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Tosei Corporation

Securities Code: 8923
February 3, 2023

Dear Shareholders,

Notice of the 73rd Ordinary General Meeting of Shareholders

We are pleased to announce the 73rd Ordinary General Meeting of Shareholders of Tosei Corporation (the “Company”; this meeting, the “Meeting”), which will be held as described below.

To prevent the further spread of infections of the novel coronavirus (COVID-19), the Company urges its shareholders to exercise their voting rights in advance in writing or by electromagnetic method (using the Internet, etc.) and refrain from attending the Meeting in person.

Prior to voting, please examine the attached Reference Documents for the General Meeting of Shareholders and exercise your voting rights no later than 6:00 p.m. on Wednesday, February 22, 2023 (JST).

The Company will livestream the Meeting so that more shareholders will be able to view the proceedings of the Meeting from their homes or other places. Please note that while shareholders can comment during the livestreaming by using the chat function, shareholders will not be able to ask any questions pursuant to the Companies Act, exercise their voting rights, or propose a motion in the chat. The Company will also take questions regarding the purpose of the Meeting from shareholders in advance on its dedicated website.

For information on electromagnetic methods for exercising voting rights (via the Internet) as well as cautionary notes regarding the advance registration of questions and the livestreaming, etc., please refer to pages 4-8 of the Japanese version of this document.

Sincerely yours,

Seiichiro Yamaguchi
President and CEO
Tosei Corporation
4-5-4 Shibaura, Minato-ku, Tokyo

Details

1. Date and Time:

Friday, February 24, 2023, at 10:00 a.m. (JST) (The reception for attendees begins at 9:00 a.m.)

2. Place:

Jiji Press Hall (2nd Floor, Jiji Press Building)
5-15-8 Ginza, Chuo-ku, Tokyo

3. Purpose of the Meeting

Matters to be reported:

- a. Business Report and Consolidated Financial Statements, as well as the audit reports of the Accounting Auditor and the Audit & Supervisory Board on Consolidated Financial Statements, for the 73rd term (from December 1, 2021 to November 30, 2022)
- b. Non-consolidated Financial Statements for the 73rd term (from December 1, 2021 to November 30, 2022)

Matters to be resolved:

- Proposal 1:** Appropriation of Surplus
Proposal 2: Partial Amendments to the Articles of Incorporation
Proposal 3: Election of One (1) Audit & Supervisory Board Member

<Disclosures on the Internet>

- If any changes are made to items in the Reference Documents for the General Meeting of Shareholders, Business Report, Non-consolidated Financial Statements, or Consolidated Financial Statements, such changes will be posted on the Company's website (<https://www.toseicorp.co.jp/>)

<Request for the shareholders' understanding and cooperation when attending the Meeting in person>

- When you attend the Meeting, you are kindly requested to present the enclosed Voting Form to the receptionist.
 - The Company plans to livestream the Meeting. Please be advised that while the Company intends to pay due consideration to the shareholders' privacy and film only the Chairman and the area surrounding the seats of the executives, images of attending shareholders may unavoidably appear on the stream.
 - After the closing of the Meeting, the Business Strategy Presentation Meeting will be held (and livestreamed) in the same place.
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Reference Documents for the General Meeting of Shareholders

Proposal 1: Appropriation of Surplus

The Company proposes the appropriation of surplus as shown below:

Year-end dividend

Taking into account such factors as our operating results for the fiscal year under review and our future business development, the Company proposes the year-end dividend for the 73rd term as shown below.

1. Type of dividend property: Money
2. Dividend property allotment and total amount thereof

Dividends per ordinary share of the Company:	¥51
Total amount of dividends:	¥2,410,243,578
3. Effective date of dividends from surplus: February 27, 2023

Proposal 2: Partial Amendments to the Articles of Incorporation

1. Reasons for amendments

(1) The “Act for Partially Amending the Industrial Competitiveness Enhancement Act and Other Related Acts” was enforced on June 16, 2021, enabling listed companies to hold a Shareholders Meeting without a Designated Location (so-called “virtual-only shareholders’ meeting”). Thus, a larger number of shareholders will be able to get easier access to the meeting without regard to location, resulting in more activated, efficient and smoother operations, and the Company believes that it will help reduce the risks related to various infectious diseases and large-scale natural disasters, etc. For these reasons, the Company proposes to amend the Article 12 of the current Articles of Incorporation so that it will be able to hold a Shareholders Meeting without a Designated Location.

