ended May 31, 2019, 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 ¥589 million (up 125.1% year on year) and segment profit was ¥131 million (up 32.0%).

(2) Analysis of financial Positions

As of May 31, 2019, total assets were ¥145,858 million, an increase of ¥7,089 million compared with November 30, 2018, while total liabilities were ¥90,969 million, an increase of ¥4,222 million. Total assets increase is mainly due to an increase in cash and cash equivalents and an increase in inventories. Increase in liabilities were primarily due to an increase in borrowing.

Total equity increased by ¥2,867 million to ¥54,889 million, mainly due to an increase in retained earnings, payment of cash dividends and purchase of treasury shares.

(3) Analysis of cash flows

Cash and cash equivalents (hereinafter "cash") as of May 31, 2019 totaled ¥29,100 million, up ¥2,580 million compared with November 30, 2018.

The cash flows for the six months ended May 31, 2019 and factors contributing to those amounts are as follows:

Cash Flows from Operating Activities

Net cash provided by operating activities totaled ¥554 million (in comparison with segment net cash used in operating activities of ¥400 million in the same period of the previous fiscal year). This is mainly due to profit before tax of 7,634 million, an increase in inventories of ¥4,584 million and income taxes paid of ¥2,831 million.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥209 million (down 87.8% year on year). This is primarily due to payments of loans receivable of ¥126 million.

Cash Flows from Financing Activities

Net cash provided by financing activities totaled ¥2,235 million (down 46.8% year on year). This mainly reflects ¥23,084 million in proceeds from non-current borrowings, despite ¥17,860 million in the repayments of non-current borrowings and ¥1,454 million in cash dividends paid.

(4) Operational and financial issues to be addressed

During the six months ended May 31, 2019, there was no significant change in issues to be addressed by the Tosei Group.

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

a.Contents of basic policy

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

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

Nonetheless, there are some forms of large-scale acquisition of shares that benefit neither the

corporate value of the target company nor the common interests of its shareholders including those with a purpose that would obviously harm the corporate value of the target company and the common interests of its shareholders, those with the potential to substantially coerce shareholders into selling their shares; those that do not provide sufficient time or information for the target company's board of directors and shareholders to consider the details of the large-scale acquisition, or for the target company's board of directors to make an alternative proposal and those that require the target company to discuss or negotiate with the acquirer in order to procure more favorable terms for shareholders than those presented by the acquirer.

It is particularly necessary and essential for the persons who make decisions on the Company's financial and business policies to (i) maintain the system under which the Company 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.Overview of 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.

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, 2019, the Company will continue implementing its growth strategy based on this plan.

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 will promote the development and sales of detached houses and condominiums that are in steady demand, as well as active development of properties such as logistics facility and hotels after assessing good location. On the other hand, the Stock and Fee Business, the Company's stable source of income, aims to expand all segments. The Rental Business will strive to expand Company-held fixed assets; the Fund and Consulting Business will accumulate assets under management; and the Property Management Business will increase properties under management.

Moreover, as an initiative to establish new income-generating businesses, the Hotel Business segment is newly established from the fiscal year ending November 30, 2019. In addition to the operation and rental of the existing properties, the Company is currently advancing the development of own brand hotel at three locations following TOSEI HOTEL COCONE Kanda, opened in December 2017, and TOSEI HOTEL COCONE Ueno, opened in December 2018, and will continue to work toward the growth of hotel business and enhancement of Tosei brand.

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

This plan is a measure to prevent persons deemed as inappropriate, in view of the aforementioned basic policy, from controlling the decisions on the Company's financial and business policies, and its objective is to ensure and enhance the Company's corporate value and, in turn, the common interests of its shareholders.

The plan stipulates procedures to be followed in an acquisition, etc. of shares, etc. of the Company ((A) a purchase and/or other acquisition of the shares and the like issued by the Company that would result in the holding ratio of share certificates, etc. (kabuken tou hoyuu wariai) of a holder (hoyuusha) of 20% or more; or (B) a tender offer (koukai kaitsuke) with respect to the shares, etc. issued by the Company that would result in the sum of the offeror's ownership ratio, and that of the persons having a special relationship with the offeror, of 20% or more; or any actions similar to (A) or (B) above) by those trying to acquire (hereinafter, the "Acquirer").

