Quarterly Securities Report

(The English translation of the “Shihanki-Houkokusho”
for the first quarter of the 70th term)

from December 1, 2018
to February 28, 2019

TOSEI CORPORATION

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

(E04021)

This is an English translation prepared for the convenience of non-resident shareholders by translating the Quarterly Securities Report (Shihanki-Houkokusho) submitted to the Director of the Kanto Local Finance Bureau of the Ministry of Finance of Japan on April 10, 2019. Should there be any inconsistency between the translation and the official Japanese text, the latter shall prevail.

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Company name (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

Term	69th term First three months	70th term First three months	69th term
Accounting period	From December 1, 2017 to February 28, 2018	From December 1, 2018 to February 28, 2019	From December 1, 2017 to November 30, 2018
Revenue (¥ thousand)	18,310,040	17,059,457	61,543,319
Profit before tax (¥ thousand)	4,150,290	2,987,175	10,171,017
Profit attributable to owners of the parent (¥ thousand)	2,847,530	2,035,682	6,852,237
Comprehensive income for the period attributable to owners of the parent (¥ thousand)	2,875,292	2,067,162	6,856,712
Total equity (¥ thousand)	47,980,486	52,466,316	52,021,782
Total assets (¥ thousand)	124,675,580	143,035,531	138,768,538
Basic earnings per share (¥)	58.92	41.97	141.36
Diluted earnings per share (¥)	58.75	41.94	141.12
Ratio of equity attributable to owners of the parent to total assets (%)	38.5	36.7	37.5
Net cash from (used in) operating activities (¥ thousand)	4,485,532	(6,395,347)	7,615,322
Net cash from (used in) investing activities (¥ thousand)	(1,483,704)	(201,471)	(10,786,784)
Net cash from (used in) financing activities (¥ thousand)	(1,852,521)	3,980,987	5,941,884
Cash and cash equivalents at end of period (¥ thousand)	24,898,923	23,904,554	26,520,569

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

2. Business description

During the three months ended February 28, 2019, there were no significant changes in business activities operated by the Tosei Group (the Company and its subsidiaries and affiliates) from the previous fiscal year. There were also no changes in principal subsidiaries and affiliates.

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

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

II. Review of operations

1. Business and other risks

There were no business and other risks that newly arose during the three months ended February 28, 2019. In addition, there were no significant changes in "Business and other risks" described in the annual securities report for the previous fiscal year.

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

Forward-looking statements included in this section are based on information available to the Group's management as of February 28, 2019.

(1) Operating results

During the three months ended February 28, 2019, the Japanese economy is recovering moderately, supported by personal consumption and capital investment, despite signs of weakness in exports due to a slowing Chinese economy. A moderate recovery is expected to continue going forward, backed by continuing improvements in the employment and income environments.

In the real estate industry where Tosei Group operates, commercial real estate transactions for the full year 2018 decreased 3% year on year to ¥4.0 trillion. Weakness was evident in parts of the investment market, with limited growth in real estate prices and a decline in the number of placements of large-size properties on the market, as well as an increasingly cautious attitude from financial institutions towards real estate lending, in the context of fraudulent loan issues. Demand among investors remains firm however, particularly for properties in the metropolitan area, and transactions for the full year 2019 are forecast to increase by between 0% and 5% year on year (according to a survey by a private research institute).

In the Tokyo metropolitan area condominium market, the number of newly supplied units in the full year 2018 increased 3.4% year on year to 37,000 units. There continues to be firm demand for properties, particularly in the central Tokyo area and near stations. Against a background of persistently high prices however, the average contract rate for the first month was only 62.1%, trailing the 70% threshold from which market conditions are viewed as favorable for the third consecutive year. In the build-for-sale detached house market, housing starts for the full year 2018 numbered 62,000 units, roughly unchanged year on year. Favorable demand continues for detached houses, which remain undervalued relative to condominiums (according to surveys by a private research institute and the Ministry of Land, Infrastructure, Transport and Tourism).

