

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 68th term)

from December 1, 2016
to November 30, 2017

TOSEI CORPORATION

4-2-3, Toranomom, 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 28, 2018 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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| Date of filing: | February 28, 2018 |
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| Company name (Japanese): | トーセイ株式会社 (<i>Tosei Kabushiki-Kaisha</i>) |
| Company name (English): | TOSEI CORPORATION |
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| Places where the document to be filed is available for public inspection: | Tokyo Stock Exchange, Inc. (2-1, Nihonbashi-kabutocho, Chuo-ku, Tokyo) |

A. Company Information

I. Overview of the Tosei Group

1. Trends in principal management benchmarks

(1) Management benchmarks (consolidated)

| Term | 64th term | 65th term | 66th term | 67th term | 68th term |
|--|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Accounting period | Fiscal year ended Nov. 30, 2013 | Fiscal year ended Nov. 30, 2014 | Fiscal year ended Nov. 30, 2015 | Fiscal year ended Nov. 30, 2016 | Fiscal year ended Nov. 30, 2017 |
| Revenue (¥ thousand) | 35,070,345 | 49,981,563 | 43,006,964 | 49,818,113 | 57,754,328 |
| Profit before tax (¥ thousand) | 3,222,127 | 4,663,706 | 6,040,311 | 8,450,048 | 9,049,467 |
| Profit attributable to owners of parent (¥ thousand) | 2,006,471 | 2,874,226 | 4,135,816 | 5,547,469 | 6,155,169 |
| Comprehensive income attributable to owners of parent (¥ thousand) | 2,011,780 | 3,021,682 | 4,081,386 | 5,509,307 | 6,165,615 |
| Total equity (¥ thousand) | 30,092,426 | 32,727,836 | 36,228,378 | 41,010,083 | 46,158,867 |
| Total assets (¥ thousand) | 71,283,073 | 80,858,080 | 93,196,052 | 121,276,292 | 122,550,281 |
| Equity attributable to owners of parent per share (¥) | 623.24 | 677.82 | 750.32 | 849.35 | 955.99 |
| Basic earnings per share (¥) | 43.05 | 59.53 | 85.66 | 114.89 | 127.48 |
| Diluted earnings per share (¥) | — | — | — | — | 127.41 |
| Ratio of equity attributable to owners of parent to total assets (%) | 42.2 | 40.5 | 38.9 | 33.8 | 37.7 |
| Ratio of return on equity attributable to owners of parent (%) | 7.1 | 9.2 | 12.0 | 14.4 | 14.1 |
| Price earnings ratio (PER) (Times) | 18.05 | 12.10 | 8.84 | 7.23 | 8.59 |
| Net cash from (used in) operating activities (¥ thousand) | 2,772,614 | 344,537 | (4,443,093) | (7,472,487) | 7,089,159 |
| Net cash from (used in) investing activities (¥ thousand) | (940,724) | (2,878,766) | 481,605 | (8,193,818) | (18,800) |
| Net cash from (used in) financing activities (¥ thousand) | 3,456,677 | 3,891,894 | 6,661,097 | 18,522,496 | (4,962,180) |
| Cash and cash equivalents at end of period (¥ thousand) | 14,711,997 | 16,100,795 | 18,791,081 | 21,640,866 | 23,750,239 |
| Number of employees [Separately, average number of temporary employees] (Person) | 227 [228] | 263 [226] | 301 [163] | 368 [155] | 386 [156] |

Notes: 1. Revenue does not include consumption taxes.

- Diluted earnings per share for the 64th term to the 65th term is not presented because there were no potential shares. Diluted earnings per share for the 66th term and 67th term are not presented because there were no potential shares that have dilutive effects.
- The Company has been preparing its consolidated financial statements in accordance with the International Financial Reporting Standard (“IFRS”).
- The Company split its shares by 100 for 1, effective July 1, 2013. Therefore, equity attributable to owners of parent per share, and basic earnings per share were calculated on the assumption that the share split was implemented at the beginning of the 63rd term.
- The Group has partially changed accounting policies from the 65th term and restated the related principal management benchmarks for the 64th retrospectively.

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

| Term | 64th term | 65th term | 66th term | 67th term | 68th term |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Accounting period | Fiscal year ended Nov. 30, 2013 | Fiscal year ended Nov. 30, 2014 | Fiscal year ended Nov. 30, 2015 | Fiscal year ended Nov. 30, 2016 | Fiscal year ended Nov. 30, 2017 |
| Net sales (¥ thousand) | 30,044,918 | 45,361,084 | 37,242,841 | 41,965,432 | 45,491,580 |
| Ordinary income (¥ thousand) | 2,654,711 | 4,130,769 | 5,553,118 | 7,123,434 | 7,218,097 |
| Net income (¥ thousand) | 1,656,236 | 2,439,091 | 3,906,732 | 4,734,766 | 5,449,682 |
| Capital stock (¥ thousand) | 6,421,392 | 6,421,392 | 6,421,392 | 6,421,392 | 6,421,392 |
| Total number of shares issued (Shares) | 48,284,000 | 48,284,000 | 48,284,000 | 48,284,000 | 48,284,000 |
| Net assets (¥ thousand) | 29,015,893 | 31,131,670 | 34,478,314 | 38,455,373 | 42,889,054 |
| Total assets (¥ thousand) | 67,207,256 | 76,218,316 | 88,071,296 | 114,085,085 | 115,196,337 |
| Net assets per share (¥) | 600.94 | 644.76 | 714.06 | 795.50 | 886.38 |
| Dividends per share [Interim dividends per share] (¥) | 8.00 [-] | 12.00 [-] | 16.00 [-] | 22.00 [-] | 25.00 [-] |
| Net income per share (¥) | 35.54 | 50.52 | 80.91 | 98.06 | 112.87 |
| Net income per share (diluted) (¥) | - | - | - | - | 112.81 |
| Equity ratio (%) | 43.2 | 40.8 | 39.1 | 33.7 | 37.2 |
| Return on equity (ROE) (%) | 6.1 | 8.1 | 11.9 | 13.0 | 13.4 |
| Price earnings ratio (PER) (Times) | 21.86 | 14.25 | 9.36 | 8.47 | 9.70 |
| Dividend payout ratio (%) | 22.5 | 23.8 | 19.8 | 22.4 | 22.1 |
| Number of employees [Separately, average number of temporary employees] (Person) | 120 [-] | 131 [-] | 140 [-] | 152 [-] | 159 [-] |

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

2. Net income per share (diluted) for the 64th term to the 65th term is not presented because there were no potential shares. 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 Company split its shares by 100 for 1, effective July 1, 2013. Therefore, net assets per share and net income per share were calculated on the assumption that the share split was implemented at the beginning of the 63rd term. However, the total number of shares issued and dividends per share do not take effects of the share split-up into account.

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 Jasadq 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 Toranomom, 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 a consolidated subsidiary by acquiring its shares |
| February 2016 | Established Tosei Hotel Management Co., Ltd. |
| June 2017 | Established a consolidated subsidiary, Tosei Hotel Kanda Co., Ltd. |
| December 2017 | Opened Tosei Hotel COCONE Kanda |

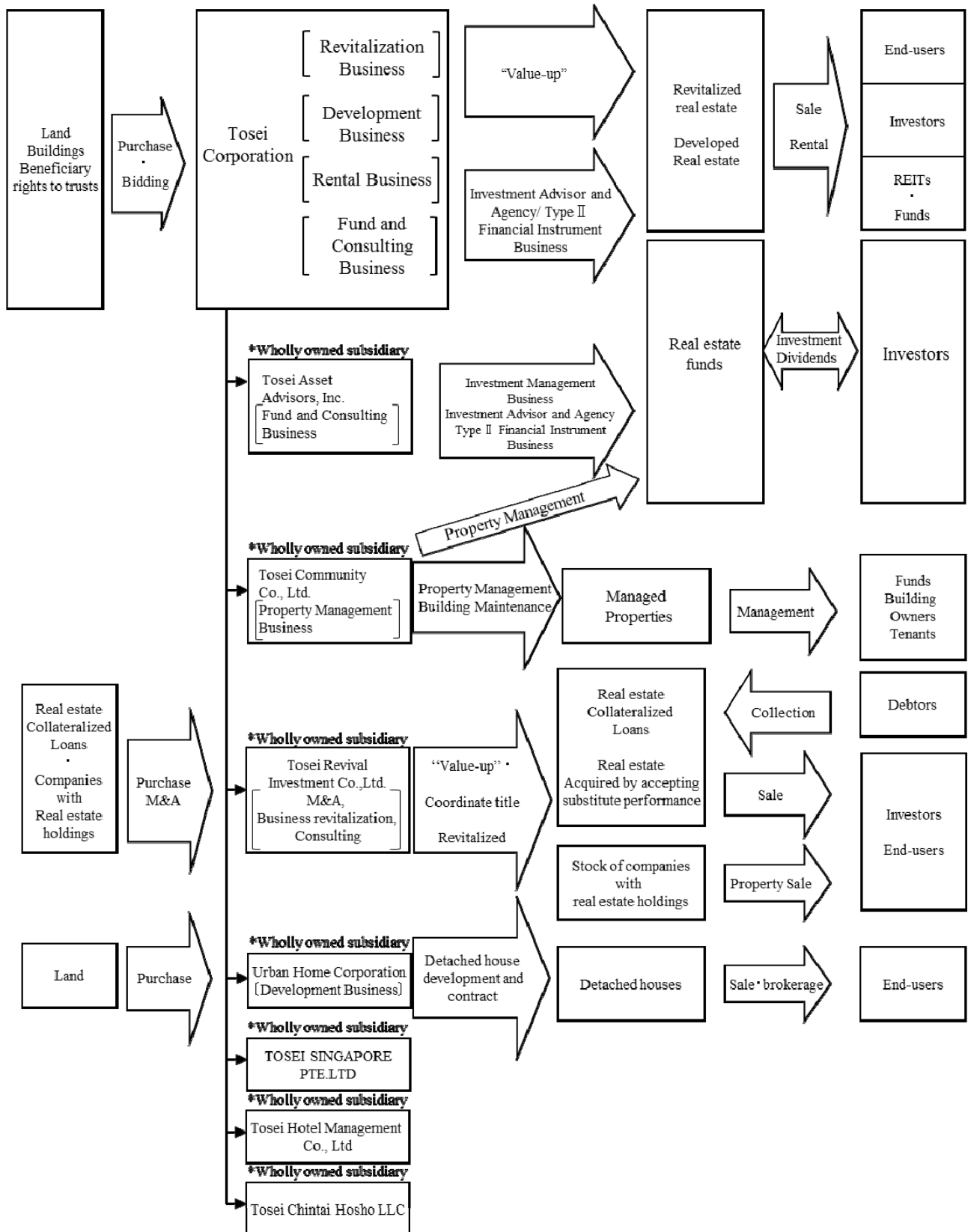
3. Business description

The Tosei Group is composed of Tosei Corporation (“Tosei” or the “Company”) and 12 consolidated subsidiaries. Its main businesses are the Revitalization Business, the Development Business, the Rental Business, the Fund and Consulting Business, and the Property Management Business. 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 | <p>The Tosei Group acquires, through diverse means (*1), office buildings, commercial facilities, apartments and other properties whose asset value has declined, boosts their value through “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.</p> <p>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.</p> <p>(*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.</p> <p>(*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.</p> | Tosei Corporation Tosei Revival Investment Co., Ltd. |
| Development Business | <p>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.</p> <p>The Group is able to respond to diverse needs by developing office buildings, commercial buildings (T’s BRIGHTIA series) and mixed-use buildings, hotels, 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.</p> | Tosei Corporation Urban Home Corporation |
| Rental Business | <p>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.</p> <p>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.</p> | Tosei Corporation |

| | | |
|------------------------------|---|---|
| Fund and Consulting Business | <p>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.</p> <p>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.</p> | <p>Tosei Corporation</p> <p>Tosei Asset Advisors, Inc</p> |
| Property Management Business | <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> | <p>Tosei Community Co., Ltd.</p> |

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 |
| Urban Home Corporation | Machida-shi, Tokyo | 100,000 | Development business | 100.0 | |
| Kishino Corporation | Minato-ku, Tokyo | 10,000 | Revitalization business | 100.0 | |
| Four Big Corporation | Minato-ku, Tokyo | 80,000 | Revitalization business | 100.0 | |
| KS Properties Corporation | Minato-ku, Tokyo | 100 | Revitalization business | 100.0 | |
| Tosei Hotel Management Co., Ltd. | Minato-ku, Tokyo | 20,000 | Hotel management | 100.0 | |
| Tosei Hotel Kanda Co., Ltd. | Minato-ku, Tokyo | 10,000 | Hotel management | 100.0 (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. KS Properties Corporation was acquired in an M&A transaction during the fiscal year under review, while Tosei Hotel Kanda Co., Ltd. was established as a subsidiary and both have been included in the scope of consolidation.

In addition, the consolidated subsidiary previously known as Kishino Real Estate Corporation was excluded from the scope of consolidation as a result of the completion of liquidation on November 24, 2017.

CSC (trade name changed from "Crystal Sports Club" as of December 1, 2016) underwent a company split and the Company sold shares of the newly established Crystal Sports Club.

5. Status of employees

(1) Consolidated companies

(As of November 30, 2017)

| Segment | Number of employees (Person) | |
|------------------------------|------------------------------|-------|
| Revitalization Business | 55 | [-] |
| Development Business | 80 | [3] |
| Rental Business | 23 | [-] |
| Fund and Consulting Business | 73 | [-] |
| Property Management Business | 109 | [139] |
| Other | — | [14] |
| Corporate (common) | 46 | [-] |
| Total | 386 | [156] |

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, 2017)

| Number of employees (Person) | Average age (Year old) | Average years of service (Year) | Average annual salary (¥ thousand) |
|------------------------------|------------------------|---------------------------------|------------------------------------|
| 159 | 36.7 | 5.9 | 7,811 |

| Segment | Number of employees (Person) |
|------------------------------|------------------------------|
| Revitalization Business | 53 |
| Development Business | 37 |
| Rental Business | 20 |
| Fund and Consulting Business | 3 |
| Corporate (common) | 46 |
| Total | 159 |

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. Overview of operating results

(1) Operating results

During the fiscal year ended November 30, 2017, the Japanese economy continued to grow against a backdrop of increased exports and expanded capital investment by corporate entities. The current economic recovery, which began in December 2012, is now the second-longest post-war recovery period, surpassing the Izanagi economic boom. Moderate growth is expected to continue going forward, backed by rising corporate earnings and stable personal consumption, despite concerns over geopolitical risks and downside risks of political trends in Europe and the U.S.

In the real estate industry where Tosei Group operates, transactions are increasing. Domestic real estate transactions from January to September 2017 rose 6% year on year to ¥2.96 trillion, due to an increase in the number of investors considering sales of their real estate holdings against a backdrop of rising real estate prices and growing transactions in areas surrounding central Tokyo and regional areas, where the effects of rent increases can be seen. Demand for real estate investment is likely to continue for some time against the backdrop of a favorable financing environment, and real estate transactions for the full year 2018 are anticipated to rise around 10% year on year to approximately ¥4 trillion (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 2017 remained unchanged year on year. The average sales price in the Tokyo metropolitan area continued to rise due to comparatively favorable sales of high-priced properties in the central Tokyo area. However, the average contract rate for the first month, during the same period was below the 70% threshold from which market conditions are viewed as favorable, as sales of mainly suburban properties continued to struggle (according to a survey by a private research institute).

In the Tokyo metropolitan area build-for-sale detached house market, demand for detached houses, which are perceived as comparatively inexpensive compared with condominiums, is strong and housing starts from January to September 2017 rose 1.2% year on year (according to a survey by the Ministry of Land, Infrastructure, Transport and Tourism).

The office leasing market of Tokyo's five business wards has been performing favorably, backed by strong demand for office expansion by corporate entities continuing good performance. The vacancy rate as of October 2017 declined from 3.6% year on year to 3.0%, and the average asking rent was ¥19,000 per tsubo (1 tsubo = 3.3m²), a 3.2% increase year on year. An upsurge in supply of large-scale office buildings is anticipated from 2018. However, the vacancy rate is expected to remain in a moderate downtrend, backed by firm corporate demand going forward (according to a survey by a private research institute).

In the real estate securitization market, the market scale expanded to ¥31 trillion (an increase of ¥2.3 trillion year on year) as a result of continued demand for real estate investment, which offers high returns compared with other investment products. The total value of assets under management as of June 30, 2017 was ¥16.2 trillion in J-REITs, (an increase of ¥1.4 trillion year on year), and ¥14.8 trillion in private placement fund, (an increase of ¥0.9 trillion year on year) (according to a survey by a private research institute).

Amid this operating environment, in the Revitalization Business, the Group made steady progress in selling assets such as income-generating office buildings, apartments and hotels, while in the Development Business, the Group pushed ahead with sales of detached houses. In addition, we proactively acquired income-generating properties and land for development as future sources of income.

As a result, consolidated revenue for the fiscal year under review totaled ¥57,754 million (up 15.9% year on year), operating profit was ¥9,833 million (up 6.0%), profit before tax was ¥9,049 million (up 7.1%), and profit for the year was ¥6,155 million (up 11.0%).

Performance by business segment is shown below.

Revitalization Business

During the fiscal year under review, the segment sold 58 properties it had renovated, including The Square Seiseki-sakuragaoka (Tama-shi, Tokyo), Kuramochi Building I (Sumida-ku Tokyo), Kameido Tosei Building (Koto-ku, Tokyo), Twin Avenue (Nerima-ku, Tokyo), Onoe-cho 6-chome Building (Yokohama-shi, Kanagawa), MILESTONE Higashikurume (Higashikurume-shi Tokyo) and T's garden Urayasu II (Urayasu-shi, Chiba). In addition, the segment sold 45 units in the Restyling Business, including Hilltop Yokohama Negishi (Yokohama-shi, Kanagawa), Hilltop Yokohama Higashi Terao (Yokohama-shi, Kanagawa) and Renai Kamakura Ueki (Kamakura-shi, Kanagawa). During the fiscal year under review, it also acquired a total of 51 income-generating office buildings and apartments and eight land lots for renovation and sales purposes.

As part of the acquisition, our company acquired KS Properties Corporation, company holds income properties mainly in Suginami-ku, Tokyo, through M&A transaction and converted it into consolidated subsidiaries.

As a result, revenue in this segment was ¥40,268 million (up 56.0% year on year) and the segment profit was ¥7,845 million (up 96.1%).

Development Business

During the fiscal year under review, the segment focused on the sale of detached houses, for which there was firm demand. The segment sold 121 detached houses at such properties as THE Palms Court Kashiwa Hatsuishi (Kashiwa-shi, Chiba), THE Palms Court Koshigaya Lake Town (Koshigaya-shi, Saitama), THE Palms Court Kamakura-Shiromeguri (Kamakura-shi, Kanagawa). During the fiscal year under review, it also acquired a land lot for hotel project, a land lot for condominium project, a land lot for rental apartment project and land lots for 49 detached housings.

As a result, revenue in this segment was ¥5,197 million (down 60.4% year on year) and the segment loss was ¥408 million (in comparison with segment profit of ¥3,674 million in previous fiscal year).