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

Upon receiving these documents, an independent committee will conduct the review of the acquisition terms, collection of information on materials such as the management plans and business plans of the Acquirer and the Company's board of directors and comparison thereof, the review of alternative plans, etc. presented by the Company's board of directors, and discussions and negotiations with the Acquirer, while obtaining advice from independent experts. In the meantime, the Company will disclose information in a timely manner.

When the acquisition is not in compliance with the procedures stipulated in the plan, and/or there is possibility of such offer to apparently cause harm to the corporate value of the Company and, in turn, to the common interests of shareholders, and it is appropriate for the Company to implement the gratis allotment of stock acquisition rights, the independent committee will recommend the implementation the gratis allotment of stock acquisition rights to the Company's board of directors. In addition, when a meeting of shareholders is convened to confirm the intent of the Company's shareholders, the Company's board of directors will comply with the shareholders' intent. These stock acquisition rights will be allotted with an exercise condition that does not allow, as a general rule, the Acquirer to exercise the rights and an acquisition provision to the effect that the Company will acquire the stock acquisition rights in exchange for shares of the Company from persons other than the Acquirer. The Company's board of directors will resolve, as an agency stipulated by the Companies Act, as to the implementation or non-implementation of the gratis allotment of stock acquisition rights, fully respecting the recommendation of the Independent Committee. In addition, when a meeting of shareholders is convened to confirm the intent of the Company's shareholders, the Company's board of directors will follow the shareholders' intent. If the procedures under this plan have commenced, the Acquirer must refrain from making any acquisition until the Company's board of directors resolves not to trigger the plan. The plan will remain in effect until the conclusion of the ordinary general meeting of shareholders for the last fiscal year ending within three years of the conclusion of the 68th Ordinary General Meeting of Shareholders. However, if, before the expiration of the effective period, the Company's board of directors resolves to abolish the plan, the plan will be abolished at that time.

d. Assessment by the Company's board of directors regarding specific measures and reasons thereof

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

In addition, the Company's board of directors is of the view that the plan is in line with the basic policy, does not undermine the common interests of the Company's shareholders, and is not for the purpose of maintaining the positions of the Company's corporate officers, based on the following reasons: an approval at the general meeting of shareholders has been obtained for its renewal; its maximum effective period is stipulated to be three years and it can be abolished at any time by the resolution of the Company's board of directors; an independent committee, which is comprised of the members that are independent of the management of the Company, has been established and the

countermeasures stipulated in the plan requires the decision by the independent committee for actual executions; and the plan fully satisfies the three principles set out in the "Guidelines Regarding Takeover Defense for the Purposes of Protection and Enhancement of Corporate Value and Shareholders' Common Interests" released by the Ministry of Economy, Trade and Industry and the Ministry of Justice on May 27, 2005.

(5) Research and development activities

No item to report.

3. Important operational contracts, etc.

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

III. Filing company

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

(1) Total number of authorized shares, etc.

a. Total number of authorized shares

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

b. Number of shares issued

Class	Number of issued shares (Shares: as of May 31, 2019)	Number of issued shares (Shares: as of the date of filing: July 10, 2019)	Name of financial instruments exchange where the stock of Tosei is traded or the name of authorized financial instruments firms association where Tosei is registered	Details
Ordinary shares	48,548,800	48,548,800	Tokyo Stock Exchange (First Section), Singapore Exchange (Mainboard)	Share unit number: 100
Total	48,548,800	48,548,800	–	–

Note: Shares issued through the exercise of stock acquisition rights between July 1, 2019 and the submission date of this Quarterly 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	April 25, 2019
Title and number of grantees	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	7,250 (Note 1)
Number of shares delivered upon exercise of stock acquisition rights (shares)	Ordinary shares 725,000 (Note 1)
Amount to be paid in upon exercise of stock acquisition rights (¥)	1,006 (Note 2)
Period during which stock acquisition rights may be exercised	From May 1st, 2021 to April 25, 2024
Issue price and amount capitalized of shares when issued through the exercise of stock acquisition rights (¥)	Issue price: 1,006 Amount capitalized: 503
Terms and conditions for exercising stock acquisition rights	(Note 3)
Transfer of stock acquisition rights	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 4)

Notes: 1. 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.