Even if this proposed amendment is approved, the Company will, each time it holds a General Meeting of Shareholders, determine the method of holding General Meetings of Shareholders in accordance with a resolution of the Board of Directors while making shareholders’ rights the first priority and taking societal demands into consideration.

Furthermore, the Company has received a confirmation from the Minister of Economy, Trade and Industry and the Minister of Justice for conformity with the requirements for this amendment as specified by the Ordinances of the Ministry of Economy, Trade and Industry and the Ministry of Justice.

(2) The amended provisions stipulated in the proviso of Article 1 of the supplementary provisions of the “Act Partially Amending the Companies Act” were enforced on September 1, 2022, and the Company proposes the following amendments to the Company’s Articles of Incorporation in preparation for the implementation of the system for electronic provision of materials for general meetings of shareholders.

- (1) The proposed Article 16, Paragraph 1 provides that information contained in the reference documents for the General Meeting of Shareholders, etc. shall be provided electronically.
- (2) The purpose of the proposed Article 16, Paragraph 2 is to establish a provision to limit the scope of matters to be included in the paper copy to be sent to shareholders who have request it.
- (3) The provisions related to the internet disclosure and deemed provision of the reference documents for the General Meeting of Shareholders, etc. (Article 16 of the current Articles of Incorporation) will no longer be necessary and will therefore be deleted.
- (4) In line with the above establishment and deletion of the provisions, supplementary provisions related to the effective date, etc. shall be established.

2. Details of amendments

The details of the amendments are as follows:

(Amendments are underlined.)

Current Articles of Incorporation	Proposed Amendments
Articles 1 – 11 (Omitted)	Articles 1 – 11 (Unchanged)
Article 12 Convocation An Ordinary General Meeting of Shareholders of the Company shall be convened in February of each year, and an Extraordinary General Meeting of Shareholders shall be convened whenever the need arises.	Article 12 Convocation An Ordinary General Meeting of Shareholders of the Company shall be convened in February of each year, and an Extraordinary General Meeting of Shareholders shall be convened whenever the need arises.

Current Articles of Incorporation	Proposed Amendments
<p data-bbox="220 219 778 309">2. The General Meeting of Shareholders of the Company shall be convened within the wards of Tokyo.</p> <p data-bbox="384 517 619 551">(Newly established)</p> <p data-bbox="188 685 539 719">Articles 13 – 15 (Omitted)</p> <p data-bbox="188 752 767 853"><u>Article 16 Internet-Based Disclosure and Deemed Provision of Reference Documents for the General Meeting of Shareholders</u></p> <p data-bbox="220 853 783 1256"><u>At the time of convening a General Meeting of Shareholders, the Company may provide its shareholders with information on matters that should be stated or indicated in the reference documents for the General Meeting of Shareholders, business reports, financial statements, and consolidated financial statements, by disclosing the said information on the Internet pursuant to the provisions of the applicable Ordinance of the Ministry of Justice and may deem it as the provision of the information to shareholders.</u></p> <p data-bbox="368 1357 608 1391">(Newly established)</p> <p data-bbox="188 1827 539 1861">Articles 17 – 47 (Omitted)</p>	<p data-bbox="847 219 1406 483">2. The General Meeting of Shareholders of the Company shall be convened within the wards of Tokyo. <u>Provided, however, that this shall not apply if the General Meeting of Shareholders will be convened as a Shareholders Meeting without a Designated Location in accordance with the following paragraph.</u></p> <p data-bbox="847 517 1406 651">3. <u>The General Meeting of Shareholders of the Company may be convened as a Shareholders Meeting without a Designated Location.</u></p> <p data-bbox="815 685 1198 719">Articles 13 – 15 (Unchanged)</p> <p data-bbox="1054 853 1166 887">(Deleted)</p> <p data-bbox="815 1290 1390 1357"><u>Article 16 Measures for Electronic Provision, etc.</u></p> <p data-bbox="847 1357 1406 1525"><u>The Company shall, when convening a General Meetings of Shareholders, provide information contained in the reference documents for the General Meeting of Shareholders, etc. electronically.</u></p> <p data-bbox="847 1559 1406 1794">2. <u>Among the matters to be provided electronically, the Company may choose not to include all or part of the matters stipulated in the Ordinance of the Ministry of Justice in the paper copy to be sent to shareholders who have requested it by the record date for voting rights.</u></p> <p data-bbox="815 1827 1198 1861">Articles 17 – 47 (Unchanged)</p> <p data-bbox="815 1895 1126 1928"><u>Supplementary provisions</u></p>