The office leasing market of Tokyo's five business wards has been performing favorably. The average vacancy rate as of January 2019 was 1.8% (a decrease of 1.3% year on year), and the average rent was ¥21,010 (an increase of ¥1,672 year on year). This strength in the leasing market is expected to continue, backed by corporate office expansion requirements and increased demand for coworking space (according to a survey by a private research institute).

In the real estate securitization market, the total value of assets under management as of January 2019 grew to ¥18.0 trillion in J-REITs (an increase of ¥1.4 trillion year on year). Despite the continuing scarcity of large-size premium properties, property acquisitions continue to progress through means such as sponsored property supply, and the market scale expanded to ¥34.9 trillion, including ¥16.9 trillion of value under management in private placement funds (as of June 30, 2018) (according to a survey by a private research institute).

The Tokyo business hotel market maintained its favorable trend, with monthly guest room occupancy rates in 2018 generally exceeding the 80% threshold from which market conditions are viewed as favorable. The number of foreign visitors to Japan for the full year 2018 totaled 31.19 million (an increase of 8.7% year on year), exceeding 30 million for the first time. It is anticipated that more than 35 million foreign visitors will visit during the full year 2019, and further increases in the number of hotel guests are expected going forward (according to surveys by the Ministry of Land, Infrastructure, Transport and Tourism, the Japan National Tourism Organization, and 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, detached houses and commercial facilities. In addition, the Group also proceeded with the proactive acquisition of income-generating properties and land for development as future sources of income.

As a result, consolidated revenue for the three months ended February 28, 2019 totaled ¥17,059 million (down 6.8% year on year), operating profit was ¥3,125 million (down 28.0%), profit before tax was ¥2,987 million (down 28.0%), and profit for the period was ¥2,035 million (down 28.5%).

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

Revitalization Business

During the three months ended February 28, 2019, the segment sold 15 properties it had renovated, including Ryogoku Tosei Building I,II (Sumida-ku, Tokyo), T's garden Mukogaokayuen (Kawasaki-shi, Kanagawa), T's Link Harajuku (Sibuya-ku, Tokyo). In addition, the segment sold four units in the Restyling Business from Hilltop Yokohama Negishi (Yokohama-shi, Kanagawa).
During the three months ended February 28, 2019, it also acquired a total of 11 income-generating office buildings and apartments and one land lot for renovation and sales purposes.
As a result, revenue in this segment was ¥6,623 million (down 54.1% year on year) and the segment profit was ¥1,424 million (down 62.5%).

Development Business

During the three months ended February 28, 2019, the segment focused on the sale of condominium and detached houses. The segment sold 121 units at THE Palms Chofu Manorgarden (Chofu-shi, Tokyo) and sold 17 detached houses at such properties as THE Palms Court Funabashi Hoten (Funabashi-shi, Chiba), THE Palms Court Higashi Nakano (Nakano-ku, Tokyo). In addition, the segment sold one commercial facility and three land lots.
During the three months ended February 28, 2019, it also acquired two lots for hotel projects, one land lot for logistics facility project, one land lot for commercial facility project and land lots for 41 detached houses.
As a result, revenue in this segment was ¥7,045million (up 819.5% year on year) and the segment profit was ¥1,045 million (in comparison with segment loss of ¥145 million in the same period of the previous fiscal year).

Rental Business

During the three months ended February 28, 2019, while the segment sold 11 buildings of its inventory assets held for leasing purposes, it newly acquired six 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 ¥1,470 million (up 8.8% year on year) and the segment profit was ¥606 million (up 2.1%).

Fund and Consulting Business

During the three months ended February 28, 2019, while ¥11,808 million was added to the balance of assets under management (Note), due to new asset management contracts, ¥14,433 million was subtracted from to the balance of Assets under management ¥663,359 million for the end of the previous fiscal year, due mainly to property dispositions by funds. The balance of assets under management as of November 30, 2019, was ¥660,733 million.
As a result, revenue in this segment was ¥603 million (down 10.5% year on year) and the segment profit was ¥297 million (down 21.3%).

