

Quarterly Securities Report

(The English translation of the “Shihanki-Houkokusho”
for the first quarter of the 71th term)

from December 1, 2019
to February 29, 2020

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, 2020. Should there be any inconsistency between the translation and the official Japanese text, the latter shall prevail.

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[Quarterly Review Report of Independent Auditors]

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

I. Overview of the Tosei Group

1. Trends in principal management benchmarks

Term	70th term First three months	71th term First three months	70th term
Accounting period	From December 1, 2018 to February 28, 2019	From December 1, 2019 to February 29, 2020	From December 1, 2018 to November 30, 2019
Revenue (¥ thousand)	17,059,457	23,468,579	60,727,704
Profit before tax (¥ thousand)	2,987,175	5,359,510	12,090,095
Profit attributable to owners of the parent (¥ thousand)	2,035,682	3,587,817	8,447,032
Comprehensive income for the period attributable to owners of the parent (¥ thousand)	2,067,162	3,261,219	8,684,946
Total equity (¥ thousand)	52,466,316	59,609,878	58,306,499
Total assets (¥ thousand)	143,035,531	160,297,105	161,894,056
Basic earnings per share (¥)	41.97	75.37	176.40
Diluted earnings per share (¥)	41.94	74.95	175.83
Ratio of equity attributable to owners of the parent to total assets (%)	36.7	37.2	36.0
Net cash from (used in) operating activities (¥ thousand)	(6,395,347)	6,668,635	(3,799,892)
Net cash from (used in) investing activities (¥ thousand)	(201,471)	(240,228)	(2,133,119)
Net cash from (used in) financing activities (¥ thousand)	3,980,987	(6,062,109)	11,412,129
Cash and cash equivalents at end of period (¥ thousand)	23,904,554	32,364,783	31,998,929

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 29, 2020, 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.

II. Review of operations

1. Business and other risks

"Cabinet Office Ordinance on the Disclosure of Corporate Content etc." after revision by the "Cabinet Office Ordinance to revise a part of the Cabinet Office Ordinance on disclosure of corporate content etc." (Cabinet Office Ordinance No. 3, 2019) The provisions of Caution (7) described in the No. 4-3 format have been applied from the quarterly securities report for the current fiscal year.

There was the following additional matter newly arose "Business risks" described in the securities report for the previous fiscal year during the three months ended February 29, 2020.

Due to the spread of COVID-19 that have occurred in Wuhan, Hubei Province, China since December 2019, the Group's financial position and operating results may be affected.

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

"Cabinet Office Ordinance on the Disclosure of Corporate Content etc." after revision by the "Cabinet Office Ordinance to revise a part of the Cabinet Office Ordinance on disclosure of corporate content etc." (Cabinet Office Ordinance No. 3, 2019) The provisions of Caution (8) described in the No. 4-3 format have been applied from the quarterly securities report for the current fiscal year.

Forward-looking statements included in this section are judged by information available to the Group's management as of February 29, 2020.

(1) Recognition, analysis and contents for discussions of the Group's operating results from the viewpoint of management

1) Recognition, analysis and contents for discussion of business environment and business performance

During the three months ended February 29, 2020, the Japanese economy continued on a path of moderate recovery. This moderate recovery is expected to continue, supported by various policies. However, the outlook for the business environment is uncertain because there are increasing concerns over a potential global recession due to the spread of COVID-19.

In the real estate industry where Tosei Group operates, commercial real estate transactions for the whole of 2019 increased 3% year on year to ¥4.1 trillion. Although the real estate transaction prices have been persistently high, transactions for the whole of 2020 are forecast to increase by 5% year on year as appetite for real estate investment among investors has remained strong supported by a favorable financing environment (according to a survey by a private research institute).

In the Tokyo metropolitan area condominium market, the number of units sold in the whole of 2019 decreased 15.9% year on year to 31,000 units, amid a downturn in the number of units supplied for the first time in three years due to land acquisition difficulty. The average contract rate for the first month was 62.6%, lower than the 70% threshold from which market conditions are viewed as favorable for the fourth consecutive year. Each company is selling condominium units over time without cutting prices in order to secure the appropriate level of earnings, and accordingly, this market is expected to remain steady while the number of units sold being sluggish. In the build-for-sale detached house market, housing starts for the whole of 2019 numbered 63,000 units, an increase of 2.1% year on year. Favorable demand continues for detached houses amid sentiment that they are reasonably priced relative to escalating condominium prices (according to surveys by a private research institute and the Ministry of Land, Infrastructure, Transport and Tourism).