Proposal 3: Election of One (1) Audit & Supervisory Board Member

The terms of office of Audit & Supervisory Board Member - Hitoshi Yagi - will expire at the conclusion of the Meeting. Accordingly, we propose the election of one (1) Audit & Supervisory Board Member.

The Audit & Supervisory Board has given its approval to this proposal.

The candidate for Audit & Supervisory Board Member is as follows:

Name (Date of birth)	Career summary and positions in the Company (Important concurrent positions outside the Company)	Number of the Company's shares held
<u>Reappointment</u> <u>Outside</u> <u>Independent</u> Hitoshi Yagi (Oct. 2, 1958)	Apr. 1982 Joined The Nippon Credit Bank, Ltd. (the predecessor of Aozora Bank, Ltd.)	-
	Apr. 1999 Head of Real Estate Research Office, Sales Strategy Division II of The Nippon Credit Bank, Ltd.	
	Aug. 2000 Senior Manager of Real Estate Finance Group, Investment Banks Division of The Nippon Credit Bank, Ltd.	
	Aug. 2004 Joint General Manager of Corporate Business Division V of The Nippon Credit Bank, Ltd.	
	Aug. 2009 Joint General Manager of Human Resources Division of The Nippon Credit Bank, Ltd.	
	Oct. 2011 Joint General Manager of Internal Audit Division of The Nippon Credit Bank, Ltd.	
	Feb. 2019 Full-time Audit & Supervisory Board Member of the Company (current position)	
Feb. 2020 Audit & Supervisory Board Member of Tosei Hotel Management Co., Ltd. (current position) Audit & Supervisory Board Member of Tosei Hotel Service Co., Ltd.		
≪ Reasons for nomination as a candidate for Outside Audit & Supervisory Board Member ≫ Hitoshi Yagi has duly fulfilled his duties as Audit & Supervisory Board Member by chairing the Audit & Supervisory Board as full-time Audit & Supervisory Board Member and voicing necessary comments, as appropriate, at the meetings of the Board of Directors and other important meetings, while maintaining his independence as an incumbent Outside Audit & Supervisory Board Member of the Company. The Company renominated him as a candidate for Outside Audit & Supervisory Board Member so that he can continue to perform a role in ensuring the adequacy and appropriateness of the Company's management based on his abundant experience acquired at audit divisions of major financial institutions and specialist knowledge backed by qualifications as a Certified Internal Auditor (CIA) and a Certified Information Systems Auditor (CISA). ≪ Supplemental information on independence ≫ Until January 2019, Hitoshi Yagi has served as a business executor of Aozora Bank, Ltd., which has transactions with the Company. However, after checking the scale of transactions, etc., we deemed that the level of independence of him as an Outside Audit & Supervisory Board Member is not affected as the Company's economic reliance on the said bank is low. He satisfies the criteria for an independent auditor stipulated by the Tokyo Stock Exchange, and the Company notified the said Exchange of the appointment of Hitoshi Yagi as an independent auditor as stated in Note 2 and intends to do so if he is reelected. *Reference: Outstanding loans payable to the said bank as of November 30, 2022 (consolidated basis) accounted for approximately 4.7% of the Company's total assets and approximately 7.9% of its total outstanding loans.		