Rental Business

During the fiscal year under review, while the segment sold 37 buildings of its inventory assets held for leasing purposes, it newly acquired 41 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 ¥6,194 million (up 17.3% year on year) and the segment profit was ¥2,581 million (up 8.0%).

Fund and Consulting Business

During the fiscal year under review, while ¥39,864 million was subtracted from the balance of assets under management (Note), due mainly to property dispositions by funds, ¥143,886 million was added to the balance of Assets under management ¥448,186 million for the end of the previous fiscal year, due mainly to new asset management contracts of large projects the segment obtained. The balance of assets under management as of November 30, 2017, was ¥552,208 million. The acquisition of such large project contracts increased asset management fees and contributed to revenue.

As a result, revenue in this segment was ¥2,763 million (up 20.0% year on year) and the segment profit was ¥1,273 million (up 33.9%).

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 665 as of November 30, 2017, an increase of 71 properties from November 30, 2016, with that total comprising 395 office buildings, hotel, schools and other such properties, and 270 condominiums and apartments.

As a result, revenue in this segment was ¥3,330 million (up 13.1% year on year) and segment profit was ¥278 million (up 96.9%).

Others

During the fiscal year under review, revenue in this segment was ¥0 million (down 100.0% year on year) and the segment loss was ¥74 million (up 318.5% year on year).

(2) Cash flows

Cash and cash equivalents (hereinafter “cash”) as of November 30, 2017 totaled ¥23,750 million, an increase of ¥2,109 million compared with November 30, 2016.

The cash flows for the fiscal year under review and factors contributing to those amounts are as follows:

Cash Flows from Operating Activities

Net cash provided by operating activities totaled ¥7,089 million (net cash used in operating activities totaled ¥7,472 million in the previous fiscal year). This is mainly due to profit before tax of ¥9,049 million, as well as an increase in income taxes paid of ¥4,027 million.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥18 million (down 99.8% year on year). This is mainly due to

¥1,282 million in payments of investment properties, ¥1,085 million in payments of loans receivable and proceeds from loans receivable of ¥2,760 million

Cash Flows from Financing Activities

Net cash used in financing activities totaled ¥4,962 million (¥18,522 million provided by the previous fiscal year). This mainly reflects ¥39,951 million in the repayments of non-current borrowings, 886 million payment of interest and ¥1,061 million in cash dividends paid, despite ¥38,871 million in proceeds from noncurrent borrowings.

(3) 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 decreased by ¥6,795 thousand and ¥2,344 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 ¥8,677 thousand and ¥2,940 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.

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 and property management, 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, 2017 | Comparison with the previous fiscal year (%) |
|------------------------------|-------------------------------------|--|
| | Amount (¥ thousand) | |
| Revitalization Business | 40,268,193 | 56.0 |
| Development Business | 5,197,322 | (60.4) |
| Rental Business | 6,194,849 | 17.3 |
| Fund and Consulting Business | 2,763,389 | 20.0 |
| Property Management Business | 3,330,553 | 13.1 |
| Other | 20 | (100.0) |
| Total | 57,754,328 | 15.9 |

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, 2016 | | Fiscal year ended November 30, 2017 | |
|-----------------------------------|-------------------------------------|-----------|-------------------------------------|-----------|
| | Amount (¥ thousand) | Ratio (%) | Amount (¥ thousand) | Ratio (%) |
| Tosei Reit Investment Corporation | 7,342,359 | 14.7 | 10,364,525 | 17.9 |

3. The above amounts do not include consumption taxes.

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

(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 in its five business segments: Revitalization, Development, Rental, Fund and Consulting and Property Management. The Group is also aiming to contribute to society and increase its corporate value through these five businesses.

(2) Target management benchmarks, the Company's medium- to long-term management strategies and issues to be addressed, etc.

In the real estate industry where the Tosei Group operates, the investment motivation for investors in real estate remains high, against a backdrop of a favorable financing environment, and active transactions have been conducted. However, in recent years, investors' caution towards soaring real estate prices is seen, in addition to geopolitical risks and concerns rising from the political trends in Europe and the U.S., as well as concerns regarding changes in the financial and investment markets brought about by rising interest rates in the U.S., etc.

Amid this operating environment, the Tosei Group shall continue to promote business activities with the aim of achieving sustainable growth, while recognizing the following as issues to be addressed: (i) keeping track of market trends to prepare the Group for downturn periods, and (ii) establishing and promoting management strategies that predict changes in the real estate market.

Based on the above identification of issues to be addressed, the Group newly formulated a medium-term management plan called "Seamless Growth 2020" (the targeted period of the plan is three years from December 2017 to November 2020), kicking off in the fiscal year ending November 30, 2018. The major policy of the plan is "to continue growth as a Group to build a firm position as an original comprehensive real estate company," under which we aim to establish new income-generating business, while targeting further growth of the five existing businesses and increases in their operating profit. In addition, we will endeavor to increase profits from the Rental, Fund and Consulting and Property Management Businesses, which are positioned as the stable businesses, to enable a structural balance between profits from the Revitalization and Development Businesses so as to reinforce our resilience to changes in the business environment. On the financial front, we will enhance funding capabilities, through methods such as the extension of borrowing periods to maintain a sound financial structure as the infrastructure that supports the expansion of business scale, while aiming at effective investments. In addition, as the composition of the Group's trade diversifies in line with the expanding business scale, we will further enhance the quality of internal control, namely, compliance, risk management, and disclosure, to establish an optimum corporate governance structure. Furthermore, we recognize that human resources that are the most important assets of the Group, and to leverage these assets, we will drive ahead with the development of next-generation executives, all officers and employees and the fostering of human resources for the improvement of productivity, while increasing the satisfaction of employees of the entire Group. At the same time, we will strive to establish a corporate brand befitting the firm position as a group of original comprehensive real estate companies and reinforce the attractiveness of our product brand that will be trusted by the market.

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

- a. Consolidated revenue for the final fiscal year: ¥100 billion
- b. Consolidated profit before tax for the final fiscal year: ¥12 billion
- c. Average profit growth rate of the three years: 10% or more
- d. Average ROE of the three years: 12% or more
- e. Expansion of the ratio of stable businesses
 - 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*
- f. Guideline for equity ratio: 35%

*Of the five existing 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 sales expenses pertaining to property trading.

(3)Basic policy regarding the persons who control decisions on the Company’s financial and business policies

1) 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 five business fields and peripheral fields that allow the “integration of real estate and finance,” which leads to maximization of the potential of the Company group, (ii) maintain employees who support those businesses with knowledge and experience specializing in real estate and finance, etc., (iii) maintain the Company’s trust in the real estate industry that has been built up over a long period of time based on the establishment of the ability and information networks supporting various value creation technologies, and (iv) master knowhow that enables comprehensive business. Unless the acquirer of a proposed large-scale acquisition of the shares in the Company understands the source of the corporate value of the Company as well as the details of financial and business affairs of the Company and would ensure and enhance these elements over the medium-to-long term, the corporate value of the Company and, in turn, the common interests of its shareholders would be harmed.

The Company believes that 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.

2) Overview of special measures to realize the basic policy

The Company group newly formulated a medium-term management plan called “Seamless Growth 2020” (the targeted period of the plan is three years from December 2017 to November 2020), kicking off in the fiscal year ending November 30, 2018. The major policy of the plan is “to continue growth as a Group to build a firm position as an original comprehensive real estate company,” under which we aim to establish new income-generating business, while targeting further growth of the five existing businesses and increases in their operating profit. In addition, we will endeavor to increase profits from the Rental, Fund and Consulting and Property Management Businesses, which are positioned as the stable businesses, to enable a structural balance between profits from the Revitalization and Development Businesses so as to reinforce our resilience to changes in the business environment. On the financial front, we will enhance funding capabilities, through methods such as the extension of borrowing periods to maintain a sound financial structure as the infrastructure that supports the expansion of business scale, while aiming at effective investments. In addition, as the composition of the Company group’s trade diversifies in line with the expanding business scale, we will further enhance the quality of internal control, namely, compliance, risk management, and disclosure, to establish an optimum corporate governance structure.

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

3) Overview of 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 from being controlled by persons deemed inappropriate under the above basic policy, and its objective is to ensure and enhance the Company's corporate value and, in turn, the common interests of its shareholders.

The plan stipulates procedures that must be followed in any cases of purchase, etc. of share certificates, etc. of the Company ((i) a purchase or other acquisition that would result in the holding ratio of share certificates, etc. (*kabuken tou hoyuu wariiai*) of a holder (*hoyuusha*) totaling at least 20% of the share certificates, etc. issued by the company; or (ii) a tender offer (*koukai kaitusuke*) 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.

4) 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.

4. Business and other risks

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, 2017. 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.

(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.

(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. Increases in interest rates increase fund procurement costs, and therefore have the potential to 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.

(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 |
|--|
| <ul style="list-style-type: none">• 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

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.

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 | Governor of Tokyo | Tokyo Governor, No. 58 | - | 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) |

| Name of license or permit | Authority | Content of license or permit | Expiration | Rescission, cancellation or other reasons |
|---|---|---|------------|---|
| 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) |
| General Construction Building License | Governor of Tokyo | Tokyo Governor's License (General-24) No. 119534 | March 10, 2018 | 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 general construction business, the permission shall be rescinded. (Article 29 of the Construction Business Act) |
| Specified Construction Business License | Governor of Tokyo | Tokyo Governor's License (Special-24) No. 119534 | March 10, 2018 | 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, 2019 | 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, 2019 | 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, (3) No. 31311 | March 16, 2019 | 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) |

Urban Home Corporation

| 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, 2018 | 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) |

Four Big 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.99828 | October 21, 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) |

KS Properties 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.100581 | May 19, 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) |

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 |

(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.

(6) New businesses

The Tosei Group has acquired companies, established subsidiaries, and conducted other activities for the purpose of launching new businesses such as a hotel business, expanding the existing businesses and others. 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.

5. Important operational contracts, etc.

None

6. Research and development activities

None

7. Analysis of financial position, operating results and cash flows

Analysis of financial position, operating results and cash flows for the fiscal year ended November 30, 2017 is as follows.

Forward-looking statements included in this section are based on information available to the Group's management as of November 30, 2017.

(1) 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., (1) Consolidated financial statements, Notes to Consolidated Financial Statements."

(2) Analysis of financial position

The consolidated financial position as of November 30, 2017 was as follows. Total assets increased 1.1% compared with the end of the previous fiscal year to ¥122,550 million, liabilities down 4.8% to ¥76,391 million,

and equity rose 12.6% to ¥46,158 million. The ratio of equity attributable to owners of parent to total assets was 37.7%, compared with 33.8% at the end of the previous fiscal year.

Current assets

As of November 30, 2017, the balance of current assets was ¥85,643 million, an decrease of ¥6,948 million compared with the end of the previous fiscal year.

This is mainly due to, decrease in inventories (down ¥7,579 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 recently purchased.

Non-current assets

As of November 30, 2017, the balance of non-current assets was ¥36,906 million, up ¥8,222 million compared with the end of the previous fiscal year. This is mainly due to, increase in investment properties (up ¥6,630 year on year).

Current liabilities

As of November 30, 2017, the balance of current liabilities was ¥11,945 million, down ¥2,706 million compared with the end of the previous fiscal year.

This is mainly due to, decrease in borrowings (down ¥2,938 year on year).

Non-current liabilities

As of November 30, 2017, the balance of non-current liabilities was ¥64,446 million, down ¥1,168 million compared with the end of the previous fiscal year.

This is mainly due to, decrease in trade and other payables (down ¥1,069 year on year) .

Equity

As of November 30, 2017, equity was ¥46,158 million, an increase of ¥5,148 million compared with the end of the previous fiscal year. This is mainly due to a ¥5,088 million increase in retained earnings.

(3) Analysis of operating results

For the fiscal year under review, operating results were as follows. Revenue increased 15.9% year on year to ¥57,754 million, profit before tax up 7.1% to ¥9,049 million, and profit for the year up 11.0% to ¥6,155 million.

Revenue

In the fiscal year under review, revenue was ¥57,754 million, a increase of ¥7,936 million compared with the previous fiscal year. For revenue by segment, please refer to “(1) Operating results” in “II. Review of operations, 1. Overview of operating results.”

Cost of revenue and gross profit

In the fiscal year under review, cost of revenue was ¥40,937 million, up ¥7,469 million compared with the previous fiscal year.

As a result, gross profit was ¥16,816 million, an increase of ¥466 million compared with the previous fiscal year.

The gross profit margin was 29.1%, down from 32.8% in the previous fiscal year.

Selling, general and administrative expenses and operating profit

In the fiscal year under review, selling, general and administrative expenses were ¥7,153 million, an increase of ¥132 million compared with the previous fiscal year. This is mainly due to a ¥236 million increase in personnel cost related to increase in employees caused by business expansion.

As a result, operating profit in the fiscal year under review was ¥9,833 million, an increase of ¥553 million compared with the previous fiscal year.

Profit before tax

In the fiscal year under review, finance income, which was comprised of interest and dividends income, was ¥76 million, an increase of ¥13 million compared with the end of the previous fiscal year. Finance costs, mainly interest expenses, were ¥861 million, a decrease of ¥31 million compared with the end of the previous

fiscal year.

As a result, profit before tax in the fiscal year under review was ¥9,049 million, an increase of ¥599 million compared with the previous fiscal year.

Income tax expense and profit for the year

In the fiscal year under review, income tax expense was ¥2,894million, an decrease of ¥8 million compared with the previous fiscal year.

As a result, profit for the year was ¥6,155million, an increase of ¥607million compared with the previous fiscal year.

(4) Analysis of cash flows

For the cash flows for the fiscal year under review, please refer to “(2) Cash flows” in “II. Review of operations, 1. Overview of operating results.”

In addition, trends of cash-flow indicators are shown below.

| | Fiscal year ended Nov. 30, 2015 | Fiscal year ended Nov. 30, 2016 | Fiscal year ended Nov. 30, 2017 |
|--|------------------------------------|------------------------------------|------------------------------------|
| Ratio of equity attributable to owners of parent to total assets (%) | 38.9 | 33.8 | 37.7 |
| Market value ratio of equity attributable to owners of parent to total assets (%) | 39.2 | 33.1 | 43.1 |
| Interest-bearing debt to cash flow ratio (years) | — | — | 9.5 |
| Interest coverage ratio (times) | — | — | 8.0 |

Ratio of equity attributable to owners of parent
to total assets:

Equity attributable to owners of parent to total assets / 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, 2015 and the consolidated fiscal year ended November 30, 2016 because net cash used in operating activities was recorded in the consolidated statements of cash flows for the said fiscal year.

III. Facilities

1. Outline of capital expenditures

In the fiscal year ended November 30, 2017, we made capital expenditures totaling ¥1,326million. A major portion of this amount was due to acquisition of investment properties.

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, 2017)

| 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 | 965,108 | 2,219,719 (633.53) | 47,699 | 3,232,526 | 159 |
| Leasing properties (24 properties in Chiyoda-ku, Tokyo, etc.) | Rental Business | Rental buildings, stores, etc. | 10,031,256 | 18,355,866 (39,579.31) | 48,206 | 28,435,330 | — |
| Total | — | — | 10,996,365 | 20,575,585 (40,212.84) | 95,906 | 31,667,857 | 159 |

Note: The above amounts do not include consumption taxes.

(2) Domestic subsidiaries

(As of November 30, 2017)

| 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 (2 properties in Arakawa-ku, Tokyo, etc.) | Property Management Business | Apartment | 157,003 | 331,755 (657.47) | — | 488,759 | — |
| Tosei Revival Investment Co., Ltd. | Leasing properties (2 properties in Arakawa-ku, Tokyo, etc.) | Rental Business | Apartment , Rental building | 365,268 | 496,030 (915.95) | 27 | 861,327 | — |
| Urban Home Corporation | Head office (Machida-shi, Tokyo) | Development business | Office facilities | 67,065 | 185,346 (420.71) | 12,911 | 265,323 | 43 |

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, 2017) | Number of shares issued (Share; as of the date of filing: Feb. 28, 2018) | 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 | 48,284,000 | 48,425,500 | Tokyo Stock Exchange (First Section) and Main Board of Singapore Exchange | Share unit number: 100 shares |
| Total | 48,284,000 | 48,425,500 | — | — |

Note: Shares issued through the exercise of stock acquisition rights between February 1, 2018 and the submission date of this Annual Securities Report are not included under "Number of shares issued."

(2) Status of stock acquisition rights

Stock acquisition rights issued pursuant to the Companies Act are as follows:

Resolution of the meeting of the Board of Directors held on October 28, 2015

| | As of November 30, 2017 | As of January 31, 2018 |
|---|---|------------------------|
| Number of stock acquisition rights (units) | 5,060 | 3,645 |
| Number of treasury stock acquisition rights in total stock acquisition rights (units) | 600 | 600 |
| Class of shares delivered upon exercise of stock acquisition rights | Ordinary shares | Same as on the left |
| Number of shares delivered upon exercise of stock acquisition rights (shares) | 506,000 (Note 1) | 364,500 (Note 1) |
| Amount to be paid in upon exercise of stock acquisition rights (¥) | 803 (Note 2) | Same as on the left |
| Period during which stock acquisition rights may be exercised | From January 10, 2018 to October 28, 2020 | Same as on the left |
| Issue price and amount capitalized of shares when issued through the exercise of stock acquisition rights (¥) | Issue price: 803 Amount capitalized: 401.5 | Same as on the left |
| Terms and conditions for exercising stock acquisition rights | (Note 3) | Same as on the left |
| Transfer of stock acquisition rights | Acquiring stock acquisition rights through transfer shall require approval by resolution of the Company's Board of Directors. | Same as on the left |
| Substitute payment | — | — |
| Delivery of stock acquisition rights in line with acts of structural reorganization | (Note 4) | Same as on the left |

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.

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

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:

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

- (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):

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

- 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.

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

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 underlying stock acquisition rights, or that the Company may obtain all of the said shares by the resolution of the General Meeting of Shareholders.

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

None

(4) Details of rights plan

None

(5) 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) |
|---------------------------|---|-----------------------------------|---|---------------------------------------|---|---|
| July 1, 2013 (Note 1) | 45,227,160 | 45,684,000 | – | 5,454,673 | – | 5,538,149 |
| July 25, 2013 (Note 2) | 2,600,000 | 48,284,000 | 966,719 | 6,421,392 | 966,719 | 6,504,868 |

Notes: 1. This is attributable to the share split-up (100 shares for 1 ordinary share).

2. Paid-in public offering

| | |
|----------------------|---------------------|
| Issue price | ¥743.63 |
| Amount capitalized | ¥371.815 |
| Total paid-in amount | ¥1,933,438 thousand |

3. During the period between December 1, 2017 and January 31, 2018, through the exercise of stock acquisition rights, the total number of shares issued increased by 141,500 shares, and capital stock and legal capital surplus increased by ¥72,023 thousand and ¥72,023 thousand respectively.