2. 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.

3. 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.

4. 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 other stock acquisition rights, etc.

No item to report.

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

No item to report.

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

Date	Fluctuation in the number of issued shares (Shares)	Balance of issued shares (Shares)	Fluctuation in share capital (¥ thousand)	Balance of share capital (¥ thousand)	Fluctuation in capital reserves (¥ thousand)	Balance of capital reserves (¥ thousand)
From March 1, 2019 to May 31, 2019	4,000	48,548,800	2,036	6,556,175	2,036	6,639,651

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

(5) Status of major shareholders

(As of May 31, 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	27.10
Zeus Capital Limited	2-22-26-103 Uehara, Shibuya-ku, Tokyo, Japan	6,000,000	12.62
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)	4,862,600	10.22
SSBTC CLIENT OMNIBUS ACCOUNT (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	ONE LINCOLN STRREET, BOSTON MA USA 02111 (3-11-1 Nihonbashi,Chuo-ku, Tokyo, Japan)	1,900,900	3.99
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)	1,435,600	3.01
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3, Hamamatsucho, Minato-ku, Tokyo, Japan	1,252,000	2.63
Japan Trustee Services Bank, Ltd. (Trust Account)	1-8-11, Harumi, Chuo-ku, Tokyo, Japan	1,242,200	2.61
GOLDMAN SACHS & CO. REG (Standing proxy: Goldman Sachs Securities Company)	200 WEST STEET NEW YORK, NY, USA (6-10-1, Roppongi, Minato-ku, Tokyo, Japan)	827,059	1.73
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)	692,600	1.45
DFA INTL SMALL CAP VALUE PORTFOLIO (Standing proxy: Citibank, N.A., Tokyo Branch)	PALISADES WEST 6300, BEE CAVE ROAD BUILDING ONE AUSTIN TX 78746 US (6-27-30 Shinjuku, Shinjuku-ku, Tokyo, Japan)	627,500	1.31
Total	–	31,725,959	66.73

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

2. In addition to the above, there are 1,008,805 shares of treasury shares owned by the Company.

3. The change report for the large shareholding report, which was made accessible to the public as of October 2, 2018, states that SPARX Asset Management Co., Ltd. held the following shares as of September 28, 2018. However, since the Company could not confirm the actual number of shares held by this company as of May 31, 2019, the company was not included in the status of major shareholders described above.

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

Large volume holder	SPARX Asset Management Co., Ltd.
Address	Shinagawa Season Terrace, 1-2-70, Konan, Minato Ward, Tokyo
Number of share certificates, etc. held (shares)	2,620,200
Holding ratio of share certificates, etc. (%)	5.40

(6) Status of voting rights

a. Issued shares

(As of May 31, 2019)

Classification	Number of shares (Shares)	Number of voting rights	Details
Shares without voting rights	–	–	–
Shares with restricted voting rights (Treasury shares, etc.)	–	–	–
Shares with restricted voting rights (Other)	–	–	–
Shares with full voting rights (Treasury shares, etc.)	(Treasury shares held) Ordinary shares 1,008,800	–	–
Shares with full voting rights (Other)	Ordinary shares 47,536,300	475,363	–
Shares less than one unit	Ordinary shares 3,700	–	–
Total number of issued shares	48,548,800	–	–
Voting rights owned by all shareholders	–	475,363	–

Note:1. 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.

b. Treasury shares, etc.