- (Notes)
- The candidate for Audit & Supervisory Board Member has no special interests in the Company.
 - Hitoshi Yagi is a candidate for Outside Audit & Supervisory Board Member. The Company notified the Tokyo Stock Exchange of Hitoshi Yagi as an independent auditor pursuant to the regulations of the said Exchange, and he will continue to serve as an independent auditor if he is reelected as Audit & Supervisory Board Member.
 - Hitoshi Yagi currently serves as Outside Audit & Supervisory Board Member of the Company and will have served as such for four (4) years as of the conclusion of the Meeting.
 - Hitoshi Yagi currently serves as Outside Audit & Supervisory Board Member of the Company. The Company has concluded a contract for limitation of liability with him pursuant to the provisions of Article 427, paragraph 1 of the Companies Act for the liability for damages provided for in Article 423, paragraph 1 of the same, and limits his liability to the amount provided by relevant laws and regulations. The Company intends to maintain the contract with him if he is reelected as Audit & Supervisory Board Member at the Meeting.
 - The Company has concluded a directors and officers liability insurance contract as stipulated in Article 430-3, paragraph 1 of the Companies Act with an insurance company. Directors and officers included as insured in this insurance policy will receive compensation for damages arising from their liability borne from performance of their duties or arising from claims in pursuit of that liability. Other details of said insurance are as stated on page 28 of the Business Report. If Hitoshi Yagi is reelected as Audit & Supervisory Board Member, he will be insured by said insurance contract. The Company is scheduled to renew said insurance contract with the same contents in March 2023.

End

(Attachment)

Business Report

(From December 1, 2021 to November 30, 2022)

1. Matters regarding current status of the Group

(1) Business developments and results

During the fiscal year ended November 30, 2022, the Japanese economy showed signs of recovery as social and economic activities went back to normal as society transitions to coexisting with COVID-19 in ways such as the lifting of border entry restrictions. Meanwhile, it is necessary to monitor the effects of the downturn of the overseas economies, which is caused by the global credit tightening and the supply shortage and soaring prices of natural resources due to the situation between Russia and Ukraine, as well as the impact of surging prices caused by the excessively depreciating yen.

In the real estate industry where Tosei Group operates, due to the effects of a decrease in the number of projects sold and a decrease in the number of J-REIT properties acquired, domestic real estate investments for the nine months from January to September 2022 amounted to ¥1.9 trillion, decreasing 38% year on year. However, because of the continuing superiority of domestic real estate backed by its excellent stability and liquidity, in addition to the depreciating yen and Japan's continuing monetary easing policies as compared to hikes in interest rates in other countries, the Japanese real estate investment market is becoming even more attractive, and overseas investors' appetite for investment remains high (according to a survey by a private research institute).

In the Tokyo metropolitan area condominium market, the number of newly built units from January to October 2022 decreased 2.7% year on year to 20,946 units. While developers refrain from cutting prices due to rising prices of building materials, leading to a longer period of time to make sales, the number of units sold remains stable. In addition, in the Tokyo metropolitan area pre-owned condominium market, while the number of units contracted from January to October 2022 declined 11.1% year on year to 29,797 units, the market is booming, as evidenced by the continuing trend of rising contract prices. In the build-for-sale detached house market, housing starts for the nine months from January to October 2022 came to 49,452 units (up 6.0% year on year) (according to a survey by a private research institute).

Regarding construction costs for the ten months from January to October 2022, average costs per tsubo for wooden structure were ¥580 thousand (1 tsubo = 3.30 square meters) (an increase of 1.9% year on year), and average costs per tsubo for steel reinforced concrete structure were ¥1,436 thousand (an increase of 23.8% year on year). Although a shortage in supply of timber that once caused the "wood shock" has eased, the price of timber has not declined due to the recent depreciating yen, and construction costs for wooden structures remain at a high level. Moreover, with the soaring price of steel, construction costs of steel reinforced concrete structures are rising rapidly (according to a survey by the Ministry of Land, Infrastructure, Transport and Tourism).