(6) Shareholder composition

(As of November 30, 2017)

| 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 | |
| | | | | | Companies, etc. | Individuals | | | |
| Number of shareholders (Person) | – | 20 | 27 | 45 | 155 | 7 | 5,493 | 5,747 | 82 |
| Number of shares held (Unit) | – | 46,981 | 9,325 | 68,852 | 160,493 | 16 | 197,150 | 482,817 | 2,300 |
| Holding rate of shares (%) | – | 9.73 | 1.93 | 14.26 | 33.24 | 0.00 | 40.83 | 100.00 | – |

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

(7) Status of major shareholders

(As of November 30, 2017)

| Name of shareholder | Address | Number of shares held (Share) | Percentage of number of shares held in the total number of shares issued (%) |
|--|---|-------------------------------|--|
| Seiichiro Yamaguchi | Shibuya-ku, Tokyo, Japan | 12,885,500 shares | 26.68% |
| Zeus Capital Limited | 2-22-26-103 Uehara, Shibuya-ku, Tokyo, Japan | 6,000,000 | 12.42 |
| KBL EPB S.A 107704 (Standing proxy: Mizuho Bank, Ltd., Settlement & Cleaning Services Division) | 43, Boulevard Royal, L-2955 Luxembourg (2-15-1 Konan, Minato-ku, Tokyo, Japan) | 5,127,300 | 10.61 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 1-8-11, Harumi, Chuo-ku, Tokyo, Japan | 1,659,600 | 3.43 |
| State Street Bank and Trust Company 505001 (Standing proxy: Mizuho Bank, Ltd., Settlement & Cleaning Services Division) | P.O.BOX 351 Boston Massachusetts 02101 U.S.A (2-15-1 Konan, Minato-ku, Tokyo, Japan) | 1,624,369 | 3.36 |
| 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) | 1,003,400 | 2.07 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 2-11-3, Hamamatsucho, Minato-ku, Tokyo, Japan | 919,600 | 1.90 |
| Ueda Yagi Tanshi Co., Ltd. | 2-4-2, Koraihashi, Chuo-ku, Osaka-shi, Osaka, Japan | 800,000 | 1.65 |
| 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) | 649,000 | 1.34 |
| MSCO Customer Securities (Standing proxy: Morgan Stanley MUFG Securities Co., Ltd. Securities Management Department) | 1585 Broadway New York, New York 10036, U.S.A. (Otemachi Financial City South Tower 1-9-7 Otemachi, Chiyoda-ku Tokyo, Japan) | 553,764 | 1.14 |
| Total | – | 31,222,533 | 64.66 |

Notes: 1. Percentage of number of shares held in the total number of shares issued is rounded down to the second decimal place.

2. The large shareholding report, which was made accessible to the public as of December 4, 2017, states that SPARX Asset Management Co., Ltd. held the following shares as of November 30, 2017. However, since the Company could not confirm the actual number of shares held by this company as of the end of the fiscal year under review, the company was not included in the status of major shareholders described above.

The content of the large shareholding report is as follows:

| | |
|---|--|
| Large volume holder | SPARX Asset Management Co., Ltd. |
| Address | Shinagawa Season Terrace, q Konan 1-2-70, Minato Ward, Tokyo |
| Number of share certificates, etc. held | 2,644,500 |
| Holding ratio of share certificates, etc. | 5.48% |

3. The large shareholding report, which was made accessible to the public as of December 18, 2017, states that SAMARANG UCITS held the following shares as of October 27, 2017. However, since the Company could not confirm the actual number of shares held by this company as of the end of the fiscal year under review, the company was not included in the status of major shareholders described above.

The content of the large shareholding report is as follows:

| | |
|---|---------------------------------------|
| Large volume holder | SAMARANG UCITS |
| Address | 11a Avenue Monterey L-2163 Luxembourg |
| Number of share certificates, etc. held | 5,127,300 |
| Holding ratio of share certificates, etc. | 10.62% |

(8) Status of voting rights

a. Shares issued

(As of November 30, 2017)

| 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.) | – | – | – |
| Shares with full voting rights (Other) | Ordinary shares 48,281,700 | 482,817 | Tosei's standard class of shares with no rights limitations |
| Shares less than one unit | Ordinary shares 2,300 | – | – |
| Total number of shares issued | 48,284,000 | – | – |
| Total number of voting rights | – | 482,817 | – |

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

b. Treasury shares, etc.

(As of November 30, 2017)

| 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 (%) |
|----------------------|---------|--|--|-------------------------------------|--|
| – | – | – | – | – | – |
| Total | – | – | – | – | – |

(9) Stock acquisition rights

The Company employs a stock option system. This system employs a method in which stock acquisition rights are issued pursuant to the Companies Act.

The details of the said stock option system are as follows.

(Resolution of the meeting of the Board of Directors held on October 28, 2015)

| | |
|---|---|
| Date of resolution | October 28, 2015 |
| 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 |
| Class of shares delivered upon exercise of stock acquisition rights | Described in "(2) Status of stock acquisition rights" above. |
| Number of shares | Same as above |
| Amount to be paid in upon exercise of stock acquisition rights | Same as above |
| Period during which stock acquisition rights may be exercised | Same as above |
| Terms and conditions for exercising stock acquisition rights | Same as above |
| Transfer of stock acquisition rights | Same as above |
| Substitute payment | Same as above |
| Delivery of stock acquisition rights in line with acts of structural reorganization | Same as above |

Note: Due to forfeit resulting from retirement of grantees and exercise of stock acquisition rights, the title and number of grantees as of January 31, 2018 were as follows. the Company's directors: five persons (including two outside directors); the Company's executive officers: five persons; the Company's employees: 122 persons; and directors of the Company's subsidiaries: two persons.

2. Acquisition of treasury shares

[Class of shares] Acquisition of common shares in accordance with Article 155, item 7 of the Companies Act

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

None

(2) Acquisition by resolution of the Board of Directors

None

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

| Category | Number of shares (shares) | Value (¥ thousand) |
|---|---------------------------|--------------------|
| Treasury shares acquired during the fiscal year ended November 30, 2017 | — | — |
| Treasury shares acquired during the period under review | 46 | 61 |

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

| Category | Fiscal year ended November 30, 2017 | | 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 | — | — | 46 | — |

Note: Number of shares acquired through purchasing shares less than one unit between February 1, 2018 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 ¥25 per share for the fiscal year under review. As a result, the Company's consolidated dividend payout ratio came to 19.6% for the fiscal year ended November 30, 2017.

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, 2017 is as follows:

| Resolution date | Total amount of dividends (¥ thousand) | Dividends per share (¥) |
|--|--|-------------------------|
| Ordinary General Meeting of Shareholders held on Feb. 27, 2018 | 1,207,100 | 25 |

4. Trends in share price

(1) Highest and lowest share prices for the most recent 5 years by term

| Term | 64th term | 65th term | 66th term | 67th term | 68th term |
|-------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Accounting period | Fiscal year ended Nov. 30, 2013 | Fiscal year ended Nov. 30, 2014 | Fiscal year ended Nov. 30, 2015 | Fiscal year ended Nov. 30, 2016 | Fiscal year ended Nov. 30, 2017 |
| Highest (¥) | 151,900 * 966 | 881 | 954 | 856 | 1,162 |
| Lowest (¥) | 36,800 * 641 | 597 | 636 | 553 | 712 |

Note: 1. The highest and lowest prices were prices on the First Section of Tokyo Stock Exchange.

2. The highest and lowest share prices prefixed by an asterisk in the 64th term were ex-rights prices due to the share split-up as of July 1, 2013 (share split-up by 100 shares for 1 ordinary share).

(2) Monthly highest and lowest share prices for the most recent 6 months

| Month | Jun. 2017 | Jul. 2017 | Aug. 2017 | Sep. 2017 | Oct. 2017 | Nov. 2017 |
|-------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Highest (¥) | 820 | 876 | 915 | 991 | 1,126 | 1,162 |
| Lowest (¥) | 780 | 775 | 821 | 869 | 982 | 1,020 |

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

5. Status of officers

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

| Title | Post | Name | Date of birth | Career summary | Term of office | Number of shares held (Share) |
|-------------------|--|---------------------|---------------|---|----------------|-------------------------------|
| President and CEO | President and CEO | Seiichiro Yamaguchi | Jan. 5, 1961 | <p>Apr. 1983 Entered Mitsui Real Estate Sales Co., Ltd. (the predecessor of Mitsui Fudosan Realty Co., Ltd.)</p> <p>Apr. 1986 Entered Tosei-Shoji Corporation</p> <p>Aug. 1990 Director of the Company</p> <p>Jun. 1994 President and Representative Director of the Company (current position)</p> <p>Dec. 1995 Representative Director of Palms Community Management Co. Ltd. (the predecessor of Tosei Community Co., Ltd.)</p> <p>Jul. 2004 President and CEO of the Company (current position)</p> | Note 3 | 12,885,500 |
| Director | COO and Senior Executive Officer of Business Division; in charge of Asset Solution Business Promotion Department | Katsuhito Kosuge | Jul. 17, 1960 | <p>Apr. 1983 Entered Tokyu Construction Co., Ltd.</p> <p>Apr. 1986 Entered Tosei-Shoji Corporation</p> <p>Jan. 1996 Director of the Company</p> <p>Dec. 2000 Managing Director of the Company</p> <p>Jul. 2004 Director and Managing Executive Officer of the Company</p> <p>Sep. 2005 Representative Director of Tosei Revival Investment Co., Ltd.</p> <p>Feb. 2006 COO and Senior Executive Officer of Business Division of the Company (current position)</p> <p>Oct. 2007 Representative Director of Tosei Asset Management, Corp.</p> <p>Apr. 2008 Director of Tosei Asset Advisors, Inc.</p> <p>Feb. 2012 Director of Tosei Asset Advisors, Inc.</p> | Note 3 | 200,000 |
| Director | CFO and Senior Executive Officer of Administrative Division | Noboru Hirano | Oct. 17, 1959 | <p>Apr. 1982 Entered Kokubu & Co., Ltd.</p> <p>Apr. 1991 Entered Tosei-Shoji Corporation</p> <p>May 1995 Director of Tosei-Shoji Corporation</p> <p>Mar. 2001 General Manager of Finance and Accounting Department of the Company</p> <p>Oct. 2002 Managing Director of the Company</p> <p>Jul. 2004 Director and Managing Executive Officer of the Company</p> <p>Mar. 2005 Audit & Supervisory Board Member of Tosei Revival Investment Co., Ltd.</p> <p>Apr. 2005 Audit & Supervisory Board Member of Tosei Community Co., Ltd.</p> <p>Sep. 2005 Representative Director of Tosei REIT Advisors, Inc. (the predecessor of Tosei Asset Advisors, Inc.)</p> <p>Feb. 2006 CFO and Senior Executive Officer of Administrative Division of the Company (current position)</p> <p>Dec. 2007 Representative Director of Tosei Revival Investment Co., Ltd.</p> <p>Jan. 2013 Representative Director of Tosei Revival Investment Co., Ltd. (current position)</p> <p>Feb. 2013 Director of Tosei Community Co., Ltd. (current position)</p> <p>Feb. 2016 Director of Tosei Asset Advisors, Inc. (current position)</p> | Note 3 | 150,000 |

| Title | 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 4 | Masaaki Watanabe | Jan. 25, 1963 | <p>Apr. 1986 Entered Towa Real Estate Development Co., Ltd. (the predecessor of Mitsubishi Jisho Residence Co., Ltd.)</p> <p>Dec. 1990 Entered Heisei Kouhatsu Co., Ltd.</p> <p>Apr. 1993 Seconded to Ohmon Club Co., Ltd.</p> <p>Feb. 1998 Entered the Company</p> <p>Aug. 2006 Director of Tosei Revival Investment Co., Ltd.</p> <p>Dec. 2006 General Manager of Asset Solution Business Department 1 of the Company</p> <p>Mar. 2008 Executive Officer and General Manager of Asset Solution Business Department 1 of the Company</p> <p>Dec. 2012 Executive Officer in charge of Asset Solution Business Department 3 and Asset Solution Business Department 4 of the Company</p> <p>Dec. 2014 Executive Officer in charge of Asset Solution Department 3 of the Company</p> <p>May 2015 Managing Executive Officer, Deputy Chief of Business Division and in charge of Asset Solution Department 3 of the Company</p> <p>Mar. 2017 Managing Executive Officer and Deputy Chief of Business Division of the Company</p> <p>Jun. 2017 Managing Executive Officer, Deputy Chief of Business Division and in charge of Asset Solution Department 4 of the Company</p> <p>Feb. 2018 Director and Managing Executive Officer, Deputy Chief of Business Division and in charge of Asset Solution Department 4 of the Company (current position)</p> | Note 3 | 30,000 |
| Director | Managing Executive Officer in charge of Asset Solution Department 1 | Hideki Nakanishi | Jun. 17, 1967 | <p>Apr. 1990 Entered the Yasuda Trust & Banking Co., Ltd. (the predecessor of Mizuho Trust & Banking Co., Ltd.)</p> <p>Jun. 1999 Entered Gold Crest Co., Ltd.</p> <p>Oct. 2001 Entered HUSER Corporation</p> <p>Apr. 2006 Entered the Company</p> <p>Dec. 2006 General Manager of Asset Solution Business Department 4 of the Company</p> <p>Dec. 2010 General Manager of Asset Solution Business Department 1 of the Company</p> <p>Mar. 2013 Executive Officer in charge of Asset Solution Department 1 of the Company</p> <p>Feb. 2016 Director of Tosei Revival Investment Co., Ltd. (current position)</p> <p>Mar. 2017 Managing Executive Officer in charge of Asset Solution Department 1 of the Company</p> <p>Feb. 2018 Director and Managing Executive Officer in charge of Asset Solution Department 1 of the Company (current position)</p> | Note 3 | 400 |
| Director | | Kenichi Shohtoku | Jan. 20, 1971 | <p>Oct. 1995 Entered Asahi & Co., Ltd. (the predecessor of KPMG AZSA LLC)</p> <p>Sep. 1999 Transferred to Arthur Andersen & Co., Kuala Lumpur Office</p> <p>Sep. 2002 Entered SCS Global Accounting Co., Ltd. (the predecessor of SCS Global Consulting (S) Pte Ltd)</p> <p>Nov. 2003 Representative Director of SCS Global Accounting Co., Ltd. (the predecessor of SCS Global Consulting (S) Pte Ltd) (current position)</p> <p>Sep. 2005 Director of O-RID GLOBAL BPO PTE. LTD.</p> <p>Dec. 2010 Statutory Auditor of ROKI TECHNO CO., LTD</p> <p>Feb. 2012 Director of the Company (current position)</p> <p>Jan. 2013 Audit & Supervisory Board Member of ROKI GROUP HOLDINGS CO., LTD. (current position)</p> | Note 3 | - |

| Title | Post | Name | Date of birth | Career summary | Term of office | Number of shares held (Share) |
|--|------|---------------------|---------------|--|----------------|-------------------------------|
| Director | | Hiroyuki Kobayashi | Mar. 3, 1965 | <p>Apr. 1987 Entered the Industrial Bank of Japan, Ltd. (the predecessor of Mizuho Bank, Ltd.)</p> <p>Apr. 2000 Seconded to Mizuho Securities Co., Ltd.</p> <p>Apr. 2003 Head of Advisory Department No.4 of Mizuho Securities Co., Ltd.</p> <p>Jun. 2005 Entered Sofia, Inc.</p> <p>Apr. 2006 Vice President and Director of Sofia, Inc.</p> <p>Dec. 2006 Entered Mizuho Securities Co., Ltd.</p> <p>Jun. 2008 Deputy General Manager, Corporate Planning Department of Mizuho Securities Co., Ltd.</p> <p>Dec. 2011 General Manager, Corporate Communications Department of Mizuho Securities Co., Ltd.</p> <p>Apr. 2014 Senior Corporate Officer attached to Retail Division of Mizuho Securities Co., Ltd.</p> <p>Apr. 2015 Head of Wealth Management Division, Retail Division of Mizuho Securities Co., Ltd.</p> <p>Apr. 2017 President & CEO of Social Capital Management, Inc. (current position)</p> <p>Feb. 2018 Director of the Company (current position)</p> | Note 3 | – |
| Audit & Supervisory Board Member (full-time) | | Yutaka Kitamura | Feb. 27, 1950 | <p>Apr. 1972 Entered The Yasuda Trust and Banking Co., Ltd. (the predecessor of Mizuho Trust & Banking Co., Ltd.)</p> <p>May 1996 General Manager of Singapore Branch of The Yasuda Trust & Banking Co., Ltd. (the predecessor of Mizuho Trust & Banking Co., Ltd.)</p> <p>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.)</p> <p>Oct. 2000 General Manager of Niigata Branch of The Mizuho Trust & Banking Co., Ltd.</p> <p>Jun. 2003 General Manager of Pension Business Osaka Branch of The Mizuho Trust & Banking Co., Ltd.</p> <p>Mar. 2005 Full-time Audit & Supervisory Board Member of Nippon Carbon Co., Ltd.</p> <p>Jun. 2010 Full-time Audit & Supervisory Board Member of J-COACH Corporation</p> <p>Feb. 2013 Full-time Audit & Supervisory Board Member of the Company (current position)</p> <p>Feb. 2013 Audit & Supervisory Board Member of Tosei Community Co., Ltd.</p> | Note 4 | – |
| Audit & Supervisory Board Member (full-time) | | Hiroshi Nishinakama | Jul. 28, 1954 | <p>Apr. 1978 Entered the Sanwa Bank, Limited (the predecessor of The Bank of Tokyo-Mitsubishi UFJ, Ltd.)</p> <p>Oct. 1987 Manager of London Branch</p> <p>May 1992 Senior Manager of International Business Promotion Department, Americas Office</p> <p>Aug. 1994 General Manager of Kwai-Chung Sub Branch of Hong Kong Branch</p> <p>Aug. 1996 Senior Manager of Credit Administration Department</p> <p>Oct. 1999 Senior Vice President of Derivative Products Department</p> <p>Jan. 2002 UFJ Bank Limited (the predecessor of The Bank of Tokyo-Mitsubishi UFJ, Ltd.) Senior Manager of Internal Audit Department</p> <p>Jan. 2006 The Bank of Tokyo-Mitsubishi UFJ, Ltd. Senior Manager of Internal Audit & Credit Examination Division</p> <p>Apr. 2007 Entered ORIX Real Estate Corporation as General Manager of Internal Audit Department</p> <p>Mar. 2008 Transferred to ORIX Corporation General Manager of Internal Audit Department (current position)</p> <p>Jul. 2008 Audit & Supervisory Board Member of ORIX Real Estate Corporation</p> | Note 5 | – |

| Title | Post | Name | Date of birth | Career summary | Term of office | Number of shares held (Share) |
|----------------------------------|------|----------------|---------------|---|----------------|-------------------------------|
| | | | | Mar. 2012 Director and General Manager of Internal Audit Department of ORIX Real Estate Investment Advisors Corporation Feb. 2015 Audit & Supervisory Board Member of the Company (current position) Feb. 2016 Audit & Supervisory Board Member of Tosei Asset Advisors, Inc. | | |
| 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 Senior Director, Head of the Management Headquarters 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 | | | | | | 13,265,900 |

Notes: 1. Kenichi Shohtoku and Hiroyuki Kobayashi are outside directors.

2. Yutaka Kitamura, Hiroshi Nishinakama, 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 27, 2018.

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 25, 2015.