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

Property Management Business

During the three months ended February 28, 2019, the segment made efforts to win new contracts and maintain existing contracts. Consequently, the total number of properties under management was 626 as of February 28, 2019, a decrease of 34 from February 28, 2018, with the total comprising 392 office

buildings, hotels, schools and other such properties, and 234 condominiums and apartments.
As a result, although the total number of properties under management decreased, revenue in this segment was ¥1,063 million (up 9.1% year on year) and segment profit was ¥120 million (up 10.8%).

Hotel Business

During the three months ended February 28, 2019, the Group worked towards increasing the average daily rate and occupancy rate for TOSEI HOTEL COCONE Kanda, opened in December 2017, as well as newly opening TOSEI HOTEL COCONE Ueno in December 2018 contributed to revenue.
As a result, revenue in this segment was ¥252 million (up 113.3% year on year) and segment profit was ¥48 million (up 14.6%).

(2) Analysis of financial position

As of February 28, 2019, total assets were ¥143,035 million, an increase of ¥4,266 million compared with November 30, 2018, while total liabilities were ¥90,569 million, an increase of ¥3,822 million.
Total assets were due to an increase in inventories. Total liabilities were due to an increase in trade and other payables and an increase in borrowing.
Total equity increased by ¥444 million to ¥52,466 million, mainly due to an increase in retained earnings and payment of cash dividends.

(3) Analysis of cash flows

Cash and cash equivalents (hereinafter “cash”) as of February 28, 2019 totaled ¥23,904 million, down ¥2,616 million compared with November 30, 2018.
The cash flows for the three months ended February 28, 2019 and factors contributing to those amounts are as follows:

Cash Flows from Operating Activities

Net cash used in operating activities totaled ¥6,395 million (in comparison with segment net cash provided by operating activities of ¥4,485 million in the same period of the previous fiscal year). This is mainly due to an increase in inventories of ¥5,748 million and income taxes paid of ¥2,820 million.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥201 million (down 86.4% year on year). This is primarily due to payments of loans receivable of ¥126 million.

Cash Flows from Financing Activities

Net cash provided by financing activities totaled ¥3,980 million (in comparison with segment net cash used in financing activities of ¥1,852 million in the same period of the previous fiscal year). This mainly reflects¥17,236 million in proceeds from non-current borrowings., despite ¥11,390 million in the repayments of non-current borrowings and ¥1,409 million in cash dividends paid.

(4) Operational and financial issues to be addressed

During the three months ended February 28, 2019, there was no significant change in issues to be addressed by the Tosei Group.
The Company has set the basic policy regarding the persons who control the decision-making on the financial and business policies of the Company. The contents of basic policy (matters set forth in Article 118, item 3 of the Ordinance for Enforcement of the Companies Act) are as follows:

a.Contents of basic policy

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

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

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

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

The Company believes that persons who would make a large-scale acquisition of the shares in the Company in a manner that does not contribute to the corporate value of the Company or the common interests of its shareholders would be inappropriate as persons that control decisions on the Company’s financial and business policies. The Company believes that it is necessary to ensure the corporate value of the Company and, in turn, the common interests of its shareholders by taking necessary and reasonable countermeasures against a large-scale acquisition by such persons.

b.Overview of special measures to realize the basic policy

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

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

The Revitalization Business will revitalize and create added value for existing properties and aim to expand operations through initiatives such as product line expansion and diversification of sales methods. With regard to the acquisition of properties, the Company will actively increase the number of small- to medium-size and high liquid property in the metropolitan area and acquire over ¥2.0 billion of medium- to large-size and profitable property, while paying attention to the portfolio. The Development Business will promote the development and sales of detached houses and condominiums that are in steady demand, as well as active development of properties such as logistics facility and hotels after assessing good location. On the other hand, the Stock and Fee Business, the Company’s stable source of income, aims to expand all segments. The Rental Business will strive to expand Company-held fixed assets; the Fund and Consulting Business will accumulate assets under management; and the Property Management Business will increase properties under management.