In the office leasing market of Tokyo's five business wards, the average vacancy rate as of October 2022 was 6.44% (a decrease of 0.03 percentage points year on year), and the average asking rent was ¥20,114 per tsubo (a decrease of 3.3% year on year), demonstrating the slowdown of the downward trend. A massive supply of new office buildings is expected in 2023 and it remains necessary to continue monitoring the trends in supply and demand. Meanwhile, the condominium leasing market remained generally robust and the average asking rent of apartments in the Tokyo metropolitan area as of October 2022 was ¥10,879 per tsubo (a decrease of 0.5% year on year) and the average occupancy rate at condominiums held by J-REIT in the Tokyo Area as of August 31, 2022 was 97.0% (an increase of 0.5 percentage points year on year). As for the rent of apartments for singles in the 23 wards of Tokyo, the falling trend of the previous year has eased and there are signs of bottoming out (according to a survey by a private research institute).

In the Tokyo metropolitan area's logistics facility leasing market, leasable stock in October 2022 amounted to 8.21 million tsubo (an increase of 13.5% year on year). The vacancy rate was 4.0%. Although this was an increase of 2.3 percentage points from the same period of the previous year, rent continues to gradually increase. While the vacancy rate is expected to rise even higher temporarily due to increased supply resulting from new development, it is predicted to remain solid with the expanding demand in e-commerce in the medium- to long-term (according to a survey by a private research institute).

In the real estate fund market, the market scale continues to expand. J-REIT assets under management in October 2022 totaled ¥21.7 trillion (an increase of ¥0.4 trillion year on year) and assets under management in private placement funds totaled ¥26.5 trillion (as of June 30, 2022, an increase of ¥3.1 trillion year on year). Combining the two, the real estate securitization market scale grew to ¥48.2 trillion (according to a survey by a private research institute).

In the Tokyo business hotel market, in the nine months from January to September 2022, the average guest room occupancy rate was 53.9% (38.1% in the same period of the previous fiscal year), and the total number of hotel guests in Tokyo encompassing all types of accommodation amounted to 38.74 million (an increase of 59.1% year on year). In addition to the recovery of domestic demand, the number of guests from foreign countries has begun to increase due to the lifting of the border entry restrictions (according to a survey by the Japan Tourism Agency).

Amid this operating environment, in the Fund and Consulting Business, the Group increased its balance of assets under management, while in the Revitalization Business and the Development Business, the Group proceeded with property sales and the acquisition of income-generating properties and various types of land for development as future sources of income.

As a result, consolidated revenue for the fiscal year under review totaled ¥70,953 million (up 14.9% year on year), operating profit was ¥13,514 million (up 23.2%), profit before tax was ¥12,753 million (up 23.8%), and profit attributable to owners of the parent was ¥8,607 million (up 28.1%).

Performance by business segment is shown below.

Revitalization Business

During the fiscal year under review, the segment sold 38 properties which had been renovated, and 127 pre-owned condominium units, including Central Minami-Otsuka No.1 Building (Toshima-ku, Tokyo), NAC Building (Tachikawa-shi, Tokyo), and Kazo Warehouse (Kazo-shi, Saitama).

During the fiscal year under review, it also acquired a total of 33 income-generating office buildings and apartments, four land lots and 125 pre-owned condominium units.

In addition, the Group reviewed the valuation of its income-generating properties, recording a valuation loss of ¥502 million and a reversal of inventories valuation loss of ¥535 million.

As a result, revenue in this segment was ¥37,477 million (up 11.6% year on year) and the segment profit was ¥6,102 million (down 15.3%).

Development Business

During the fiscal year under review, the segment sold T'S BRIGHTIA Minami-Aoyama EAST (Minato-ku, Tokyo). In addition, the segment sold 93 new condominium units at THE Palms Toda Master Graces (Toda-shi, Saitama). The segment sold 105 detached houses at such properties as THE Palms Court Setagaya Hachimanyama (Setagaya-ku, Tokyo) and THE Palms Court Mitaka Veil (Mitaka-shi, Tokyo).

During the fiscal year under review, it also acquired four land lots for apartment project, three land lots for rental wooden apartment projects, two land lots for income-generating office buildings and land lots for 96 detached houses.