The office leasing market of Tokyo's five business wards has been performing favorably. The average vacancy rate as of January 2020 was lowest ever at 1.53% (a decrease of 0.29 percentage points year on year). The average asking rent was ¥22,448 per tsubo (1 tsubo = 3.30 square meters) (an increase of ¥1,438 year on year), rising for the 73rd consecutive month. In 2020, the floor space of 300,000 tsubo is planned to be newly supplied, and there is a concern about the secondary vacancies at some existing buildings. However, the strength in the leasing market is expected to continue as companies continue to experience a high level of needs for relocation for expansion due to their expanded business operations as well as for relocation to a better location (according to a survey by a private research institute).

In the Tokyo metropolitan area's logistics facility leasing market, leasable stock in January 2020 amounted to 5.78 million tsubo (an increase of 14.9% year on year) given substantial supply in anticipation of growing demand. The vacancy rate has remained at the low level of 1.9% amid a situation of tight supply relative to demand (according to a survey by a private research institute).

In the real estate fund market, the market scale continues to expand. The securitization market scale expanded to ¥38.4 trillion, which consists of ¥19.2 trillion in J-REIT assets under management in January 2020 (an increase of ¥1.1 trillion year on year) and ¥19.2 trillion in assets under management in private placement funds (as of June 2019; an increase of ¥2.3 trillion year on year) (according to a survey by a private research institute).

In the Tokyo business hotel market, the average guest room occupancy rate in the whole of 2019 was 84.2%, and the monthly occupancy rates generally exceeded the 80% threshold from which market conditions are viewed as favorable. The total number of hotel guests in Tokyo encompassing all types of accommodation was roughly unchanged and amounted to 66.20 million overnight stays (an increase of 0.1% year on year). As for foreign tourists visiting Japan, the proportion of overseas guests was 37.4% (a 2.3 percentage point increase year on year) with the total number of hotel guests from overseas having increased by 6.6% year on year to 24.73 million overnight stays. However, demand for accommodation started to decline from the beginning of 2020 due to the outbreak of COVID-19, which was first reported in December 2019. As this decline is becoming evident since February, the prolonged spread of COVID-19 has been concerned (according to a survey by the Japan Tourism Agency).

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

As a result, consolidated revenue for the three months ended February 29, 2020 totaled ¥23,468 million (up 37.6% year on year), operating profit was ¥5,535 million (up 77.1%), profit before tax was ¥5,359 million (up 79.4%), and profit for the period was ¥3,587 million (down 76.2%).

Performance by business segment is shown below.

Revitalization Business

During the three months ended February 29, 2020, the segment sold 18 properties it had renovated, including Kagurazaka Plaza Building (Shinjuku-ku, Tokyo), Kannai Wise Building (Yokohama-shi, Kanagawa), T's garden Kita Kashiwa (Kashiwa-shi, Tokyo). In addition, the segment sold two units in the Restyling Business from Ecology Ochiai Residence (Shinjuku-ku, Tokyo).

During the three months ended February 29, 2020, it also acquired a total of five income-generating office buildings and apartments and three land lots for renovation and sales purposes.

As a result, revenue in this segment was ¥18,760 million (up 183.2% year on year) and the segment profit was ¥5,003 million (up 251.3%).

Development Business

During the three months ended February 29, 2020, the segment focused on the sale of detached houses for which there was firm demand. The segment sold 12 detached houses at such properties as THE Palms Court Kokubunji Koigakubo (Kokubunji-shi, Tokyo) and THE Palms Court Funabashi Hoten (Funabashi-shi, Chiba). In addition, the segment sold one commercial facility.

During the three months ended February 29, 2020, it also acquired one land lot for apartment project, and land lots for 31 detached houses.