6. Status of corporate governance, etc.

(1) Status of corporate governance

1) Basic concept on corporate governance

The Group aspires to continue to be a group of companies that make a meaningful contribution to their shareholders, employees, business partners, and other stakeholders throughout society by promptly and accurately responding to changes in the management environment and continually carrying out business activities that enable the Group to achieve sound growth. The Group has positioned the enhancement of corporate governance as the most important means of achieving these aims, with thorough promotion of consciousness regarding compliance, strengthening of risk management, and implementation of timely disclosure as the three main initiatives. In addition, the Group works to further develop a system that responds to the trust of investors, mainly from the Board of Directors, from the top management down to each employee of Group companies, in order to construct an internal control system as required by the Companies Act and the Financial Instruments and Exchange Act and a system as a financial instruments business operator that is credible to investors.

2) Details of internal company bodies and establishment of internal control system

(a) Basic explanation of internal company bodies

The Company has the Board of Directors and the Audit & Supervisory Board in place. In order to execute business transparently, the Company appoints outside directors, and all of its audit & supervisory board members are from outside the Company. The Company also employs the executive officer system.

All audit & supervisory board members of the Company are outside audit & supervisory board members and have been since the Company was listed. The audit & supervisory board members continuously perform audits on the management of the Company from the point of view of securing and improving the Company's corporate value and the common interests of its shareholders. Furthermore, by inviting outside directors to the Board of Directors, the Company is strengthening its management supervisory function further. On the management side, by employing the executive officer system, the Company promotes optimal decision-making functions and distribution of operational duties, as well as the delegation of authority in the execution of business, thus enhancing corporate governance.

The current system is in place because it is a system that enables the management of the Company and management oversight to function sufficiently.

i) Operation of Board of Directors

The Board of Directors is composed of seven directors, two 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) Nominating and Compensation Advisory Committee

The Company has set up the Nominating 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

Four members of 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.

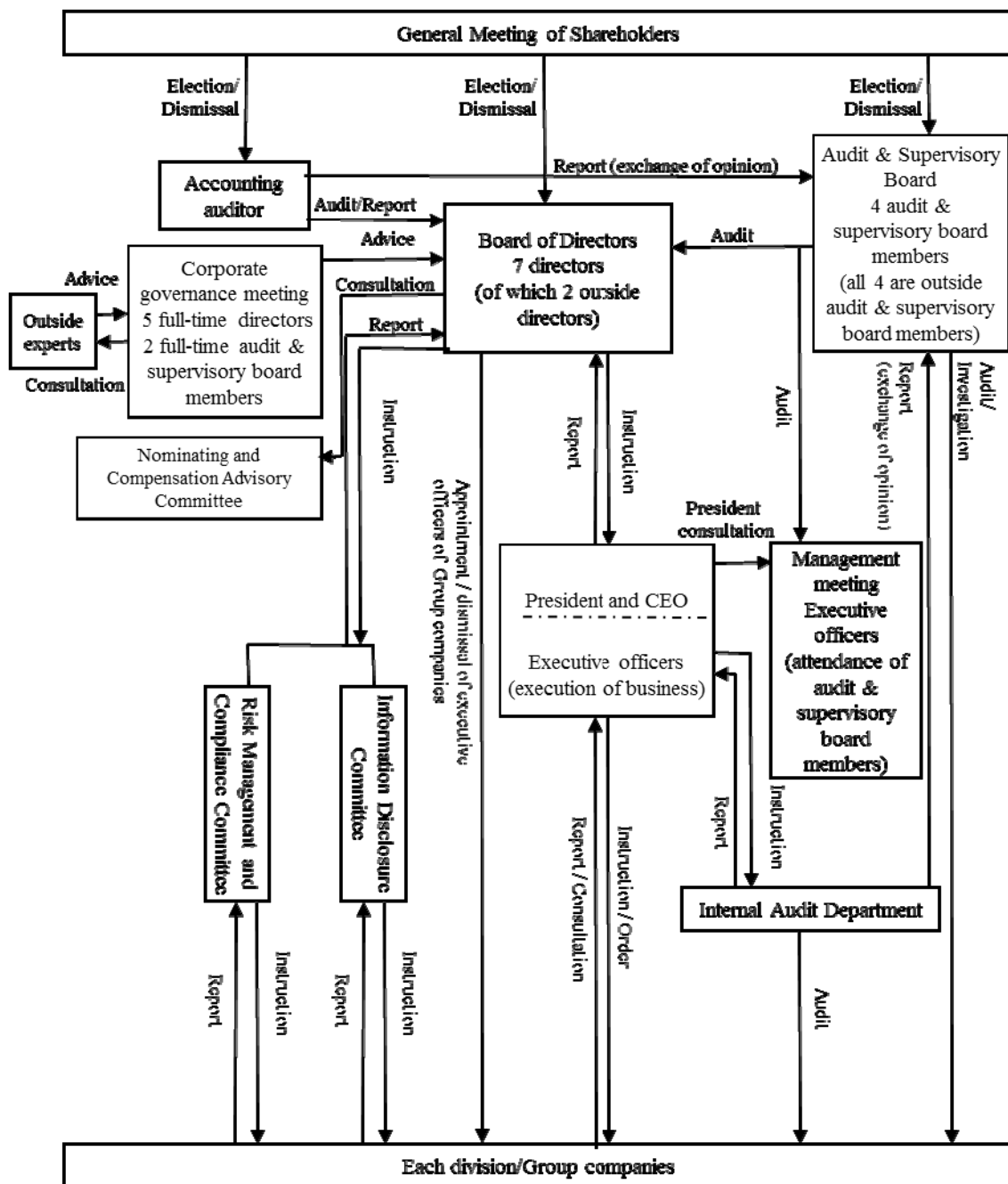
vii) Information disclosure

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



(c) Details 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), the Company has established the following basic policies with a partial amendment effective on July 27, 2015 in connection with the enforcement of the Revised Companies Act.

- 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, 2017 is as follows.

*Major meetings cited in the text

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

i) Compliance with laws and regulations, etc.

- Ensure awareness regarding compliance with laws and regulations

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

In addition, the Risk Management and Compliance Committee's meeting (attended by all heads of each departments) and a business law liaison meeting (attended by all heads of the operational divisions) are held every month, during which participants are duly made familiar with amendments to laws and regulations, etc. and notices from ministries with jurisdiction etc., while the results of deliberations by the Committee are reported to the monthly meetings of the Board of Directors.

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

- Strengthen the checking function for breaches of laws and regulations

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

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

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

- 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.

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

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 doing so, 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.

- Ensure thorough familiarity with material information and information for timely disclosure and prevention of misstatements

The Information Disclosure Committee meets on a monthly and a temporary basis to understand which

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

iii) Management of risk of loss

- Ensure thorough understanding, analysis and assessment of risks

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

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

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

- Enhance monitoring of risk management

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

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

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

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

- Promptly react to any occurrence of contingencies and disclose information

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

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

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 twice a 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

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

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

- Establish a system to allow appropriate and efficient execution of business

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

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

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

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.

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

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

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

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

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

- 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

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

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

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

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

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

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

- Enhance the system for ensuring the appropriateness of the financial reporting relating to the entire Group

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

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

- Eliminate wrongful acts and/or irregular transactions using the Group

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

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).

- Ensure prompt reporting to Audit & Supervisory Board Members from all officers and employees of each Group companies who have identified occurrence and signs of any material losses attributable to the management of each Group company, any breach of laws and regulations or misconduct, and prompt responses to the inquiry from Audit & Supervisory Board Members

At the Board of Directors' meetings or the pre-Board meeting discussions of the Company, where each Group company makes the monthly management reporting, and at interviews by full-time Audit & Supervisory Board Members of the Company with representative directors of each Group company held on a regular basis (the investigation of subsidiaries (once) and opinion-exchanging meetings (twice a year)), each Group company is required to report occurrence and signs of any material losses and significant risks associated with management of the Group company.

At morning briefings and training sessions, all officers and employees of the Group are continuously informed that those who identify any breach of laws and regulations or misconduct have a duty to report Audit & Supervisory Board Members of the Company promptly.

- Ensure full notification of prohibition of disadvantageous treatments for the reason of a report by officers and employees of the Company and the Group companies to Audit & Supervisory Board Members

Regulations of the Company explicitly state that those who report Audit & Supervisory Board Members or whistle-blowers are protected from any disadvantageous treatments, and such policy is continuously informed at training sessions, etc.

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

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

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

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

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

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

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

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

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

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

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

(d) Internal auditing and auditing by audit & supervisory board members

- i) 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 information and opinions with the accounting auditor. They also receive reports on the results of audits by the accounting auditor and coordinate closely with them by such means as observing their audits as appropriate.

- ii) Coordination between audit & supervisory board members and 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 receive timely updates on internal audit results from the General Manager of the Internal Audit Department. The full-time audit & supervisory board members attend hearings conducted by the Internal Audit Department with audited divisions, while members of the Internal Audit Department attend hearings conducted by the audit & supervisory board members with the accounting auditor, heads of divisions and others as assistants to the audit & supervisory board members. Through such activities, the Company works to enhance the quality of its internal audits and to carry out efficient business audits.

(e) Accounting audits

- i) Names of certified public accountants who executed audit, name of audit corporation they belong to, and years of continuous auditing

| Name of certified public accountant: | Name of audit corporation: | Years of continuous auditing: |
|---|----------------------------|-------------------------------|
| Designated and Engagement Partner Sakashita Takayuki | Shinsoh Audit Corporation | (Note) |
| Designated and Engagement Partner Atushi Iijima | Shinsoh Audit Corporation | (Note) |

Note: Since the years of continuous auditing are seven years or less, this information is omitted.

- ii) Breakdown of assistants in auditing operations

| | |
|-------------------------------|-----------|
| Certified public accountants: | 9 persons |
| Other: | 2 persons |

- (f) Relationship between outside directors and outside audit & supervisory board members

The Company has two 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.

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 Hiroshi Nishinakama 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.

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) Establishment of risk management structure

To achieve centralized and cross-sectional risk management and compliance promotion of the Group, the Company integrated the Risk Management Committee and the Compliance Committee into the Risk Management and Compliance Committee in December 2015. 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.

4) Remuneration, etc. of officers

- (a) 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 | Share options | Bonus | |
| Directors (excluding outside directors) | 150,057 | 122,520 | 3,033 | 24,504 | 3 |
| Audit & supervisory board members (excluding outside audit & supervisory board members) | — | — | — | — | — |
| Outside officers | 40,094 | 39,690 | 404 | — | 7 |

- (b) 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.

- (c) Significant items among employee salaries paid to officers concurrently serving as employees

None

- (d) Policy on determining amount of remuneration, etc. for officers

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

5) Status of shareholding

- (a) Investment shares held for purposes other than pure investment

Number of issues 2 issues

Total carrying amount ¥47,200 thousand

- (b) Investment shares held for purposes other than pure investment and for which the carrying amount in the current period is over 1% of stated capital
None
- (c) Investment shares held for pure investment purposes
None
- 6) 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.
- 7) 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 10 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.
- 8) 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.
- 9) 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) Audit fees

1) Audit fees paid to certified public accountants, etc.

| Classification | Fiscal year ended Nov. 30, 2016 | | Fiscal year ended Nov. 30, 2017 | |
|---------------------------|--|--|--|--|
| | 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 | 31,000 | – | 37,000 | – |
| Consolidated subsidiaries | 5,000 | – | 5,000 | – |
| Total | 36,000 | – | 42,000 | – |

2) Other important fees

Fiscal year ended November 30, 2016

None

Fiscal year ended November 30, 2017

None

3) Non-audit services to filing company

Fiscal year ended November 30, 2016

None

Fiscal year ended November 30, 2017

None

4) Policy for determining audit fees

Although there are no applicable matters, audit fees are determined appropriately after considering such factors as the number of auditing days, the size of the Company, and the nature of the business activities, etc.

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 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, 2017 (from December 1, 2016 to November 30, 2017) and the non-consolidated financial statements for the fiscal year ended November 30, 2017 (from December 1, 2016 to November 30, 2017) 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, 2016 | As of November 30, 2017 |
|---|------|----------------------------|----------------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 7 | 21,640,866 | 23,750,239 |
| Trade and other receivables | 9 | 3,531,880 | 2,148,608 |
| Inventories | 10 | 67,298,309 | 59,718,614 |
| Other current assets | 11 | 121,444 | 26,376 |
| Total current assets | | 92,592,501 | 85,643,839 |
| Non-current assets | | | |
| Property, plant and equipment | 12 | 3,595,898 | 5,305,652 |
| Investment properties | 13 | 21,728,740 | 28,359,547 |
| Intangible assets | 14 | 96,612 | 83,544 |
| Available-for-sale financial assets | 8 | 1,441,167 | 1,751,463 |
| Trade and other receivables | 9 | 1,235,065 | 859,731 |
| Deferred tax assets | 15 | 557,392 | 517,587 |
| Other non-current assets | 11 | 28,914 | 28,914 |
| Total non-current assets | | 28,683,790 | 36,906,441 |
| Total assets | | 121,276,292 | 122,550,281 |
| Liabilities and equity | | | |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 16 | 2,955,289 | 4,278,612 |
| Borrowings | 17 | 9,387,249 | 6,449,040 |
| Current income tax liabilities | 15 | 1,859,183 | 732,961 |
| Provisions | 18 | 450,030 | 484,671 |
| Total current liabilities | | 14,651,752 | 11,945,287 |
| Non-current liabilities | | | |
| Trade and other payables | 16 | 4,349,965 | 3,280,020 |
| Borrowings | 17 | 60,772,064 | 60,674,335 |
| Retirement benefits obligations | 19 | 413,376 | 472,574 |
| Provisions | 18 | 79,049 | 19,197 |
| Total non-current liabilities | | 65,614,455 | 64,446,127 |
| Total Liabilities | | 80,266,208 | 76,391,414 |
| Equity | | | |
| Share capital | 20 | 6,421,392 | 6,421,392 |
| Capital reserves | 20 | 6,418,823 | 6,464,240 |
| Retained earnings | | 28,120,304 | 33,209,210 |
| Other components of equity | 20 | 49,562 | 64,024 |
| Total equity attributable to owners of parent | | 41,010,083 | 46,158,867 |
| Total equity | | 41,010,083 | 46,158,867 |
| Total liabilities and equity | | 121,276,292 | 122,550,281 |

2) Consolidated statements of comprehensive income

(¥ thousand)

| | Note | Fiscal year ended November 30, 2016 | Fiscal year ended November 30, 2017 |
|--|--------|--|--|
| Revenue | 22 | 49,818,113 | 57,754,328 |
| Cost of revenue | 23 | 33,468,138 | 40,937,814 |
| Gross profit | | 16,349,974 | 16,816,513 |
| Selling, general and administrative expenses | 24, 25 | 7,021,724 | 7,153,850 |
| Other income | 26 | 222,197 | 215,754 |
| Other expenses | 27 | 270,540 | 44,550 |
| Operating profit | | 9,279,906 | 9,833,867 |
| Finance income | 28 | 63,062 | 76,881 |
| Finance costs | 28 | 892,920 | 861,281 |
| Profit before tax | | 8,450,048 | 9,049,467 |
| Income tax expense | 15 | 2,902,579 | 2,894,297 |
| Profit for the year | | 5,547,469 | 6,155,169 |
| Other comprehensive income | | | |
| Items that will not be reclassified to net profit or loss | | | |
| Remeasurements of defined benefit pension plans | 29 | 17,503 | (4,016) |
| Total items that will not be reclassified to net profit or loss | | 17,503 | (4,016) |
| Items that may be reclassified to net profit or loss | | | |
| Exchange differences on translation of foreign operations | 29 | (24,512) | 12,035 |
| Net change in fair values of available-for-sale financial assets | 29 | (31,465) | (2,644) |
| Net change in fair values of cash flow hedges | 29 | 312 | 5,070 |
| Total items that may be reclassified to net profit or loss | | (55,665) | 14,461 |
| Other comprehensive income for the period, net of tax | | (38,162) | 10,445 |
| Total comprehensive income for the year | | 5,509,307 | 6,165,615 |
| Profit attributable to: | | | |
| Owners of parent | | 5,547,469 | 6,155,169 |
| Total comprehensive income attributable to: | | | |
| Owners of parent | | 5,509,307 | 6,165,615 |
| Profit for the year attributable to owners of parent | | | |
| Basic earnings per share | (¥) 30 | 114.89 | 127.48 |
| Diluted earnings per share | (¥) 30 | — | 127.41 |

c. Consolidated statements of changes in equity

Fiscal year ended November 30, 2016 (Dec. 1, 2015– Nov. 30, 2016)

| | | (¥ thousand) | | | | | |
|---|------|---------------|------------------|-------------------|----------------------------|---|--------------|
| | Note | Share capital | Capital reserves | Retained earnings | Other components of equity | Total equity attributable to owners of parent | Total equity |
| Balance as of December 1, 2015 | | 6,421,392 | 6,373,881 | 23,327,875 | 105,228 | 36,228,378 | 36,228,378 |
| Profit for the year | | — | — | 5,547,469 | — | 5,547,469 | 5,547,469 |
| Other comprehensive income | | — | — | — | (38,162) | (38,162) | (38,162) |
| Total comprehensive income for the year | | — | — | 5,547,469 | (38,162) | 5,509,307 | 5,509,307 |
| Amount of transactions with owners | | | | | | | |
| Dividends of surplus | 21 | — | — | (772,544) | — | (772,544) | (772,544) |
| Share-based payment | 35 | — | 44,941 | — | — | 44,941 | 44,941 |
| Transfer from other components of equity to retained earnings | | — | — | 17,503 | (17,503) | — | — |
| Balance as of November 30, 2016 | | 6,421,392 | 6,418,823 | 28,120,304 | 49,562 | 41,010,083 | 41,010,083 |

Fiscal year ended November 30, 2017 (Dec. 1, 2016– Nov. 30, 2017)

| | | (¥ thousand) | | | | | |
|---|------|---------------|------------------|-------------------|----------------------------|---|--------------|
| | Note | Share capital | Capital reserves | Retained earnings | Other components of equity | Total equity attributable to owners of parent | Total equity |
| Balance as of December 1, 2016 | | 6,421,392 | 6,418,823 | 28,120,304 | 49,562 | 41,010,083 | 41,010,083 |
| Profit for the year | | — | — | 6,155,169 | — | 6,155,169 | 6,155,169 |
| Other comprehensive income | | — | — | — | 10,445 | 10,445 | 10,445 |
| Total comprehensive income for the year | | — | — | 6,155,169 | 10,445 | 6,165,615 | 6,165,615 |
| Amount of transactions with owners | | | | | | | |
| Dividends of surplus | 21 | — | — | (1,062,248) | — | (1,062,248) | (1,062,248) |
| Share-based payment | 35 | — | 45,416 | — | — | 45,416 | 45,416 |
| Transfer from other components of equity to retained earnings | | — | — | (4,016) | 4,016 | — | — |
| Balance as of November 30, 2017 | | 6,421,392 | 6,464,240 | 33,209,210 | 64,024 | 46,158,867 | 46,158,867 |

d. Consolidated statements of cash flows

(¥ thousand)

| | Note | Fiscal year ended November 30, 2016 | Fiscal year ended November 30, 2017 |
|---|------|--|--|
| Cash flows from operating activities | | | |
| Profit before tax | | 8,450,048 | 9,049,467 |
| Depreciation expense | | 333,415 | 393,045 |
| Increase (decrease) in provisions and retirement benefits obligations | | 43,168 | 98,422 |
| Interest and dividends income | | (63,062) | (76,881) |
| Interest expenses | | 892,920 | 861,281 |
| Gain on sales of stocks of subsidiaries and affiliates | | — | (123,505) |
| Loss on retirement of property, plant and equipment | | 7,711 | 22,955 |
| Decrease (increase) in trade and other receivables | | 944,245 | (13,498) |
| Decrease (increase) in inventories | | (15,971,161) | 353,672 |
| Increase (decrease) in trade and other payables | | 235,008 | 415,296 |
| Other, net | | (110,587) | 59,676 |
| Subtotal | | (5,238,293) | 11,039,932 |
| Interest and dividends income received | | 63,063 | 76,619 |
| Income taxes paid | | (2,297,257) | (4,027,392) |
| Net cash from (used in) operating activities | | (7,472,487) | 7,089,159 |
| Cash flows from investing activities | | | |
| Payments into time deposits | | (45,000) | — |
| Proceeds from withdrawal of time deposits | | 30,000 | 95,000 |
| Purchase of property, plant and equipment | | (54,277) | (30,994) |
| Purchase of investment properties | | (1,743,387) | (1,282,517) |
| Purchase of intangible assets | | (27,711) | (13,189) |
| Purchase of available-for-sale financial assets | | (321,636) | (687,589) |
| Collection of available-for-sale financial assets | | 124,918 | 7,619 |
| Proceeds from sales of available-for-sale financial assets | | 34,680 | 349,201 |
| Payments of loans receivable | | (2,935,000) | (1,085,000) |
| Collection of loans receivable | | 72 | 2,760,075 |
| Purchase of investments in subsidiaries resulting in change in scope of consolidation | | (3,297,173) | (182,766) |
| Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation | | 40,563 | — |
| Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation | | — | 39,328 |
| Other, net | | 132 | 12,032 |
| Net cash from (used in) investing activities | | (8,193,818) | (18,800) |
| Cash flows from financing activities | | | |
| Net increase (decrease) in current borrowings | | 1,652,800 | (1,930,300) |
| Proceeds from non-current borrowings | | 42,442,800 | 38,871,150 |
| Repayments of non-current borrowings | | (23,866,891) | (39,951,833) |
| Cash dividends paid | | (771,761) | (1,061,561) |
| Interest expenses paid | | (926,467) | (886,261) |
| Other, net | | (7,983) | (3,374) |
| Net cash from (used in) financing activities | | 18,522,496 | (4,962,180) |
| Net increase (decrease) in cash and cash equivalents | | 2,856,190 | 2,108,179 |
| Cash and cash equivalents at beginning of year | 7 | 18,791,081 | 21,640,866 |
| Effect of exchange rate change on cash and cash equivalents | | (6,404) | 1,193 |
| Cash and cash equivalents at end of year | 7 | 21,640,866 | 23,750,239 |

[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 five business operations: Revitalization Business, Development Business, Rental Business, Fund and Consulting Business and Property Management Business. The operations of each business segment are presented in “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 22, 2018.

