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 69th term)

from December 1, 2017
to November 30, 2018

TOSEI CORPORATION

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

(E04021)

This is an English translation prepared for the convenience of non-resident shareholders by translating the Annual Securities Report (YUKASHOKEN-HOKOKUSHO) submitted to the Director of the Kanto Local Finance Bureau of the Ministry of Finance of Japan on February 28, 2019 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.

Table of Contents

Cover
A. Company Information 1
I. Overview of the Tosei Group 1
1. Trends in principal management benchmarks 1
2. History 3
3. Business description 5
4. Status of subsidiaries and associates 8
5. Status of employees 9
II. Review of operations 10
1. Management Policies, management envionment and Issues to be addressed 10
2. Business and other risks 14
3. Management analysis of financial position, operating results and cash flows 19
4. Important operational contracts, etc. 24
5. Research and development activities 24
III. Facilities 25
1. Outline of capital expenditures 25
2. Main facilities 25
3. Plans for new installation and retirement of facilities 25
IV. Filing company 26
1. Information on the Company (Tosei)'s shares, etc. 26
(1) Total number of shares authorized, etc. 26
(2) Status of stock acquisition rights 26
(3) Exercise of bond certificates with stock acquisition rights with exercise price amendment clause 29
(4) Trends in total number of shares issued, share capital, etc. 29
(5) Shareholder composition 30
(6) Status of major shareholders 30
(7) Status of voting rights 31
2. Acquisition of treasury shares 32
3. Dividend policy 33
4. Trends in share price 34
5. Status of officers 35
6. Status of corporate governance, etc. 39
V. Accounting 53
1. Consolidated financial statements, etc. 54
(1) Consolidated financial statements 54
(2) Others 95
2. Non-consolidated financial statements, etc. 96
(1) Non-consolidated financial statements 96
(2) Principal assets and liabilities 112
(3) Others 112
VI. Outline of filing company's business concerning shares 113
VII. Reference information on filing company 114
1. Information on filing company's parent company 114
2. Other reference information 114
B. Information on Guarantee Companies, etc. of Filing Company 115
[Independent Auditors' Audit Report and Internal Control Audit Report]
[Independent Auditors' Audit Reports]
[Management's Report on Internal Control]

[Cover]

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Date of filing:	February 28, 2019
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Company name (Japanese):	トーセイ株式会社 (*Tosei Kabushiki-Kaisha*)
Company name (English):	TOSEI CORPORATION
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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	65th term	66th term	67th term	68th term	69th term
Accounting period	Fiscal year ended Nov. 30, 2014	Fiscal year ended Nov. 30, 2015	Fiscal year ended Nov. 30, 2016	Fiscal year ended Nov. 30, 2017	Fiscal year ended Nov. 30, 2018
Revenue (¥ thousand)	49,981,563	43,006,964	49,818,113	57,754,328	61,543,319
Profit before tax (¥ thousand)	4,663,706	6,040,311	8,450,048	9,049,467	10,171,017
Profit attributable to owners of parent (¥ thousand)	2,874,226	4,135,816	5,547,469	6,155,169	6,852,237
Comprehensive income attributable to owners of parent (¥ thousand)	3,021,682	4,081,386	5,509,307	6,165,615	6,856,712
Total equity (¥ thousand)	32,727,836	36,228,378	41,010,083	46,158,867	52,021,782
Total assets (¥ thousand)	80,858,080	93,196,052	121,276,292	122,550,281	138,768,538
Equity attributable to owners of parent per share (¥)	677.82	750.32	849.35	955.99	1,071.63
Basic earnings per share (¥)	59.53	85.66	114.89	127.48	141.36
Diluted earnings per share (¥)	–	–	–	127.41	141.12
Ratio of equity attributable to owners of parent to total assets(%)	40.5	38.9	33.8	37.7	37.5
Ratio of return on equity attributable to owners of parent (%)	9.2	12.0	14.4	14.1	14.0
Price earnings ratio (PER) (Times)	12.10	8.84	7.23	8.59	7.28
Net cash from (used in) operating activities (¥ thousand)	344,537	(4,443,093)	(7,472,487)	7,089,159	7,615,322
Net cash from (used in) investing activities (¥ thousand)	(2,878,766)	481,605	(8,193,818)	(18,800)	(10,786,784)
Net cash from (used in) financing activities (¥ thousand)	3,891,894	6,661,097	18,522,496	(4,962,180)	5,941,884
Cash and cash equivalents at end of period (¥ thousand)	16,100,795	18,791,081	21,640,866	23,750,239	26,520,569
Number of employees [Separately, average number of temporary employees] (Person)	263 [226]	301 [163]	368 [155]	386 [156]	431 [139]

Notes: 1. Revenue does not include consumption taxes.

2. Diluted earnings per share for 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.

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

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

Term	65th term	66th term	67th term	68th term	69th term
Accounting period	Fiscal year ended Nov. 30, 2014	Fiscal year ended Nov. 30, 2015	Fiscal year ended Nov. 30, 2016	Fiscal year ended Nov. 30, 2017	Fiscal year ended Nov. 30, 2018
Net sales (¥ thousand)	45,361,084	37,242,841	41,965,432	45,491,580	48,601,639
Ordinary income (¥ thousand)	4,130,769	5,553,118	7,123,434	7,218,097	6,770,624
Net income (¥ thousand)	2,439,091	3,906,732	4,734,766	5,449,682	5,370,323
Capital stock (¥ thousand)	6,421,392	6,421,392	6,421,392	6,421,392	6,554,139
Total number of shares issued (Shares)	48,284,000	48,284,000	48,284,000	48,284,000	48,544,800
Net assets (¥ thousand)	31,131,670	34,478,314	38,455,373	42,889,054	47,281,601
Total assets (¥ thousand)	76,218,316	88,071,296	114,085,085	115,196,337	128,160,896
Net assets per share (¥)	644.76	714.06	795.50	886.38	973.16
Dividends per share (¥) [Interim dividends per share] (¥)	12.00 [–]	16.00 [–]	22.00 [–]	25.00 [–]	30.00 [–]
Net income per share (¥)	50.52	80.91	98.06	112.87	110.79
Net income per share (diluted) (¥)	–	—	—	112.81	110.60
Equity ratio (%)	40.8	39.1	33.7	37.2	36.9
Return on equity (ROE) (%)	8.1	11.9	13.0	13.4	11.9
Price earnings ratio (PER) (Times)	14.25	9.36	8.47	9.70	9.29
Dividend payout ratio (%)	23.8	19.8	22.4	22.1	27.1
Number of employees [Separately, average number of temporary employees] (Person)	131 [–]	140 [–]	152 [–]	159 [–]	181 [–]

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

2. Net income per share (diluted) for 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.

2. History

Date	Details of change
February 1950	Established as Yukari Kogyo Co., Ltd. with purpose of engaging in restaurant business at location of 514 Oaza Oita, Oita-shi, Oita Prefecture, Japan (Capital: ¥500,000)
April 1952	Moved head office to Kameido, Koto-ku, Tokyo
June 1964	Added real estate trading, brokerage, rental and management businesses to scope of business purpose
May 1968	Moved head office to Sotokanda, Chiyoda-ku, Tokyo
July 1969	Changed trade name to Yukari Co., Ltd.
March 1973	Obtained license of building lots and buildings transaction business (License Number: Governor of Tokyo (1) No. 24043)
March 1983	Changed trade name to Tosei Building Co., Ltd.
April 1986	Moved head office to Iwamoto-cho, Chiyoda-ku, Tokyo
October 1994	Started sales of condominiums of "THE Palms" series
September 1995	Established Kanda Awaji-cho Building Co., Ltd.
March 1996	Changed trade name to Tosei Fudosan Co., Ltd.
April 1996	Launched revitalization business
December 1996	Moved head office to Kanda Awaji-cho, Chiyoda-ku, Tokyo
December 1997	Launched contract work, including repair and restoration, incidental to building management business upon obtaining license of specified construction business (License Number: Governor of Tokyo (Special-9) No. 107905)
July 1999	Started sales of detached houses of "Palms Court" series
February 2001	Launched asset management business upon registering general real estate investment advisory business (Registration Number: Minister of Land, Infrastructure, Transport and Tourism No. 127)
March 2001	Merged with Kabushiki Kaisha. Konmasa Shoten, Nihon Kogyo Jutaku Kabushiki Kaisha. and Hidaka Kogyo Kabushiki Kaisha. by absorption-type merger using LBO (leveraged buyout) technique
April 2001	Registered first-class architectural firm (Registration Number: Governor of Tokyo No. 46219)
November 2001	Span off Building Management Division engaged in building management services and transferred it to Tosei Community Co., Ltd. (currently consolidated subsidiary Tosei Community Co., Ltd., Japanese name of which has changed with English name unchanged)
December 2001	Established Securitization Business Division to realize full-scale entry into real estate securitization business
August 2002	Structured "Argo Fund," a private placement fund investing in trust beneficiary rights in rental condominiums, as our first real estate investment fund
December 2002	Merged with our subsidiary Kanda Awaji-cho Building Co., Ltd. by absorption-type merger
February 2004	Registered shares as over-the-counter securities at Japan Securities Dealers Association
September 2004	Obtained license of real estate specified joint enterprise (License Number: Governor of Tokyo No. 58)
December 2004	Cancelled registration as over-the-counter securities at Japan Securities Dealers Association and listed shares on Jasdaq Securities Exchange (later delisted shares in January 2008)
March 2005	Established Tosei Revival Investment Co., Ltd. (currently consolidated subsidiary Tosei Revival Investment Co., Ltd., Japanese name of which has changed with English name unchanged)
April 2005	Made Tosei Community Co., Ltd. (currently consolidated subsidiary Tosei Community Co., Ltd., Japanese name of which has changed with English name unchanged) a consolidated subsidiary by acquiring its shares
September 2005	Established Tosei REIT Advisors, Inc. (currently consolidated subsidiary Tosei Asset Advisors, Inc.)
October 2006	Changed trade name to Tosei Corporation and moved head office to Toranomon, Minato-ku, Tokyo
November 2006	Listed shares on Second Section of Tokyo Stock Exchange
September 2007	Registered type II financial instruments business and investment advisory and agency business (Registration Number: Director-General of Kanto Local Finance Bureau (Kinsho) No. 898)
September 2009	Launched "Restyling business" as a new business model of revitalization business
September 2011	Listed shares on First Section of Tokyo Stock Exchange
January 2012	Established Tosei Singapore Pte. Ltd.
December 2012	Established NAI TOSEI Japan, Inc. (Liquidation completed on August 2016)
March 2013	Listed shares on Main Board of Singapore Exchange
November 2014	Tosei Reit Investment Corporation, which is managed by Tosei Asset Advisors, Inc., a consolidated subsidiary of Tosei Corporation, listed shares on Tokyo Stock Exchange
December 2015	Made Urban Home Corporation a consolidated subsidiary by acquiring its shares (Notes1)
February 2016	Established Tosei Hotel Management Co., Ltd.
June 2017	Established Tosei Hotel Kanda Co., Ltd.
December 2017	Opened Tosei Hotel COCONE Kanda
May 2018	Established Tosei Hotel Ueno Co., Ltd. (Notes2)
July 2018	Established Tosei Hotel Service Co., Ltd.

Date	Details of change
December 2018	Opened Tosei Hotel COCONE Ueno

Notes:1. As of February 27, 2019 Urban Home Corporation has changed its trade name to Tosei Urban Home Co., Ltd.

2. As of December 13, 2018, Tosei Hotel Ueno Co. has changed its trade name to Tosei Hotel Makuhari Co., Ltd.

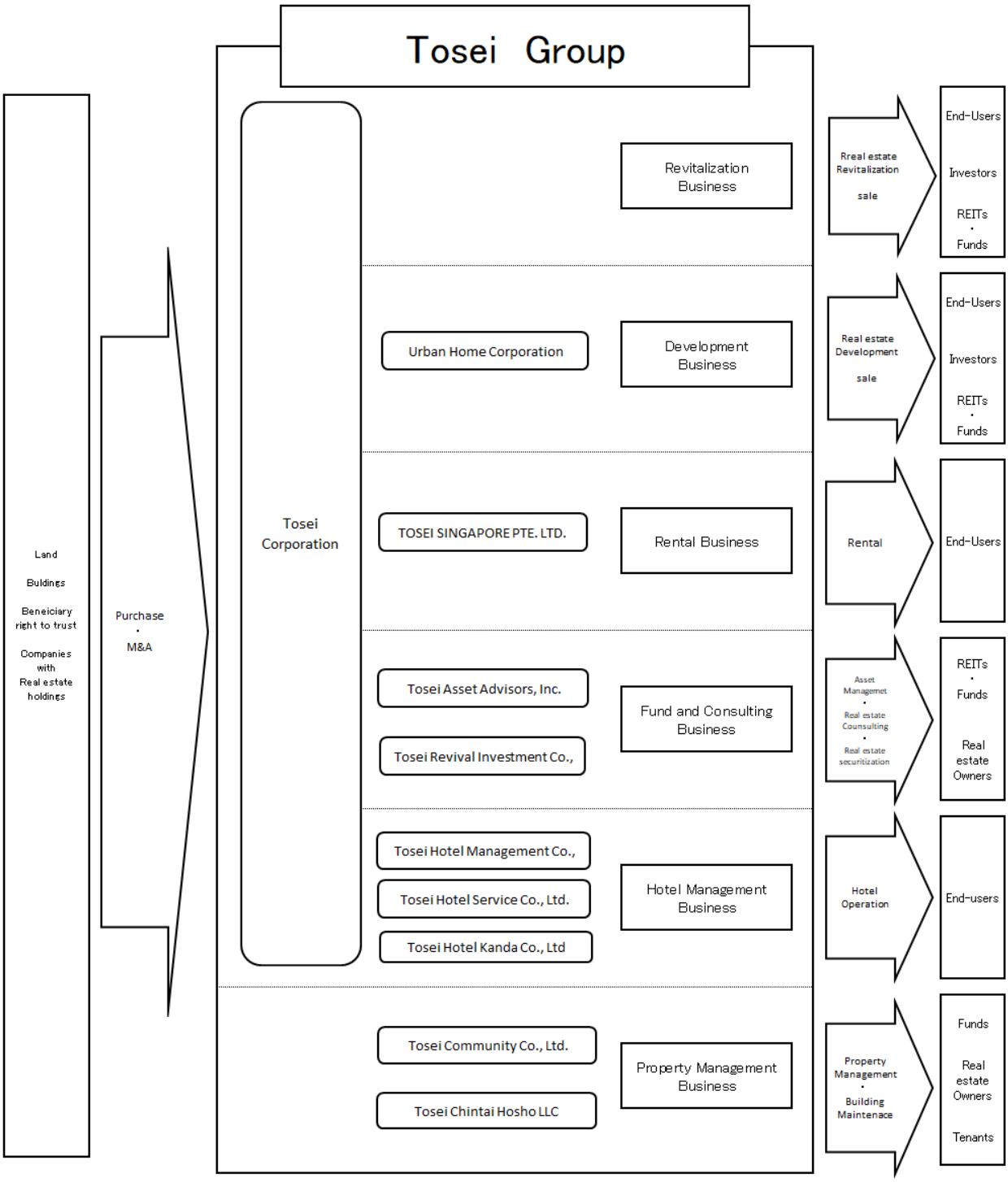
3. Business description

The Tosei Group is composed of Tosei Corporation ("Tosei" or the "Company") and 16 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	The Tosei Group acquires, through diverse means (*1), office buildings, commercial facilities, apartments and other properties whose asset value has declined, boosts their value though "value-up plans" (*2) judged to best match the characteristics of the properties' areas and tenant requirements, and sells them as revitalized real estate to buyers including investors, real estate funds and individual business entities that acquire real estate for private use. In the "Restyling Business," the Group acquires income-generating condominiums and sells their units to end-users after boosting the value of common and private areas by renovation. The Tosei Group's "value-up" activities go beyond just renewing properties and involve realizing comprehensive regenerations of their values. This put a focus on not only improving the convenience and functionality of properties but also providing satisfaction to owners and giving end users a sense of pride. (*1) The Company carries out the acquisition of superior real estate through a broad range of means that include not only buying and selling actual real estate, but also acquisitions through the means of "real estate M&A" where real estate held by companies with real estate holdings and by real estate business operators is acquired through M&A, and through real estate collateralized loans and rights adjustment for substitute performance real estate. (*2) The Company's "value-up plans" consist of the three primary components of improved designs to refurbish/renovate internal and external elements that have deteriorated or become obsolete, enhanced security functions, etc., to increase the security and functionality of facilities, and incorporating eco-friendly designs and equipment that take the environment into consideration, in addition to improved profitability through conversion projects, vacancy countermeasures, rent increases, etc.	Tosei Corporation
Development Business	In the main districts of Tokyo, which form the Tosei Group's core operating area, there is a mixture of needs for office, commercial and residential space and other uses, and these different uses create significant differences between land values. Tosei verifies the characteristics of land it acquires including area, shape, intended purpose, relevant needs, rent, and selling price. Based on this, Tosei carries out development and new construction to maximize the value of the land, and then sells whole buildings or individual units. The Group is able to respond to diverse needs by developing office buildings, commercial buildings (T's BRIGHTIA series) and mixed-use buildings, hotels, logistics facilities, condominiums (THE Palms series), as well as detached houses (THE Palms Court series and Comodo Casa series). Once development is complete or tenants have been found, the properties are sold to buyers including investors, real estate funds, and end-users.	Tosei Corporation Urban Home Corporation
Rental Business	The Tosei Group has expanded the scope of its business primarily in the main districts of Tokyo by acquiring office buildings, condominiums, stores and parking lots, and renting them out to end-users and others. As a landlord, the Tosei Group is capable of swiftly gathering accurate information on tenant needs to further enhance "value-up plans" by reflecting these needs.	Tosei Corporation