As a result, there were no condominiums that contributed to the business performance in the first quarter of the this fiscal year, revenue in this segment was ¥1,046million (down 85.1% year on year) and the segment loss was ¥18 million (in comparison with segment profit of ¥1,045 million in the same period of the previous fiscal year).

Rental Business

During the three months ended February 29, 2020, while the segment sold 10 buildings of its inventory assets held for leasing purposes, it newly acquired four 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 holding non-current assets and inventory assets.

As a result, revenue in this segment was ¥1,298 million (down 11.7% year on year) and the segment profit was ¥464 million (down 23.5%).

Fund and Consulting Business

During the three months ended February 29, 2020, while ¥31,972 million was added due to new asset management contracts, ¥3,343 million was subtracted due mainly to property dispositions by funds, from to the balance of assets under management (Note) ¥846,478 million for the end of the previous fiscal year. The balance of assets under management as of February 29, 2020, was ¥875,107 million.

As a result, revenue in this segment was ¥936 million (up 55.2% year on year) and the segment profit was ¥586 million (up 97.2%).

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 29, 2020, the segment made efforts to win new contracts and maintain existing contracts. Consequently, the total number of properties under management was 666 as of February 29, 2020, an increase of 40 from February 28, 2019, with the total comprising 422 office buildings, hotels, schools and other such properties, and 244 condominiums and apartments.

As a result, revenue in this segment was ¥1,212 million (up 14.0% year on year) and segment profit was ¥178 million (up 48.3%).

Hotel Business

During the three months ended February 29, 2020, the Group worked towards increasing the average daily rate and occupancy rate for Tosei Hotel COCONE Kanda and Tosei Hotel COCONE Ueno. On the other hand, expenses related to the opening of Tosei Hotel COCONE Asakusa Kuramae, Tosei Hotel COCONE Ueno Okachimachi, and Tosei Hotel & Seminar Makuhari, which are scheduled to open, have been incurred.

As a result, revenue in this segment was ¥213 million (down 15.4% year on year) and segment loss was ¥166 million (in comparison with segment profit of ¥48 million in the same period of the previous fiscal year).

2) Analysis and contents for discussion of Operating Results

Revenue and profit for the three months ended February 29, 2020 increased sharply, driven by sales of properties in the Revitalization Business, with consolidated revenue of ¥23,468 million (up 37.6% year on year), profit before tax of ¥5,359 million (up 79.4%), and profit for the period of ¥3,587 million (up 76.2%), which account for more than 40% of the full-year profit plan. In addition, sales in the Development Business were strong as the segment successfully concluded contracts for sale of all 243 units of THE Palms Sagami Park Brightia, a condominium scheduled to be completed in May 2020.

On the other hand, the spread of COVID-19 has been causing rapidly growing uncertainty. At the end of February 2020, no significant changes were seen in the appetite for real estate acquisition among investors and financing conditions in the real estate investment market, which is the Group's main target market. However, the Company recognizes that it needs to be more cautious of a possible decline in real estate liquidity and prices caused by a chain reaction of credit crunch. The Company will watch the investment market trends closely and make investment decisions carefully.

(2) Analysis of Financial Positions

As of February 29, 2020, total assets were ¥160,297 million, a decrease of ¥1,596 million compared with November 30, 2019, while total liabilities were ¥100,687 million, a decrease of ¥2,900 million.

Decrease in total assets were due to a decrease in inventories. Decrease in total liabilities were due to a decrease in borrowings and a decrease in Provisions.

Total equity increased by ¥1,303 million to ¥59,609 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 29, 2020 totaled ¥32,364 million, up ¥365 million compared with November 30, 2019.

The cash flows for the three months ended February 29, 2020 and factors contributing to those amounts are as follows:

Cash Flows from Operating Activities

Net cash provided by operating activities totaled ¥6,668 million (in comparison with segment net cash used in operating activities of ¥6,395 million in the same period of the previous fiscal year). This is mainly due to a decrease in inventories of ¥2,805 million and income taxes paid of ¥1,855 million.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥240 million (up 19.2% year on year). This is primarily due to purchase of investment properties of ¥172 million and purchase of intangible assets of ¥53 million.