(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

The Group classifies investments in financial assets in two categories: loans and receivables, and available-for-sale financial assets. 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.

1) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified in this category are recorded as current assets, except for those with maturities of greater than 12 months after the reporting date or exceeding the normal operating cycle. Loans and receivables are included in "Trade and other receivables" in the consolidated statement of financial position.

2) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are not classified in other categories. Available-for-sale financial assets are recorded as non-current assets unless the management has an intention to dispose of the investment within 12 months after the reporting date. Available-for-sale financial assets are initially recognized at the fair value plus directly attributable transaction costs, and subsequently measured at the fair value.

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. After initial recognition, available-for-sale financial assets are recognized at fair value. Loans and receivables are recognized at amortized cost using the effective interest method. Financial assets or financial asset groups are assessed on a quarterly basis to determine whether there is any objective evidence that the asset or asset group is impaired. When there is objective evidence, impairment losses are recognized. Unrealized gains or losses attributable to changes in the fair value of available-for-sale financial assets are recognized in changes in the fair value of available-for-sale financial assets. When available-for-sale financial assets are sold or impaired, cumulative changes in the fair value of available-for-sale financial assets are recognized in profit or loss.

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, and the discounted cash flow method.

The Group assesses financial assets or financial asset groups at each reporting date to determine whether there is any objective evidence that the asset or asset group is impaired. When there is objective evidence, impairment losses are recognized. Objective evidences for impairment of loans and 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, it is amortized using allowance. 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 instruments classified as available-for-sale 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 available-for-sale 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.

(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 carrying 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 carrying amount 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 carrying amount, 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 carrying amount 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 carrying amount 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 carrying 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 fittings | 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.

(10) Impairment of non-financial assets

The Group assesses whether there is any indication of impairment on a quarterly basis for the carrying amounts 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 carrying amount, the carrying amount of the asset (or CGU) is reduced to the recoverable amount.

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

When impairment losses are reversed after recognition, the carrying amount of the asset (or CGU) is increased to the revised estimated recoverable amount. However, the reversal of the impairment loss does not exceed the carrying amount 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

Revenue is 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:

1) Sale of properties

Revenue from sales of properties is recognized when the significant risks and economic value incidental to ownership of the assets for sale have been transferred to the buyer; the Group retains neither continuing involvement nor effective control over the assets; it is probable that the economic benefits associated with the transaction will flow to the Group; and the amounts of the cost and revenue incurred in respect of the transaction can be measured reliably.

2) Operating lease of rental properties

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

3) Rendering of services

Revenue from the rendering of services is recognized according to the stage of provision of services or when provision of services is finished.

4) Interest income

Interest income is recognized using the effective interest method.

5) Dividend income

Dividend income is recognized when the right to receive dividend payment 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 carrying amounts 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.

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 36)

5. New standards not yet applied

Principal new establishment or amendment of standards and interpretations that had been published by the approval date of the consolidated financial statements is as follows. The Group had not applied these standards and interpretations at the end of the fiscal year under review. The impact of the application on the Group is under review and cannot be estimated at this time.

| 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 |
|----------|---------------------------------------|--|---|---|
| IAS 7 | Statements of cash flows | Jan. 1, 2017 | Fiscal year ending Nov. 30, 2018 | Explanation about changes in liabilities arising from financing activities |
| IAS 40 | Investment properties | Jan. 1, 2018 | Fiscal year ending Nov. 30, 2019 | Clarification of requirements for transfers to, or from, investment properties |
| IFRS 9 | Financial Instruments | Jan. 1, 2018 | Fiscal year ending Nov. 30, 2019 | 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 | Jan. 1, 2018 | Fiscal year ending Nov. 30, 2019 | Accounting for and disclosure of revenue recognition for contracts with customers |
| 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 five business segments and conducts business activities accordingly; "Revitalization Business", "Development Business", "Rental Business", "Fund and Consulting Business", and "Property Management Business". In the Revitalization Business, the Group acquires the properties whose asset values have declined, renovates, and resells them. In the Development Business, the Group sells condominium units and detached houses to individual customers as well as apartment and office buildings to investors. In the Rental Business, the Group rents office buildings and apartments. The Fund and Consulting Business mainly provides asset management services for the properties placed in real estate funds. The Property Management Business provides comprehensive property management services.

(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, 2016

(December 1, 2015 – November 30, 2016)

(¥ thousand)

| | Reportable Segments | | | | | Other | Adjustment | Total |
|---------------------------------|-------------------------|----------------------|-----------------|------------------------------|------------------------------|----------|-------------|------------|
| | Revitalization Business | Development Business | Rental Business | Fund and Consulting Business | Property Management Business | | | |
| Revenue | | | | | | | | |
| Revenue from external customers | 25,809,872 | 13,138,715 | 5,282,131 | 2,302,732 | 2,944,458 | 340,203 | — | 49,818,113 |
| Intersegment revenue | — | — | 42,057 | 27,242 | 1,061,175 | 1,376 | (1,131,851) | — |
| Total | 25,809,872 | 13,138,715 | 5,324,188 | 2,329,975 | 4,005,633 | 341,579 | (1,131,851) | 49,818,113 |
| Segment profit or loss | 4,001,446 | 3,674,377 | 2,389,804 | 951,468 | 141,274 | (17,904) | (1,860,559) | 9,279,906 |
| Finance income/costs, net | | | | | | | | (829,858) |
| Profit before tax | | | | | | | | 8,450,048 |
| Other items | | | | | | | | |
| Depreciation expense | — | 5,824 | 235,300 | 17,813 | 22,252 | 6,684 | 45,541 | 333,415 |

Notes: 1. The details of adjustment are as follows:

- (1) Adjustment of segment profit of ¥(1,860,559) thousand includes eliminations of intersegment transactions of ¥(134,259) thousand and corporate expenses that are not allocated to any particular reportable segment of ¥(1,726,300) 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 ¥45,541 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, 2017
(December 1, 2016 – November 30, 2017)

(¥ thousand)

| | Reportable Segments | | | | | Other | Adjustment | Total |
|---------------------------------|-------------------------|----------------------|-----------------|------------------------------|------------------------------|----------|-------------|------------|
| | Revitalization Business | Development Business | Rental Business | Fund and Consulting Business | Property Management Business | | | |
| Revenue | | | | | | | | |
| Revenue from external customers | 40,268,193 | 5,197,322 | 6,194,849 | 2,763,389 | 3,330,553 | 20 | — | 57,754,328 |
| Intersegment revenue | — | — | 43,114 | 38,933 | 1,306,827 | — | (1,388,876) | — |
| Total | 40,268,193 | 5,197,322 | 6,237,963 | 2,802,323 | 4,637,381 | 20 | (1,388,876) | 57,754,328 |
| Segment profit or loss | 7,845,032 | (408,738) | 2,581,960 | 1,273,565 | 278,217 | (74,920) | (1,661,249) | 9,833,867 |
| Finance income/costs, net | | | | | | | | (784,400) |
| Profit before tax | | | | | | | | 9,049,467 |

Other items

| | | | | | | | | |
|----------------------|---|-------|---------|--------|--------|-----|--------|---------|
| Depreciation expense | — | 5,724 | 298,309 | 16,741 | 23,197 | 677 | 48,395 | 393,045 |
|----------------------|---|-------|---------|--------|--------|-----|--------|---------|

Notes: 1. The details of adjustment are as follows:

- (1) Adjustment of segment profit of ¥(1,661,249) thousand includes eliminations of intersegment transactions of ¥(12,375) thousand and corporate expenses that are not allocated to any particular reportable segment of ¥(1,673,625) 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 ¥48,395 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, 2016
(December 1, 2015 – November 30, 2016)

(¥ thousand)

| Name | Net sales | Related segment |
|-----------------------------------|-----------|---|
| Tosei Reit Investment Corporation | 7,342,359 | Revitalization Business, Fund and Consulting Business, Property Management Business |

Fiscal year ended November 30, 2017
(December 1, 2016 – November 30, 2017)

(¥ thousand)

| Name | Net sales | Related segment |
|-----------------------------------|------------|---|
| Tosei Reit Investment Corporation | 10,364,525 | 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, 2016 | As of November 30, 2017 |
| Cash and deposits | 21,620,866 | 23,730,239 |
| Short-term deposits | 20,000 | 20,000 |
| Total | 21,640,866 | 23,750,239 |

8. Available-for-sale financial assets

Components of available-for-sale financial assets are as follows:

| | (¥ thousand) | |
|--|-------------------------|-------------------------|
| | As of November 30, 2016 | As of November 30, 2017 |
| Shares | 60,624 | 47,200 |
| Bonds | 51,505 | — |
| Investment trust beneficiary certificate | 1,298,216 | 1,276,317 |
| Investments in investment limited partnerships | — | 410,000 |
| Other | 30,821 | 17,945 |
| Total | 1,441,167 | 1,751,463 |
| Non-current assets | 1,441,167 | 1,751,463 |

9. Trade and other receivables

Components of trade and other receivables are as follows:

| | (¥ thousand) | |
|--|-------------------------|-------------------------|
| | As of November 30, 2016 | As of November 30, 2017 |
| Trade notes and accounts receivable | 720,042 | 724,927 |
| Short-term loans receivable | 1,675,075 | 77 |
| Other accounts receivable | 384,608 | 648,594 |
| Prepaid expenses | 396,266 | 310,380 |
| Current advances to suppliers | 295,209 | 305,528 |
| Deposits and guarantee money | 1,210,974 | 730,790 |
| Claims provable in bankruptcy, claims provable in rehabilitation and other | 13,318 | 7,705 |
| Other | 85,773 | 290,530 |
| Allowance for credit losses | (14,321) | (10,195) |
| Total | 4,766,946 | 3,008,339 |
| Current assets | 3,531,880 | 2,148,608 |
| Non-current assets | 1,235,065 | 859,731 |

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, 2016 | As of November 30, 2017 |
| Real estate for sale | 54,482,121 | 44,747,432 |
| Real estate for sale in process | 12,816,187 | 14,971,182 |
| Total | 67,298,309 | 59,718,614 |
| Inventories scheduled to be sold after 12 months | 26,115,361 | 27,180,199 |

Inventories recognized as expenses in the previous fiscal year and the fiscal year under review were ¥28,335,684 thousand and ¥35,228,984 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 ¥2,903,079 thousand and ¥1,635,954 thousand, respectively.

Of the Group's inventory balance, ¥64,902,608 thousand and ¥57,898,922 thousand were pledged as collateral on borrowings as of November 30, 2016 and 2017, 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 ¥102,690 thousand and ¥122,152 thousand, respectively.

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

| | (¥ thousand) | |
|-------------------|--|--|
| | Fiscal year ended November 30, 2016 | Fiscal year ended November 30, 2017 |
| Loss on valuation | (92,487) | (34,806) |

11. Other assets

Components of other assets are as follows:

| | As of November 30, 2016 | As of November 30, 2017 |
|------------|-------------------------|-------------------------|
| Supplies | 6,444 | 6,376 |
| Membership | 28,914 | 28,914 |
| Other | 115,000 | 20,000 |
| Total | 150,358 | 55,291 |

| | | |
|--------------------|---------|--------|
| Current assets | 121,444 | 26,376 |
| Non-current assets | 28,914 | 28,914 |

Of the Group's "others" in other assets, ¥45,000 thousand was pledged as collateral on trade and other payables as of November 30, 2017.

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, 2015 | 1,233,295 | 2,219,719 | 179,569 | 3,632,583 |
| Acquisition | 15,138 | — | 67,008 | 82,147 |
| New consolidation | 154,011 | 185,346 | 61,739 | 401,097 |
| Sales or disposal | (2,475) | — | (44,830) | (47,306) |
| Balance as of November 30, 2016 | 1,399,970 | 2,405,065 | 263,486 | 4,068,522 |
| Acquisition | 4,515 | — | 29,977 | 34,493 |
| Sales or disposal | (8,615) | — | (41,321) | (49,936) |
| Transfer | 915,468 | 852,848 | 3,940 | 1,772,257 |
| Balance as of November 30, 2017 | 2,311,338 | 3,257,914 | 256,082 | 5,825,336 |
| | | | | |
| Accumulated depreciation and impairment loss | | | | |
| Balance as of December 1, 2015 | 214,177 | — | 102,658 | 316,836 |
| Depreciation expense | 39,788 | — | 33,621 | 73,409 |
| New consolidation | 82,000 | — | 41,280 | 123,281 |
| Sales or disposal | (9,519) | — | (31,383) | (40,903) |
| Balance as of November 30, 2016 | 326,446 | — | 146,177 | 472,623 |
| Depreciation expense | 30,595 | — | 37,121 | 67,717 |
| Sales or disposal | (3,476) | — | (17,181) | (20,657) |
| Balance as of November 30, 2017 | 353,565 | — | 166,117 | 519,683 |
| | | | | |
| Carrying amount | | | | |
| As of December 1, 2015 | 1,019,118 | 2,219,719 | 76,910 | 3,315,747 |
| As of November 30, 2016 | 1,073,524 | 2,405,065 | 117,308 | 3,595,898 |
| As of November 30, 2017 | 1,957,773 | 3,257,914 | 89,964 | 5,305,652 |

The carrying amounts of leased assets under finance leases as of November 30, 2016 and 2017 were ¥31,811 thousand and ¥9,008 thousand, respectively.

Of the balance of the Group's property, plant and equipment as of November 30, 2016 and 2017, ¥3,452,559 thousand and ¥5,184,869 thousand were pledged as collateral on loans payable, respectively. Depreciation 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, 2016 | Fiscal year ended November 30, 2017 |
| Acquisition cost | | |
| Balance at beginning of period | 19,953,882 | 23,086,262 |
| Acquisition | 1,743,387 | 1,282,517 |
| Sales or disposal | — | (237,157) |
| Transfer | 1,388,992 | 5,662,808 |
| Balance at end of period | 23,086,262 | 29,794,430 |
| Accumulated depreciation and impairment loss | | |
| Balance at beginning of period | 1,167,895 | 1,357,522 |
| Depreciation expense | 233,774 | 296,700 |
| Sales or disposal | — | (219,340) |
| Transfer | (44,147) | — |
| Balance at end of period | 1,357,522 | 1,434,882 |
| Carrying amount at end of period | 21,728,740 | 28,359,547 |

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, 2016 and 2017, ¥20,593,093 thousand and ¥20,991,321 thousand were pledged as collateral on loans payable, respectively.

- (2) Fair value

| | (¥ thousand) | |
|---|--|--|
| | Fiscal year ended November 30, 2016 | Fiscal year ended November 30, 2017 |
| Fair value | 36,967,640 | 45,919,931 |
| Rent income from investment properties | 2,631,774 | 2,979,113 |
| Direct expenses incidental to rent income | 982,484 | 1,269,530 |

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:

| | Software | Other | Total |
|--|-----------|-------|-----------|
| (¥ thousand) | | | |
| Acquisition cost | | | |
| Balance as of December 1, 2015 | 278,244 | 2,518 | 280,762 |
| Acquisition | 27,711 | — | 27,711 |
| Sales or disposal | (126,917) | — | (126,917) |
| Balance as of November 30, 2016 | 179,038 | 2,518 | 181,556 |
| Acquisition | 16,189 | — | 16,189 |
| Sales or disposal | (38,990) | (628) | (39,618) |
| Balance as of November 30, 2017 | 156,237 | 1,889 | 158,126 |
| Accumulated amortization and accumulated impairment loss | | | |
| Balance as of December 1, 2015 | 184,113 | — | 184,113 |
| Amortization expense | 26,231 | — | 26,231 |
| Sales or disposal | (125,401) | — | (125,401) |
| Balance as of November 30, 2016 | 84,943 | — | 84,943 |
| Amortization expense | 28,627 | — | 28,627 |
| Sales or disposal | (38,990) | — | (38,990) |
| Balance as of November 30, 2017 | 74,581 | — | 74,581 |
| Carrying amount | | | |
| As of December 1, 2015 | 94,130 | 2,518 | 96,648 |
| As of November 30, 2016 | 94,094 | 2,518 | 96,612 |
| As of November 30, 2017 | 81,655 | 1,889 | 83,544 |

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, 2016 (December 1, 2015 – November 30, 2016)

(¥ thousand)

| | As of December 1, 2015 | Recognized through profit or loss | Recognized in other comprehensive income | Others (Note) | As of November 30, 2016 |
|---|------------------------|-----------------------------------|--|----------------|-------------------------|
| Deferred tax assets | | | | | |
| Accrued enterprise taxes, currently not deductible | 103,044 | 8,705 | — | 12,672 | 124,422 |
| Estimated expenses, currently not deductible | — | 17,226 | — | — | 17,226 |
| Provision for loss on rental business | 46,696 | (46,696) | — | — | — |
| Unrealized gain from substitute performance | 151,745 | (2,360) | — | — | 149,385 |
| Provision for bonuses | 98,165 | 44,849 | — | — | 143,015 |
| Liability for retirement benefits to employees | 124,462 | 6,756 | — | — | 131,219 |
| Liability for retirement benefits to key management personnel | 6,783 | 1,127 | — | — | 7,910 |
| Long-term accounts payable-other for directors | 116,365 | (5,915) | — | 36,840 | 147,289 |
| Impairment loss | 50,650 | (40,300) | — | 42,690 | 53,041 |
| Revaluation of fair value arising from assets and liabilities of subsidiaries | 46,837 | 70,889 | — | 60,215 | 177,941 |
| Carry-forward of unused tax losses | 100,345 | (93,376) | — | 49,256 | 56,225 |
| Other | 106,091 | (38,552) | (914) | 15,601 | 82,225 |
| Subtotal | 951,187 | (77,646) | (914) | 217,276 | 1,089,903 |
| Valuation reserves | (126,712) | 63,854 | — | (68,494) | (131,352) |
| Total | 824,474 | (13,792) | (914) | 148,782 | 958,550 |
| Deferred tax liabilities | | | | | |
| Valuation difference on available-for-sale securities | (43,328) | — | 17,018 | 1,334 | (24,975) |
| Revaluation of fair value arising from assets and liabilities of subsidiaries | — | (376,182) | — | — | (376,182) |
| Total | (43,328) | (376,182) | 17,018 | 1,334 | (401,158) |
| Deferred tax assets, net | 781,146 | (389,975) | 16,104 | 150,117 | 557,392 |

Note: The number of “Others” includes recognized deferred tax assets by acquisition of subsidiaries through business combinations.