(As of May 31, 2019)

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

Note: At the board of directors meeting held on February 5, 2019, the Company resolved the acquisition of treasury shares from February 7, 2019 to August 31, 2019, and the Company acquired 1,008,800 treasury shares. And the acquisition has ended on April 23, 2019.

2. Status of Officers

There was no change in officers during the six months ended May 31, 2019 after the filing date of annual securities report for the previous fiscal year.

IV. Accounting

1. Preparation policy of the condensed quarterly consolidated financial statements

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

2. Audit attestation

The condensed quarterly consolidated financial statements for the second quarter of the fiscal year ending November 30, 2019 (from March 1, 2019 to May 31, 2019) and for the first six months of the fiscal year ending November 30, 2019 (from December 1, 2018 to May 31, 2019) were reviewed by Shinsoh Audit Corporation pursuant to Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act.

1. Condensed Quarterly Consolidated Financial Statements

(1) Condensed Consolidated Statement of Financial Position

(¥ thousand)

	Notes	As of November 30, 2018	As of May 31, 2019
Assets			
Current assets			
Cash and cash equivalents	8	26,520,569	29,100,675
Trade and other receivables	8	3,090,237	3,187,999
Inventories		62,457,864	67,206,468
Other current assets		30,495	12,529
Total current assets		92,099,167	99,507,673
Non-current assets			
Property, plant and equipment		8,785,869	8,722,238
Investment properties		33,752,847	33,395,236
Intangible assets		87,966	85,993
Other financial assets	8	2,244,831	2,427,694
Trade and other receivables	8	865,235	935,084
Deferred tax assets		903,707	780,345
Other non-current assets		28,914	4,014
Total non-current assets		46,669,371	46,350,607
Total assets		138,768,538	145,858,280
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	8	4,075,579	4,082,927
Borrowings	8	7,308,494	8,370,717
Current income tax liabilities		2,445,597	2,045,521
Provisions		593,669	322,799
Total current liabilities		14,423,341	14,821,965
Non-current liabilities			
Trade and other payables	8	3,708,969	3,466,038
Borrowings	8	67,716,752	71,850,579
Retirement benefits obligations		493,554	502,142
Provisions		6,817	6,894
Deferred tax liabilities		397,320	321,403
Total non-current liabilities		72,323,414	76,147,059
Total Liabilities		86,746,756	90,969,024
Equity			
Share capital		6,554,139	6,556,175
Capital reserves		6,544,924	6,543,844
Retained earnings		38,843,309	42,626,953
Treasury shares		(128)	(1,000,037)
Other components of equity		79,537	162,318
Total equity attributable to owners of parent		52,021,782	54,889,255
Total equity		52,021,782	54,889,255
Total liabilities and equity		138,768,538	145,858,280

(2) Condensed Consolidated Statement of Comprehensive Income

Six months ended May 31, 2019

(¥ thousand)

	Notes	Six months ended May 31, 2018	Six months ended May 31, 2019
Revenue	5	32,520,695	34,452,685
Cost of revenue		21,749,086	22,487,881
Gross profit		10,771,608	11,964,804
Selling, general and administrative expenses		3,922,865	4,049,042
Other income		123,511	56,652
Other expenses		85,236	7,888
Operating profit	5	6,887,017	7,964,525
Finance income		40,815	41,255
Finance costs		415,915	370,945
Profit before tax		6,511,917	7,634,835
Income tax expense		2,059,583	2,394,849
Profit for the period		4,452,334	5,239,985
Other comprehensive income			
Other comprehensive income Items that will not be reclassified to profit or loss			
Net change in financial assets measured at fair values through other comprehensive income		—	91,911
Subtotal		—	91,911
Other comprehensive income Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(5,583)	(9,901)
Net change in fair values of available-for-sale financial assets		37,820	—
Net change in fair values of cash flow hedges		1,723	771
Subtotal		33,959	(9,130)
Other comprehensive income for the period, net of tax		33,959	82,781
Total comprehensive income for the period		4,4886,293	5,322,766
Profit attributable to:			
Owners of the parent		4,452,334	5,239,985
Total comprehensive income attributable to:			
Owners of the parent		4,486,293	5,322,766
Earnings per share attributable to owners of the parent			
Basic earnings per share (¥)	7	91.97	108.79
Diluted earnings per share (¥)	7	91.75	108.72