Cash Flows from Financing Activities

Net cash used in financing activities totaled ¥6,062 million (in comparison with segment net cash provided by financing activities of ¥3,980 million in the same period of the previous fiscal year). This mainly reflects ¥11,971 million in the repayments of non-current borrowings and ¥1,944 million in cash dividends paid, despite ¥7,387 million in proceeds from non-current borrowings.

(4) Operational and financial issues to be addressed

During the three months ended February 29, 2020, there was no significant change in issues to be addressed by the Tosei Group.

The Group has set the basic policy regarding the persons who control the decision-making on the financial and business policies of the Company, but there have been no material changes during the cumulative quarter after the date of submission of the securities report in the previous fiscal year.

(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 29, 2020)	Number of issued shares (Shares: as of the date of filing: April 10, 2020)	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	48,635,300	48,635,300	Tokyo Stock Exchange (First Section), Singapore Exchange (Mainboard)	Share unit number: 100
Total	48,635,300	48,635,300	—	—

Note: Shares issued through the exercise of stock acquisition rights between April 1, 2020 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, 2019 to February 29, 2020	40,000	48,635,300	20,360	6,600,204	20,360	6,683,679

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

(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, 2019, which is the latest record date, as the information as of February 29, 2020 is not yet available.

a. Issued shares

(As of February 29, 2020)

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

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

2. Number of ordinary shares in “Shares less than one unit” includes 5 shares of treasury shares.

b. Treasury shares, etc.

(As of February 29, 2020)

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, Toranomom, Minato-ku, Tokyo, Japan	1,008,800	—	1,008,800	2.07
Total	—	1,008,800	—	1,008,800	2.07

2. Status of Officers

There was no change in Officers during the three months ended February 29, 2020 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, 2020 (from December 1, 2019 to February 29, 2020) and for the first three months of the fiscal year ending November 30, 2020 (from December 1, 2019 to February 29, 2020) 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 Quarterly Consolidated Statement of Financial Position

(¥ thousand)

	Notes	As of November 30, 2019	As of February 29, 2020
Assets			
Current assets			
Cash and cash equivalents	9	31,998,929	32,364,783
Trade and other receivables	9	3,747,782	3,392,029
Inventories		73,573,663	70,819,251
Other current assets		13,247	14,899
Total current assets		109,333,622	106,590,963
Non-current assets			
Property, plant and equipment		8,671,827	8,885,661
Investment properties		37,868,133	39,519,476
Intangible assets		87,760	147,471
Trade and other receivables	9	1,102,277	927,293
Other financial assets	9	4,252,691	3,827,087
Deferred tax assets		573,729	395,137
Other non-current assets		4,014	4,014
Total non-current assets		52,560,434	53,706,142
Total assets		161,894,056	160,297,105
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	9	6,448,300	7,346,732
Borrowings	9	16,291,247	14,590,849
Current income tax liabilities		1,658,894	1,296,921
Provisions		655,782	202,586
Total current liabilities		25,054,225	23,437,090
Non-current liabilities			
Trade and other payables	9	3,761,836	3,530,306
Borrowings	9	73,552,021	72,565,316
Retirement benefits obligations		521,213	513,968
Provisions		6,971	7,010
Deferred tax liabilities		691,288	633,535
Total non-current liabilities		78,533,331	77,250,137
Total Liabilities		103,587,557	100,687,227
Equity			
Share capital		6,579,844	6,600,204
Capital reserves		6,575,240	6,595,672
Retained earnings		45,839,423	47,428,608
Treasury shares		(1,000,037)	(1,000,037)
Other components of equity		312,028	(14,569)
Total equity attributable to owners of parent		58,306,499	59,609,878
Total equity		58,306,499	59,609,878
Total liabilities and equity		161,894,056	160,297,105

(2) Condensed Quarterly Consolidated Statement of Comprehensive Income

(¥ thousand)