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

TOSEI HOTEL COCONE Ueno, opened in December 2018, and will continue to work toward the growth of hotel business and enhancement of Tosei brand.

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

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

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

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

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

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

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

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

In addition, the Company's board of directors is of the view that the plan is in line with the basic policy, does not undermine the common interests of the Company's shareholders, and is not for the purpose of maintaining the positions of the Company's corporate officers, based on the following reasons: an approval at the general meeting of shareholders has been obtained for its renewal; its maximum effective period is stipulated to be three years and it can be abolished at any time by the resolution of the Company's board of directors; an independent committee, which is comprised of the members that are independent of the management of the Company, has been established and the countermeasures stipulated in the plan requires the decision by the independent committee for actual executions; and the plan fully satisfies the three principles set out in the "Guidelines Regarding Takeover Defense for the Purposes of Protection and Enhancement of Corporate Value and Shareholders' Common Interests" released by the Ministry of Economy, Trade and Industry and the Ministry of Justice on May 27, 2005.

(5) Research and development activities

No item to report.

3. Important operational contracts, etc.

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

III. Filing company

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

(1) Total number of authorized shares, etc.

a. Total number of authorized shares

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

b. Number of shares issued

Class	Number of issued shares (Shares: as of February 28, 2019)	Number of issued shares (Shares: as of the date of filing: April 10, 2019)	Name of financial instruments exchange where the stock of Tosei is traded or the name of authorized financial instruments firms association where Tosei is registered	Details
Ordinary shares	48,544,800	48,548,800	Tokyo Stock Exchange (First Section), Singapore Exchange (Mainboard)	Share unit number: 100
Total	48,544,800	48,548,800	–	–

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

(2) Status of stock acquisition rights

1) The detail of the stock option system

No item to report.

2) Details of other stock acquisition rights, etc.

No item to report.

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

No item to report.

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

Date	Fluctuation in the number of issued shares (Shares)	Balance of issued shares (Shares)	Fluctuation in share capital (¥ thousand)	Balance of share capital (¥ thousand)	Fluctuation in capital reserves (¥ thousand)	Balance of capital reserves (¥ thousand)
From December 1, 2018 to February 28, 2019	—	48,544,800	—	6,554,139	—	6,637,615

(5) Status of major shareholders

There is no item to report due to the reporting period being a first quarter of a fiscal year.

(6) Status of voting rights

The following status of voting rights is prepared based on the shareholder registry as of November 30, 2018, which is the latest record date, as the information as of February 28, 2019 is not yet available.

a. Issued shares

(As of February 28, 2018)

Classification	Number of shares (Shares)	Number of voting rights	Details
Shares without voting rights	–	–	–
Shares with restricted voting rights (Treasury shares, etc.)	–	–	–
Shares with restricted voting rights (Other)	–	–	–
Shares with full voting rights (Treasury shares, etc.)	(Treasury shares held) Ordinary shares 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 issued shares	48,544,800	–	–
Voting rights owned by all shareholders	–	485,410	–

Note:1. The number of "Shares with full voting rights (Other)" includes 400 shares in the name of Japan Securities Depository Center, Inc. "Number of voting rights" includes 4 units of voting rights related to shares with full voting rights in its name.

2. At the board of directors meeting held on February 5, 2019, the Company resolved the acquisition of treasury shares from February 7, 2019 to August 31, 2019, and the Company acquired 157,800 treasury shares as of February 28, 2019. As a result, the total number of treasury shares was 157,905 shares.

b. Treasury shares, etc.

(As of February 28, 2018)

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

Note: At the board of directors meeting held on February 5, 2019, the Company resolved the acquisition of treasury shares from February 7, 2019 to August 31, 2019, and the Company acquired 157,800 treasury shares as of February 28, 2019. As a result, the total number of treasury shares was 157,905 shares.