In addition, the Group reviewed the valuation of its income-generating properties, recording a reversal of inventories valuation loss of ¥544 million.

As a result, revenue in this segment was ¥13,792 million (up 15.3% year on year) and the segment profit was ¥2,958 million (up 178.9%).

Rental Business

During the fiscal year under review, while the segment sold 25 properties of its inventory assets held for leasing purposes, it newly acquired 26 properties including income-generating office buildings and apartments. In addition, the segment made efforts to lease vacancies out following acquisitions and also focused on leasing activities for its existing non-current assets and inventory assets.

As a result, revenue in this segment was ¥6,083 million (up 11.3% year on year) and the segment profit was ¥3,041 million (up 12.7%).

Fund and Consulting Business

During the fiscal year under review, while ¥184,413 million was subtracted from the balance of assets under management mainly due to property dispositions by funds, ¥486,442 million was added to the balance of assets under management (Note) of ¥1,420,867 million for the end of the previous fiscal year, due to new asset management contracts. The balance of assets under management as of November 30, 2022, was ¥1,722,896 million.

As a result, revenue in this segment was ¥5,444 million (up 10.3% year on year) and the segment profit was ¥3,218 million (up 2.6%).

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

Property Management Business

During the fiscal year under review, the segment worked to win new contracts and maintain existing contracts. Consequently, the total number of properties under management was 793 as of November 30, 2022, an increase of 35 from November 30, 2021 with that total comprising 478 office buildings, hotel, logistics facilities and other such properties, and 315 condominiums and apartments.

As a result, revenue in this segment was ¥6,228 million (up 19.3% year on year) and segment profit was ¥878 million (up 30.6%).

Hotel Business

While the impact of COVID-19 persisted during the fiscal year under review, the Company strived to improve the occupancy rates at existing hotels, resulting in improvements in revenue and segment loss from the same period of the previous fiscal year.

As a result, revenue in this segment was ¥1,927 million (up 247.0% year on year) and segment loss was ¥315 million (in comparison with segment loss of ¥838 million in the previous fiscal year).

Business segment	Revenue
Revitalization Business	¥37,477 million
Development Business	¥13,792 million
Rental Business	¥6,083 million
Fund and Consulting Business	¥5,444 million
Property Management Business	¥6,228 million
Hotel Business	¥1,927 million
Total	¥70,953 million

(2) Status of capital investments

Capital investments for the Group executed during the fiscal year under review totaled ¥3,341 million.

(3) Status of financing

The Group raised funds of ¥37,857 million by means of non-current borrowings during the fiscal year under review.

(4) Issues to be addressed

The real estate investment market is easily affected by the trends of global economy and financial policies, and even in the Tokyo metropolitan area real estate investment market, which is the Group's mainstay market, there has been a rising uncertainty due to concerns over recession on the back of ongoing inflation and credit tightening in Europe and the U.S. Currently, liquidity of real estate and transaction prices remain high with continuing robust investment demand from investors both in Japan and abroad, however, the real estate market will need to be watched for the possibility of entering an adjustment phase caused by changes in the stance of real estate investors reacting to the Bank of Japan expanding the range of fluctuation in the long-term interest rate in December 2022, further changes in domestic financial policies, and tightening in the lending attitude of financial institutions. Moreover, we are aware that we will need to closely monitor the trend as the "zero-zero loan," which was implemented as a measure against impact of COVID-19 that practically provides loans without interest and collateral to small and medium-sized enterprises, has come to an end and the repayment deadlines will peak in the summer of 2023.

Amid this business environment, the Group has formulated and has been promoting its three-year medium-term management plan in an effort to enhance corporate value. The medium-term management plan, "Infinite Potential 2023," which kicked off in the fiscal year ended November 30, 2021, covering the period from December 2020 to November 2023, upholds the main policy to "Pursue the Group's infinite growth potential in all aspects of real estate and aim for a new stage as a comprehensive real estate company." Under the plan, the Group is expanding existing businesses for the further growth of the Group and enhancing existing businesses through the promotion of DX, while making efforts to put ESG management into practice. The Group also plans to pursue its growth strategies based on this plan in the fiscal year ending November 30, 2023, which will be the final year of the plan.