Fiscal year ended November 30, 2017 (December 1, 2016 – November 30, 2017)

(¥ thousand)

| | As of December 1, 2016 | Recognized through profit or loss | Recognized in other comprehensive income | Others | As of November 30, 2017 |
|---|------------------------|-----------------------------------|--|--------|-------------------------|
| Deferred tax assets | | | | | |
| Accrued enterprise taxes, currently not deductible | 124,422 | (35,539) | — | — | 88,883 |
| Estimated expenses, currently not deductible | 17,226 | (6,350) | — | — | 10,876 |
| Provision for loss on rental business | — | 1,102 | — | — | 1,102 |
| Unrealized gain from substitute performance | 149,385 | (944) | — | — | 148,441 |
| Provision for bonuses | 143,015 | 2,257 | — | — | 145,272 |
| Liability for retirement benefits to employees | 131,219 | 19,598 | — | — | 150,817 |
| Liability for retirement benefits to key management personnel | 7,910 | 2,353 | — | — | 10,264 |
| Long-term accounts payable-other for directors | 147,289 | (2,844) | — | — | 144,445 |
| Impairment loss | 53,041 | (53,041) | — | — | — |
| Revaluation of fair value arising from assets and liabilities of subsidiaries | 177,941 | (177,941) | — | — | — |
| Carry-forward of unused tax losses | 56,225 | 62,022 | — | — | 118,248 |
| Other | 82,225 | 25,972 | (2,142) | — | 106,055 |
| Subtotal | 1,089,903 | (163,353) | (2,142) | — | 924,407 |
| Valuation reserves | (131,352) | (89,606) | — | — | (220,959) |
| Total | 958,550 | (252,959) | (2,142) | — | 703,448 |
| Deferred tax liabilities | | | | | |
| Valuation difference on available-for-sale securities | (24,975) | (1,277) | 1,176 | — | (25,076) |
| Revaluation of fair value arising from assets and liabilities of subsidiaries | (376,182) | 215,398 | — | — | (160,783) |
| Total | (401,158) | 214,120 | 1,176 | — | (185,860) |
| Deferred tax assets, net | 557,392 | (38,838) | (966) | — | 517,587 |

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, 2016 | As of November 30, 2017 |
|------------------------------------|-------------------------|-------------------------|
| Deductible temporary differences | 118,756 | 102,873 |
| Carry-forward of unused tax losses | 12,596 | 118,086 |
| Total | 131,352 | 220,959 |

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, 2016 | As of November 30, 2017 |
| First year | - | - |
| Second year | - | - |
| Third year | - | - |
| Fourth year | - | - |
| Fifth year or after | 36,185 | 349,299 |
| Total | 36,185 | 349,299 |

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 ¥3,593,875 thousand and ¥4,203,343 thousand as of November 30, 2016 and 2017, 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 33.06% and 30.86%, respectively. For temporary differences expected to be reversed from the fiscal year beginning December 1, 2017, to fiscal year ending November 30, 2018 the statutory effective tax rate is 30.86%. For temporary differences expected to be reversed in and after the fiscal year beginning December 1, 2018, the statutory effective tax rate for the calculation of deferred tax assets and liabilities is 30.62%. 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, 2016 | Fiscal year ended November 30, 2017 |
| Current tax expense | | |
| Current tax expense on profit for the year | 2,815,976 | 2,860,555 |
| Total current tax expense | 2,815,976 | 2,860,555 |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | 51,551 | 22,961 |
| Differences due to changes in tax rates | 35,051 | 10,780 |
| Total deferred tax expense | 86,603 | 33,742 |
| Income tax expense | 2,902,579 | 2,894,297 |

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 33.06% and 30.86% in the previous fiscal year and the fiscal year under review, respectively, were applied.

¥ thousand)

| | Fiscal year ended November 30, 2016 | Fiscal year ended November 30, 2017 |
|--|--|--|
| Profit before tax | 8,450,048 | 9,049,467 |
| Income tax expense based on the statutory effective tax rate | 2,793,586 | 2,792,665 |
| Adjustments | | |
| Expenses (profits) not deductible permanently | 18,803 | (9,251) |
| Changes in temporary differences, etc. for which deferred tax assets were not recognized | 37,069 | 20,693 |
| Differences due to changes in tax rates | 35,051 | 10,780 |
| Differences in tax rates of subsidiary companies | 24,341 | 132,256 |
| Tax exemption | (19,778) | (58,658) |
| Other | 13,505 | 5,810 |
| Income tax expense | 2,902,579 | 2,894,297 |

16. Trade and other payables

Components of trade and other payables are as follows:

(¥ thousand)

| | As of November 30, 2016 | As of November 30, 2017 |
|----------------------------------|-------------------------|-------------------------|
| Trade notes and accounts payable | 695,753 | 1,035,883 |
| Other accounts payable | 620,502 | 677,786 |
| Advances received | 978,374 | 1,279,636 |
| Guarantee deposits | 3,746,701 | 2,815,668 |
| Other | 1,263,923 | 1,749,656 |
| Total | 7,305,255 | 7,558,632 |

| | | |
|-------------------------|-----------|-----------|
| Current liabilities | 2,955,289 | 4,278,612 |
| Non-current liabilities | 4,349,965 | 3,280,020 |

Advances received at the end of the previous fiscal year include secured debts of ¥45,000 thousand. Other assets have been pledged as collateral.

17. Borrowings

Components of borrowings are as follows:

| (¥ thousand) | | | | |
|---|-------------------------|-------------------------|---------------------------|---------------|
| | As of November 30, 2016 | As of November 30, 2017 | Average interest rate (%) | Repayment due |
| Current liabilities | | | | |
| Current borrowings | 2,045,800 | 101,500 | 1.44 | – |
| Current portion of non-current borrowings | 7,332,999 | 6,343,886 | 1.29 | – |
| Lease obligations | 8,449 | 3,654 | – | – |
| Total | 9,387,249 | 6,449,040 | | |
| Non-current liabilities | | | | |
| Non-current borrowings | 60,745,830 | 60,668,260 | 1.14 | 2018–2042 |
| Lease obligations | 26,234 | 6,074 | – | 2018–2020 |
| Total | 60,772,064 | 60,674,335 | | |

- 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 ¥68,176,359 thousand and ¥67,018,926 thousand, respectively. 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, 2016 (December 1, 2015 – November 30, 2016)

| (¥ 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, 2015 | 278,359 | 22,695 | 78,905 | 141,248 | – | 521,208 |
| Increase during the fiscal year | 415,238 | 32,991 | – | – | 1,800 | 450,030 |
| Decrease during the fiscal year (specific purposes) | (278,359) | (21,984) | – | (141,248) | – | (441,592) |
| Decrease during the fiscal year (reversal) | – | (711) | – | – | – | (711) |
| Discounted interest costs | – | – | 144 | – | – | 144 |
| Balance as of November 30, 2016 | 415,238 | 32,991 | 79,049 | – | 1,800 | 529,079 |

Fiscal year ended November 30, 2017 (December 1, 2016 – November 30, 2017)

| (¥ 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, 2016 | 415,238 | 32,991 | 79,049 | – | 1,800 | 529,079 |
| Increase during the fiscal year | 444,079 | 36,619 | – | 3,573 | – | 484,271 |
| Decrease during the fiscal year (specific purposes) | (415,238) | (31,956) | – | – | – | (447,195) |
| Decrease during the fiscal year (reversal) | – | (1,034) | (60,000) | – | (1,400) | (62,434) |
| Discounted interest costs | – | – | 147 | – | – | 147 |
| Balance as of November 30, 2017 | 444,079 | 36,619 | 19,197 | 3,573 | 400 | 503,868 |

| | (¥ thousand) | |
|-------------------------|-------------------------|-------------------------|
| | As of November 30, 2016 | As of November 30, 2017 |
| Current liabilities | 450,030 | 484,671 |
| Non-current liabilities | 79,049 | 19,197 |

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.

Provisions other than asset retirement obligations are expected to be expensed principally in the following fiscal year.

19. Employee benefits

| | (¥ thousand) | |
|---|-------------------------|-------------------------|
| | As of November 30, 2016 | As of November 30, 2017 |
| Liability for retirement benefits to employees | 390,505 | 442,900 |
| Liability for retirement benefits to key management personnel | 22,870 | 29,674 |
| Total | 413,376 | 472,574 |

(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, 2016 | As of November 30, 2017 |
| Defined benefit obligations (with no plan assets) | 390,505 | 442,900 |
| Defined benefit obligations in the consolidated statement of financial position | 390,505 | 442,900 |

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

| | (¥ thousand) | |
|---------------------------------------|--|--|
| | Fiscal year ended November 30, 2016 | Fiscal year ended November 30, 2017 |
| Current service costs | 66,560 | 71,368 |
| Interest costs | 2,995 | 1,553 |
| Total retirement benefit costs (Note) | 69,555 | 72,921 |

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, 2016 | Fiscal year ended November 30, 2017 |
|---|--|--|
| Balance at beginning of period | 364,128 | 390,505 |
| Current service costs | 59,103 | 71,368 |
| Interest costs | 2,995 | 1,553 |
| Benefits paid | (10,041) | (16,681) |
| Actuarial gains and losses arising from changes in financial assumptions | (25,679) | 5,764 |
| Impacts from exclusion from consolidation, etc. | — | (9,610) |
| Balance at end of period | 390,505 | 442,900 |

The weighted average term for the Group's defined benefit obligations in the previous fiscal year and the fiscal year under review is 10.4 years and 9.9 years, respectively.

Major assumptions used in actuarial calculation are as follows:

(%)

| | As of November 30, 2016 | As of November 30, 2017 |
|-------------------------|-------------------------|-------------------------|
| Discount rate | 0.41 | 0.38 |
| Rate of salary increase | 3.52 | 3.52 |

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, 2016 | As of November 30, 2017 |
|------------------------------------|-------------------------|-------------------------|
| 0.5% increase in the discount rate | (18,690) | (20,847) |
| 0.5% decrease in the discount rate | 20,225 | 22,527 |

2) Defined contribution plans

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

(¥ thousand)

| | Fiscal year ended November 30, 2016 | Fiscal year ended November 30, 2017 |
|---------------|--|--|
| Contributions | 25,770 | 29,016 |

(2) Retirement benefits to key management personnel

(¥ thousand)

| | Fiscal year ended November 30, 2016 | Fiscal year ended November 30, 2017 |
|--------------------------------|--|--|
| Balance at beginning of period | 19,184 | 22,870 |
| Provision for the benefits | 4,003 | 6,803 |
| Payment of the benefits | (316) | — |
| Balance at end of period | 22,870 | 29,674 |

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.

This accounting policy is adopted because 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 of the Group 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, 2015 | 150,000,000 | 48,284,000 | 6,421,392 | 6,373,881 |
| Change | – | – | – | 44,941 |
| Balance as of November 30, 2016 | 150,000,000 | 48,284,000 | 6,421,392 | 6,418,823 |
| Change | – | – | – | 45,416 |
| Balance as of November 30, 2017 | 150,000,000 | 48,284,000 | 6,421,392 | 6,464,240 |

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.

(2) Other components of equity

Fiscal year ended November 30, 2016 (December. 1, 2015 – November 30, 2016)

| | 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, 2015 | 23,194 | 90,962 | (8,928) | 105,228 |
| Other comprehensive income | (24,512) | (31,465) | 312 | (55,665) |
| Balance as of November 30, 2016 | (1,318) | 59,496 | (8,616) | 49,562 |

Fiscal year ended November 30, 2017 (December. 1, 2016 – November 30, 2017)

| | 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, 2016 | (1,318) | 59,496 | (8,616) | 49,562 |
| Other comprehensive income | 12,035 | (2,644) | 5,070 | 14,461 |
| Balance as of November 30, 2017 | 10,717 | 56,852 | (3,545) | 64,024 |

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 fair values of available-for-sale financial assets

This is unrealized gains and losses of fair values of available-for-sale financial assets.

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, 2016 (December 1, 2015 – November 30, 2016) | | | | |
|--|----------------------------|---------------------------------|---------------|----------------|
| Resolution | Dividends per share (¥) | Total dividends (¥ thousand) | Record date | Effective date |
| Ordinary General Meeting of Shareholders held on Feb. 25, 2016 | 16 | 772,544 | Nov. 30, 2015 | Feb. 26, 2016 |

| Fiscal year ended November 30, 2017 (December 1, 2016 – November 30, 2017) | | | | |
|--|----------------------------|---------------------------------|---------------|----------------|
| Resolution | Dividends per share (¥) | Total dividends (¥ thousand) | Record date | Effective date |
| Ordinary General Meeting of Shareholders held on Feb. 24, 2017 | 22 | 1,062,248 | Nov. 30, 2016 | Feb. 27, 2017 |

(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, 2017 (December 1, 2016 – November 30, 2017) | | | | |
|--|----------------------------|---------------------------------|---------------|----------------|
| 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 |

22. Revenue

Components of revenue are as follows:

| | (¥ thousand) | |
|-----------------------------------|--|--|
| | Fiscal year ended November 30, 2016 | Fiscal year ended November 30, 2017 |
| Revenue from real estate for sale | 38,948,587 | 45,465,515 |
| Revenue from services | 10,869,525 | 12,288,813 |
| Total | 49,818,113 | 57,754,328 |

23. Cost of revenue

Components of cost of revenue are as follows:

| | (¥ thousand) | |
|--|--|--|
| | Fiscal year ended November 30, 2016 | Fiscal year ended November 30, 2017 |
| Cost of inventories sold | 28,243,197 | 35,194,178 |
| Depreciation expense | 249,128 | 307,129 |
| Gain or loss on valuation of inventories | 92,487 | 34,806 |
| Outsourcing costs and others | 4,883,325 | 5,401,701 |
| Total | 33,468,138 | 40,937,814 |

24. Selling, general and administrative expenses

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

(¥ thousand)

| | Fiscal year ended November 30, 2016 | Fiscal year ended November 30, 2017 |
|--|--|--|
| Employee benefits expense | 3,538,159 | 3,774,849 |
| Sales expenses (Revitalization) | 666,633 | 655,360 |
| Sales expenses (Development) | 1,140,167 | 801,652 |
| Advertising expenses | 152,438 | 207,707 |
| Compensations | 120,366 | 129,977 |
| Commission fee | 261,559 | 266,904 |
| Taxes and dues | 665,742 | 738,161 |
| Transportation expenses | 65,598 | 79,647 |
| Communication expenses | 53,129 | 62,162 |
| Stationery expenses | 45,410 | 43,821 |
| Depreciation and amortization expense | 84,286 | 85,916 |
| Provision of allowance for credit losses | (14,209) | 1,824 |
| Other | 242,441 | 305,865 |
| Total | 7,021,724 | 7,153,850 |

25. Personnel cost

Components of personnel cost are as follows:

(¥ thousand)

| | Fiscal year ended November 30, 2016 | Fiscal year ended November 30, 2017 |
|---|--|--|
| Salaries, bonuses and allowances | 2,800,265 | 3,028,592 |
| Retirement benefit costs | 97,857 | 108,741 |
| Legal welfare expenses | 374,003 | 403,731 |
| Expenses for the share-based compensation | 44,941 | 45,416 |
| Other short-term employee benefits | 221,091 | 188,366 |
| Total | 3,538,159 | 3,774,849 |

26. Other income

Components of other income are as follows:

(¥ thousand)

| | Fiscal year ended November 30, 2016 | Fiscal year ended November 30, 2017 |
|--|--|--|
| Gain on sales of stocks of subsidiaries and affiliates | — | 123,505 |
| Gain on negative goodwill | 145,019 | — |
| Miscellaneous income | 77,177 | 92,249 |
| Total | 222,197 | 215,754 |

Notes:1. The “Gain on negative goodwill” in the fiscal year under review was primarily the result of considerations paid following the acquisition of shares in Urban Home Corporation being lower than the fair value of said company’s identifiable assets acquired and liabilities assumed.

2. “Miscellaneous income” as of November 30, 2017 includes gains on exchange differences on translation of ¥4,864 thousand.

27. Other expenses

Components of other expenses are as follows:

(¥ thousand)

| | Fiscal year ended November 30, 2016 | Fiscal year ended November 30, 2017 |
|--|--|--|
| Loss on retirement of non-current assets | 7,711 | 22,955 |
| Stock acquisition related expenses | 240,853 | — |
| Miscellaneous losses | 21,976 | 21,595 |
| Total | 270,540 | 44,550 |

Note: “Miscellaneous losses” as of November 30, 2016 includes losses on exchange differences on translation of ¥8,892 thousand.