Second quarter ended May 31, 2019

(¥ thousand)

	Notes	Second quarter ended May 31, 2018	Second quarter ended May 31, 2019
Revenue	5	14,210,654	17,393,228
Cost of revenue		9,629,849	10,573,497
Gross profit		4,580,805	6,819,730
Selling, general and administrative expenses		2,045,072	1,993,905
Other income		29,528	17,118
Other expenses		19,664	3,744
Operating profit	5	2,545,596	4,839,199
Finance income		623	485
Finance costs		184,593	192,024
Profit before tax		2,361,627	4,647,660
Income tax expense		756,823	1,443,356
Profit for the period		1,604,803	3,204,303
Other comprehensive income			
Other comprehensive income Items that will not be reclassified to profit or loss			
Net change in financial assets measured at fair values through other comprehensive income		—	58,872
Subtotal		—	58,872
Other comprehensive income Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		422	(8,188)
Net change in fair values of available-for-sale financial assets		4,955	—
Net change in fair values of cash flow hedges		819	616
Subtotal		6,197	(7,571)
Other comprehensive income for the period, net of tax		6,197	51,300
Total comprehensive income for the period		1,611,000	3,255,603
Profit attributable to:			
Owners of the parent		1,604,803	3,204,303
Total comprehensive income attributable to:			
Owners of the parent		1,611,000	3,255,603
Earnings per share attributable to owners of the parent			
Basic earnings per share (¥)	7	33.10	66.92
Diluted earnings per share (¥)	7	33.03	66.88

(3) Condensed Consolidated Statement of Changes in Equity

Six months ended May 31, 2018 (December 1, 2017 – May 31, 2018)

(¥ thousand)

	Notes	Share capital	Capital reserves	Retained earnings	Treasury shares	Other components of equity	Total equity attributable to owners of parent	Total equity
Balance at December 1, 2017		6,421,392	6,464,240	33,209,210	—	64,024	46,158,867	46,158,867
Profit for the period				4,452,334			4,452,334	4,452,334
Other comprehensive income						33,959	33,959	33,959
Total comprehensive income for the period		—	—	4,452,334	—	33,959	4,486,293	4,486,293
Amount of transactions with owners								
Issuance of new shares		122,669	70,099				192,768	192,768
Purchase of treasury shares					(61)		(61)	(61)
Dividends of surplus	6			(1,207,100)			(1,207,100)	(1,207,100)
Share-based payment			4,935				4,935	4,935
Balance at May 31, 2018		6,544,061	6,539,274	36,454,444	(61)	97,983	49,635,703	49,635,703

Six months ended May 31, 2019 (December 1, 2018 – May 31, 2019)

(¥ thousand)

	Notes	Share capital	Capital reserves	Retained earnings	Treasury shares	Other components of equity	Total equity attributable to owners of parent	Total equity
Balance at December 1, 2018		6,554,139	6,544,924	38,843,309	(128)	79,537	52,021,782	52,021,782
Profit for the period				5,239,985			5,239,985	5,239,985
Other comprehensive income						82,781	82,781	82,781
Total comprehensive income for the period		—	—	5,239,985	—	82,781	5,322,766	5,322,766
Amount of transactions with owners								
Issuance of new shares		2,036	1,121				3,157	3,157
Purchase of treasury shares			(2,711)		(999,909)		(1,002,620)	(1,002,620)
Dividends of surplus	6			(1,456,340)			(1,456,340)	(1,456,340)
Share-based payment			510				510	510
Balance at May 31, 2019		6,556,175	6,543,844	42,626,953	(1,000,037)	162,318	54,889,255	54,889,255

(4) Condensed Consolidated Statement of Cash Flows

(¥ thousand)