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

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	Interlocking directorate
Four Big Corporation	Minato-ku, Tokyo	80,000	Revitalization business	100.0	Interlocking directorate
KS Properties Corporation	Minato-ku, Tokyo	100	Revitalization business	100.0	Interlocking directorate
Masuda Kenzai-ten Co., Ltd.	Minato-ku, Tokyo	60,500	Revitalization business	100.0	
Sanki-shoji Co., Ltd.	Minato-ku, Tokyo	30,000	Revitalization business	100.0	
Tosei Hotel Management Co., Ltd.	Minato-ku, Tokyo	100,000	Hotel management	100.0	
Tosei Hotel Kanda Co., Ltd.	Minato-ku, Tokyo	10,000	Hotel management	100.0 (100.0)	
Tosei Hotel Ueno Co., Ltd.	Minato-ku, Tokyo	10,000	Hotel management	100.0 (100.0)	
Tosei Hotel Service Co., Ltd.	Minato-ku, Tokyo	10,000	Hotel management	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. Masuda Kenzai-ten Co., Ltd. and Sanki-shoji Co., Ltd. were acquired in an M&A transaction during the fiscal year under review, while Tosei Hotel Ueno Co., Ltd. and Tosei Hotel Sevice Co., Ltd. were established as a subsidiary and both have been included in the scope of consolidation.

3. As of February 27, 2019 Urban Home Corporation has changed its trade name to Tosei Urban Home Co., Ltd.

4. As of December 13, 2018, Tosei Hotel Ueno Co. has changed its trade name to Tosei Hotel Makuhari Co., Ltd.

5. Status of employees

(1) Consolidated companies

(As of November 30, 2018)

Segment	Number of employees (Person)	
Revitalization Business	78	[–]
Development Business	73	[3]
Rental Business	20	[–]
Fund and Consulting Business	69	[–]
Property Management Business	124	[136]
Other	11	[–]
Corporate (common)	56	[–]
Total	431	[139]

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.
3. Compared with November 30, 2017, the number of employees increased by 45 persons. This mainly reflects an increase in employees hired during the fiscal year as a result of business expansion.

(2) Filing company (Tosei)

(As of November 30, 2018)

Number of employees (Person)	Average age (Year old)	Average years of service (Year)	Average annual salary (¥ thousand)
181	37.0	5.5	7,758

Segment	Number of employees (Person)
Revitalization Business	75
Development Business	35
Rental Business	14
Fund and Consulting Business	1
Corporate (common)	56
Total	181

Notes: 1. The number of employees indicates the number of working employees.
2. The average annual salary includes bonuses and surplus wages.
3. The number of employees in the "Corporate (common)" row is the number of those belonging to the administrative department.

(3) Status of labor union

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

II. Review of operations

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

Forward-looking statements included in this section are based on information available to the Group's management as of November 30, 2018.

(1) Fundamental management policy

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

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

In the real estate investment market, which is the Company's main target market, a continuing favorable financing environment is fueling real estate transactions by corporations, J-REITs, overseas investors, etc. Although lenders are increasing its cautious stance on loans for investment properties for individual investors due to the impact of fraudulent loans made by certain local banks, the market has a favorable investment environment compared to major cities around the world, and the demand for real estate investment is expected to continue supported by firm demand for offices and stable demand for condominiums. On the other hand, investment properties in suburban area shows relative vulnerability compared to the favorable sales of properties in the metropolitan area. Also, there are concerns about the uncertainty in global economy such as China-US trade relations and financial and investment market fluctuation caused by rising interest rates in the U.S. The Company believes that the investment strategy responsive to changes in real estate market is needed.

Amid this operating environment, the Group is promoting its medium-term management plan "Seamless Growth 2020" (December 2017 to November 2020) with the fiscal year ended November 30, 2018 as its first year. The major policy of the plan is "to continue growth as a Group to build a firm position as an original comprehensive real estate company." In the fiscal year ending November 30, 2019, the Company will continue implementing its growth strategy based on this plan.

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

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

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

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

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

e. Further increase in satisfaction of Group employees, strengthening of organizational strengths and improvement in productivity through fostering of human resources

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

<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*2

f. Guideline for equity ratio: 35%

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

*2 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 expenses (advertising fees, brokerage fees, etc.) pertaining to property trading.

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

1) Details of the basic policy

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

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

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

It is particularly necessary and essential for the persons who make decisions on the Company's financial and business policies to (i) maintain the system under which the Company group covers with its comprehensive capability the 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) Special measures to realize the basic policy

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

In the medium-term management plan called "Seamless Growth 2020" (the targeted period of the plan is three years from December 2017 to November 2020), which kicked off in the fiscal year ended November 30, 2018, under the major policy "to continue growth as a Group to build a firm position as an original comprehensive real estate company," 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 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 wariai)*of a holder *(hoyuusha)* totaling at least 20% of the share certificates, etc. issued by the company; or (ii) a tender offer *(koukai kaitsuke)* that would result in the party conducting the tender offer's ownership ratio of share certificates, etc. and the ownership ratio of share certificates, etc. of a person having a special relationship totaling at least 20% of the share certificates, etc. issued by the Company; or (iii) any similar action to (i) or (ii) above)

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

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

When (i) the acquisition is not in compliance with the procedures prescribed in the plan or (ii) it threatens to cause obvious harm to the corporate value of the Company, and, in turn, to the common interests of shareholders, (iii) and it is reasonable to implement the gratis allotment of stock acquisition rights, the independent committee will recommend the implementation the gratis allotment of stock acquisition rights to the Company's board of directors. In addition, when a meeting of shareholders is convened to confirm the intent of the Company's shareholders, the Company's board of directors will respond to the shareholders' intent. These stock acquisition rights will be allotted with an exercise condition that does not allow, as a general rule, the acquirer to exercise the rights and an acquisition provision to the effect that the Company may acquire the stock acquisition rights in exchange for shares in the Company from persons other than the acquirer. The Company's board of directors, in exercising its role under the Companies Act, will pass a resolution relating to the implementation or non-implementation of the gratis allotment of stock acquisition rights, respecting the recommendation of the Independent Committee to the maximum extent. In addition, when a meeting of shareholders is convened to confirm the intent of the Company's shareholders, the Company's board of directors will respond to the shareholders' intent. If the procedures for the plan have commenced, the acquirer must not effect an acquisition until and unless the Company's board of directors resolves not to trigger the plan. The effective period of the plan expires at the conclusion of the ordinary general meeting of shareholders for the last fiscal year ending within three years after the conclusion of the 68th Ordinary General Meeting of Shareholders. However, if, before the expiration of the effective period, the Company's board of directors resolves to abolish the plan, the plan will be abolished at that time.

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 establishedas 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.

2. 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, 2018. 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
• Building Lots and Buildings Transaction Business Act • National Land Use Planning Act • City Planning Act • Building Standards Act • Construction Business Act • Act on Architects and Building Engineers • Housing Quality Assurance Act • Act on Sales, etc. of Financial Products • Real Estate Specified Joint Enterprise Act • Trust Business Act • Act on Investment Trust and Investment Corporations • Act on Securitization of Assets • Real Estate Investment Advisory Business Registration Rules • Act on Assurance of Performance of Specified Housing Defect Warranty • Act on Prevention of Transfer of Criminal Proceeds • Act on Advancement of Proper Condominium Management • Act on Maintenance of Sanitation in Buildings • Security Services Act • Fire and Disaster Management Act • Act on the Rational Use of Energy • Money Lending Business Act • Inns and Hotels Act • Food Sanitation Act

2) Licenses and permits, etc.

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

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

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

Tosei Community Co., Ltd.

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

Kishino Corporation

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

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

Masuda Kenzai-ten Co., Ltd.

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

Sanki-shoji Co., Ltd.

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

Tosei Hotel Management Co., Ltd

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

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

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

(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.

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

The following is a summary and analysis by management of the Group's financial position, performance and cash flows (hereinafter, "business performance") for the fiscal year ended November 30, 2018.

Forward-looking statements are based on Tosei Group judgments as of November 30, 2018.

(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) Operating results

During the fiscal year ended November 30, 2018, the Japanese economy is recovering moderately, supported by increased capital investment on the back of favorable corporate earnings and stable personal consumption, despite a temporary downturn caused by the natural disasters. A moderate recovery is expected to continue going forward, backed by improvements of employment and income environments, as well as various policies, despite concerns over the trend of trade issue and the future of emerging economies.

In the real estate industry where Tosei Group operates, domestic real estate transactions by listed companies and other such entities from January to September 2018, increased 5% year on year to ¥3.0 trillion. Although there are movements for financial institutions to tighten their policies on loans for real estate investment by individuals who do not have sufficient own financial resources, in response to the fraudulent loans made by certain local banks and other issues, the real estate investment market has generally been performing favorably, supported by active property acquisitions by overseas investors and J-REITs (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 2018 remained unchanged year on year, however, that the contract rate for the first month of sale continued to fall below the 70% threshold from which market conditions are viewed as favorable. In the build-for-sale detached house market, the number of units sold from January to September 2018 decreased 1% year on year, however, there has been a sign of a recovery in demand with a perception that they are undervalued because

of a persistently high level of the condominium prices (according to surveys by the Ministry of Land, Infrastructure, Transport and Tourism and private research institute).

The office leasing market of Tokyo's five business wards has been performing favorably. According to a survey by a private research institute, the average vacancy rate as of October 2018 is 2.2% which is the lowest level since January 2002, and the average asking rent rose for the 58th consecutive month. Upward trend of rent is likely to continue as the demand from corporate businesses for relocation and office expansion is continuously expected.

The real estate securitization market is continuing to expand. The total value of assets under management as of June 2018 grew to ¥17.3 trillion in J-REITs (an increase of ¥1.1 trillion year on year), and the total value of assets under management in private placement funds grew to ¥16.9 trillion (an increase of ¥1.1 trillion year on year), and the overall market scale of the real estate securitization market reached ¥34.2 trillion (an increase of ¥2.2 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 and apartments, while in the Development Business, the Group pushed ahead with sales of condominiums and detached houses. In addition, other than usual acquisition methods, the Group also utilized an acquisition method of M&A, proactively acquiring income-generating properties and land for development as future sources of income.

As a result, consolidated revenue for the fiscal year under review totaled ¥61,543 million (up 6.6% year on year), operating profit was ¥10,875 million (up 10.6%), profit before tax was ¥10,171 million (up 12.4%), and profit for the year was ¥6,852 million (up 11.3%).

Performance by business segment is shown below.

Revitalization Business

During the fiscal year under review, the segment sold 44 properties it had renovated, including Nishidai Tosei Building (Itabashi-ku, Tokyo), NU Kannai Building (Yokohama-shi, Kanagawa), Ikebukuro-jyoshikaikan Apartment (Toshima-ku, Tokyo), Higashitotsuka West Building (Yokohama-shi, Kanagawa), Kichichoji Ito Building (Musashino-shi, Tokyo) and Kuramochi Building 2 (Sumida-ku, Tokyo). In addition, the segment sold 22 units in the Restyling Business, including Hilltop Yokohama Negishi (Yokohama-shi, Kanagawa). During the fiscal year under review, it also acquired a total of 43 income-generating office buildings and apartments and 12 land lots for renovation and sales purposes.

As a result, revenue in this segment was ¥34,793 million (down 13.6% year on year) and the segment profit was ¥6,770 million (down 13.7%).

Development Business

During the fiscal year under review, the segment focused on the sale of condominium and detached houses. The segment sold 88 units at THE Palms Yutenji Master's Place (Setagaya-ku, Tokyo) and sold 102 detached houses at such properties as THE Palms Court Koshigaya Lake Town (Koshigaya-shi, Saitama), THE Palms Court Kamakura Shiromeguri (Kamakura-shi, Kanagawa), THE Palms Court Kunitachi (Kokubunji-shi, Tokyo) and THE Palms Court Kashiwa Hatsuishi (Kashiwa-shi, Chiba). In addition, the segment sold one commercial facility and 12 land lots. During the fiscal year under review, it also acquired a land lot for condominium project, two lots for hotel project, a land lot for logistics facility and land lots for 51 detached housings.

As a result, revenue in this segment was 13,261million (up 155.2% year on year) and the segment profit was ¥1,487 million (in comparison with segment loss of ¥408 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 29 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 ¥6,133 million (down 1.0% year on year) and the segment profit was ¥2,534 million (down 1.8%).

Fund and Consulting Business

During the fiscal year under review, while ¥40,485 million was subtracted from the balance of assets under management (Note), due mainly to property dispositions by funds, ¥151,636 million was added to the balance of Assets under management ¥552,208 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, 2018, was ¥663,359 million. The acquisition of such large project contracts increased asset management fees and contributed to revenue.

As a result, revenue in this segment was ¥2,982 million (up 7.9% year on year) and the segment profit was ¥1,616 million (up 26.9%).

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 622 as of November 30, 2018, a decrease of 43 properties from November 30, 2017, with that total comprising 390 office buildings, hotel, schools and other such properties, and 232 condominiums and apartments.

As a result, although the total number of properties under management decreased, due to increase in commission and fees, etc., revenue in this segment was ¥4,015 million (up 20.6% year on year) and segment profit was ¥453 million (up 63.1%).

Others

During the fiscal year under review, revenue in this segment was ¥356 million (the revenue was ¥0 million in this segment in the same period of the previous year) and the segment loss was ¥45 million (down 39.7% year on year).