2. Status of Officers

There was no change in Officers during the three months ended February 28, 2019 after the filing date of annual securities report for the previous fiscal year.

IV. Accounting

1. Preparation policy of the condensed quarterly consolidated financial statements

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

2. Audit attestation

The condensed quarterly consolidated financial statements for the first quarter of the fiscal year ending November 30, 2019 (from December 1, 2018 to February 28, 2019) and for the first three months of the fiscal year ending November 30, 2019 (from December 1, 2018 to February 28, 2019) were reviewed by Shinsoh Audit Corporation pursuant to Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act.

1. Condensed Quarterly Consolidated Financial Statements

(1) Condensed Consolidated Statement of Financial Position

(¥ thousand)

	Notes	As of November 30, 2018	As of February 28, 2019
Assets			
Current assets			
Cash and cash equivalents	8	26,520,569	23,904,554
Trade and other receivables	8	3,090,237	4,441,184
Inventories		62,457,864	68,336,258
Other current assets		30,495	34,105
Total current assets		92,099,167	96,716,101
Non-current assets			
Property, plant and equipment		8,785,869	8,761,947
Investment properties		33,752,847	33,487,692
Intangible assets		87,966	89,962
Other financial assets	8	2,244,831	2,344,431
Trade and other receivables	8	865,235	941,776
Deferred tax assets		903,707	679,105
Other non-current assets		28,914	14,514
Total non-current assets		46,669,371	46,319,430
Total assets		138,768,538	143,035,531
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	8	4,075,579	4,438,420
Borrowings	8	7,308,494	7,332,799
Current income tax liabilities		2,445,597	410,008
Provisions		593,669	188,166
Total current liabilities		14,423,341	12,369,394
Non-current liabilities			
Trade and other payables	8	3,708,969	3,844,377
Borrowings	8	67,716,752	73,518,921
Retirement benefits obligations		493,554	507,839
Provisions		6,817	6,856
Deferred tax liabilities		397,320	321,825
Total non-current liabilities		72,323,414	78,199,820
Total Liabilities		86,746,756	90,569,215
Equity			
Share capital		6,554,139	6,554,139
Capital reserves		6,544,924	6,544,808
Retained earnings		38,843,309	39,422,650
Treasury shares		(128)	(166,301)
Other components of equity		79,537	111,018
Total equity attributable to owners of parent		52,021,782	52,466,316
Total equity		52,021,782	52,466,316
Total liabilities and equity		138,768,538	143,035,531

(2) Condensed Consolidated Statement of Comprehensive Income

(¥ thousand)

	Notes	Three months ended February 28, 2018	Three months ended February 28, 2019
Revenue	5	18,310,040	17,059,457
Cost of revenue		12,119,236	11,914,383
Gross profit		6,190,803	5,145,073
Selling, general and administrative expenses		1,877,793	2,055,136
Other income		93,983	39,533
Other expenses		65,572	4,144
Operating profit	5	4,341,420	3,125,326
Finance income		40,191	40,770
Finance costs		231,322	178,921
Profit before tax		4,150,290	2,987,175
Income tax expense		1,302,759	951,493
Profit for the period		2,847,530	2,035,682
Other comprehensive income Items that will not be reclassified to profit or loss			
Net change in financial assets measured at fair values through other comprehensive income		—	33,039
Subtotal		—	33,039
Other comprehensive income Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(6,006)	(1,713)
Net change in fair values of available-for-sale financial assets		32,864	—
Net change in fair values of cash flow hedges		903	154
Subtotal		27,762	(1,558)
Other comprehensive income for the period, net of tax		27,762	31,480
Total comprehensive income for the period		2,875,292	2,067,162
Profit attributable to:			
Owners of the parent		2,847,530	2,035,682
Total comprehensive income attributable to:			
Owners of the parent		2,875,292	2,067,162
Earnings per share attributable to owners of the parent			
Basic earnings per share (¥)	7	58.92	41.97
Diluted earnings per share (¥)	7	58.75	41.94