	Notes	Six months ended May 31, 2018	Six months ended May 31, 2019
Cash flows from operating activities			
Profit before tax		6,511,917	7,634,835
Depreciation expense		292,035	435,606
Increase (decrease) in provisions and retirement benefits obligations		(223,006)	(261,403)
Interest and dividend income		(40,815)	(41,255)
Interest expenses		415,915	370,945
Loss on retirement of property, plant and equipment		608	—
Decrease (increase) in trade and other receivables		68,276	275,084
Decrease (increase) in inventories		(7,344,536)	(4,584,930)
Increase (decrease) in trade and other payables		996,483	(480,791)
Other, net		(80,806)	(3,068)
Subtotal		596,073	3,345,022
Interest and dividend income received		40,811	41,086
Income taxes paid		(1,037,751)	(2,831,445)
Net cash from (used in) operating activities		(400,865)	554,663
Cash flows from investing activities			
Proceeds from withdrawal of time deposits		—	20,000
Purchase of property, plant and equipment		(29,447)	(33,613)
Purchase of investment properties		(205,711)	(37,909)
Purchase of intangible assets		(19,868)	(12,811)
Purchase of other financial assets		(150)	(50,820)
Payments of other financial assets		—	6,280
Payments of loans receivable		—	(126,730)
Collection of loans receivable		38	5,679
Purchase of investments in subsidiaries resulting in change in scope of consolidation		(1,471,733)	—
Other, net		3,715	20,413
Net cash from (used in) investing activities		(1,723,156)	(209,509)
Cash flows from financing activities			
Net increase (decrease) in current borrowings		841,000	(26,600)
Proceeds from non-current borrowings		22,280,950	23,084,545
Repayments of non-current borrowings		(17,407,178)	(17,860,068)
Proceeds from issuance of new shares		192,431	3,134
Cash dividends paid		(1,205,363)	(1,454,261)
Interest expenses paid		(498,509)	(508,132)
Purchase of treasury shares		(61)	(999,909)
Other, net		(1,827)	(2,827)
Net cash from (used in) financing activities		4,201,440	2,235,880
Net increase (decrease) in cash and cash equivalents		2,077,418	2,581,034
Cash and cash equivalents at beginning of period		23,750,239	26,520,569
Effect of exchange rate change on cash and cash equivalents		(598)	(928)
Cash and cash equivalents at end of period		25,827,059	29,100,675

(5) Notes on Condensed Quarterly Consolidated Financial Statements

1. Reporting entity

Tosei Corporation (hereinafter, the "Company") is a share company located in Japan whose shares are listed on the First Section of the Tokyo Stock Exchange and the Mainboard of Singapore Exchange. The Company's condensed quarterly consolidated financial statements for the second quarter (March 1, 2019 to May 31, 2019) and first six months (December 1, 2018 to May 31, 2019) of the current fiscal year have been prepared in respect of the Company and its consolidated subsidiaries (hereinafter collectively, the "Group"). The Group engages in the following six business operations: Revitalization Business, Development Business, Rental Business, Fund, Consulting Business and Property Management Business and Hotel Business. The operations of each business segment are presented in "5. Segment information" in the notes.

2. Basis of preparation

(1) Compliance with IFRS

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

These condensed quarterly consolidated financial statements were approved by Seiichiro Yamaguchi, the Company's President and CEO, and Noboru Hirano, Director and CFO, on July 5, 2019.

(2) Basis of measurement

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

(3) Presentation currency and unit amount

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

3. Significant accounting policies

With the exception of the following items, significant accounting policies that the Group applies in condensed quarterly consolidated financial statements are the same as the accounting policies used in the consolidated financial statements for the previous fiscal year.

Changes in accounting policies

The Group applied the following standards effective from the first quarter of 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 quarterly 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. In accordance with transition provisions, the Group has not applied IFRS 9 retrospectively to consolidated financial statements for the previous fiscal year.

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.