(3) 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, 2018	Comparison with the previous fiscal year (%)
	Amount (¥ thousand)	
Revitalization Business	34,793,585	(13.6)
Development Business	13,261,604	155.2
Rental Business	6,133,861	(1.0)
Fund and Consulting Business	2,982,251	7.9
Property Management Business	4,015,450	20.6
Other	356,565	―
Total	61,543,319	6.6

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, 2017		Fiscal year ended November 30, 2018	
	Amount (¥ thousand)	Ratio (%)	Amount (¥ thousand)	Ratio (%)
Tosei Reit Investment Corporation	10,364,525	17.9	9,556,658	15.5

3. The above amounts do not include consumption taxes.

(4) financial position

The consolidated financial position as of November 30, 2018 was as follows. Total assets increased 13.2% compared with the end of the previous fiscal year to ¥138,768 million, liabilities up 13.6% to ¥86,746 million, and equity rose 12.7% to ¥52,021 million. The ratio of equity attributable to owners of parent to total assets was 37.5%, compared with 37.7% at the end of the previous fiscal year.

Current assets

As of November 30, 2018, the balance of current assets was ¥92,099 million, an increase of ¥6,455 million compared with the end of the previous fiscal year.

This is mainly due to, increase in inventories (up ¥2,739 million year on year) because sales of properties in the revitalization and development businesses, which are the core operations of the Company, exceeded the number of properties the Company sold.

Non-current assets

As of November 30, 2018, the balance of non-current assets was ¥46,669 million, up ¥9,762 million compared with the end of the previous fiscal year. This is mainly due to increase in investment properties (up ¥5,393 year on year).

Current liabilities

As of November 30, 2018, the balance of current liabilities was ¥14,423 million, up ¥2,478 million compared with the end of the previous fiscal year.
This is mainly due to, increase in current income tax liabilities (up ¥1,712 year on year).

Non-current liabilities

As of November 30, 2018, the balance of non-current liabilities was ¥72,323 million, up ¥7,877 million compared with the end of the previous fiscal year.
This is mainly due to, increase in borrowings (up ¥7,042 year on year).

Equity

As of November 30, 2018, equity was ¥52,021 million, an increase of ¥5,862 million compared with the end of the previous fiscal year. This is mainly due to a ¥5,634 million increase in retained earnings.

(5) Cash flows

Cash and cash equivalents (hereinafter "cash") as of November 30, 2018 totaled ¥26,520 million, an increase of ¥2,770 million compared with November 30, 2017.

Cash Flows from Operating Activities

Net cash provided by operating activities totaled ¥7,615 million (up 7.4% year on year). This is mainly attributed to the profit before tax of ¥10,171 million and income taxes paid of ¥2,226 million.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥10,786 million (¥18 million used in the same period of the previous fiscal year). This is mainly due to purchase of investment properties of ¥8,714 million and purchase of investments in subsidiaries resulting in change in scope of consolidation of ¥1,502 million.

Cash Flows from Financing Activities

Net cash provided by financing activities totaled ¥5,941 million (¥4,962 million used in the previous fiscal year). This mainly reflects ¥33,360 million in the repayments of non-current borrowings related to the sales of properties and others, ¥960 million payments of interest and ¥1,206 million in cash dividends paid, despite ¥41,148 million in proceeds from non-current borrowings.

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

	Fiscal year ended Nov. 30, 2016	Fiscal year ended Nov. 30, 2017	Fiscal year ended Nov. 30, 2018
Ratio of equity attributable to owners of parent to total assets (%)	33.8	37.7	37.5
Market value ratio of equity attributable to owners of parent to total assets (%)	33.1	43.1	36.0
Interest-bearing debt to cash flow ratio (years)	―	9.5	9.9
Interest coverage ratio (times)	―	8.0	7.9

Ratio of equity attributable to owners of parent to total assets:	Equity attributable to owners of parent 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, 2016 because net cash used in operating activities was recorded in the consolidated statements of cash flows for the said fiscal year.

(6) Source of equity and liquidity of funds

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

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

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

Accounting treatment for retirement benefit obligations

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

Due to this effect, retirement benefit costs in the previous fiscal year and the fiscal year under review decreased by ¥2,344 thousand and increased by ¥847 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 ¥2,940 thousand and ¥3,207 thousand, respectively, compared with those under Japanese GAAP.

Reclassification of presentation

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

4. Important operational contracts, etc.

None

5. Research and development activities

None

III. Facilities

1. Outline of capital expenditures

In the fiscal year ended November 30, 2018, we made capital expenditures totaling ¥8,820million. 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, 2018)

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	955,595	2,219,719 (633.53)	44,018	3,219,332	181
Leasing properties (24 properties in Chiyoda-ku, Tokyo, etc.)	Rental Business	Rental buildings, stores, etc.	15,483,585	21,780,272 (44,134.12)	29,061	37,292,920	―
Total	–	–	16,439,181	23,999,991 (44,767.65)	73,079	40,512,252	181

Note: The above amounts do not include consumption taxes.

(2) Domestic subsidiaries

(As of November 30, 2018)

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	150,301	331,755 (657.47)	―	482,057	―
Tosei Revival Investment Co., Ltd.	Leasing properties (2 properties in Arakawa-ku, Tokyo, etc.)	Rental Business	Apartment , Rental building	353,968	496,030 (915.95)	16	850,015	―
Urban Home Corporation	Head office (Machida-shi, Tokyo)	Development business	Office facilities	64,653	185,346 (420.71)	8,187	258,187	38

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, 2018)	Number of shares issued (Share; as of the date of filing: Feb. 28, 2019)	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	48,544,800	48,544,800	Tokyo Stock Exchange (First Section) and Main Board of Singapore Exchange	Share unit number: 100 shares
Total	48,544,800	48,544,800	–	–

Note: Shares issued through the exercise of stock acquisition rights between February 1, 2019 and the submission date of this Annual Securities Report are not included under "Number of shares issued."

(2) Status of stock acquisition rights

1) The detail of the stock option system

Date of resolution	October 28, 2015
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
Number of stock acquisition rights (Note1)	2,452 (Note 2)
Delivery of stock acquisition rights in line with acts of structural reorganization (Note1)	Ordinary shares 245,200 (Note 2)
Amount to be paid in upon exercise of stock acquisition rights (¥) (Note1)	803 (Note 3)
Period during which stock acquisition rights may be exercised (Note1)	From January 10, 2018 to October 28, 2020
Issue price and amount capitalized of shares when issued through the exercise of stock acquisition rights (¥) (Note1)	Issue price: 803 Amount capitalized: 401.5
Terms and conditions for exercising stock acquisition rights	(Note 4)
Transfer of stock acquisition rights (Note1)	Acquiring stock acquisition rights through transfer shall require approval by resolution of the Company's Board of Directors.
Delivery of stock acquisition rights in line with acts of structural reorganization (Note1)	(Note 5)

Notes: 1. The information is as of the end of fiscal year(November 31, 2018). With regard to the items, there is no change from the information as of the last month ended before the filing date (January 31, 2019).

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

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

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

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

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

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

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

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

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

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

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

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

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

i. If adjusted in accordance with (1) above, the Exercise Value after adjustment shall apply on and after the following day of the base date (or on and after the effective date if no base date is set) in the case of a share split, or on and after the effective date in the case of a consolidation of shares. However, in the event that a share split is conducted under the condition that a proposal to decrease surplus and increase capital stock or legal capital surplus is approved at a General Meeting of Shareholders, and a date before the date of conclusion of the General Meeting of Shareholders is set as the base date of the share split, the Exercise Value after adjustment shall retroactively apply on the following day of such a base date, on and after the following day of the conclusion date of the General Meeting of Shareholders.

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

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

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

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

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

(1) Terms and conditions for respective segment of persons

i. Directors of the Company

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

the expiration date of the exercisable period of stock acquisition rights stipulated in the preceding "Period during which stock acquisition rights may be exercised".

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

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

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

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

(8) Terms and conditions for exercising stock acquisition rights

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

(9) Terms of acquisition of stock acquisition rights

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

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

2) Details of rights plan

None

3) Details of other stock acquisition rights, etc.

None

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

None

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

Date	Fluctuation in the number of shares issued (Shares)	Balance of shares issued (Shares)	Fluctuation in share capital (¥ thousand)	Balance of share capital (¥ thousand)	Fluctuation in legal capital surplus (¥ thousand)	Balance of legal capital surplus (¥ thousand)
Dec. 1, 2017 to Nov. 2018 (Notes)	260,800	48,544,800	132,747	6,554,139	132,747	6,637,615

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

(5) Shareholder composition

(As of November 30, 2018)

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	25	37	179	6	5,128	5,395	―
Number of shares held (Unit)	―	60,960	8,426	61,537	167,938	6	186,544	485,411	3,700
Holding rate of shares (%)	―	12.56	1.74	12.68	34.59	0.00	38.43	100.00	―

Note: 105 shares of treasury stock are included 1 unit in "individuals, etc.", 5 shares in "Shares less than one unit".
The number of "Other corporations" includes 4 units in the name of Japan Securities Depository Center, Inc.

(6) Status of major shareholders

(As of November 30, 2018)

Name of shareholder	Address	Number of shares held (Share)	Ownership percentage to the number of issued shares (excluding treasury stock) (%)
Seiichiro Yamaguchi	Shibuya-ku, Tokyo, Japan	12,885,500	26.54
Zeus Capital Limited	2-22-26-103 Uehara, Shibuya-ku, Tokyo, Japan	6,000,000	12.35
KBL EPB S.A 107704 (Standing proxy: Mizuho Bank, Ltd., Settlement &cleaning Services Division)	43, Boulevard Royal, L-2955 Luxembourg (2-15-1 Konan, Minato-ku, Tokyo, Japan)	4,847,300	9.98
Japan Trustee Services Bank, Ltd. (Trust Account)	1-8-11, Harumi, Chuo-ku, Tokyo, Japan	1,974,500	4.06
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3, Hamamatsucho, Minato-ku, Tokyo, Japan	1,432,000	2.94
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)	1,417,572	2.92
SSBTC CLIENT OMNIBUS ACCOUNT (Standing proxy: Hongkong And Shanghai Banking Corporation Limited, Tokyo Branch)	ONE LINCOLN STRREET, BOSTON MA USA 02111 (3-11-1 Nihonbashi,Chuo-ku, Tokyo, Japan)	1,283,800	2.64
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)	878,195	1.80
JPMC GOLDMAN SACHS TRUST JASDEC LENDING ACCOUNT (Standing proxy: MUFG Bank, Ltd.)	GOLDMAN SACHS AND CO, 180 MAIDEN LANE, 37/90TH FLOOR, NEW YORK, NY 10038 U.S.A. (2-7-1 Marunouchi, Chiyoda-ku, Tokyo, Japan)	646,100	1.33
MLI FOR CLIENT GENERAL OMNI NON COLLATERAL NON TREATY-PB (Standing proxy: Merrill Lynch Japan Securities Co.,Ltd.)	MERRRILL LYNCH FINANCIAL CENTE 2 KING EDWARD STREET LONDON EC1A 1HQ (1-4-1 Nihonbashi,Chuo-ku, Tokyo, Japan)	603,600	1.24
Total	–	31,968,567	65.85

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

2. The change report for the large shareholding report, which was made accessible to the public as of May 24, 2018, states that SAMARANG UCITS held the following shares as of May 17, 2018. 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 change report for 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 (shares)	4,642,000
Holding ratio of share certificates, etc. (%)	9.58

3.The change report for the large shareholding report, which was made accessible to the public as of October 2, 2018, states that SPARXAsset Management Co., Ltd. held the following shares as of September 28, 2018. However, since the Company could not confirm the actual number of shares held by this company as of 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 change report for the large shareholding report is as follows:

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

4.KBL EPB S.A. 107704, which was a major shareholder as of the end of the previous fiscal year, ceased to be a major shareholder as of the end of the current fiscal year.

(7) Status of voting rights

a. Shares issued

(As of November 30, 2018)

Classification	Number of shares (Share)	Number of voting rights	Details
Shares without voting rights	–	–	–
Shares with restricted voting rights (Treasury shares, etc.)	–	–	–
Shares with restricted voting rights (Other)	–	–	–
Shares with full voting rights (Treasury shares, etc.)	(Treasury shares held) Ordinary shares 100	–	–
Shares with full voting rights (Other)	Ordinary shares 48,541,000	485,410	–
Shares less than one unit	Ordinary shares 3,700	–	–
Total number of shares issued	48,544,800	–	–
Total number of voting rights	–	485,410	–

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, 2018)

Name of shareholders	Address	Number of shares held under own name (Share)	Number of shares held under the name of others (Share)	Total number of shares held (Share)	Percentage of number of shares held in total number of shares issued (%)
(Treasury shares held) TOSEI CORPORATION	4-2-3, Toranomon, Minato-ku, Tokyo, Japan	100	–	100	0.0
Total	–	100	–	100	0.0

2. Acquisition of treasury shares

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

Category	Number of shares (shares)	Value (¥ thousand)
Status of resolution at the Board of Directors (February 5, 2019) (Acquisition period: February 7, 2019 to August 31, 2019)	1,200,000	1,000,000
Treasury shares acquired prior to the fiscal year ended November 30, 2018	–	–
Treasury shares acquired during the fiscal year ended November 30, 2018	–	–
Total number and value of remaining shares with voting rights	–	–
Unexercised portion as of the end of the fiscal year ended November 30, 2018 (%)	–	–
Treasury shares acquired during the period under review	–	–
Unexercised portion as of the date of filing (%)	100.0	100.0

Note: Number of shares acquired through purchasing shares between February 7, 2019 and the submission date of this Annual Securities Report are not included under "Treasury shares acquired during the period under review."

(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, 2018	105	128
Treasury shares acquired during the period under review	–	–

Note: Number of shares acquired through purchasing shares between February 1, 2019 and the submission date of this Annual Securities Report are not included under "Treasury shares acquired during the period under review."

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

Category	Fiscal year ended November 30, 2018		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	105	—	105	—

Note: Number of shares acquired through purchasing shares less than one unit between February 1, 2019 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 ¥30 per share for the fiscal year under review. As a result, the Company's consolidated dividend payout ratio came to 21.2% for the fiscal year ended November 30, 2018.