28. Finance income/costs

Components of finance income/costs are as follows:

(¥ thousand)

| | Fiscal year ended November 30, 2016 | Fiscal year ended November 30, 2017 |
|--------------------------|--|--|
| Interest income | 3,188 | 727 |
| Dividends income | 59,874 | 76,154 |
| Total finance income | 63,062 | 76,881 |
| Interest expenses (Note) | 892,920 | 861,281 |
| Total finance costs | 892,920 | 861,281 |

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, 2016 and 2017 are ¥132,172 thousand and ¥106,271 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, 2016 (December 1, 2015 – November 30, 2016)

(¥ 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 | 25,679 | — | 25,679 | (8,176) | 17,503 |
| Total items that will not be reclassified to net profit or loss | 25,679 | — | 25,679 | (8,176) | 17,503 |
| Items that may be reclassified to net profit or loss | | | | | |
| Exchange differences on translation of foreign operations | (24,512) | — | (24,512) | — | (24,512) |
| Net change in fair values of available-for-sale financial assets | (48,484) | — | (48,484) | 17,018 | (31,465) |
| Net change in fair values of cash flow hedges | 1,226 | — | 1,226 | (914) | 312 |
| Total items that may be reclassified to net profit or loss | (71,770) | — | (71,770) | 16,104 | (55,665) |
| Total | (46,090) | — | (46,090) | 7,928 | (38,162) |

Fiscal year ended November 30, 2017 (December 1, 2016 – November 30, 2017)

(¥ 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 | (5,548) | — | (5,548) | 1,531 | (4,016) |
| Total items that will not be reclassified to net profit or loss | (5,548) | — | (5,548) | 1,531 | (4,016) |
| | | | | | |
| Items that may be reclassified to net profit or loss | | | | | |
| Exchange differences on translation of foreign operations | 12,035 | — | 12,035 | — | 12,035 |
| Net change in fair values of available-for-sale financial assets | (3,994) | 172 | (3,821) | 1,176 | (2,644) |
| Net change in fair values of cash flow hedges | 3,635 | 3,578 | 7,213 | (2,142) | 5,070 |
| Total items that may be reclassified to net profit or loss | 11,676 | 3,751 | 15,427 | (966) | 14,461 |
| Total | 6,128 | 3,751 | 9,879 | 565 | 10,445 |

30. Earnings per share

| | Fiscal year ended November 30, 2016 | Fiscal year ended November 30, 2017 |
|---|-------------------------------------|-------------------------------------|
| Profit attributable to owners of the parent (¥ thousand) | 5,547,469 | 6,155,169 |
| Net income used to figure diluted net income per share (¥ thousand) | — | 6,155,169 |
| Weighted average number of outstanding ordinary shares (shares) | 48,284,000 | 48,284,000 |
| The number of increased ordinary shares used to figure diluted earnings per share (shares) | — | 25,402 |
| The weighted-average number of ordinary shares used to figure diluted earnings per share (shares) | — | 48,309,402 |
| Basic earnings per share (¥) | 114.89 | 127.48 |
| Diluted net income per share (¥) | — | 127.41 |

Notes: 1. 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.

2. Diluted earnings for last fiscal year per share is not presented because there were no potential shares that have dilutive effects.

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, 2016 | As of November 30, 2017 |
| Cash and cash equivalents | 21,640,866 | 23,750,239 |
| Interest-bearing debt | 70,159,313 | 67,123,376 |
| Equity | 41,010,083 | 46,158,867 |

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, the Accounting Department 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, 2016 | Fiscal year ended November 30, 2017 |
| Impact on profit before tax | (681,880) | (652,984) |

(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 of financial position.

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, 2016 | As of November 30, 2017 |
|---|-------------------------|-------------------------|
| Within 3 months' past due | 37,780 | 40,823 |
| Over 3 months and within 6 months' past due | 15,533 | 811 |
| Over 6 months' past due | 1,623 | 538 |
| Total | 54,937 | 42,173 |

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, 2016 | As of November 30, 2017 |
|-----------------------------|-------------------------|-------------------------|
| Trade and other receivables | 14,111 | 8,539 |
| Allowance for credit losses | (13,964) | (8,372) |
| Total | 146 | 166 |

3) Changes in allowance for credit losses

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:

(¥ thousand)

| | Fiscal year ended November 30, 2016 | Fiscal year ended November 30, 2017 |
|--|--|--|
| Balance at beginning of period | 27,174 | 14,321 |
| Amount provided in the fiscal year | 1,815 | 1,921 |
| Decrease during the fiscal year (reversal) | (14,652) | (97) |
| Decrease during the fiscal year (utilization of allowance) | (15) | (5,950) |
| Balance at end of period | 14,321 | 10,195 |

(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's Accounting Department 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, 2016 | | | | |
| Non-derivative financial liabilities | | | | |
| Trade and other payables | 1,742,110 | 4,043,288 | 270,561 | 6,055,959 |
| Borrowings | 9,387,249 | 53,770,625 | 7,001,438 | 70,159,313 |
| Derivative financial liabilities | | | | |
| Trade and other payables | — | 12,031 | 24,084 | 36,115 |
| As of November 30, 2017 | | | | |
| Non-derivative financial liabilities | | | | |
| Trade and other payables | 2,489,124 | 3,049,293 | 216,956 | 5,755,374 |
| Borrowings | 6,449,040 | 48,230,849 | 12,443,486 | 67,123,376 |
| Derivative financial liabilities | | | | |
| Trade and other payables | — | 13,770 | — | 13,770 |

(7) Price risks

The Group is exposed to price risks of financial instruments arising from investments classified as available-for-sale 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's Accounting Department 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, 2016 and 2017, 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 ¥94,227 thousand and ¥88,538 thousand, respectively.

(8) Fair value measurement

1) Fair values and carrying amounts

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

| | As of November 30, 2016 | | As of November 30, 2017 | |
|--------------------------------------|-------------------------|------------|-------------------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Cash and cash equivalents | 21,640,866 | 21,640,866 | 23,750,239 | 23,750,239 |
| Available-for-sale financial assets | 1,441,167 | 1,441,167 | 1,751,463 | 1,751,463 |
| Trade and other receivables (Note 1) | 4,766,946 | 4,766,946 | 3,008,339 | 3,008,339 |
| Trade and other payables (Note 2) | 7,305,255 | 7,305,255 | 7,558,632 | 7,558,632 |
| Borrowings | 70,159,313 | 70,207,138 | 67,123,376 | 67,133,900 |

Notes: 1. The above carrying amount 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, 2016 and 2017 are ¥4,011,785 thousand and ¥2,217,069 thousand, respectively.

2. The above carrying amount 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, 2016

and 2017 are ¥6,055,959 thousand and ¥5,755,374 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.

Available-for-sale financial assets

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

Non-current borrowings

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

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, 2016 | | | |
|--|-------------------------|---------|---------|-----------|
| | Level 1 | Level 2 | Level 3 | Total |
| Available-for-sale financial assets | 1,363,106 | 38 | 78,021 | 1,441,167 |
| Financial liabilities measured at fair value with the change in fair value recognized through other comprehensive income (derivative) (Note) | — | 36,115 | — | 36,115 |

(¥ thousand)

| | As of November 30, 2017 | | | |
|--|-------------------------|---------|---------|-----------|
| | Level 1 | Level 2 | Level 3 | Total |
| Available-for-sale financial assets | 1,276,317 | — | 475,145 | 1,751,463 |
| Financial liabilities measured at fair value with the change in fair value recognized through other comprehensive income (derivative) (Note) | — | 13,770 | — | 13,770 |

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, 2016 | Fiscal year ended November 30, 2017 |
|--------------------------------|--|--|
| Balance at beginning of period | 127,083 | 78,021 |
| Acquisition | 91,084 | 420,166 |
| Comprehensive income | | |
| Profit (loss) (Note 1) | 19,481 | (3,412) |
| Disposal | (159,626) | (19,629) |
| Balance at end of period | 78,021 | 475,145 |

Notes: 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.

32. Operating leases

1) Lessee

The Group rents offices and residences 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, 2016 | Fiscal year ended November 30, 2017 |
|---------------------------------|--|--|
| Due within 1 year | 507,953 | 508,659 |
| Due over 1 year through 5 years | 1,518,260 | 1,012,897 |
| Total | 2,026,214 | 1,521,556 |

Lease payments recognized as expenses under revocable or irrevocable operating lease contracts as of November 30, 2016 and 2017 were ¥585,433 thousand and ¥622,707 thousand respectively.

2) Lessor

The Group lends offices and residences 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, 2016 | Fiscal year ended November 30, 2017 |
|---------------------------------|--|--|
| Due within 1 year | 246,604 | 368,497 |
| Due over 1 year through 5 years | 302,708 | 470,366 |
| Over 5 years | 178,384 | 131,428 |
| Total | 727,697 | 970,292 |

33. Related parties

(1) Transactions with related parties

The Group conducts transactions with key management personnel as follows:

| | (¥ thousand) | |
|--|--|--|
| | Fiscal year ended November 30, 2016 | Fiscal year ended November 30, 2017 |
| Trade and other receivables | 267 | — |
| Trade and other payables | 460,711 | 450,684 |
| Revenue | 2,460 | — |
| Selling, general and administrative expenses | 2,872 | 1,378 |
| Total | 466,310 | 452,062 |

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 of ¥350,581 thousand in final payments has been presented included in "Trade and other payables" in non-current liabilities.

In addition, "Trade and other payables" includes certain consolidated subsidiaries' unpaid portion of ¥100,000 thousand in final payments of retirement benefits to key management personnel which is not described above.

(2) Compensation for principal key management personnel

Compensation for principal key management personnel is as follows:

| | (¥ thousand) | |
|------------------------------|--|--|
| | Fiscal year ended November 30, 2016 | Fiscal year ended November 30, 2017 |
| Short-term employee benefits | 346,057 | 372,740 |
| Retirement benefits | 4,002 | 6,803 |
| Total | 350,059 | 379,543 |

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, 2016 and the fiscal year ended November 30, 2017 is ¥287,924,357 thousand and ¥392,114,281 thousand, respectively, while fees received from these entities in the fiscal year ended November 30, 2016 and the fiscal year ended November 30, 2017 are ¥1,426,285 thousand and ¥1,376,498 thousand, respectively.

These structured entities procure funds principally via real estate non-recourse loans.

The carrying amounts of assets recognized in the consolidated statement of financial position in association with the involvement with the unconsolidated structured entities are as follows. These carrying amounts are the maximum exposure.

| | (¥ thousand) | |
|-------------------------------------|-------------------------|-------------------------|
| | As of November 30, 2016 | As of November 30, 2017 |
| Trade and other receivables | 359,875 | 287,821 |
| Available-for-sale financial assets | 10,471 | 422,625 |
| Total | 370,347 | 710,446 |

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, 2016 and 2017 were ¥44,941 thousand and ¥45,416 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 |

(2) Total number of exercisable shares and average exercise price of stock options

| | Fiscal year ended November 30, 2016 | Fiscal year ended November 30, 2017 |
|--|-------------------------------------|-------------------------------------|
| Exercise price (¥) | 803 | 803 |
| Unexercised, outstanding stock options at the beginning of the year (shares) | 506,000 | 506,000 |
| Granted during the year (shares) | — | — |
| 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) | 506,000 | 506,000 |
| Exercisable, outstanding stock options at the end of the year (shares) | — | — |

36. Business combinations

Fiscal year ended November 30, 2016 (December 1, 2015 – November 30, 2016)

Acquisition of Kishino Corporation and Kishino Real Estate Corporation

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

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

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

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

Note: Consideration paid was in cash.

The 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 ¥170,553 thousand, were recorded in “other expenses.”

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

Fiscal year ended November 30, 2017 (December 1, 2016 – November 30, 2017)

Description are omitted since there are no major business combinations and others.

37. Contingencies

None

38. Subsequent events

None

39. 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, 2017

| (Cumulative period) | First quarter (Three months ended Feb. 28, 2017) | Second quarter (Six months ended May 31, 2017) | Third quarter (Nine months ended Aug. 31, 2017) | Fiscal year ended November 30, 2017 |
|--|--|--|---|--|
| Revenue (¥ thousand) | 14,677,393 | 26,360,085 | 41,978,288 | 57,754,328 |
| Profit before tax (¥ thousand) | 3,658,783 | 5,857,432 | 8,521,644 | 9,049,467 |
| Profit for the period (year) attributable to owners of parent (¥ thousand) | 2,500,571 | 3,931,865 | 5,755,489 | 6,155,169 |
| Basic earnings per share (¥) | 51.79 | 81.43 | 119.20 | 127.48 |

| (Each quarter) | First quarter (Dec. 1, 2016 – Feb. 28, 2017) | Second quarter (Mar. 1, 2017 – May 31, 2017) | Third quarter (Jun. 1, 2017 – Aug. 31, 2017) | Fourth quarter (Sep. 1, 2017 – Nov. 30, 2017) |
|------------------------------|--|--|--|---|
| Basic earnings per share (¥) | 51.79 | 29.64 | 37.77 | 8.28 |

2. Non-consolidated financial statements, etc.

(1) Non-consolidated financial statements

1) Non-consolidated balance sheets

| | (¥ thousand) | | | |
|--|-------------------------|-------------|-------------------------|-------------|
| | As of November 30, 2016 | | As of November 30, 2017 | |
| Assets | | | | |
| Current assets | | | | |
| Cash and deposits | | 18,114,002 | | 18,237,801 |
| Accounts receivable-trade | | 68,870 | | 100,876 |
| Real estate for sale | *1 | 47,226,720 | *1 | 40,822,920 |
| Real estate for sale in process | *1 | 12,586,032 | *1 | 14,150,794 |
| Supplies | | 2,592 | | 4,457 |
| Short-term loans receivable from subsidiaries and affiliates | | 1,820,560 | | 170,560 |
| Accounts receivable-other | *2 | 376,666 | *2 | 642,938 |
| Advance payments-trade | | 282,555 | | 289,196 |
| Prepaid expenses | | 332,905 | | 275,029 |
| Deferred tax assets | | 207,438 | | 135,142 |
| Other | *2 | 28,079 | *2 | 143,435 |
| Allowance for credit losses | | (290) | | (1,841) |
| Total current assets | | 81,046,134 | | 74,971,312 |
| Non-current assets | | | | |
| Property, plant and equipment | | | | |
| Buildings | *1 | 6,940,710 | *1 | 10,998,347 |
| Structures | | 5,445 | | 16,882 |
| Machinery and equipment | | 7,153 | | 27,869 |
| Vehicles | | 7,229 | | 4,822 |
| Tools, furniture and fixtures | | 46,751 | | 43,645 |
| Land | *1 | 16,282,879 | *1 | 20,596,780 |
| Lease assets | | 8,893 | | 9,008 |
| Construction in progress | | — | | 12,400 |
| Total property, plant and equipment | | 23,299,063 | | 31,709,757 |
| Intangible assets | | | | |
| Software | | 39,582 | | 35,375 |
| Telephone subscription right | | 1,889 | | 1,889 |
| Total intangible assets | | 41,471 | | 37,264 |
| Investments and other assets | | | | |
| Investment securities | | 1,325,160 | | 1,699,377 |
| Stocks of subsidiaries and affiliates | | 5,784,833 | | 4,809,144 |
| Investments in capital | | 4,100 | | 4,100 |
| Long-term loans receivable | | 3,068 | | 2,990 |
| Long-term loans receivable from subsidiaries and affiliates | | 1,200,200 | | 921,740 |
| Long-term prepaid expenses | | — | | 112,229 |
| Long-term accounts receivable-other | *2 | 23,055 | *2 | 34,613 |
| Claims provable in bankruptcy, claims provable in rehabilitation and other | | 9,195 | | 3,582 |
| Lease and guarantee deposits | | 1,158,117 | | 678,906 |
| Deferred tax assets | | 195,885 | | 210,904 |
| Other | | 4,014 | | 4,014 |
| Allowance for credit losses | | (9,213) | | (3,600) |
| Total investments and other assets | | 9,698,416 | | 8,478,003 |
| Total non-current assets | | 33,038,951 | | 40,225,024 |
| Total assets | | 114,085,085 | | 115,196,337 |

(¥ thousand)

| | As of November 30, 2016 | | As of November 30, 2017 | |
|--|-------------------------|-------------------|-------------------------|-------------------|
| Liabilities | | | | |
| Current liabilities | | | | |
| Notes payable-trade | | | | |
| Accounts payable-trade | *2 | 398,372 | *2 | 724,194 |
| Short-term loans payable | | 1,675,000 | | — |
| Current portion of long-term loans payable | *1, 4 | 7,102,361 | *1, 4 | 5,847,106 |
| Lease obligations | | 2,709 | | 3,654 |
| Accounts payable-other | | 552,696 | *2 | 530,901 |
| Accrued expenses | | 64,610 | | 69,028 |
| Income taxes payable | | 1,558,973 | | 136,704 |
| Accrued consumption taxes | | — | | 241,473 |
| Advances received | *2 | 786,583 | *2 | 1,174,547 |
| Deposits received | | 202,033 | | 537,794 |
| Provision for bonuses | | 228,980 | | 235,743 |
| Provision for loss on rental business | | — | | 3,573 |
| Total current liabilities | | 12,572,321 | | 9,504,721 |
| Non-current liabilities | | | | |
| Long-term loans payable | *1, 4 | 58,892,256 | *1, 4 | 59,412,010 |
| Guarantee deposits | *2 | 3,359,086 | *2 | 2,658,061 |
| Lease obligations | | 6,895 | | 6,074 |
| Asset retirement obligations | | 19,049 | | 19,197 |
| Provision for retirement benefits | | 300,924 | | 350,547 |
| Long-term accounts payable-other | | 106,437 | | — |
| Long-term accounts payable-other for directors | | 360,711 | | 350,581 |
| Derivative liabilities | | 12,031 | | 6,088 |
| Total non-current liabilities | | 63,057,390 | | 62,802,560 |
| Total liabilities | | 75,629,712 | | 72,307,282 |

(¥ thousand)

| | As of November 30, 2016 | As of November 30, 2017 |
|---|-------------------------|-------------------------|
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 6,421,392 | 6,421,392 |
| Capital surplus | | |
| Legal capital surplus | 6,504,868 | 6,504,868 |
| Total capital surplus | 6,504,868 | 6,504,868 |
| Retained earnings | | |
| Legal retained earnings | 7,250 | 7,250 |
| Other retained earnings | | |
| General reserve | 15,000 | 15,000 |
| Retained earnings brought forward | 25,409,376 | 29,796,811 |
| Total retained earnings | 25,431,626 | 29,819,061 |
| Total shareholders' equity | 38,357,887 | 42,745,321 |
| Valuation and translation adjustments | | |
| Valuation difference on available-for-sale securities | 60,295 | 57,003 |
| Deferred gains (losses) on hedges | (8,347) | (4,224) |
| Total valuation and translation adjustments | 51,948 | 52,778 |
| Stock acquisition rights | 45,538 | 90,954 |
| Total net assets | 38,455,373 | 42,889,054 |
| Total liabilities and net assets | 114,085,085 | 115,196,337 |

2) Non-consolidated statements of operations

(¥ thousand)

| | Fiscal year ended November 30, 2016 | | Fiscal year ended November 30, 2017 | |
|--|--|------------|--|------------|
| Net sales | *1 | 41,965,432 | *1 | 45,491,580 |
| Cost of sales | *1 | 29,444,927 | *1 | 34,589,430 |
| Gross profit | | 12,520,504 | | 10,902,149 |
| Selling, general and administrative expenses | *1,2 | 4,683,942 | *1,2 | 4,467,252 |
| Operating income | | 7,836,561 | | 6,434,897 |
| Non-operating income | | | | |
| Interest income | *1 | 21,458 | *1 | 31,126 |
| Dividends income | *1 | 62,030 | *1 | 1,521,737 |
| Foreign exchange gains | | — | | 4,627 |
| Miscellaneous income | *1 | 59,987 | *1 | 79,466 |
| Total non-operating income | | 143,476 | | 1,636,957 |
| Non-operating expenses | | | | |
| Interest expenses | | 845,912 | | 842,029 |
| Foreign exchange losses | | 8,602 | | — |
| Miscellaneous loss | | 2,087 | | 11,728 |
| Total non-operating expenses | | 856,602 | | 853,757 |
| Ordinary income | | 7,123,434 | | 7,218,097 |
| Extraordinary income | | | | |
| Gain on sales of investment securities | | 680 | | — |
| Total extraordinary income | | 680 | | — |
| Extraordinary loss | | | | |
| Loss on retirement of non-current assets | | 3,491 | | 17,816 |
| Loss on liquidation of subsidiaries and affiliates | | — | | 2,967 |
| Total extraordinary loss | | 3,491 | | 20,784 |
| Income before income taxes | | 7,120,623 | | 7,197,313 |
| Income taxes-current | | 2,322,937 | | 1,690,720 |
| Income taxes-deferred | | 62,919 | | 56,909 |
| Total income taxes | | 2,385,857 | | 1,747,630 |
| Net income | | 4,734,766 | | 5,449,682 |