	Notes	Three months ended February 28, 2019	Three months ended February 29, 2020
Revenue	5,6	17,059,457	23,468,579
Cost of revenue		11,914,383	15,685,646
Gross profit		5,145,073	7,782,933
Selling, general and administrative expenses		2,055,136	2,251,710
Other income		39,533	6,225
Other expenses		4,144	2,286
Operating profit	5	3,125,326	5,535,162
Finance income		40,770	427
Finance costs		178,921	176,080
Profit before tax		2,987,175	5,359,510
Income tax expense		951,493	1,771,693
Profit for the period		2,035,682	3,587,817
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	(296,617)
Subtotal		33,039	(296,617)
Other comprehensive income Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(1,713)	(4,707)
Net change in fair values of cash flow hedges		154	(25,273)
Subtotal		(1,558)	(29,980)
Other comprehensive income for the period, net of tax		31,480	(326,598)
Total comprehensive income for the period		2,067,162	3,261,219
Profit attributable to:			
Owners of the parent		2,035,682	3,587,817
Total comprehensive income attributable to:			
Owners of the parent		2,067,162	3,261,219
Earnings per share attributable to owners of the parent			
Basic earnings per share (¥)	8	41.97	75.37
Diluted earnings per share (¥)	8	41.94	74.95

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

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	7		(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

Three months ended February 29, 2020 (December 1, 2019 – February 29, 2020)

(¥ 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, 2019	6,579,844	6,575,240	45,839,423	(1,000,037)	312,028	58,306,499	58,306,499
Profit for the period			3,587,817			3,587,817	3,587,817
Other comprehensive income					(326,598)	(326,598)	(326,598)
Total comprehensive income for the period	—	—	3,587,817	—	(326,598)	3,261,219	3,261,219
Amount of transactions with owners							
Issuance of new shares	20,360	11,516				31,876	31,876
Dividends of surplus	7		(1,998,632)			(1,998,632)	(1,998,632)
Share-based payment		8,916				8,916	8,916
Balance at February 29, 2020	6,600,204	6,595,672	47,428,608	(1,000,037)	(14,569)	59,609,878	59,609,878

(4) Condensed Quarterly Consolidated Statement of Cash Flows

(¥ thousand)

	Notes	Three months ended February 28, 2019	Three months ended February 29, 2020
Cash flows from operating activities			
Profit before tax		2,987,175	5,359,510
Depreciation expense		216,410	274,990
Increase (decrease) in provisions and retirement benefits obligations		(390,497)	(460,377)
Interest and dividend income		(40,770)	(427)
Interest expenses		178,921	176,080
Decrease (increase) in trade and other receivables		(702,625)	966,453
Decrease (increase) in inventories		(5,748,288)	2,805,261
Increase (decrease) in trade and other payables		(115,288)	(658,784)
Other, net		(400)	8,701
Subtotal		(3,615,362)	8,471,407
Interest and dividend income received		40,745	52,800
Income taxes paid		(2,820,729)	(1,855,572)
Net cash from (used in) operating activities		(6,395,347)	6,668,635
Cash flows from investing activities			
Purchase of property, plant and equipment		(24,651)	(19,281)
Purchase of investment properties		(4,840)	(172,636)
Purchase of intangible assets		(9,811)	(53,004)
Payments of loans receivable		(126,730)	—
Collection of loans receivable		19	5,694
Purchase of other financial assets		(48,529)	(1,000)
Other, net		13,070	—
Net cash from (used in) investing activities		(201,471)	(240,228)
Cash flows from financing activities			
Net increase (decrease) in current borrowings		(19,000)	720,000
Proceeds from non-current borrowings		17,236,745	7,387,800
Repayments of non-current borrowings		(11,390,358)	(11,971,420)
Repayments of lease obligations		(913)	(62,370)
Proceeds from issuance of new shares		—	31,768
Cash dividends paid		(1,409,822)	(1,944,227)
Purchase of treasury shares		(166,172)	—
Interest expenses paid		(269,490)	(223,659)
Net cash from (used in) financing activities		3,980,987	(6,062,109)
Net increase (decrease) in cash and cash equivalents		(2,615,831)	366,297
Cash and cash equivalents at beginning of period		26,520,569	31,998,929
Effect of exchange rate change on cash and cash equivalents		(184)	(443)
Cash and cash equivalents at end of period		23,904,554	32,364,783

(5) Notes on Condensed Quarterly Consolidated Financial Statements

1. Reporting entity

Tosei Corporation (hereinafter, the “Company”) is a share company located in Japan whose shares are listed on the First Section of the Tokyo Stock Exchange and the Mainboard of Singapore Exchange. The Company’s condensed quarterly consolidated financial statements for the three months ended February 29, 2020 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, 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 Seichiro Yamaguchi, the Company’s President and CEO, and Noboru Hirano, Director and CFO, on April 7, 2020.