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, 2018 is as follows:

Resolution date	Total amount of dividends (¥ thousand)	Dividends per share (¥)
Ordinary General Meeting of Shareholders held on Feb. 27, 2019	1,456,340	30

4. Trends in share price

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

Term	65th term	66th term	67th term	68th term	69th term
Accounting period	Fiscal year ended Nov. 30, 2014	Fiscal year ended Nov. 30, 2015	Fiscal year ended Nov. 30, 2016	Fiscal year ended Nov. 30, 2017	Fiscal year ended Nov. 30, 2018
Highest (¥)	881	954	856	1,162	1,529
Lowest (¥)	597	636	553	712	953

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

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

Month	Jun. 2018	Jul. 2018	Aug. 2018	Sep. 2018	Oct. 2018	Nov. 2018
Highest (¥)	1,399	1,188	1,123	1,181	1,175	1,080
Lowest (¥)	1,157	1,005	1,021	967	953	989

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	Apr. 1983 Entered Mitsui Real Estate Sales Co., Ltd. (the predecessor of Mitsui Fudosan Realty Co., Ltd.) Apr. 1986 Entered Tosei-Shoji Corporation Aug. 1990 Director of the Company Jun. 1994 President and Representative Director of the Company (current position) Dec. 1995 Representative Director of Palms Community Management Co. Ltd. (the predecessor of Tosei Community Co., Ltd.) Jul. 2004 President and CEO of the Company (current position)	Note 3	12,885,500
Director	COO and Senior Executive Officer of Business Division; in charge of Asset Solution Business Promotion Department	Katsuhito Kosuge	Jul. 17, 1960	Apr. 1983 Entered Tokyu Construction Co., Ltd. Apr. 1986 Entered Tosei-Shoji Corporation Jan. 1996 Director of the Company Dec. 2000 Managing Director of the Company Jul. 2004 Director and Managing Executive Officer of the Company Sep. 2005 Representative Director of Tosei Revival Investment Co., Ltd. Feb. 2006 COO and Senior Executive Officer of Business Division of the Company (current position) Oct. 2007 Representative Director of Tosei Asset Management, Corp. Apr. 2008 Director of Tosei Asset Advisors, Inc. Feb. 2012 Director of Tosei Asset Advisors, Inc.	Note 3	110,000
Director	CFO and Senior Executive Officer of Administrative Division; in charge of Human Resource Department	Noboru Hirano	Oct. 17, 1959	Apr. 1982 Entered Kokubu & Co., Ltd. Apr. 1991 Entered Tosei-Shoji Corporation May 1995 Director of Tosei-Shoji Corporation Mar. 2001 General Manager of Finance and Accounting Department of the Company Oct. 2002 Managing Director of the Company Jul. 2004 Director and Managing Executive Officer of the Company Mar. 2005 Audit & Supervisory Board Member of Tosei Revival Investment Co., Ltd. Apr. 2005 Audit & Supervisory Board Member of Tosei Community Co., Ltd. Sep. 2005 Representative Director of Tosei REIT Advisors, Inc. (the predecessor of Tosei Asset Advisors, Inc.) Feb. 2006 CFO and Senior Executive Officer of Administrative Division of the Company (current position) Dec. 2007 Representative Director of Tosei Revival Investment Co., Ltd. Jan. 2013 Representative Director of Tosei Revival Investment Co., Ltd. (current position) Feb. 2013 Director of Tosei Community Co., Ltd. (current position) Feb. 2016 Director of Tosei Asset Advisors, Inc. (current position)	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, Asset Solution Department 5	Masaaki Watanabe	Jan. 25, 1963	Apr. 1986 Entered Towa Real Estate Development Co., Ltd. (the predecessor of Mitsubishi Jisho Residence Co., Ltd.) Dec. 1990 Entered Heisei Kouhatsu Co., Ltd. Apr. 1993 Seconded to Ohmon Club Co., Ltd. Feb. 1998 Entered the Company Aug. 2006 Director of Tosei Revival Investment Co., Ltd. Dec. 2006 General Manager of Asset Solution Business Department 1 of the Company Mar. 2008 Executive Officer and General Manager of Asset Solution Business Department 1 of the Company Dec. 2012 Executive Officer in charge of Asset Solution Business Department 3 and Asset Solution Business Department 4 of the Company Dec. 2014 Executive Officer in charge of Asset Solution Department 3 of the Company Mar. 2015 Managing Executive Officer in charge of Asset Solution Department 3 of the Company Jun. 2015 Managing Executive Officer, Deputy Chief of Business Division and in charge of Asset Solution Department 3 of the Company Mar. 2017 Managing Executive Officer and Deputy Chief of Business Division of the Company Jun. 2017 Managing Executive Officer, Deputy Chief of Business Division and in charge of Asset Solution Department 4 of the Company Feb. 2018 Director and Managing Executive Officer, Deputy Chief of Business Division and in charge of Asset Solution Department 4 of the Company Dec. 2018 Director and Managing Executive Officer, Deputy Chief of Business Division and in charge of Asset Solution Department 4, Asset solution Department 5 of the Company (current position)	Note 3	29,100
Director	Managing Executive Officer, Deputy Chief of Business Division and in charge of Asset Solution Department 1	Hideki Nakanishi	Jun. 17, 1967	Apr. 1990 Entered the Yasuda Trust & Banking Co., Ltd. (the predecessor of Mizuho Trust & Banking Co., Ltd.) Jun. 1999 Entered Gold Crest Co., Ltd. Oct. 2001 Entered HUSER Corporation Apr. 2006 Entered the Company Dec. 2006 General Manager of Asset Solution Business Department 4 of the Company Dec. 2010 General Manager of Asset Solution Business Department 1 of the Company Mar. 2013 Executive Officer in charge of Asset Solution Department 1 of the Company Feb. 2016 Director of Tosei Revival Investment Co., Ltd. (current position) Mar. 2017 Managing Executive Officer in charge of Asset Solution Department 1 of the Company Feb. 2018 Director and Managing Executive Officer in charge of Asset Solution Department 1 of the Company Dec. 2018 Director and Managing Executive Officer, Deputy Chief of Business Division and in charge of Asset Solution Department 1 (current position)	Note 3	20,100

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

Title	Post	Name	Date of birth	Career summary	Term of office	Number of shares held (Share)
Audit & Supervisory Board Member (full-time)		Hitoshi Yagi	Oct. 2, 1958	Apr. 1982 Joined The Nippon Credit Bank, Ltd. (the predecessor of Aozora Bank, Ltd.) Apr. 1999 Head of Real Estate Research Office, Sales Strategy Division II of The Nippon Credit Bank, Ltd. Aug. 2000 Senior Manager of Real Estate Finance Group, Investment Banks Division of The Nippon Credit Bank, Ltd. Aug. 2004 Joint General Manager of Corporate Business Division V of The Nippon Credit Bank, Ltd. Aug. 2009 Joint General Manager of Human Resources Division of The Nippon Credit Bank, Ltd. Oct. 2011 Joint General Manager of Internal Audit Division of The Nippon Credit Bank, Ltd. Feb. 2019 Full-time Audit & Supervisory Board Member of the Company (current position)	Note 5	–
Audit & Supervisory Board Member		Tatsuki Nagano	Apr. 16, 1959	Apr. 1983 Entered The Chuo Trust & Banking Co., Ltd. (the predecessor of Sumitomo Mitsui Trust Bank, Limited) Jul. 1995 Financial Planning Chief of Corporate Planning Dept. at headquarters of The Chuo Trust & Banking Co., Ltd. (the predecessor of Sumitomo Mitsui Trust Bank, Limited) Jul. 2000 Management Director of RG Asset Management PTE. LTD. Jul. 2004 Director of Reference Group Holdings Ltd. Aug. 2004 Representative Director of RG Asset Management Co., Ltd. Feb. 2012 Audit & Supervisory Board Member of the Company (current position) Apr. 2013 Director of RG Asset Management Services Limited (BVI) Apr. 2013 Director and Representative Partner of RG Asset Management Services Limited (HK) Jun. 2014 Director of System Location, Co., Ltd. (current position) Feb. 2016 Managing Director, Head of the Management Headquarters of All Nippon Asset Management, Co., Ltd. (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						13,194,700

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

2. Yutaka Kitamura, Hitoshi Yagi, Tatsuki Nagano and Osamu Doi are outside audit & supervisory board members.

3. Two-year period from the conclusion of the Ordinary General Meeting of Shareholders held February 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 27, 2019.

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

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.

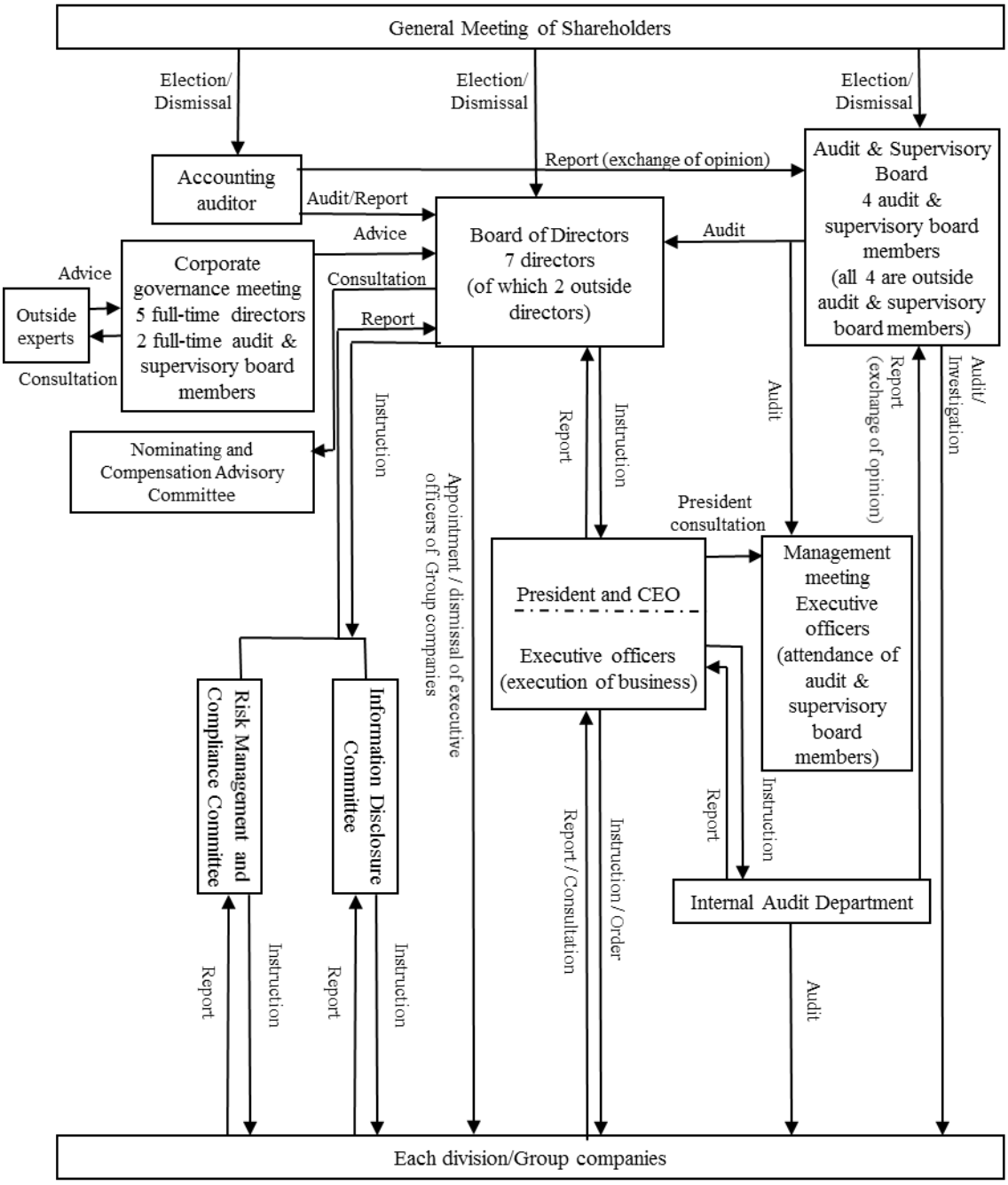
vii) Information disclosure

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, 2018 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 department) and a business law liaison meeting (attended by all heads of the operational divisions) are held every month, during which participants are duly made familiar with amendments to laws and regulations, etc. and notices from ministries with jurisdiction etc., while the results of deliberations by the Committee are reported to the monthly meetings of the Board of Directors.

During the fiscal year under review, we implemented the Harassment Prevention Training Course for officers and those in managerial positions in the Company and each of the Group companies. In addition, we formulated and distributed the Harassment Prevention Leaflet to all officers and employees in the Group.

・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 three times 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.

・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.

During the fiscal year under review, we revised the Crisis PR Manual, which stipulates the responses to be taken (information disclosure, etc.) in the event of occurrence of serious breaches and/or incidents.

・Eliminate any association with anti-social forces

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

ii) Storing and managing information

・Ensure awareness regarding the importance of storing and managing information

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

During the fiscal year under review, we formulated and disseminated guidelines regarding the handling of important information of other companies that are likely to be acquired through sales activities.

・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

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

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

・Enhance monitoring of risk management

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

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

All employees are kept informed through morning briefings, training sessions and meetings, of duty to promptly report to the heads of each department and duty of the heads of each department to report to full-time Directors and Audit & Supervisory Board Members.

・Promptly react to any occurrence of contingencies and disclose information

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

During the fiscal year under review, we revised the Crisis PR Manual, which stipulates the responses to be taken (information disclosure, etc.) in case of occurrence of a contingency, etc.

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

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

When drawing up the business plans and budgets, we analyze the economic environment in Japan and overseas and the operating environment in the real estate market, conduct separate discussions with each department and Group company without setting goals that are over-ambitious, and 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 including new businesses, and the increase in the number of Group companies, etc.

In preparation for the new fiscal year, in the fiscal year under review, we have resolved to conduct the organizational restructuring of business divisions and establish Asset Solution Department 5 with the aim of expanding business.

v) Properness of operations of entire Group

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

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

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

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

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

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

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

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

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

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

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

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

In order to ensure the appropriateness of the financial reporting and the expeditious consolidated financial closing, the 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 assessments and the audit corporation conducts audits.

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

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

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

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

・Designate members of staff to assist Audit & Supervisory Board Members in their duties

The Internal Audit Department has been assigned as the department in charge, and the personnel of the Internal Audit Department provide assistant duties under the command of Audit & Supervisory Board Members and carry out administrative duties for the Audit & Supervisory Board.

・Ensure the independence of the aforementioned members of staff from Directors

Evaluations, rewards and punishments, and transfers of personnel of the Internal Audit Department are carried out after the concurrence from the Audit & Supervisory Board is obtained in advance.

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

Reports are made in a timely and appropriate manner at corporate governance meetings, comprising full-time Directors and full-time Audit & Supervisory Board Members (held monthly), as well as in the interviews by full-time Audit & Supervisory Board Members with the President and CEO (once a month), other full-time Directors (once a quarter), and heads of each department (twice a year).

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

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

At the pre-Board meeting discussions of the Company, where each Group company makes the monthly management reporting, and at interviews by full-time Audit & Supervisory Board Members of the Company with representative directors of each Group company held on a regular basis, each Group company is required to report occurrence and signs of any material losses and significant risks associated with management of the Group company.

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

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

Members

Regulations of the Company explicitly state that those who report Audit & Supervisory Board Members or whistle-blowers are protected from any disadvantageous treatments. Such policy is continuously informed at training sessions, etc., and is also stated in the explanation of systems on the Company's intranet and in leaflets, etc. distributed to employees.

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

The Company continues to operate a whistle-blowing system that provides three contact points, internal, external, and through Audit & Supervisory Board Members of the Company. Reports to the internal and external contact points, if any, are promptly reported to Audit & Supervisory Board Members, and when no whistle-blowing has occurred, this fact is reported on a monthly basis.

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

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

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

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

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

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

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

(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:	8 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 Hitoshi Yagi has abundant experience and specialist knowledge acquired at audit divisions of major financial institutions As such, the Company

believes that he can fulfill his responsibilities of securing adequacy and appropriateness in the Company's management.

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

The Company believes that Osamu Doi can perform a role in ensuring the adequacy and appropriateness of the Company's management based on his abundant experience at major securities companies and at companies that conduct investment banking activities as well as his specialist knowledge.