(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 prior 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

4. Significant accounting estimates and judgments requiring estimates

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

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

5. Segment information

The Group's reportable segments are components of the Group about which separate financial information is available that the Board of Directors regularly conducts deliberations to determine the allocation of management resources and to assess the performance. The Group draws up comprehensive strategies for each of the following 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 rents office buildings and apartments. The Fund and Consulting Business mainly provides asset management services for the properties placed in real estate funds. The Property Management Business provides comprehensive property management services. The 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 first quarter 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, and Property Management Business segments, 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 six months ended May 31, 2018 and second quarter ended May 31,2018 have been prepared in accordance with the new reportable segment classifications.

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

Six months ended May 31, 2018

(December 1, 2017 – May 31, 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	17,585,038	8,613,547	2,797,069	1,324,657	1,938,389	261,992	—	32,520,695
Intersegment revenue	—	—	21,929	21,543	536,650	500	(580,623)	—
Total	17,585,038	8,613,547	2,818,999	1,346,200	2,475,040	262,492	(580,623)	32,520,695
Segment profit	4,227,735	1,408,139	1,199,967	707,671	204,446	99,926	(960,869)	6,887,017
Finance income/costs, net								(375,100)
Profit before tax								6,511,917

Six months ended May 31, 2019

(December 1, 2018 – May 31, 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	17,075,798	10,226,890	2,934,058	1,309,000	2,317,170	589,767	—	34,452,685
Intersegment revenue	—	—	22,852	9,979	583,352	1,830	(618,015)	—
Total	17,075,798	10,226,890	2,956,910	1,318,980	2,900,522	591,597	(618,015)	34,452,685
Segment profit	5,027,397	1,541,304	1,182,085	690,162	289,167	131,884	(897,475)	7,964,525
Finance income/costs, net								(329,689)
Profit before tax								7,634,835

Second quarter ended May 31, 2018

(March 1, 2018 – May 31, 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	3,159,624	7,847,355	1,446,107	650,586	963,438	143,543	—	14,210,654
Intersegment revenue	—	—	11,144	8,453	280,938	500	(301,036)	—
Total	3,159,624	7,847,355	1,457,251	659,040	1,244,377	144,043	(301,036)	14,210,654
Segment profit	433,823	1,553,570	605,815	330,035	96,018	57,199	(530,865)	2,545,596
Finance income/costs, net								(183,969)
Profit before tax								2,361,627

Second quarter ended May 31, 2019

(March 1, 2019 – May 31, 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	10,451,865	3,181,386	1,463,840	705,716	1,253,332	337,087	—	17,393,228
Intersegment revenue	—	—	11,438	5,772	305,828	1,130	(324,168)	—
Total	10,451,865	3,181,386	1,475,279	711,488	1,559,160	338,217	(324,168)	17,393,228
Segment profit	3,603,240	495,350	575,716	392,913	168,895	82,936	(479,942)	4,839,199
Finance income/costs, net								(191,538)
Profit before tax								4,647,660

6. Dividends

Dividends paid in the six months ended May 31, 2018 and May 31, 2019 are as follows:

Six months ended May 31, 2018				
Resolution	Dividends per share (¥)	Total dividends (¥ thousand)	Record date	Effective date
Ordinary General Meeting of Shareholders held on February 27, 2018	25	1,207,100	November 30, 2017	February 28, 2018

Six months ended May 31, 2019				
Resolution	Dividends per share (¥)	Total dividends (¥ thousand)	Record date	Effective date
Ordinary General Meeting of Shareholders held on February 27, 2019	30	1,456,340	November 30, 2018	February 28, 2019

7. Earnings per share

	Six months ended May 31, 2018	Six months ended May 31, 2019
Profit attributable to owners of the parent (¥ thousand)	4,452,334	5,239,985
Net income used to figure diluted net income per share (¥ thousand)	4,452,334	5,239,985
Weighted average number of outstanding ordinary shares (shares)	48,409,489	48,167,280
The number of increased ordinary shares used to figure diluted earnings per share (shares)	117,265	29,640
The weighted-average number of ordinary shares used to figure diluted earnings per share (shares)	48,526,754	48,196,920
Basic earnings per share (¥)	91.97	108.79
Diluted net income per share (¥)	91.75	108.72