(3) Condensed Consolidated Statement of Changes in Equity

Three months ended February 28, 2018 (December 1, 2017 – February 28, 2018)

(¥ thousand)

	Notes	Share capital	Capital reserves	Retained earnings	Treasury shares	Other components of equity	Total equity attributable to owners of parent	Total equity
Balance at December 1, 2017		6,421,392	6,464,240	33,209,210	–	64,024	46,158,867	46,158,867
Profit for the period				2,847,530			2,847,530	2,847,530
Other comprehensive income						27,762	27,762	27,762
Total comprehensive income for the period		–	–	2,847,530	–	27,762	2,875,292	2,875,292
Amount of transactions with owners								
Issuance of new shares		94,419	54,132				148,551	148,551
Purchase of treasury shares					(61)		(61)	(61)
Dividends of surplus	6			(1,207,100)			(1,207,100)	(1,207,100)
Share-based payment			4,935				4,935	4,935
Balance at February 28, 2018		6,515,812	6,523,308	34,849,640	(61)	91,786	47,980,486	47,980,486

Three months ended February 28, 2019 (December 1, 2018 – February 28, 2019)

(¥ thousand)

	Notes	Share capital	Capital reserves	Retained earnings	Treasury shares	Other components of equity	Total equity attributable to owners of parent	Total equity
Balance at December 1, 2018		6,554,139	6,544,924	38,843,309	(128)	79,537	52,021,782	52,021,782
Profit for the period				2,035,682			2,035,682	2,035,682
Other comprehensive income						31,480	31,480	31,480
Total comprehensive income for the period		–	–	2,035,682	–	31,480	2,067,162	2,067,162
Amount of transactions with owners								
Purchase of treasury shares			(115)		(166,172)		(166,287)	(166,287)
Dividends of surplus	6			(1,456,340)			(1,456,340)	(1,456,340)
Balance at February 28, 2019		6,554,139	6,544,808	39,422,650	(166,301)	111,018	52,466,316	52,466,316

(4) Condensed Consolidated Statement of Cash Flows

(¥ thousand)

	Notes	Three months ended February 28, 2018	Three months ended February 28, 2019
Cash flows from operating activities			
Profit before tax		4,150,290	2,987,175
Depreciation expense		147,371	216,410
Increase (decrease) in provisions and retirement benefits obligations		(358,663)	(390,497)
Interest and dividend income		(40,191)	(40,770)
Interest expenses		231,322	178,921
Loss on retirement of property, plant and equipment		608	—
Decrease (increase) in trade and other receivables		10,361	(702,625)
Decrease (increase) in inventories		1,632,647	(5,748,288)
Increase (decrease) in trade and other payables		(205,424)	(115,288)
Other, net		(102,982)	(400)
Subtotal		5,465,339	(3,615,362)
Interest and dividend income received		39,477	40,745
Income taxes paid		(1,019,283)	(2,820,729)
Net cash from (used in) operating activities		4,485,532	(6,395,347)
Cash flows from investing activities			
Purchase of property, plant and equipment		(12,025)	(24,651)
Purchase of investment properties		(134,642)	(4,840)
Purchase of intangible assets		(1,940)	(9,811)
Purchase of other financial assets		—	(48,529)
Payments of loans receivable		—	(126,730)
Collection of loans receivable		19	19
Purchase of investments in subsidiaries resulting in change in scope of consolidation		(1,335,115)	—
Other, net		—	13,070
Net cash from (used in) investing activities		(1,483,704)	(201,471)
Cash flows from financing activities			
Net increase (decrease) in current borrowings		143,000	(19,000)
Proceeds from non-current borrowings		9,032,500	17,236,745
Repayments of non-current borrowings		(9,815,555)	(11,390,358)
Proceeds from issuance of new shares		148,371	—
Cash dividends paid		(1,157,717)	(1,409,822)
Interest expenses paid		(202,145)	(269,490)
Purchase of treasury shares		(61)	(166,172)
Other, net		(913)	(913)
Net cash from (used in) financing activities		(1,852,521)	3,980,987
Net increase (decrease) in cash and cash equivalents		1,149,306	(2,615,831)
Cash and cash equivalents at beginning of period		23,750,239	26,520,569
Effect of exchange rate change on cash and cash equivalents		(622)	(184)
Cash and cash equivalents at end of period		24,898,923	23,904,554