3) 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)	195,578	154,092	332	41,154	5
Audit & supervisory board members (excluding outside audit & supervisory board members)	—	—	—	—	—
Outside officers	43,184	43,140	44	—	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 4 issues
Total carrying amount ¥199,709 thousand

(b) Stock name, number of sharres, amount recorded in the balance sheet, ad purpose of holding regarding

equity securities held for purpose other than pure investment

Stock name	Number of shares (shares)	Balance sheet amount (¥ thousand)	Purpose of holding
SKY LOGIS PRIVATE REAL ESTATE INVESTMENT COMPANY	300,000	151,509	Expansion of the business

(c) Investment shares held for pure investment purposes

Specified investment security

	Fiscal year ended Number 30,2017	Balance sheet amount (¥ thousand)			
	Balance sheet amount (¥ thousand)	Total amount of Balance sheet	Total amount of dividends received	Total amount of gain (loss) on sale	Total amount of unrealized gain (loss)
Stock other than unlisted equity securities	—	56,835	—	—	211

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, 2017		Fiscal year ended Nov. 30, 2018	
	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	37,000	–	36,000	–
Consolidated subsidiaries	5,000	–	5,000	–
Total	42,000	–	41,000	–

2) Other important fees

Fiscal year ended November 30, 2017

None

Fiscal year ended November 30, 2018

None

3) Non-audit services to filing company

Fiscal year ended November 30, 2017

None

Fiscal year ended November 30, 2018

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, 2018 (from December 1, 2017 to November 30, 2018) and the non-consolidated financial statements for the fiscal year ended November 30, 2018 (from December 1, 2017 to November 30, 2018) 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, 2017	As of November 30, 2018
Assets			
Current assets			
Cash and cash equivalents	7	23,750,239	26,520,569
Trade and other receivables	9	2,148,608	3,090,237
Inventories	10	59,718,614	62,457,864
Other current assets	11	26,376	30,495
Total current assets		85,643,839	92,099,167
Non-current assets			
Property, plant and equipment	12	5,305,652	8,785,869
Investment properties	13	28,359,547	33,752,847
Intangible assets	14	83,544	87,966
Available-for-sale financial assets	8	1,751,463	2,244,831
Trade and other receivables	9	859,731	865,235
Deferred tax assets	15	517,587	903,707
Other non-current assets	11	28,914	28,914
Total non-current assets		36,906,441	46,669,371
Total assets		122,550,281	138,768,538
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	16	4,278,612	4,075,579
Borrowings	17	6,449,040	7,308,494
Current income tax liabilities	15	732,961	2,445,597
Provisions	18	484,671	593,669
Total current liabilities		11,945,287	14,423,341
Non-current liabilities			
Trade and other payables	16	3,280,020	3,708,969
Borrowings	17	60,674,335	67,716,752
Retirement benefits obligations	19	472,574	493,554
Provisions	18	19,197	6,817
Deferred Tax Liabilities	15	―	397,320
Total non-current liabilities		64,446,127	72,323,414
Total Liabilities		76,391,414	86,746,756
Equity			
Share capital	20	6,421,392	6,554,139
Capital reserves	20	6,464,240	6,544,924
Retained earnings		33,209,210	38,843,309
Treasury shares	20	−	(128)
Other components of equity	20	64,024	79,537
Total equity attributable to owners of parent		46,158,867	52,021,782
Total equity		46,158,867	52,021,782
Total liabilities and equity		122,550,281	138,768,538

2) Consolidated statements of comprehensive income

(¥ thousand)

	Note	Fiscal year ended November 30, 2017	Fiscal year ended November 30, 2018
Revenue	22	57,754,328	61,543,319
Cost of revenue	23	40,937,814	42,820,221
Gross profit		16,816,513	18,723,097
Selling, general and administrative expenses	24, 25	7,153,850	7,860,072
Other income	26	215,754	147,032
Other expenses	27	44,550	134,249
Operating profit		9,833,867	10,875,807
Finance income	28	76,881	85,743
Finance costs	28	861,281	790,534
Profit before tax		9,049,467	10,171,017
Income tax expense	15	2,894,297	3,318,779
Profit for the year		6,155,169	6,852,237
Other comprehensive income			
Items that will not be reclassified to net profit or loss			
Remeasurements of defined benefit pension plans	29	(4,016)	(11,038)
Total items that will not be reclassified to net profit or loss		(4,016)	(11,038)
Items that may be reclassified to net profit or loss			
Exchange differences on translation of foreign operations	29	12,035	(881)
Net change in fair values of available-for-sale financial assets	29	(2,644)	13,480
Net change in fair values of cash flow hedges	29	5,070	2,913
Total items that may be reclassified to net profit or loss		14,461	15,513
Other comprehensive income for the period, net of tax		10,445	4,474
Total comprehensive income for the year		6,165,615	6,856,712
Profit attributable to:			
Owners of parent		6,155,169	6,852,237
Total comprehensive income attributable to:			
Owners of parent		6,165,615	6,856,712
Profit for the year attributable to owners of parent			
Basic earnings per share (¥)	30	127.48	141.36
Diluted earnings per share (¥)	30	127.41	141.12

c. Consolidated statements of changes in equity

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

(¥ thousand)

	Note	Share capital	Capital reserves	Retained earnings	Treasury shares	Other components of equity	Total equity attributable to owners of parent	Total equity
Balance as of December 1, 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								
Issuance of new shares							—	—
Purchase of treasury shares							—	—
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

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

(¥ thousand)

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

d. Consolidated statements of cash flows

(¥ thousand)

	Note	Fiscal year ended November 30, 2017	Fiscal year ended November 30, 2018
Cash flows from operating activities			
Profit before tax		9,049,467	10,171,017
Depreciation expense		393,045	621,108
Increase (decrease) in provisions and retirement benefits obligations		98,422	112,683
Interest and dividends income		(76,881)	(85,743)
Interest expenses		861,281	790,534
Gain on sales of stocks of subsidiaries and affiliates		(123,505)	—
Loss on retirement of property, plant and equipment		22,955	791
Decrease (increase) in trade and other receivables		(13,498)	(827,489)
Decrease (increase) in inventories		353,672	(932,707)
Increase (decrease) in trade and other payables		415,296	(14,822)
Other, net		59,676	(79,792)
Subtotal		11,039,932	9,755,580
Interest and dividends income received		76,619	85,743
Income taxes paid		(4,027,392)	(2,226,001)
Net cash from (used in) operating activities		7,089,159	7,615,322
Cash flows from investing activities			
Proceeds from withdrawal of time deposits		95,000	—
Purchase of property, plant and equipment		(30,994)	(72,169)
Purchase of investment properties		(1,282,517)	(8,714,445)
Purchase of intangible assets		(13,189)	(33,450)
Purchase of available-for-sale financial assets		(687,589)	(473,717)
Collection of available-for-sale financial assets		7,619	1,907
Proceeds from sales of available-for-sale financial assets		349,201	3,458
Payments of loans receivable		(1,085,000)	—
Collection of loans receivable		2,760,075	77
Purchase of investments in subsidiaries resulting in change in scope of consolidation		(182,766)	(1,502,160)
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation		39,328	—
Other, net		12,032	3,715
Net cash from (used in) investing activities		(18,800)	(10,786,784)
Cash flows from financing activities			
Net increase (decrease) in current borrowings		(1,930,300)	117,500
Proceeds from non-current borrowings		38,871,150	41,148,950
Repayments of non-current borrowings		(39,951,833)	(33,360,923)
Proceeds from issuance of new shares		—	208,086
Cash dividends paid		(1,061,561)	(1,206,976)
Interest expenses paid		(886,261)	(960,968)
Other, net		(3,374)	(3,783)
Net cash from (used in) financing activities		(4,962,180)	5,941,884
Net increase (decrease) in cash and cash equivalents		2,108,179	2,770,422
Cash and cash equivalents at beginning of year	7	21,640,866	23,750,239
Effect of exchange rate change on cash and cash equivalents		1,193	(92)
Cash and cash equivalents at end of year	7	23,750,239	26,520,569

[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, 2019.

(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 10 years

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

(10) Impairment of non-financial assets

The Group assesses whether there is any indication of impairment on a quarterly basis for the 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.

(Changes in accounting policies)

The Group applied the following standards effective from the fiscal year ending November 30, 2018.

Standard	Name of standard	Overview of new establishment and amendment
IAS 7	Statements of cash flows	Explanation about changes in liabilities arising from financing activities

The above standard has no material impact on the condensed quarterly consolidated financial statements.

4. Significant accounting estimates and judgments requiring estimates

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

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

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

5. New standards not yet applied

There is no significant impact of standards applied to the fiscal year ending November 30, 2019 on the Group's consolidated financial statements. In addition, the impact of the application of new standards not yet applied other than the new standards applied to the fiscal year ending November 30, 2019 on the Group's consolidated financial statements 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 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, 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.

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

(¥ thousand)

	Reportable Segments					Other	Adjustment	Total
	Revitalization Business	Development Business	Rental Business	Fund and Consulting Business	Property Management Business			
Revenue								
Revenue from external customers	34,793,585	13,261,604	6,133,861	2,982,251	4,015,450	356,565	—	61,543,319
Intersegment revenue	—	—	44,221	56,356	1,216,701,	2,240	(1,319,519)	—
Total	34,793,585	13,261,604	6,178,083	3,038,607	5,232,152	358,805	(1,319,519)	61,543,319
Segment profit or loss	6,770,700	1,487,253	2,534,521	1,616,478	453,725	(45,211)	(1,941,660)	10,875,807
Finance income/costs, net								(704,790)
Profit before tax								10,171,017
Other items								
Depreciation expense	—	5,041	525,040	11,669	23,385	6,952	49,018	621,108

Notes: 1. The details of adjustment are as follows:
(1) Adjustment of segment profit of ¥(1,941,660) thousand includes eliminations of intersegment transactions of ¥58,121 thousand and corporate expenses that are not allocated to any particular reportable segment of ¥(1,999,782) thousand. Corporate expenses mainly consist of selling, general and administrative expenses of the parent that are not attributable to any particular reportable segment.
(2) Adjustment of depreciation of ¥49,018 thousand consists of corporate expenses that are not attributable to any particular reportable segment.
2. Segment profit is adjusted to operating profit in the consolidated statements of comprehensive income.

(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, 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

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

(¥ thousand)

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

7. Cash and cash equivalents

Components of cash and cash equivalents are as follows:

(¥ thousand)

	As of November 30, 2017	As of November 30, 2018
Cash and deposits	23,730,239	26,520,569
Short-term deposits	20,000	―
Total	23,750,239	26,520,569

8. Available-for-sale financial assets

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

(¥ thousand)

	As of November 30, 2017	As of November 30, 2018
Shares	47,200	256,544
Investment trust beneficiary certificate	1,276,317	1,556,209
Investments in investment limited partnerships	410,000	413,530
Other	17,945	18,547
Total	1,751,463	2,244,831

Non-current assets	1,751,463	2,244,831

9. Trade and other receivables

Components of trade and other receivables are as follows:

(¥ thousand)

	As of November 30, 2017	As of November 30, 2018
Trade notes and accounts receivable	724,927	928,435
Short-term loans receivable	77	79
Other accounts receivable	648,594	1,048,141
Prepaid expenses	310,380	303,035
Current advances to suppliers	305,528	519,449
Deposits and guarantee money	730,790	656,603
Claims provable in bankruptcy, claims provable in rehabilitation and other	7,705	7,750
Other	290,530	500,852
Allowance for credit losses	(10,195)	(8,843)
Total	3,008,339	3,955,472

Current assets	2,148,608	3,090,237
Non-current assets	859,731	865,235

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, 2017	As of November 30, 2018
Real estate for sale	44,747,432	50,716,466
Real estate for sale in process	14,971,182	11,741,397
Total	59,718,614	62,457,864
Inventories scheduled to be sold after 12 months	27,180,199	29,344,441

Inventories recognized as expenses in the previous fiscal year and the fiscal year under review were ¥35,228,984 thousand and ¥36,789,697 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 ¥1,635,954 thousand and ¥4,948,646 thousand, respectively.

Of the Group's inventory balance, ¥57,898,922 thousand and ¥55,167,549 thousand were pledged as collateral on borrowings as of November 30, 2017 and 2018, 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 ¥122,152 thousand and ¥102,472 thousand, respectively.

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

(¥ thousand)

	Fiscal year ended November 30, 2017	Fiscal year ended November 30, 2018
Loss on valuation	(34,806)	(456,914)

11. Other assets

Components of other assets are as follows:

(¥ thousand)

	As of November 30, 2017	As of November 30, 2018
Raw materials	—	584
Supplies	6,376	9,910
Membership	28,914	28,914
Other	20,000	20,000
Total	55,291	59,409

Current assets	26,376	30,495
Non-current assets	28,914	28,914

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, 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)
Tansfer	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
Acquisition	77,952	—	55,671	133,624
Sales or disposal	(3,045)	—	(16,153)	(19,198)
Transfer	1,878,626	1,577,372	—	3,455,998
Balance as of November 30, 2018	4,264,872	4,835,287	295,601	9,395,760
Accumulated depreciation and impairment loss				
Balance as of December 1, 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
Depreciation expense	66,066	—	38,528	104,595
Sales or disposal	(2,253)	—	(12,133)	(14,387)
Balance as of November 30, 2018	417,378	—	192,512	609,891
Carrying amount				
As of December 1, 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
As of November 30, 2018	3,847,493	4,835,287	103,088	8,785,869

The carrying amounts of leased assets under finance leases as of November 30, 2017 and 2018 were ¥9,008 thousand and ¥5,624 thousand, respectively.

Of the balance of the Group's property, plant and equipment as of November 30, 2017 and 2018, ¥5,184,869 thousand and ¥8,608,451 thousand were pledged as collateral on loans payable, espectively. Depreciation expense is recorded in "Cost of revenue" and "Selling, general and administrative expenses" in the consolidated statement of comprehensive income.

13. Investment properties

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

(¥ thousand)

	Fiscal year ended November 30, 2017	Fiscal year ended November 30, 2018
Acquisition cost		
Balance at beginning of period	23,086,262	29,794,430
Acquisition	1,282,517	8,723,692
Sales or disposal	(237,157)	―
Transfer	5,662,808	(2,984,342)
Balance at end of period	29,794,430	35,533,780
Accumulated depreciation and impairment loss		
Balance at beginning of period	1,357,522	1,434,882
Depreciation expense	296,700	486,918
Sales or disposal	(219,340)	―
Transfer	―	(140,868)
Balance at end of period	1,434,882	1,780,932
Carrying amount at end of period	28,359,547	33,752,847

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, 2017 and 2018, ¥20,991,321 thousand and ¥27,044,816 thousand were pledged as collateral on loans payable, respectively.

(2) Fair value

(¥ thousand)

	Fiscal year ended November 30, 2017	Fiscal year ended November 30, 2018
Fair value	45,919,931	51,411,724
Rent income from investment properties	2,979,113	3,235,798
Direct expenses incidental to rent income	1,269,530	1,429,556

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

14. Intangible assets

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

(¥ thousand)

	Software	Software in progress	Other	Total
Acquisition cost				
Balance as of December 1, 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
Acquisition	7,848	27,115	－	34,963
Sales or disposal	(6,060)	－	－	(6,060)
Balance as of November 30, 2018	158,026	27,115	1,889	187,030
Accumulated amortization and accumulated impairment loss				
Balance as of December 1, 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
Amortization expense	30,542	－	－	30,542
Sales or disposal	(6,060)	－	－	(6,060)
Balance as of November 30, 2018	99,064	－	－	99,064
Carrying amount				
As of December 1, 2016	94,094	－	2,518	96,612
As of November 30, 2017	81,655	－	1,889	83,544
As of November 30, 2018	58,962	27,115	1,889	87,966

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, 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

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

(¥ thousand)

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

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, 2017	As of November 30, 2018
Deductible temporary differences	102,873	10,563
Carry-forward of unused tax losses	118,086	303,873
Total	220,959	314,436

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, 2017	As of November 30, 2018
First year	–	―
Second year	–	87,916
Third year	–	―
Fourth year	–	65,811
Fifth year or after	349,299	733,946
Total	349,299	887,673

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 ¥4,203,343 thousand and ¥6,733,994 thousand as of November 30, 2017 and 2018, respectively.