Detailed schedule of cost of sales

Schedule of the cost in the Revitalization Business

| Accounts | Notes | Fiscal year ended November 30, 2016 | | Fiscal year ended November 30, 2017 | |
|---|-------|-------------------------------------|--------------|-------------------------------------|--------------|
| | | Amounts (¥ thousand) | Ratio (%) | Amounts (¥ thousand) | Ratio (%) |
| I. Land | | 11,305,579 | 56.2 | 20,384,892 | 71.9 |
| II. Acquisition and improvement cost of buildings | | 8,812,365 | 43.8 | 7,961,835 | 28.1 |
| III. Book values written down following a decline in the revenue in the revenue expected to be generated from the inventories | | — | — | — | — |
| Total | | 20,117,944 | 100.0 | 28,346,728 | 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, 2016 | | Fiscal year ended November 30, 2017 | |
|---|-------|-------------------------------------|--------------|-------------------------------------|--------------|
| | | Amounts (¥ thousand) | Ratio (%) | Amounts (¥ thousand) | Ratio (%) |
| I. Land costs | | 4,560,152 | 67.1 | 1,785,873 | 60.6 |
| II. Construction costs | | 2,168,631 | 31.9 | 1,133,849 | 38.5 |
| III. Book values written down following a decline in the revenue in the revenue expected to be generated from the inventories | | 66,554 | 1.0 | 28,816 | 1.0 |
| Total | | 6,795,338 | 100.0 | 2,948,538 | 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, 2016 | | Fiscal year ended November 30, 2017 | |
|--|-------|-------------------------------------|--------------|-------------------------------------|--------------|
| | | Amounts (¥ thousand) | Ratio (%) | Amounts (¥ thousand) | Ratio (%) |
| I. Outsourcing costs | | 532,374 | 21.3 | 714,992 | 21.8 |
| II. Miscellaneous expenses | | 1,969,601 | 78.7 | 2,565,303 | 78.2 |
| [Of which taxes and dues] | | [342,737] | | [439,739] | |
| [Of which depreciation and amortization] | | [222,903] | | [287,570] | |
| [Of which water and power] | | [475,148] | | [517,461] | |
| Total | | 2,501,976 | 100.0 | 3,280,295 | 100.0 |

Schedule of the cost in the Fund and Consulting Business

| Accounts | Notes | Fiscal year ended November 30, 2016 | | Fiscal year ended November 30, 2017 | |
|------------------------|-------|-------------------------------------|--------------|-------------------------------------|--------------|
| | | Amounts (¥ thousand) | Ratio (%) | Amounts (¥ thousand) | Ratio (%) |
| Miscellaneous expenses | | 29,668 | 100.0 | 13,867 | 100.0 |
| Total | | 29,668 | 100.0 | 13,867 | 100.0 |

3)Non-consolidated statements of changes in net assets

Fiscal year ended November 30, 2016

(December 1, 2015 – November 30, 2016)

(¥ thousand)

| | Shareholders' equity | | | | | | | |
|--|----------------------|-----------------------|-------------------------|-------------------------|-------------------|--|-------------------------|----------------------------|
| | Capital stock | Capital surplus | | Legal retained earnings | Retained earnings | | | Total shareholders' equity |
| | | Legal capital surplus | Total capital surpluses | | General reserve | Other retained earnings 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 | 21,447,154 | 21,469,404 | 34,395,664 |
| Changes of items during the year | | | | | | | | |
| Dividends from surplus | | | | | | (772,544) | (772,544) | (772,544) |
| Net income | | | | | | 4,734,766 | 4,734,766 | 4,734,766 |
| Net changes of items other than shareholders' equity | | | | | | | | |
| Total changes of items during the year | – | – | – | – | – | 3,962,222 | 3,962,222 | 3,962,222 |
| Balance at the end of the year | 6,421,392 | 6,504,868 | 6,504,868 | 7,250 | 15,000 | 25,409,376 | 25,431,626 | 38,357,887 |

| | Valuation and translation adjustments | | | Stock acquisition rights | Total net assets |
|--|---|-----------------------------------|---|--------------------------|------------------|
| | Valuation difference on available-for-sale securities | Deferred gains (losses) on hedges | Total valuation and translation adjustments | | |
| Balance at the beginning of the year | 90,981 | (8,928) | 82,053 | 596 | 34,478,314 |
| Changes of items during the year | | | | | |
| Dividends from surplus | | | | | (772,544) |
| Net income | | | | | 4,734,766 |
| Net changes of items other than shareholders' equity | (30,686) | 581 | (30,105) | 44,941 | 14,836 |
| Total changes of items during the year | (30,686) | 581 | (30,105) | 44,941 | 3,977,058 |
| Balance at the end of the year | 60,295 | (8,347) | 51,948 | 45,538 | 38,455,373 |

Fiscal year ended November 30, 2017
(December 1, 2016 – November 30, 2017)

(¥ thousand)

| | Shareholders' equity | | | | | | | Total shareholders' equity |
|--|----------------------|-----------------------|-------------------------|-------------------------|-------------------|--|-------------------------|----------------------------|
| | Capital stock | Capital surplus | | Legal retained earnings | Retained earnings | | Total retained earnings | |
| | | Legal capital surplus | Total capital surpluses | | General reserve | Other retained earnings Retained earnings brought forward | | |
| Balance at the beginning of the year | 6,421,392 | 6,504,868 | 6,504,868 | 7,250 | 15,000 | 25,409,376 | 25,431,626 | 38,357,887 |
| Changes of items during the year | | | | | | | | |
| Dividends from surplus | | | | | | (1,062,248) | (1,062,248) | (1,062,248) |
| Net income | | | | | | 5,449,682 | 5,449,682 | 5,449,682 |
| Net changes of items other than shareholders' equity | | | | | | | | |
| Total changes of items during the year | – | – | – | – | – | 4,387,434 | 4,387,434 | 4,387,434 |
| Balance at the end of the year | 6,421,392 | 6,504,868 | 6,504,868 | 7,250 | 15,000 | 29,796,811 | 29,819,061 | 42,745,321 |

| | Valuation and translation adjustments | | | Stock acquisition rights | Total net assets |
|--|---|-----------------------------------|---|--------------------------|------------------|
| | Valuation difference on available-for-sale securities | Deferred gains (losses) on hedges | Total valuation and translation adjustments | | |
| Balance at the beginning of the year | 60,295 | (8,347) | 51,948 | 45,538 | 38,455,373 |
| Changes of items during the year | | | | | |
| Dividends from surplus | | | | | (1,062,248) |
| Net income | | | | | 5,449,682 |
| Net changes of items other than shareholders' equity | (3,292) | 4,122 | 830 | 45,416 | 46,247 |
| Total changes of items during the year | (3,292) | 4,122 | 830 | 45,416 | 4,433,681 |
| Balance at the end of the year | 57,003 | (4,224) | 52,778 | 90,954 | 42,889,054 |

[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) Available-for-sale 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 carrying amounts 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 | <ol style="list-style-type: none"> 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. |

Additional information

Change in holding purpose of assets

Leasehold property previously held as real estate for sale of ¥7,456,260 thousand was transferred to property, plant and equipment due to the change in business policy.

Application of Implementation Guidance on Recoverability of Deferred Tax Assets

The Company applied the Revised Implementation Guidance on Recoverability of Deferred Tax Assets (Accounting Standards Board of Japan (ASBJ) Guidance No. 26, March 28, 2016) from the fiscal year under review.

Notes to non-consolidated balance sheets

*1. Pledged assets and secured debts are as follows:

Pledged assets

| | (¥ thousand) | |
|---------------------------------|-------------------------|-------------------------|
| | As of November 30, 2016 | As of November 30, 2017 |
| Real estate for sale | 46,259,608 | 39,577,574 |
| Real estate for sale in process | 12,051,301 | 14,021,609 |
| Buildings | 6,696,680 | 9,512,458 |
| Land | 15,405,528 | 14,752,269 |
| Total | 80,413,119 | 77,863,912 |

Debts secured by security interests

| | (¥ thousand) | |
|--|-------------------------|-------------------------|
| | As of November 30, 2016 | As of November 30, 2017 |
| Current portion of long-term loans payable | 6,962,361 | 5,847,106 |
| Long-term loans payable | 58,892,256 | 59,412,010 |
| Total | 65,854,617 | 65,259,116 |

*2. Monetary receivables from and payables to subsidiaries and affiliates

| | (¥ thousand) | |
|---------------------------------|-------------------------|-------------------------|
| | As of November 30, 2016 | As of November 30, 2017 |
| Short-term monetary receivables | 5,123 | 5,854 |
| Long-term monetary receivables | 23,055 | 33,527 |
| Short-term monetary payables | 19,782 | 119,767 |
| Long-term monetary payables | 40,014 | 92,616 |

3. Contingent liabilities

The Company guarantees the borrowings of the following companies from financial institutions as follows:

| | (¥ thousand) | |
|------------------------------------|-------------------------|-------------------------|
| | As of November 30, 2016 | As of November 30, 2017 |
| Tosei Revival Investment Co., Ltd. | 874,580 | 790,960 |
| Tosei Community Co., Ltd. | 75,834 | 69,090 |

*4. Financial covenants

As of November 30, 2016

- (1) Of the Company's loans payable, the individual contract of cash loan for consumption with The Bank of Tokyo-Mitsubishi UFJ, Ltd. (outstanding balance: ¥786,800 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

- (2) Of the Company's loans payable, the individual contract of cash loan for consumption with The Bank of Tokyo-Mitsubishi UFJ, Ltd. (outstanding balance: ¥800,000 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, 2015, 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, overdraft agreements with The Bank of Tokyo-Mitsubishi UFJ, Ltd. (outstanding balance: ¥980,000 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, 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

- (4) Of the Company's loans payable, the individual contract of cash loan for consumption with Mizuho Bank, Ltd. (outstanding balance: ¥4,500,000 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 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, 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, the individual contract of cash loan for consumption with Sumitomo Mitsui Banking Corporation (outstanding balance: ¥2,212,500 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, 2014, 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, 2017

- (1) Of the Company's loans payable, special contract of individual cash loan with The Bank of Tokyo-Mitsubishi UFJ, Ltd. (outstanding balance: ¥672,350 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
- (2) Of the Company's loans payable, special contract of individual cash loan with The Bank of Tokyo-Mitsubishi UFJ, Ltd. (outstanding balance: ¥710,772 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

- (3) Of the Company's loans payable, the individual contract of cash loan for consumption with Mizuho Bank, Ltd. (outstanding balance: ¥4,412,500 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 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, 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.

- (4) Of the Company's loans payable, loan contract with Sumitomo Mitsui Banking Corporation (outstanding balance: ¥7,554,000 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, 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.

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, 2016 | Fiscal year ended November 30, 2017 |
| Sales | 64,485 | 43,282 |
| Purchase amount | 911,095 | 1,494,901 |
| Other business turnover | 53,386 | 75,361 |
| Transaction volume other than business turnover | 31,068 | 1,484,152 |

*2. The approximate ratio to selling expenses is 41.0% in the fiscal year ended November 30, 2016 and 34.5% in the fiscal year ended November 30, 2017, while the approximate ratio to general and administrative expenses is 59.0% in the fiscal year ended November 30, 2016 and 65.5% in the fiscal year ended November 30, 2017.

Main components of selling, general and administrative expenses are as follows:

| | (¥ thousand) | |
|--|--|--|
| | Fiscal year ended November 30, 2016 | Fiscal year ended November 30, 2017 |
| Sales expenses (Revitalization) | 683,337 | 582,882 |
| Sales expenses (Development) | 1,142,792 | 818,694 |
| Salaries and allowances | 871,144 | 946,750 |
| Provision for bonuses | 228,980 | 232,356 |
| Retirement benefit expenses | 61,414 | 64,087 |
| Provision of allowance for credit losses | 2,579 | 1,888 |
| Taxes and dues | 628,803 | 696,315 |
| Depreciation | 45,533 | 48,389 |

Securities

As of November 30, 2016

As shares in subsidiaries (carrying amount in the balance sheet: ¥5,784,833 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, 2017

As shares in subsidiaries (carrying amount in the balance sheet: ¥4,809,144 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

| | As of November 30, 2016 | As of November 30, 2017 |
|---|-------------------------|-------------------------|
| | | (¥ thousand) |
| Deferred tax assets | | |
| Current assets | | |
| Accrued enterprise taxes, currently not deductible | 95,669 | 32,939 |
| Provision for bonuses | 78,225 | 72,750 |
| Estimated expenses, currently not deductible | 16,387 | 10,002 |
| Other | 17,156 | 19,450 |
| Subtotal | 207,438 | 135,142 |
| Non-current assets | | |
| Provision for retirement benefits | 92,142 | 107,337 |
| Long-term accounts payable-other for directors | 110,449 | 107,347 |
| Other | 19,903 | 21,377 |
| Subtotal | 222,496 | 236,062 |
| Total deferred tax assets | 429,934 | 371,205 |
| Deferred tax liabilities | | |
| Non-current liabilities | | |
| Valuation difference on available-for-sale securities | (26,610) | (25,157) |
| Subtotal | (26,610) | (25,157) |
| Total deferred tax liabilities | (26,610) | (25,157) |
| Net deferred tax assets | 403,324 | 346,047 |

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, 2016 | As of November 30, 2017 |
|--|--|-------------------------|
| Statutory effective tax rate | This note is omitted since the difference between the statutory effective tax rate and the effective tax rate after adoption of tax effect accounting is not more than 5% of the statutory effective tax rate. | 30.86% |
| (Adjustments) | | |
| Expenses not deductible permanently such as entertainment expenses | | 0.17 |
| Profits not deductible permanently such as dividends income | | (6.63) |
| Other | | (0.12) |
| Effective tax rates after adoption of tax effect accounting | | 24.28 |

Important subsequent events

None

d. Supplementary statements

[Detailed schedule of property, plant and equipment and others]

(¥ thousand)

| Category | Type of assets | Balance as of Dec. 1, 2016 | Increase in the fiscal year ended Nov. 30, 2017 | Decrease in the fiscal year ended Nov. 30, 2017 | Depreciation during the fiscal year ended Nov. 30, 2017 | Balance as of Nov. 30, 2017 | Accumulated depreciation or amortization as of Nov. 30, 2017 |
|-------------------------------|-------------------------------|----------------------------|---|---|---|-----------------------------|--|
| Property, plant and equipment | Buildings | 6,940,710 | 4,369,793 | 16,385 | 295,770 | 10,998,347 | 1,541,704 |
| | Structures | 5,445 | 13,450 | 1,417 | 596 | 16,882 | 10,124 |
| | Machinery and equipment | 7,153 | 25,100 | — | 4,383 | 27,869 | 5,510 |
| | Vehicles | 7,229 | — | — | 2,407 | 4,822 | 8,182 |
| | Tools, furniture and fixtures | 46,751 | 12,748 | 14 | 15,840 | 43,645 | 67,149 |
| | Land | 16,282,879 | 4,313,901 | — | — | 20,596,780 | — |
| | Lease assets | 8,893 | 3,499 | — | 3,384 | 9,008 | 4,527 |
| | Construction in progress | — | 12,400 | — | — | 12,400 | — |
| | Total | 23,299,063 | 8,750,893 | 17,816 | 322,382 | 31,709,757 | 1,637,198 |
| Intangible assets | Software | 39,582 | 9,369 | — | 13,576 | 35,375 | — |
| | Telephone subscription right | 1,889 | — | — | — | 1,889 | — |
| | Total | 41,471 | 9,369 | — | 13,576 | 37,264 | — |

Notes: In the increase in the fiscal year ended Nov. 30, 2017, principal events are as follows:

| | | |
|------------|--|---------------------|
| Buildings: | Transfer from real estate for sale (3 properties) | ¥2,754,300 thousand |
| | Transfer from Real estate for sale in process (1 property) | ¥902,017 thousand |
| | Newly acquired rental office buildings (1 property) | ¥657,294 thousand |
| Land: | Transfer from real estate for sale (3 properties) | ¥2,908,507 thousand |
| | Transfer from Real estate for sale in process (1 property) | ¥874,043 thousand |
| | Newly acquired rental office buildings (1 property) | ¥399,226 thousand |

[Detailed schedule of allowances]

(¥ thousand)

| Category | Balance as of Dec. 1, 2016 | Increase in the fiscal year ended Nov. 30, 2017 | Decrease in the fiscal year ended Nov. 30, 2017 | Balance as of Nov. 30, 2017 |
|---------------------------------------|----------------------------|---|---|-----------------------------|
| Allowance for doubtful accounts | 9,504 | 1,918 | 5,980 | 5,442 |
| Provision for bonuses | 228,980 | 235,743 | 228,980 | 235,743 |
| Provision for loss on rental business | — | 3,573 | — | 3,573 |

(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 | None |

- 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
67th term; from December 1, 2015 to November 30, 2016, filed to Director-General of Kanto Local Finance Bureau on February 27, 2017.
- (2) Internal Control Report and Appendices
Filed to Director-General of Kanto Local Finance Bureau on February 27, 2017.
- (3) Quarterly Securities Reports and Confirmation Letter
First quarter of the 68th term; from December 1, 2016 to February 28, 2017, filed to Director-General of Kanto Local Finance Bureau on April 10, 2017.
Second quarter of the 68th term; from March 1, 2017 to May 31, 2017, filed to Director-General of Kanto Local Finance Bureau on July 10, 2017.
Third quarter of the 68th term; from June 1, 2017 to August 31, 2017, filed to Director-General of Kanto Local Finance Bureau on October 11, 2017.
- (4) Extraordinary Reports
Filed to Director-General of Kanto Local Finance Bureau on December 20, 2017.
Extraordinary Report based on Article 19, paragraph 2, item 4 (Change in Major Shareholder) of the Cabinet Office Ordinance on the Disclosure of Corporate Affairs, etc.
Filed to Director-General of Kanto Local Finance Bureau on February 28, 2018.
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.

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

No items to report

Independent Auditors' Audit Report and Internal Control Audit Report

February 22, 2018

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, 2016 to November 30, 2017.

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, 2017, 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, 2017.

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, 2017 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.

*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.

Independent Auditors' Audit Report

February 22, 2018

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 68th fiscal year from December 1, 2016 to November 30, 2017.

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, 2017, 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.

[Cover]

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| 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 28, 2018 |
| Company name (Japanese): | トーセイ株式会社 (<i>Tosei Kabushiki-Kaisha</i>) |
| 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, Toranomom, 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, 2017 (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 4 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

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| <p>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 28, 2018 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.</p> |
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