(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, 2020.

Standard	Name of standard	Overview of new establishment and amendment
IFRS 16	Leases	Replacement of IAS 17 with IFRS 16 regarding lease accounting

The Group implemented IFRS 16 ‘Leases’ as of December 1, 2019. The Group applied this standard, which is recognized as a transitional measure, with the cumulative effect of initially applying this standard recognized at the date of initial application. In applying IFRS 16, the Group uses a practical expedient, in which an entity is not required to reassess whether a contract is or contains a lease at date of initial application, and the Group also uses practical expedients to the contracts that were previously identified as operating leases stipulated in the previous accounting standard.

For leases that the Group as lessee previously classified as operating leases applying IAS 17, right-of-use assets and lease liabilities were recognized at the date of initial application. Lease liabilities have

been measured at the present value of outstanding lease payments discounted using the lessee's incremental borrowing rate at the date of initial application. The weighted average of the lessee's incremental borrowing rate is 1.06% to 1.10%. Right-of-use assets are initially measured at the initial measurement amount of the lease liability. The Group has elected the exemptions from recognition that allow a lessee not to apply the requirements of IFRS 16 to short-term leases (with a lease term of 12 months or less) and leases for low-value assets.

For leases that The Group as lessee previously classified as finance leases applying IAS 17, the book value of right-of-use assets and lease liabilities at the date of initial application were the carrying amounts of lease assets and lease liabilities, respectively, immediately before the date measured applying IAS 17.

Right-of-use assets is included in "Property, plant and equipment" and "Investment properties" in the condensed quarterly consolidated statement of financial position. The lease liability is included in "Borrowings" in the condensed quarterly consolidated statement of financial position.

The following is a reconciliation of non-cancellable operating lease contracts applying IAS 17 as of November 30, 2019 and lease liabilities recognized in the Condensed Consolidated Statement of Financial Position at the date of initial application.

	(¥ thousand)
Non-cancellable operating lease contracts	1,052,331
Finance lease liabilities	27,840
Cancellable operating lease contracts, etc.	154,467
Lease liabilities as of December 1, 2019	1,234,639

Right-of-use assets additionally recognized at the beginning of the current fiscal year were ¥1,206,799 thousand. There was no material impact on profit and loss of the first quarter of the current fiscal year from the changes.

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

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

Three months ended February 29, 2020

(December 1, 2019 – February 29, 2020)

(¥ 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	18,760,384	1,046,475	1,298,853	936,123	1,212,915	213,827	—	23,468,579
Intersegment revenue	—	—	13,980	1,929	287,200	730	(303,841)	—
Total	18,760,384	1,046,475	1,312,833	938,052	1,500,116	214,557	(303,841)	23,468,579
Segment profit or loss	5,003,613	(18,525)	464,142	586,275	178,238	(166,562)	(512,019)	5,535,162
Finance income/costs, net								(175,652)
Profit before tax								5,359,510

6. Sales Revenue

Composition of revenue recognized from contracts with customers are as follows:

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

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

Three months ended February 28, 2019

(December 1, 2018 – February 28, 2019)

(¥ thousand)

	Revitalization Business	Development Business	Rental Business	Fund and Consulting Business	Property Management Business	Hotel Business	Total
Sales of real estate	6,623,933	7,045,504	—	—	—	—	13,669,437
Revenue from services	—	—	155,967	603,283	1,063,838	201,418	2,024,507
Revenue recognized from other sources	—	—	1,314,249	—	—	51,262	1,365,511
Total	6,623,933	7,045,504	1,470,217	603,283	1,063,838	252,680	17,059,457

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

Three months ended February 29, 2020

(December 1, 2019 – February 29, 2020)

(¥ thousand)

	Revitalization Business	Development Business	Rental Business	Fund and Consulting Business	Property Management Business	Hotel Business	Total
Sales of real estate	18,760,384	1,046,475	—	—	—	—	19,806,860
Revenue from services	—	—	137,036	935,876	1,212,915	189,438	2,475,266
Revenue recognized from other sources	—	—	1,161,816	246	—	24,389	1,186,453
Total	18,760,384	1,046,475	1,298,853	936,123	1,212,915	213,827	23,468,579

Note: Revenue recognized from other sources is revenue recognized under IFRS 16 Leases and IFRS 9 Financial Instruments.