(2) Income tax expense

In the previous fiscal year and the fiscal year under review, major income taxes imposed on the Company were corporate tax, inhabitant tax and office tax, and the resulting statutory effective tax rate was 30.86%, respectively. 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, 2017	Fiscal year ended November 30, 2018
Current tax expense		
Current tax expense on profit for the year	2,860,555	3,748,528
Total current tax expense	2,860,555	3,748,528
Deferred tax expense		
Origination and reversal of temporary differences	22,961	(437,939)
Differences due to changes in tax rates	10,780	8,190
Total deferred tax expense	33,742	(429,748)
Income tax expense	2,894,297	3,318,779

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

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

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

(¥ thousand)

	Fiscal year ended November 30, 2017	Fiscal year ended November 30, 2018
Profit before tax	9,049,467	10,171,017
Income tax expense based on the statutory effective tax rate	2,792,665	3,138,775
Adjustments		
Expenses (profits) not deductible permanently	(9,251)	27,076
Changes in temporary differences, etc. for which deferred tax assets were not recognized	20,693	745
Differences due to changes in tax rates	10,780	8,190
Differences in tax rates of subsidiary companies	132,256	203,889
Tax exemption	(58,658)	(68,884)
Other	5,810	8,985
Income tax expense	2,894,297	3,318,779

16. Trade and other payables

Components of trade and other payables are as follows:

(¥ thousand)

	As of November 30, 2017	As of November 30, 2018
Trade notes and accounts payable	1,035,883	1,186,431
Other accounts payable	677,786	827,755
Advances received	1,279,636	1,358,417
Guarantee deposits	2,815,668	3,194,533
Other	1,749,656	1,217,410
Total	7,558,632	7,784,548

Current liabilities	4,278,612	4,075,579
Non-current liabilities	3,280,020	3,708,969

17. Borrowings

Components of borrowings are as follows:

(¥ thousand)

	As of November 30, 2017	As of November 30, 2018	Average interest rate (%)	Repayment due
Current liabilities				
Current borrowings	101,500	219,000	1.34	–
Current portion of non-current borrowings	6,343,886	7,085,840	1.17	–
Lease obligations	3,654	3,654	–	–
Total	6,449,040	7,308,494		
Non-current liabilities				
Non-current borrowings	60,668,260	67,714,333	1.05	2019-2047
Lease obligations	6,074	2,419	–	2019-2020
Total	60,674,335	67,716,752		

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 ¥67,018,926 thousand and ¥74,772,773 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, 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

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

(¥ thousand)

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

(¥ thousand)

	As of November 30, 2017	As of November 30, 2018
Current liabilities	484,671	593,669
Non-current liabilities	19,197	6,817

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, 2017	As of November 30, 2018
Liability for retirement benefits to employees	442,900	481,719
Liability for retirement benefits to key management personnel	29,674	11,834
Total	472,574	493,554

(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, 2017	As of November 30, 2018
Defined benefit obligations (with no plan assets)	442,900	481,719
Defined benefit obligations in the consolidated statement of financial position	442,900	481,719

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

(¥ thousand)

	Fiscal year ended November 30, 2017	Fiscal year ended November 30, 2018
Current service costs	71,368	66,077
Interest costs	1,553	1,692
Total retirement benefit costs (Note)	72,921	67,769

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, 2017	Fiscal year ended November 30, 2018
Balance at beginning of period	390,505	442,900
Current service costs	71,368	66,077
Interest costs	1,553	1,692
Benefits paid	(16,681)	(44,892)
Actuarial gains and losses arising from changes in financial assumptions	5,764	15,941
Impacts from exclusion from consolidation, etc.	(9,610)	―
Balance at end of period	442,900	481,719

The weighted average term for the Group's defined benefit obligations in the previous fiscal year and the fiscal year under review is 9.9 years and 9.7 years, respectively.

Major assumptions used in actuarial calculation are as follows:

(%)

	As of November 30, 2017	As of November 30, 2018
Discount rate	0.38	0.41
Rate of salary increase	3.52	4.02

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

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

(¥ thousand)

	As of November 30, 2017	As of November 30, 2018
0.5% increase in the discount rate	(20,847)	(22,072)
0.5% decrease in the discount rate	22,527	23,843

2) Defined contribution plans

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

(¥ thousand)

	Fiscal year ended November 30, 2017	Fiscal year ended November 30, 2018
Contributions	29,016	31,172

(2) Retirement benefits to key management personnel

(¥ thousand)

	Fiscal year ended November 30, 2017	Fiscal year ended November 30, 2018
Balance at beginning of period	22,870	29,674
Provision for the benefits	6,803	6,998
Payment of the benefits	―	(24,838)
Balance at end of period	29,674	11,834

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

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

The Group believes the foregoing amount that would be required to pay at the end of the period is the best

estimate of liability for retirement benefits to key management personnel.

20. Equity and other components of equity

(1) Share capital and capital reserves

	Total number of shares authorized (shares)	Total number of shares issued (shares)	Share capital (¥ thousand)	Capital reserves (¥ thousand)
Balance as of December 1, 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
Change	―	260,800	132,747	80,683
Balance as of November 30, 2018	150,000,000	48,544,800	6,554,139	6,544,924

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

(2) Treasury shares

	Number of shares (shares)	Treasury shares (¥ thousand)
Balance as of November 30, 2017	–	–
Change	105	(128)
Balance as of November 30, 2018	105	(128)

Note: The number of "Change" were due to purchase shares less than one unit.

(3) Capital reserves

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

(4) Retained earnings

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

(5) Other components of equity

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

(¥ thousand)

	Exchange differences on translation of foreign operations	Net change in fair values of available-for-sale financial assets	Net change in fair values of cash flow hedges	Total
Balance as of December 1, 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

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

(¥ thousand)

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

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, 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

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

(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, 2018 (December 1, 2017 – November 30, 2018)				
Resolution	Dividends per share (¥)	Total dividends (¥ thousand)	Record date	Effective date
Ordinary General Meeting of Shareholders held on Feb. 27, 2019	30	1,456,340	Nov. 30, 2018	Feb. 28, 2019

22. Revenue

Components of revenue are as follows:

(¥ thousand)

	Fiscal year ended November 30, 2017	Fiscal year ended November 30, 2018
Revenue from real estate for sale	45,465,515	48,055,190
Revenue from services	12,288,813	13,488,128
Total	57,754,328	61,543,319

23. Cost of revenue

Components of cost of revenue are as follows:

(¥ thousand)

	Fiscal year ended November 30, 2017	Fiscal year ended November 30, 2018
Cost of inventories sold	35,194,178	36,332,783
Depreciation expense	307,129	533,733
Gain or loss on valuation of inventories	34,806	456,914
Outsourcing costs and others	5,401,701	5,496,790
Total	40,937,814	42,820,221

24. Selling, general and administrative expenses

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

(¥ thousand)

	Fiscal year ended November 30, 2017	Fiscal year ended November 30, 2018
Employee benefits expense	3,774,849	4,120,507
Sales expenses (Revitalization)	655,360	655,740
Sales expenses (Development)	801,652	948,176
Advertising expenses	207,707	217,269
Compensations	129,977	133,030
Commission fee	266,904	423,005
Taxes and dues	738,161	657,601
Transportation expenses	79,647	79,696
Communication expenses	62,162	60,364
Stationery expenses	43,821	58,221
Depreciation and amortization expense	85,916	87,375
Provision of allowance for credit losses	1,824	(948)
Other	305,865	420,031
Total	7,153,850	7,860,072

25. Personnel cost

Components of personnel cost are as follows:

(¥ thousand)

	Fiscal year ended November 30, 2017	Fiscal year ended November 30, 2018
Salaries, bonuses and allowances	3,028,592	3,311,489
Retirement benefit costs	108,741	107,379
Legal welfare expenses	403,731	440,153
Expenses for the share-based compensation	45,416	4,935
Other short-term employee benefits	188,366	256,549
Total	3,774,849	4,120,507

26. Other income

Components of other income are as follows:

(¥ thousand)

	Fiscal year ended November 30, 2017	Fiscal year ended November 30, 2018
Gain on sales of stocks of subsidiaries and affiliates	123,505	―
Gain on negative goodwill	―	87,970
Miscellaneous income	92,249	59,061
Total	215,754	147,032

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 Masuda Kenzai-ten Co., Ltd. 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, 2017	Fiscal year ended November 30, 2018
Loss on retirement of non-current assets	22,955	791
Stock acquisition related expenses	―	77,220
Miscellaneous losses	21,595	56,237
Total	44,550	134,249

Note: “Miscellaneous losses” as of November 30, 2018 includes losses on exchange differences on translation of ¥469 thousand.

28. Finance income/costs

Components of finance income/costs are as follows:

(¥ thousand)

	Fiscal year ended November 30, 2017	Fiscal year ended November 30, 2018
Interest income	727	462
Dividends income	76,154	85,281
Total finance income	76,881	85,743
Interest expenses (Note)	861,281	790,534
Total finance costs	861,281	790,534

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, 2017 and 2018 are ¥106,271 thousand and ¥95,127 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, 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

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

(¥ thousand)

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

30. Earnings per share

	Fiscal year ended November 30, 2017	Fiscal year ended November 30, 2018
Profit attributable to owners of the parent (¥ thousand)	6,155,169	6,852,237
Net income used to figure diluted net income per share (¥ thousand)	6,155,169	6,852,237
Weighted average number of outstanding ordinary shares (shares)	48,284,000	48,472,355
The number of increased ordinary shares used to figure diluted earnings per share (shares)	25,402	85,411
The weighted-average number of ordinary shares used to figure diluted earnings per share (shares)	48,309,402	48,557,766
Basic earnings per share (¥)	127.48	141.36
Diluted net income per share (¥)	127.41	141.12

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

31. Financial instruments

(1) Capital control

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

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

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

(¥ thousand)

	As of November 30, 2017	As of November 30, 2018
Cash and cash equivalents	23,750,239	26,520,569
Interest-bearing debt	67,123,376	75,025,247
Equity	46,158,867	52,021,782

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, 2017	Fiscal year ended November 30, 2018
Impact on profit before tax	(652,984)	(723,472)

(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, 2017	As of November 30, 2018
Within 3 months' past due	40,823	55,239
Over 3 months and within 6 months' past due	811	546
Over 6 months' past due	538	419
Total	42,173	56,205

2) Impaired financial assets

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

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

(¥ thousand)

	As of November 30, 2017	As of November 30, 2018
Trade and other receivables	8,539	8,612
Allowance for credit losses	(8,372)	(8,431)
Total	166	180

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, 2017	Fiscal year ended November 30, 2018
Balance at beginning of period	14,321	10,195
Amount provided in the fiscal year	1,921	230
Decrease during the fiscal year (reversal)	(97)	(166)
Decrease during the fiscal year (utilization of allowance)	(5,950)	(1,416)
Balance at end of period	10,195	8,843

(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, 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
As of November 30, 2018				
Non-derivative financial liabilities				
Trade and other payables	2,439,178	3,478,724	220,775	6,138,677
Borrowings	7,308,494	46,648,296	21,068,456	75,025,247
Derivative financial liabilities				
Trade and other payables	―	9,469	―	9,469

(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, 2017 and 2018, 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 ¥88,538 thousand and ¥111,913 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:

(¥ thousand)

	As of November 30, 2017		As of November 30, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	23,750,239	23,750,239	26,520,569	26,520,569
Available-for-sale financial assets	1,751,463	1,751,463	2,244,831	2,244,831
Trade and other receivables (Note 1)	3,008,339	3,008,339	3,955,472	3,955,472
Trade and other payables (Note 2)	7,558,632	7,558,632	7,784,548	7,784,548
Borrowings	67,123,376	67,133,900	75,025,247	75,035,318

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, 2017 and 2018 are ¥2,217,069 thousand and ¥2,751,391 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, 2017 and 2018 are ¥5,755,374 thousand and ¥6,138,677 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, 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

(¥ thousand)

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

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 four 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, 2017	Fiscal year ended November 30, 2018
Balance at beginning of period	78,021	475,145
Acquisition	420,166	152,799
Comprehensive income		
Profit (loss) (Note 1)	(3,412)	5,749
Disposal	(19,629)	(1,907)
Balance at end of period	475,145	631,787

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, 2017	Fiscal year ended November 30, 2018
Due within 1 year	508,659	508,659
Due over 1 year through 5 years	1,012,897	504,237
Total	1,521,556	1,012,897

Lease payments recognized as expenses under revocable or irrevocable operating lease contracts as of November 30, 2017 and 2018 were ¥622,707 thousand and ¥621,398 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, 2017	Fiscal year ended November 30, 2018
Due within 1 year	368,497	375,548
Due over 1 year through 5 years	470,366	450,721
Over 5 years	131,428	100,394
Total	970,292	926,664

33. Related parties

(1) Transactions with related parties

The Group conducts transactions with key management personnel as follows:

(¥ thousand)

	Fiscal year ended November 30, 2017	Fiscal year ended November 30, 2018
Trade and other receivables	—	21
Trade and other payables	450,684	493,954
Revenue	—	30
Selling, general and administrative expenses	1,378	1,785
Total	452,062	495,792

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

At the Ordinary General Meeting of Shareholders held on February 25, 2015, the Company resolved to make final payments of retirement benefits to retiring officers upon abolition of its Retirement Benefits Plan for Officers. The full amount of the Company's "Provision for directors' retirement benefits" has been reversed and an unpaid portion in final payments has been presented as included in "Trade and other payables" in non-current liabilities. The unpaid portion presented as included in "Trade and other payables" for the previous fiscal year and the fiscal year under review is ¥350,581 thousand and ¥348,641 thousand, respectively. In addition, "Trade and other payables" includes certain consolidated subsidiaries' unpaid portion in final payments of retirement benefits to key management personnel which is not described above. The unpaid portion presented as included in "Trade and other payables" for the previous fiscal year and the fiscal year under review is ¥100,000 thousand and ¥145,000 thousand, respectively.

(2) Compensation for principal key management personnel

Compensation for principal key management personnel is as follows:

(¥ thousand)

	Fiscal year ended November 30, 2017	Fiscal year ended November 30, 2018
Short-term employee benefits	372,740	430,555
Retirement benefits	6,803	52,598
Total	379,543	483,154

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, 2017 and the fiscal year ended November 30, 2018 is ¥392,114,281 thousand and ¥499,184,396 thousand, respectively, while fees received from these entities in the fiscal year ended November 30, 2017 and the fiscal year ended November 30, 2018 are ¥1,376,498 thousand and ¥1,812,740 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, 2017	As of November 30, 2018
Trade and other receivables	287,821	329,318
Available-for-sale financial assets	422,625	426,667
Total	710,446	755,986

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, 2017 and 2018 were ¥45,416 thousand and ¥4,935 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 weighted average exercise price of stock options

	Fiscal year ended November 30, 2017	Fiscal year ended November 30, 2018
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)	—	260,800
Expired during the year (shares)	—	—
Unexercised, outstanding stock options at the end of the year (shares)	506,000	245,200
Exercisable, outstanding stock options at the end of the year (shares)	—	245,200

Notes: 1. The weighted average price of stock options exercised during the fiscal year under review as of the date on which stock options were exercised is ¥1,321.

2. 62,000 shares of treasury stock acquisition rights held by the Company are included in the unexercised, outstanding stock options and the exercisable, outstanding stock options as of the end of the fiscal year under review.

3. The weighted average remaining contractual term for unexercised stock options is 1.9 years for the fiscal year under review.

36. Cash flow information

The major changes in liabilities arising from financing activities are those arising from financing cash flows, and there are no significant non-cash changes.

37. Business combinations

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

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

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

(Acquisition of Masuda Kenzai-ten Co., Ltd)

On December 26, 2017, the Company acquired 100% of the shares in Masuda Kenzai-ten Co., Ltd, company owning income-generating properties mainly in Toda-shi, Saitama and Fuchu-shi Tokyo, and engaging in the rental business.

The Group is 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 (¥ thousand)
Fair value of consideration paid (Note)	2,017,155
Fair values of assets acquired and liabilities assumed	
Current assets	2,737,726
[Of which, cash and cash equivalents]	[682,039]
Non-current assets	15,251
Current liabilities	(181,895)
Non-current liabilities	(484,252)
Net assets	2,086,829
Gain on negative goodwill	(69,674)
Total	2,017,155

Note: Consideration paid was in cash.

As stated above, gain on negative goodwill ¥69,674 thousand is attributable to the net asset (subtracting "the fair values of liabilities assumed" from "fair values of assets acquired") exceeded "the fair value of consideration paid". It is recorded as "other income" in the Condensed Consolidated Statement of Comprehensive Income.

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

Acquisition costs related to these business combinations, of ¥60,720 thousand, were recorded as "other expenses." in Condensed Consolidated Statement of Comprehensive Income.