(5) Notes to Condensed Quarterly Consolidated Financial Statements

1. Reporting entity

Tosei Corporation (hereinafter, the "Company") is a share company located in Japan whose shares are listed on the First Section of the Tokyo Stock Exchange and the Mainboard of Singapore Exchange. The Company's condensed quarterly consolidated financial statements for the three months ended February 28, 2019 have been prepared in respect of the Company and its consolidated subsidiaries (hereinafter collectively, the "Group"). The Group engages in the following six business operations: Revitalization Business, Development Business, Rental Business, Fund, Consulting Business and Property Management Business and Hotel Business. The operations of each business segment are presented in "5. Segment information" in the notes.

2. Basis of preparation

(1) Compliance with IFRS

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

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

(2) Basis of measurement

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

(3) Presentation currency and unit amount

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

3. Significant accounting policies

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

Changes in accounting policies

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

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

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

(1) IFRS 9 “Financial Instruments”

1) Classification and measurement of financial instruments

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

Equity instruments previously classified as “Available-for-sale financial assets” are now classified into “Financial assets measured at fair value through other comprehensive income” and “Financial assets measured at fair value through profit or loss.” “Available-for-sale financial assets” have been reclassified to “Other financial assets” in the Condensed Consolidated Statement of Financial Position. In accordance with transition provisions, the Group has not applied IFRS 9 retrospectively to consolidated financial statements for the previous fiscal year.

2) Impairment loss of financial assets

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

(2) IFRS 15 “Revenue from Contracts with Customers”

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

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

4. Significant accounting estimates and judgments requiring estimates

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

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

5. Segment information

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

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

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

Segment information for the three months ended February 28, 2018 has been prepared in accordance with the new reportable segment classifications.

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

Three months ended February 28, 2018

(December 1, 2017 – February 28, 2018)

(¥ thousand)

	Reportable Segments						Adjustment	Total
	Revitalization Business	Development Business	Rental Business	Fund and Consulting Business	Property Management Business	Hotel Business		
Revenue								
Revenue from external customers	14,425,414	766,192	1,350,962	674,070	974,951	118,449	—	18,310,040
Intersegment revenue	—	—	10,785	13,089	255,711	—	(279,587)	—
Total	14,425,414	766,192	1,361,748	687,159	1,230,663	118,449	(279,587)	18,310,040
Segment profit or loss	3,793,912	(145,430)	594,151	377,635	108,427	42,727	(430,003)	4,341,420
Finance income/costs, net								(191,130)
Profit before tax								4,150,290

Three months ended February 28, 2019

(December 1, 2018 – February 28, 2019)

(¥ thousand)

	Reportable Segments						Adjustment	Total
	Revitalization Business	Development Business	Rental Business	Fund and Consulting Business	Property Management Business	Hotel Business		
Revenue								
Revenue from external customers	6,623,933	7,045,504	1,470,217	603,283	1,063,838	252,680	—	17,059,457
Intersegment revenue	—	—	11,414	4,207	277,524	700	(293,846)	—
Total	6,623,933	7,045,504	1,481,631	607,491	1,341,362	253,380	(293,846)	17,059,457
Segment profit	1,424,157	1,045,954	606,368	297,249	120,182	48,948	(417,532)	3,125,326
Finance income/costs, net								(138,151)
Profit before tax								2,987,175

6. Dividends

Dividends paid in the three months ended February 28, 2018 and February 28, 2019 are as follows:

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

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

7. Earnings per share

	Three months ended February 28, 2018	Three months ended February 28, 2019
Profit attributable to owners of the parent (¥ thousand)	2,847,530	2,035,682
Net income used to figure diluted net income per share (¥ thousand)	2,847,530	2,035,682
Weighted average number of outstanding ordinary shares (shares)	48,328,491	48,505,245
The number of increased ordinary shares used to figure diluted earnings per share (shares)	138,124	31,524
The weighted-average number of ordinary shares used to figure diluted earnings per share (shares)	48,466,615	48,536,769
Basic earnings per share (¥)	58.92	41.97
Diluted net income per share (¥)	58.75	41.94

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

8. Financial instruments

i) Fair values and book values

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

(¥ thousand)

	As of November 30, 2018		As of February 28, 2019	
	Book value	Fair value	Book value	Fair value
Financial assets				
Loans receivables and other receivables				
Cash and cash equivalents	26,520,569	26,520,569	－	－
Trade and other receivables	2,751,391	2,751,391	－	－
Available-for-sale financial assets				
Available-for-sale financial assets	2,244,831	2,244,831	－	－
Financial assets measured at amortized cost				
Cash and cash equivalents	－	－	23,904,554	23,904,554
Trade and other receivables	－	－	2,743,197	2,743,197
Financial assets measured at fair value through other comprehensive income				
Other financial assets	－	－	1,924,147	1,924,147
Financial assets measured at fair value through profit or loss				
Other financial assets	－	－	420,284	420,284
Financial liabilities				
Financial liabilities measured at amortized cost				
Trade and other payables	6,138,677	6,138,677	6,857,368	6,857,368
Borrowings	75,025,247	75,025,247	80,851,720	80,862,147

Method for measuring fair value of financial instruments

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

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

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

Other financial assets

The fair values of listed securities are measured based on quoted market prices. For financial assets for which there is no active market and unlisted securities, the Group estimates fair values using certain valuation techniques including the use of recent arm’s length transactions, reference to other instruments that are substantially at the same price, and the discounted cash flow method.

Non-current borrowings

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

ii) Fair value hierarchy

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

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

(¥ thousand)

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

	As of February 28, 2019			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair values through other comprehensive income	1,709,027	—	215,119	1,924,147
Financial assets measured at fair values through profit or loss	—	—	420,284	420,284
Financial liabilities measured at fair value through other comprehensive income (derivative)	—	9,250	—	9,250

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)

	Three months ended February 28, 2019
Balance at beginning of period	631,787
Acquisition	166
Comprehensive income	
Profit (loss)	3,449
Disposal	—
Balance at end of period	635,403

9. Significant subsequent events

No item to report.

2. Other

No item to report.

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

No items to report.

(Translation)

Quarterly Review Report of Independent Auditors

April 5, 2019

To the Board of Directors of
Tosei Corporation

Shinsoh Audit Corporation

Designated and Engagement Partner,
Certified Public Accountant:

Takayuki Sakashita (Seal)

Designated and Engagement Partner,
Certified Public Accountant:

Atushi Iijima (Seal)

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have reviewed the condensed quarterly consolidated financial statements of Tosei Corporation included in the "Accounting" section, namely, the condensed consolidated statements of financial position, comprehensive income, changes in equity, and cash flows, as well as their notes, for the first quarter (December 1, 2018 to February 28, 2019) and the first three-month period (December 1, 2018 to February 28, 2019) of the fiscal year from December 1, 2018 to November 30, 2019.

Management's Responsibility for the Condensed Quarterly Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Auditor's Conclusion

In our quarterly review, we have concluded that the condensed quarterly consolidated financial statements referred to above are in conformity with International Accounting Standard 34 "Interim Financial Reporting", and nothing has come to our attention that causes us to believe that they do not fairly present, in all material respects, the financial positions of the Company and its consolidated subsidiaries as of February 28, 2019, and the consolidated results of their operations and their cash flows for the three-month period then ended.

Interest

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

End

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

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

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