7. Dividends

Dividends paid in the three months ended February 28, 2019 and February 29, 2020 are as follows:

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

Three months ended February 29, 2020				
Resolution	Dividends per share (¥)	Total dividends (¥ thousand)	Record date	Effective date
Ordinary General Meeting of Shareholders held on February 26, 2020	42	1,998,632	November 30, 2019	February 27, 2020

8. Earnings per Share

	Three months ended February 28, 2019	Three months ended February 29, 2020
Profit attributable to owners of the parent (¥ thousand)	2,035,682	3,587,817
Net income used to figure diluted net income per share (¥ thousand)	2,035,682	3,587,817
Weighted average number of outstanding ordinary shares (shares)	48,505,245	47,605,745
The number of increased ordinary shares used to figure diluted earnings per share (shares)	31,524	265,697
The weighted-average number of ordinary shares used to figure diluted earnings per share (shares)	48,536,769	47,871,442
Basic earnings per share (¥)	41.97	75.37
Diluted net income per share (¥)	41.94	74.95

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.

9. Financial instruments

i) Fair values and book values

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

(¥ thousand)

	As of November 30, 2019		As of February 29, 2020	
	Book value	Fair value	Book value	Fair value
Financial assets				
Financial assets measured at amortized cost				
Cash and cash equivalents	31,998,929	31,998,929	32,364,783	32,364,783
Trade and other receivables	3,451,548	3,451,548	2,105,694	2,105,694
Financial assets measured at fair value through other comprehensive income				
Other financial assets	3,831,590	3,831,590	3,405,064	3,405,064
Financial assets measured at fair value through profit or loss				
Other financial assets	421,101	421,101	422,023	422,023
Financial liabilities				
Financial liabilities measured at amortized cost				
Trade and other payables	6,443,992	6,443,992	7,794,951	7,794,951
Borrowings	859,843,269	89,851,347	87,156,165	87,162,853

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, 2019			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair values through other comprehensive income	3,762,485	—	69,105	3,831,590
Financial assets measured at fair values through profit or loss	—	—	421,101	421,101
Financial liabilities measured at fair value through other comprehensive income (derivative)	—	13,663	—	13,663

	As of February 29, 2020			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair values through other comprehensive income	3,336,259	—	68,805	3,405,064
Financial assets measured at fair values through profit or loss	—	—	422,023	422,023
Financial liabilities measured at fair value through other comprehensive income (derivative)	—	50,087	—	50,087

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 29, 2020
Balance at beginning of period	490,206
Acquisition	1,000
Comprehensive income	
Profit (loss)	921
Other comprehensive income	(1,300)
Disposal	—
Balance at end of period	490,828

10. Significant 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 April 6, 2020.

1. Reason for repurchase of the treasury shares

Stock will be repurchased to raise the level of shareholder returns and improve capital efficiency.

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 700,000 shares (1.5% of issued shares (excluding treasury shares))
(3) Total value of shares to be repurchased	Up to 0.5 billion yen
(4) Period for repurchase	From April 8, 2020 to October 31, 2020
(5) Method of repurchase	Discretionary investment by a securities company

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 7, 2020

To the Board of Directors of
Tosei Corporation

Shinsoh Audit Corporation

Designated and Engagement Partner,
Certified Public Accountant:

Takayuki Sakashita (Seal)

Designated and Engagement Partner,
Certified Public Accountant:

Atushi Iijima (Seal)

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have 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, 2019 to February 29, 2020) and the first three-month period (December 1, 2019 to February 29, 2020) of the fiscal year from December 1, 2019 to November 30, 2020.

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 29, 2020, 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

*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.