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

38. Contingencies

None

39. Subsequent events

Repurchase of the treasury shares

The Company resolved to repurchase its own shares pursuant to Article 156 of the Companies Act which is applicable in lieu of Article 165, Paragraph 3 of this act, at the board of directors' meeting held on February 5, 2019.

1. Reason for repurchase of the treasury shares

Stock will be repurchased to improve capital efficiency and enable the Company to adopt a timely and flexible capital policy in response to changes in the operating environment.

2. Details of repurchase

(1) Class of shares to be repurchased	Common share of Tosei Corporation
(2) Total number of shares to be repurchased	Up to 1,200,000 shares (2.5% of issued shares (excluding treasury shares))
(3) Total value of shares to be repurchased	Up to 1.0 billion yen
(4) Period for repurchase	From February 7, 2019 to August 31, 2019
(5) Method of repurchase	Discretionary investment by a securities company

40. Significant subsidiaries

The Company's significant subsidiaries are as described in "I. Overview of the Tosei Group, 4. Status of subsidiaries and associates."

(2)Others

Quarterly data of the fiscal year ended November 30, 2018

(Cumulative period)	First quarter (Three months ended Feb. 28, 2018)	Second quarter (Six months ended May 31, 2018)	Third quarter (Nine months ended Aug. 31, 2018)	Fiscal year ended November 30, 2018
Revenue (¥ thousand)	18,310,040	32,520,695	45,308,339	61,543,319
Profit before tax (¥ thousand)	4,150,290	6,511,917	9,843,160	10,171,017
Profit for the period (year) attributable to owners of parent (¥ thousand)	2,847,530	4,452,334	6,645,209	6,852,237
Basic earnings per share (¥)	58.92	91.97	137.15	141.36

(Each quarter)	First quarter (Dec. 1, 2017 – Feb. 28, 2018)	Second quarter (Mar. 1, 2018 – May 31, 2018)	Third quarter (Jun. 1, 2018 – Aug. 31, 2018)	Fourth quarter (Sep. 1, 2018 – Nov. 30, 2018)
Basic earnings per share (¥)	58.92	33.10	45.18	4.27

2. Non-consolidated financial statements, etc.

(1) Non-consolidated financial statements

1) Non-consolidated balance sheets

(¥ thousand)

		As of November 30, 2017		As of November 30, 2018
Assets				
Current assets				
Cash and deposits		18,237,801		18,747,826
Accounts receivable-trade		100,876	*2	119,547
Real estate for sale	*1	40,822,920	*1	45,077,095
Real estate for sale in process	*1	14,150,794	*1	10,917,460
Supplies		4,457		5,761
Short-term loans receivable from subsidiaries and affiliates		170,560		70,000
Accounts receivable-other	*2	642,938	*2	938,635
Advance payments-trade		289,196		500,205
Prepaid expenses		275,029		259,258
Deferred tax assets		135,142		196,562
Other	*2	143,435	*2	278,280
Allowance for credit losses		(1,841)		(471)
Total current assets		74,971,312		77,110,161
Non-current assets				
Property, plant and equipment				
Buildings	*1	10,998,347	*1	16,434,105
Structures		16,882		28,956
Machinery and equipment		27,869		22,895
Vehicles		4,822		12,128
Tools, furniture and fixtures		43,645		33,502
Land	*1	20,596,780	*1	24,021,186
Lease assets		9,008		5,624
Construction in progress		12,400		400
Total property, plant and equipment		31,709,757		40,558,800
Intangible assets				
Software		35,375		25,411
Software in progress		—		23,105
Telephone subscription right		1,889		1,889
Total intangible assets		37,264		50,405
Investments and other assets				
Investment securities		1,699,377		2,194,930
Stocks of subsidiaries and affiliates		4,809,144		6,390,866
Investments in capital		4,100		4,150
Long-term loans receivable		2,990		2,910
Long-term loans receivable from subsidiaries and affiliates		921,740		473,000
Long-term prepaid expenses		112,229		195,863
Long-term accounts receivable-other	*2	34,613	*2	47,092
Claims provable in bankruptcy, claims provable in rehabilitation and other		3,582		3,627
Lease and guarantee deposits		678,906		603,566
Deferred tax assets		210,904		525,152
Other		4,014		4,014
Allowance for credit losses		(3,600)		(3,645)
Total investments and other assets		8,478,003		10,441,529
Total non-current assets		40,225,024		51,050,735
Total assets		115,196,337		128,160,896

(¥ thousand)

		As of November 30, 2017		As of November 30, 2018
Liabilities				
Current liabilities				
Notes payable-trade				
Accounts payable-trade	*2	724,194	*2	810,375
Current portion of long-term loans payable	*1, 4	5,847,106	*1, 4	6,283,260
Lease obligations		3,654		3,654
Accounts payable-other		530,901	*2	540,829
Accrued expenses		69,028		77,190
Income taxes payable		136,704		837,448
Accrued consumption taxes		241,473		―
Advances received	*2	1,174,547		1,215,569
Deposits received		537,794	*2	164,446
Provision for bonuses		235,743		281,962
Provision for loss on rental business		3,573		1,060
Total current liabilities		9,504,721		10,215,798
Non-current liabilities				
Long-term loans payable	*1, 4	59,412,010	*1, 4	66,853,583
Guarantee deposits	*2	2,658,061	*2	3,081,544
Lease obligations		6,074		2,419
Asset retirement obligations		19,197		6,817
Provision for retirement benefits		350,547		366,943
Long-term accounts payable-other for directors		350,581		348,641
Derivative liabilities		6,088		3,546
Total non-current liabilities		62,802,560		70,663,496
Total liabilities		72,307,282		80,879,295

(¥ thousand)

	As of November 30, 2017	As of November 30, 2018
Net assets		
Shareholders' equity		
Capital stock	6,421,392	6,554,139
Capital surplus		
Legal capital surplus	6,504,868	6,637,615
Total capital surplus	6,504,868	6,637,615
Retained earnings		
Legal retained earnings	7,250	7,250
Other retained earnings		
General reserve	15,000	15,000
Retained earnings brought forward	29,796,811	33,960,034
Total retained earnings	29,819,061	33,982,284
Treasury shares	－	(128)
Total shareholders' equity	42,745,321	47,173,911
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	57,003	70,332
Deferred gains (losses) on hedges	(4,224)	(2,460)
Total valuation and translation adjustments	52,778	67,871
Stock acquisition rights	90,954	39,818
Total net assets	42,889,054	47,281,601
Total liabilities and net assets	115,196,337	128,160,896

2) Non-consolidated statements of operations

(¥ thousand)

		Fiscal year ended November 30, 2017		Fiscal year ended November 30, 2018
Net sales	*1	45,491,580	*1	48,061,639
Cost of sales	*1	34,589,430	*1	36,911,353
Gross profit		10,902,149		11,150,286
Selling, general and administrative expenses	*1,2	4,467,252	*1,2	4,819,863
Operating income		6,434,897		6,330,422
Non-operating income				
Interest income	*1	31,126	*1	14,436
Dividends income	*1	1,521,737	*1	1,142,368
Foreign exchange gains		4,627		―
Reversal of allowance for doubtful accounts		―		921
Miscellaneous income	*1	79,466	*1	53,448
Total non-operating income		1,636,957		1,211,174
Non-operating expenses				
Interest expenses		842,029		758,957
Share issuance cost		―		1,335
Foreign exchange losses		―		359
Miscellaneous loss		11,728		10,320
Total non-operating expenses		853,757		770,973
Ordinary income		7,218,097		6,770,624
Extraordinary income				
Extraordinary loss				
Loss on sales of non-current assets		―		304
Loss on retirement of non-current assets		17,816		568
Loss on liquidation of subsidiaries and affiliates		2,967		―
Total extraordinary loss		20,784		872
Income before income taxes		7,197,313		6,769,751
Income taxes-current		1,690,720		1,781,756
Income taxes-deferred		56,909		(382,328)
Total income taxes		1,747,630		1,399,427
Net income		5,449,682		5,370,323

Detailed schedule of cost of sales

Schedule of the cost in the Revitalization Business

Accounts	Notes	Fiscal year ended November 30, 2017		Fiscal year ended November 30, 2018	
		Amounts (¥ thousand)	Ratio (%)	Amounts (¥ thousand)	Ratio (%)
I. Land		20,384,892	71.9	14,318,421	57.6
II. Acquisition and improvement cost of buildings		7,961,835	28.1	10,089,348	40.6
III. Book values written down following a decline in the revenue in the revenue expected to be generated from the inventories		—	—	454,496	1.8
Total		28,346,728	100.0	24,862,265	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, 2017		Fiscal year ended November 30, 2018	
		Amounts (¥ thousand)	Ratio (%)	Amounts (¥ thousand)	Ratio (%)
I. Land costs		1,785,873	60.6	4,761,566	54.7
II. Construction costs		1,133,849	38.5	3,944,623	45.3
III. Book values written down following a decline in the revenue in the revenue expected to be generated from the inventories		28,816	1.0	—	—
Total		2,948,538	100.0	8,706,190	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, 2017		Fiscal year ended November 30, 2018	
		Amounts (¥ thousand)	Ratio (%)	Amounts (¥ thousand)	Ratio (%)
I. Outsourcing costs		714,992	21.8	582,684	17.4
II. Miscellaneous expenses		2,565,303	78.2	2,759,269	82.6
[Of which taxes and dues]		[439,739]		[466,850]	
[Of which depreciation and amortization]		[287,570]		[514,381]	
[Of which water and power]		[517,461]		[540,298]	
Total		3,280,295	100.0	3,341,954	100.0

Schedule of the cost in the Fund and Consulting Business

Accounts	Notes	Fiscal year ended November 30, 2017		Fiscal year ended November 30, 2018	
		Amounts (¥ thousand)	Ratio (%)	Amounts (¥ thousand)	Ratio (%)
Miscellaneous expenses		13,867	100.0	942	100.0
Total		13,867	100.0	942	100.0

3)Non-consolidated statements of changes in net assets

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

(¥ thousand)

	Shareholders' equity						
	Capital stock	Capital surplus		Retained earnings			
		Legal capital surplus	Total capital surpluses	Legal retained earnings	Other retained earnings		Total retained earnings
					General reserve	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
Changes of items during the year							
Issuance of new shares							
Dividends from surplus						(1,062,248)	(1,062,248)
Net income						5,449,682	5,449,682
Purchase of treasury shares							
Net changes of items other than shareholders' equity							
Total changes of items during the year	–	–	–	–	–	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

	Shareholders' equity		Valuation and translation adjustments			Stock acquisition rights	Total net assets
	Treasury shares	Total share-holders' equity	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Total valuation and translation adjustments		
Balance at the beginning of the year	-	38,357,887	60,295	(8,347)	51,948	45,538	38,455,373
Changes of items during the year							
Issuance of new shares		–					–
Dividends from surplus		(1,062,248)					(1,062,248)
Net income		5,449,682					5,449,682
Purchase of treasury shares		–					–
Net changes of items other than shareholders' equity	–	–	(3,292)	4,122	830	45,416	46,247
Total changes of items during the year	–	4,387,434	(3,292)	4,122	830	45,416	4,433,681
Balance at the end of the year	–	42,745,321	57,003	(4,224)	52,778	90,954	42,889,054

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

(¥ thousand)

	Shareholders' equity						
	Capital stock	Capital surplus		Retained earnings			
		Legal capital surplus	Total capital surpluses	Legal retained earnings	Other retained earnings		Total retained earnings
					General reserve	Retained earnings brought forward	
Balance at the beginning of the year	6,421,392	6,504,868	6,504,868	7,250	15,000	29,796,811	29,819,061
Changes of items during the year							
Issuance of new shares	132,747	132,747	132,747				
Dividends from surplus						(1,207,100)	(1,207,100)
Net income						5,370,323	5,370,323
Purchase of treasury shares							
Net changes of items other than shareholders' equity							
Total changes of items during the year	132,747	132,747	132,747	–	–	4,163,223	4,163,223
Balance at the end of the year	6,554,139	6,637,615	6,637,615	7,250	15,000	33,960,034	33,982,284

	Shareholders' equity		Valuation and translation adjustments			Stock acquisition rights	Total net assets
	Treasury shares	Total share-holders' equity	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Total valuation and translation adjustments		
Balance at the beginning of the year	–	42,745,321	57,003	(4,224)	52,778	90,954	42,889,054
Changes of items during the year							
Issuance of new shares		265,494					265,494
Dividends from surplus		(1,207,100)					(1,207,100)
Net income		5,370,323					5,370,323
Purchase of treasury shares	(128)	(128)					(128)
Net changes of items other than shareholders' equity		–	13,329	1,763	15,093	(51,136)	(36,043)
Total changes of items during the year	(128)	4,428,589	13,329	1,763	15,093	(51,136)	4,392,546
Balance at the end of the year	(128)	47,173,911	70,332	(2,460)	67,871	39,818	47,281,601

[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	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 property, plant and equipment of ¥4,256,152 thousand was transferred to real estate for sale due to the change in business policy.

Leasehold property previously held as real estate for sale of ¥4,884,154 thousand was transferred to property, plant and equipment due to the change in business policy

Notes to non-consolidated balance sheets

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

Pledged assets

(¥ thousand)

	As of November 30, 2017	As of November 30, 2018
Real estate for sale	39,577,574	43,417,765
Real estate for sale in process	14,021,609	10,717,994
Buildings	9,512,458	15,009,633
Land	14,752,269	18,755,471
Total	77,863,912	87,900,865

Debts secured by security interests

(¥ thousand)

	As of November 30, 2017	As of November 30, 2018
Current portion of long-term loans payable	5,847,106	6,283,260
Long-term loans payable	59,412,010	66,853,583
Total	65,259,116	73,136,843

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

(¥ thousand)

	As of November 30, 2017	As of November 30, 2018
Short-term monetary receivables	5,854	33,685
Long-term monetary receivables	33,527	46,892
Short-term monetary payables	119,767	73,383
Long-term monetary payables	92,616	154,742

3. Contingent liabilities

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

(¥ thousand)

	As of November 30, 2017	As of November 30, 2018
Tosei Revival Investment Co., Ltd.	790,960	729,640
Tosei Community Co., Ltd.	69,090	62,346

*4. Financial covenants

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.

As of November 30, 2018

(1) Of the Company's loans payable, special contract of individual cash loan with The Bank of Mitsubishi UFJ, Ltd. (outstanding balance: ¥1,200,000 thousand) includes financial covenants. If the Company violates any two or more items of the following covenants, the Company may repay the amount of the relevant loan to the lender in a lump sum.

Covenants

・In the consolidated statement of financial position as of the end of the fiscal year, total equity must be kept at 75% or more of the higher of total equity as of the end of the fiscal year ended November 30, 2016, and total equity as of the end of the previous fiscal year.

・In the consolidated statement of comprehensive income, profit before tax must be kept at ¥0 or more.

* However, the value calculated by adding loss on valuation of inventories included in cost of sales, which is described in the notes to consolidated statement of comprehensive income, to profit before tax shall be used as profit before tax in the formula above.

・In the consolidated statement of financial position and the consolidated statement of comprehensive income, the reference value, which is calculated by the formula below, must be 2.8 or less.

Reference value = Total interest-bearing debt ÷ Total equity

* Total interest-bearing debt = Corporate bonds + Loans payable + Trade and other payables

(2) Of the Company's loans payable, special contract of individual cash loan with The Bank of Mitsubishi UFJ, Ltd. (outstanding balance: ¥605,750 thousand) includes financial covenants. If the Company violates any two or more items of the following covenants, the Company may repay the amount of the relevant loan to the lender in a lump sum.

Covenants

・In the consolidated statement of financial position as of the end of the fiscal year, total equity must be kept at 75% or more of the higher of total equity as of the end of the fiscal year ended November 30, 2014, and total equity as of the end of the previous fiscal year.

・In the consolidated statement of comprehensive income, profit before tax must be kept at ¥0 or more.