	Second quarter ended May 31, 2018	Second quarter ended May 31, 2019
Profit attributable to owners of the parent (¥ thousand)	1,604,803	3,204,303
Net income used to figure diluted net income per share (¥ thousand)	1,604,803	3,204,303
Weighted average number of outstanding ordinary shares (shares)	48,488,725	47,884,220
The number of increased ordinary shares used to figure diluted earnings per share (shares)	96,707	29,433
The weighted-average number of ordinary shares used to figure diluted earnings per share (shares)	48,585,432	47,913,653
Basic earnings per share (¥)	33.10	66.92
Diluted net income per share (¥)	33.03	66.88

Notes: 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.

8. Financial instruments

i) Fair values and book values

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

(¥ thousand)

	As of November 30, 2018		As of May 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	2,751,391	2,751,391	—	—
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	—	—	29,100,675	29,100,675
Trade and other receivables	—	—	2,439,872	2,439,872
Financial assets measured at fair value through other comprehensive income				
Other financial assets	—	—	2,010,382	2,010,382
Financial assets measured at fair value through profit or loss				
Other financial assets	—	—	417,312	417,312
Financial liabilities				
Financial liabilities measured at amortized cost				
Trade and other payables	6,138,677	6,138,677	5,904,638	5,904,638
Borrowings	75,025,247	75,035,318	80,221,297	80,231,420

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.

Non-current borrowings

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

ii) Fair value hierarchy

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

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

(¥ thousand)

	As of November 30, 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 values through other comprehensive income (derivative)	—	9,469	—	9,469

	As of May 31, 2019			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair values through other comprehensive income	1,788,511	—	221,870	2,010,382
Financial assets measured at fair values through profit or loss	—	—	417,312	417,312
Financial liabilities measured at fair value through other comprehensive income (derivative)	—	8,339	—	8,339

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

(¥ thousand)

	Six months ended May 31, 2019
Balance at beginning of period	631,787
Acquisition	2,457
Comprehensive income	
Profit (loss)	5,848
Other comprehensive income	5,371
Disposal	(6,280)
Balance at end of period	639,183

9. Significant subsequent events

No item to report.

2. Other

No item to report.

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

No items to report.

(Translation)

Quarterly Review Report of Independent Auditors

July 5, 2019

To the Board of Directors of
Tosei Corporation

Shinsoh Audit Corporation

Designated and Engagement Partner,
Certified Public Accountant:

Takayuki Sakashita (Seal)

Designated and Engagement Partner,
Certified Public Accountant:

Atushi Iijima (Seal)

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have reviewed the condensed quarterly consolidated financial statements of Tosei Corporation included in the "Accounting" section, namely, the condensed consolidated statements of financial position, comprehensive income, changes in equity, and cash flows, as well as their notes, for the second quarter (March 1, 2019 to May 31, 2019) and the first six-month period (December 1, 2018 to May 31, 2019) of the fiscal year from December 1, 2018 to November 30, 2019.

Management's Responsibility for the Condensed Quarterly Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Auditor's Conclusion

In our quarterly review, we have concluded that the condensed quarterly consolidated financial statements referred to above are in conformity with International Accounting Standard 34 "Interim Financial Reporting", and nothing has come to our attention that causes us to believe that they do not fairly present, in all material respects, the financial positions of the Company and its consolidated subsidiaries as of May 31, 2019, and the consolidated results of their operations and their cash flows for the six-month period then ended the same date.

Interest

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

End

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

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

Note:
The English version of the financial statements consists of an English translation of the reviewed Japanese financial statements. The actual text of the English translation of the financial statements was not covered by our review. Consequently, for the auditors' review report of the English financial statements, the Japanese original is the official text, and the English version is a translation of that text. Should there be any inconsistency between the translation and the official Japanese text, the latter shall prevail.