* However, the value calculated by adding loss on valuation of inventories included in cost of sales, which is described in the notes to consolidated statement of comprehensive income, to profit before tax shall be used as profit before tax in the formula above.

・In the consolidated statement of financial position and the consolidated statement of comprehensive income, the reference value, which is calculated by the formula below, must be 2.8 or less.

Reference value = Total interest-bearing debt ÷ Total equity

* Total interest-bearing debt = Corporate bonds + Loans payable + Trade and other payables

(3) Of the Company's loans payable, special contract of individual cash loan with The Bank of Mitsubishi UFJ, Ltd. (outstanding balance: ¥683,088 thousand) includes financial covenants. If the Company violates any two or more items of the following covenants, the Company may repay the amount of the relevant loan to the lender in a lump sum.

Covenants

・In the consolidated statement of financial position as of the end of the fiscal year, total equity must be kept at 75% or more of the higher of total equity as of the end of the fiscal year ended November 30, 2016, and total equity as of the end of the previous fiscal year.

・In the consolidated statement of comprehensive income, profit before tax must be kept at ¥0 or more.

* However, the value calculated by adding loss on valuation of inventories included in cost of sales, which is described in the notes to consolidated statement of comprehensive income, to profit before tax shall be used as profit before tax in the formula above.

・In the consolidated statement of financial position and the consolidated statement of comprehensive

income, the reference value, which is calculated by the formula below, must be 2.8 or less.

Reference value = Total interest-bearing debt ÷ Total equity

* Total interest-bearing debt = Corporate bonds + Loans payable + Trade and other payables

(4) Of the Company's loans payable, loan contract with Sumitomo Mitsui Banking Corporation (outstanding balance: ¥9,578,020 thousand) includes financial covenants. If the Company violates any items of the following covenants, the Company may repay the amount of the relevant loan to the lender in a lump sum.

Covenants

- In the consolidated statement of financial position as of the end of the fiscal year, total equity must be kept at 75% or more of total equity as of the end of the fiscal year ended November 30, 2016, and total equity as of the end of the previous fiscal year.
- In the consolidated statement of comprehensive income, operating profit must not be less than ¥0 for two consecutive periods.
  * However, the value calculated by adding loss on valuation of inventories included in cost of sales, which is described in the notes to consolidated statement of comprehensive income, to operating profit shall be used as operating profit in the formula above.

(5) Of the Company's loans payable, loan contract with Sumitomo Mitsui Banking Corporation (outstanding balance: ¥670,000 thousand) includes financial covenants. If the Company violates any items of the following covenants, the Company may repay the amount of the relevant loan to the lender in a lump sum.

Covenants

- In the consolidated statement of financial position as of the end of the fiscal year, total equity must be kept at 75% or more of total equity as of the end of the fiscal year ended November 30, 2017, and total equity as of the end of the previous fiscal year.
- In the consolidated statement of comprehensive income, operating profit must not be less than ¥0 for two consecutive periods.
  * However, the value calculated by adding loss on valuation of inventories included in cost of sales, which is described in the notes to consolidated statement of comprehensive income, to operating profit shall be used as operating profit in the formula above.

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, 2017	Fiscal year ended November 30, 2018
Sales	43,282	179,438
Purchase amount	1,494,901	1,111,964
Other business turnover	75,361	74,578
Transaction volume other than business turnover	1,484,152	1,084,578

*2. The approximate ratio to selling expenses is 34.5% in the fiscal year ended November 30, 2017 and 36.1% in the fiscal year ended November 30, 2018, while the approximate ratio to general and administrative expenses is 65.5% in the fiscal year ended November 30, 2017 and 63.9% in the fiscal year ended November 30, 2018. Main components of selling, general and administrative expenses are as follows:

(¥ thousand)

	Fiscal year ended November 30, 2017	Fiscal year ended November 30, 2018
Sales expenses (Revitalization)	582,882	633,212
Sales expenses (Development)	818,694	979,366
Salaries and allowances	946,750	1,007,898
Provision for bonuses	232,356	281,962
Retirement benefit expenses	64,087	56,270
Provision of allowance for credit losses	1,888	—
Taxes and dues	696,315	614,590
Depreciation	48,389	49,012

Securities

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.

As of November 30, 2018

As shares in subsidiaries (carrying amount in the balance sheet: ¥6,390,866 thousand) have no quoted market prices and, at the same time, it is considered extremely difficult to determine the fair values, they are omitted.

Tax effect accounting

1. Significant components of deferred tax assets and liabilities

(¥ thousand)

	As of November 30, 2017	As of November 30, 2018
Deferred tax assets		
Current assets		
Accrued enterprise taxes, currently not deductible	32,939	60,212
Provision for bonuses	72,750	86,337
Other	29,453	50,013
Subtotal	135,142	196,562
Non-current assets		
Provision for retirement benefits	107,337	112,358
Long-term accounts payable-other for directors	107,347	106,753
Dividends income as withdrawal of investments	—	315,966
Other	21,377	21,114
Subtotal	236,062	556,192
Total deferred tax assets	371,205	752,755
Deferred tax liabilities		
Non-current liabilities		
Valuation difference on available-for-sale securities	(25,157)	(31,040)
Subtotal	(25,157)	(31,040)
Total deferred tax liabilities	(25,157)	(31,040)
Net deferred tax assets	346,047	721,714

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, 2017	As of November 30, 2018
Statutory effective tax rate	30.86%	30.86%
(Adjustments)		
Expenses not deductible permanently such as entertainment expenses	0.17	0.18
Profits not deductible permanently such as dividends income	(6.63)	(9.07)
Tax exemption	(0.48)	(1.02)
Other	0.36	(0.27)
Effective tax rates after adoption of tax effect accounting	24.28	20.67

Important subsequent events

Repurchase of the treasury shares

The Company resolved to repurchase its own shares pursuant to Article 156 of the Companies Act which is applicable in lieu of Article 165, Paragraph 3 of this act, at the board of directors' meeting held on February 5, 2019.

1. Reason for repurchase of the treasury shares

Stock will be repurchased to improve capital efficiency and enable the Company to adopt a timely and flexible capital policy in response to changes in the operating environment.

2. Details of repurchase

(1) Class of shares to be repurchased	Common share of Tosei Corporation
(2) Total number of shares to be repurchased	Up to 1,200,000 shares (2.5% of issued shares (excluding treasury shares))
(3) Total value of shares to be repurchased	Up to 1.0 billion yen
(4) Period for repurchase	From February 7, 2019 to August 31, 2019
(5) Method of repurchase	Discretionary investment by a securities company

4) Supplementary statements

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

(¥ thousand)

Cate-gory	Type of assets	Balance as of Dec. 1, 2017	Increase in the fiscal year ended Nov. 30, 2018	Decrease in the fiscal year ended Nov. 30, 2018	Depreciation during the fiscal year ended Nov. 30, 2018	Balance as of Nov. 30, 2018	Accumulated depreciation or amortization as of Nov. 30, 2018
Property, plant and equipment	Buildings	10,998,347	7,993,937	2,037,119	521,061	16,434,105	1,923,251
	Structures	16,882	13,430	0	1,355	28,956	9,233
	Machinery and equipment	27,869	—	—	4,973	22,895	10,484
	Vehicles	4,822	15,052	4,019	3,726	12,128	2,923
	Tools, furniture and fixtures	43,645	4,267	—	14,410	33,502	78,822
	Land	20,596,780	5,656,538	2,232,132	—	24,021,186	—
	Lease assets	9,008	—	—	3,384	5,624	7,911
	Construction in progress	12,400	112,000	124,000	—	400	—
	Total	31,709,757	13,795,225	4,397,270	548,911	40,558,800	2,032,626
Intangible assets	Software	35,375	4,518	—	14,482	25,411	—
	Software in progress	—	23,105	—	—	23,105	—
	Telephone subscription right	1,889	—	—	—	1,889	—
	Total	37,264	27,623	—	14,482	50,405	—

Notes: In the increase in the fiscal year ended Nov. 30, 2018, principal events are as follows:

Buildings:	Transfer from real estate for sale (2 properties)	¥2,857,145 thousand
	Newly acquired office buildings (1 property)	¥5,003,434 thousand
Land:	Transfer from real estate for sale (2 properties)	¥2,027,008 thousand
	Newly acquired rental office buildings (1 property)	¥3,501,408 thousand

[Detailed schedule of allowances]

(¥ thousand)

Category	Balance as of Dec. 1, 2017	Increase in the fiscal year ended Nov. 30, 2018	Decrease in the fiscal year ended Nov. 30, 2018	Balance as of Nov. 30, 2018
Allowance for doubtful accounts	5,442	225	1,551	4,116
Provision for bonuses	235,743	281,962	235,743	281,962
Provision for loss on rental business	3,573	1,060	3,573	1,060

(2) Principal assets and liabilities

This information is omitted since the consolidated financial statements have been prepared.

(3) Others

No item to report.

VI. Outline of filing company's business concerning shares

Business year	From December 1 to November 30
Ordinary General Meeting of Shareholders	February
Record date	November 30
Record dates for dividends from surplus	May 31 November 30
Share unit number	100 shares
Purchase of shares less than one unit: Office for handling business Shareholder registry administrator Forwarding office Handling charge for purchase	 1-4-5, Marunouchi, Chiyoda-ku, Tokyo Corporate Agency Department, Mitsubishi UFJ Trust and Banking Corporation 1-4-5, Marunouchi, Chiyoda-ku, Tokyo Mitsubishi UFJ Trust and Banking Corporation – No charge
Method of public notice	Electronic public notice will be made. URL for public notice: https://www.toseicorp.co.jp/ir/publicly/index.html However, if it is impossible to publish public notices electronically because of an accident or other unavoidable circumstances, the public notices shall be made by publication in the Nihon Keizai Shimbun.
Special benefits for shareholders	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

68th term; from December 1, 2016 to November 30, 2017, filed to Director-General of Kanto Local Finance Bureau on February 28, 2018.

(2) Internal Control Report and Appendices

Filed to Director-General of Kanto Local Finance Bureau on February 28, 2018.

(3) Quarterly Securities Reports and Confirmation Letter

First quarter of the 69th term; from December 1, 2017 to February 28, 2018, filed to Director-General of Kanto Local Finance Bureau on April 10, 2018.
Second quarter of the 69th term; from March 1, 2018 to May 31, 2018, filed to Director-General of Kanto Local Finance Bureau on July 10, 2018.
Third quarter of the 69th term; from June 1, 2018 to August 31, 2018, filed to Director-General of Kanto Local Finance Bureau on October 10, 2018.

(4) Extraordinary Reports

Filed to Director-General of Kanto Local Finance Bureau on May 25, 2018.

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, 2019.

Extraordinary Report based on Article 19, paragraph 2, item 9-2 (Results of Exercise of Voting Rights) of the Cabinet Office Ordinance on the Disclosure of Corporate Affairs, etc.

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

No items to report

Independent Auditors' Audit Report and Internal Control Audit Report

February 22, 2019

To the Board of Directors of
Tosei Corporation

Shinsoh Audit Corporation

Designated and Engagement Partner,
Certified Public Accountant:

Takayuki Sakashita (Seal)

Designated and Engagement Partner,
Certified Public Accountant:

Atushi Iijima (Seal)

[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, 2017 to November 30, 2018.

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, 2018, 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, 2018.

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, 2018 of Tosei Corporation is effective, present fairly, in all material respects, the result of management's assessment on internal control over financial reporting in conformity with standards for assessment of internal control over financial reporting generally accepted in Japan.

Conflicts of Interest
We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

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*1. The above is a digitization of the text contained in the original copy of the Audit Report, which is in the custody of the Company as attachments to the financial statements.
*2. XBRL data is excluded from the scope of the audit.

* The English version of the financial statements consists of an English translation of the audited Japanese financial statements. The actual text of the English translation of the financial statements was not covered by our audit. Consequently, for the auditor's report of the English financial statements, the Japanese original is the official text, and the English version is a translation of that text. Should there be any inconsistency between the translation and the official Japanese text, the latter shall prevail.

Independent Auditors' Audit Report

February 22, 2019

To the Board of Directors of
Tosei Corporation

Shinsoh Audit Corporation

Designated and Engagement Partner,
Certified Public Accountant:

Takayuki Sakashita (Seal)

Designated and Engagement Partner,
Certified Public Accountant:

Atushi Iijima (Seal)

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have 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 69th fiscal year from December 1, 2017 to November 30, 2018.

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, 2018, and its financial performance for the year then ended in conformity with accounting principles generally accepted in Japan.

Conflicts of Interest
We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

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*1. The above is a digitization of the text contained in the original copy of the Audit Report, which is in the custody of the Company as attachments to the financial statements.
2. XBRL data is excluded from the scope of the audit.

* The English version of the financial statements consists of an English translation of the audited Japanese financial statements. The actual text of the English translation of the financial statements was not covered by our audit. Consequently, for the auditor's report of the English financial statements, the Japanese original is the official text, and the English version is a translation of that text. Should there be any inconsistency between the translation and the official Japanese text, the latter shall prevail.

[Cover]

Document to be filed:	Management's Report on Internal Control
Provisions to base upon:	Article 24-4-4, paragraph 1 of the Financial Instruments and Exchange Act
Filing to:	Director-General of the Kanto Local Finance Bureau
Date of filing:	February 28, 2019
Company name (Japanese):	トーセイ株式会社 (*Tosei Kabushiki-Kaisha*)
Company name (English):	TOSEI CORPORATION
Title and name of representative:	Seiichiro Yamaguchi, President and CEO
Title and name of Chief Financial Officer	Noboru Hirano, Director and CFO
Location of head office:	4-2-3, Toranomon, Minato-ku, Tokyo, Japan
Places where the document to be filed is available for public inspection:	Tokyo Stock Exchange, Inc. (2-1, Nihonbashi-kabutocho, Chuo-ku, Tokyo)

1. Basic Framework of Internal Control Over Financial Reporting

Seiichiro Yamaguchi, President and CEO of TOSEI CORPORATION (the "Company") and Noboru Hirano, CFO Senior Executive Officer of the Company, having the responsibility to design and operate internal control over financial reporting of the Company and its consolidated subsidiaries (hereinafter collectively, the "Group"), designs and operates such internal control of the Company in accordance with the basic framework set forth in "On the Setting of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)" published by the Business Accounting Council.

Note that internal control aims at achieving its objectives to a reasonable extent given that all individual components of internal control are integrated, and function as a whole. Thus, internal control over financial reporting may not be able to completely prevent or detect misstatement in financial reporting.

2. Scope of Assessment, Assessment Date and Assessment Procedure

Assessment of internal control over financial reporting was performed as of November 30, 2018(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 6 significant consolidated subsidiaries.

For the purpose of determining the scope of process-level control assessment, 1 business location was selected as "Significant Business Locations", which comprises the Company and its consolidated subsidiaries selected in descending order based on their fiscal year's consolidated net sales (after elimination) and contributed approximately two-thirds of the Company's consolidated net sales in the aggregate. Note that the management confirmed that the scope of internal control assessment was sufficient based on this fiscal year's consolidated net sales. In such Significant Business Locations, all business processes related to the accounts that are closely associated with the Company's business objectives, such as sales, accounts receivable, and inventory were included in the scope of assessment. Furthermore, regardless of the Significant Business Locations, certain business processes related to significant accounts involving estimates and management's judgment and business processes on businesses or operations in which transactions involving significant risks are conducted were added to the scope of assessment as "business processes with material impacts on financial reporting."

3. Assessment Result

Based on the above mentioned assessment results, the management concluded that the internal control over financial reporting of the Group at the end of this fiscal year was effective.

4. Supplementary Information

None

5. Special Affairs

None

This is an English translation prepared for the convenience of non-resident shareholders by translating the Management's Report on Internal Control submitted to the Director of the Kanto Local Finance Bureau of the Ministry of Finance of Japan on February 28, 2019 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.