<Medium-term Management Plan "Infinite Potential 2023" (From December 2020 to November 2023)>

As we approach the final year, the sales plan in the Revitalization Business and the Development Business has been revised in light of the current outlook of the business environment, the performance trends, and the inventories portfolio. The projected profit margin in the Revitalization Business has risen, profit before tax of the initial plan is maintained, while consolidated revenue is revised downward.

(Main Policy)

"Pursue the Group's infinite growth potential in all aspects of real estate and aim for a new stage as a comprehensive real estate company."

(Basic Policies)

Basic policy 1. Expand existing businesses and increase operating profit with a focus on environmental/social issues

- Basic policy 2. Enhance existing businesses and create new income-generating models through DX
- Basic policy 3. Implement a balance sheet strategy with a focus on increasing business scale, Group-held assets and capital efficiency
- Basic policy 4. Implement Group strategy and organizational strategy with a focus on achieving both governance and efficiency
- Basic policy 5. Improve operational and administrative efficiency through the promotion of utilization of IT and enhance employee satisfaction conducive to improving productivity
- Basic policy 6. Promote business, management and ESG with a focus on sustainability

(Quantitative Plan) *Underlined sections indicate revisions.

- Growth potential: Consolidated revenue for the final fiscal year of the plan: ¥85 billion
 Consolidated profit before tax for the final fiscal year of the plan: ¥14 billion
- Capital efficiency: ROE of 12% or more in the final fiscal year of the plan
- Stability: Stable businesses ratio (operating profit-basis) 42% or more
- Financial soundness: Equity ratio of around 35%
 Net debt-to-equity ratio: about 1.3 times
- Shareholder returns: Aim to gradually raise payout ratio from 25% to 30% over three years
 Consider repurchase of own shares with a focus on capital efficiency

In this plan, the Group sets out “pursue the Group's infinite growth potential” as the main policy, and will strive for further growth, business transformation through the use of digital technology, contribution to SDGs through business and promotion of ESG management to improve corporate value. Specifically, the Group aims to promote initiatives Group-wide by incorporating efforts on environmental/social issues in the individual measures of each business. The Revitalization Business aims to extend the service life of buildings by renovating existing real estate, as well as differentiate and improve profitability of products by creating added value through upgrades focusing on comfort and safety. The Development Business will incorporate elements such as eco-friendliness and crime prevention/disaster preparedness in product planning with aiming to increase the brand value of each product through product planning that will be supported by customers. Both the Revitalization Business and the Development Business will leverage IT to promote sales activities, strengthen decision-making capabilities in investments and Group-wide cooperation to reinforce the structure toward expanding business scale. In the Stock and Fee Business, the stable source of income, the Group will aim to expand business scale and improve profitability through initiatives such as providing high-quality services and enhancing customer satisfaction with a focus on ESG as well as reviews of operational processes by leveraging IT in each of the Rental Business, Fund and Consulting Business, Property Management Business and Hotel Business. Recognizing that the fusion of DX and real estate presents a new business opportunity, the Group will expand assets under management in the crowd funding business, commercialize an investment scheme using security tokens, and other projects as initiatives to create new income-generating models.

On the financial front, the Group will work on effective investments while strengthening funding capabilities and maintaining a sound financial structure to support the expansion in business scale and asset balance. In addition, as a Group organizational strategy in line with the business which is both expanding in scale and diversifying in nature, the Group will streamline and reconstruct the organization, further enhance the quality of internal control, and maintain an optimal corporate governance structure to extend Group-wide cooperation and comprehensive capabilities. Furthermore, to fully activate human resources, which are the Group's most important assets, the Group will promote human resources development aiming for the growth of all officers and employees and productivity enhancement while improving employee satisfaction Group-wide.

The Group's business and financial issues to be addressed preferentially are as follows:

1. Business issues

Segment	Issues to be addressed preferentially Note: "E" and "S" stand for environmental and social aspects of ESG, respectively.
Revitalization Business	1. Revise acquisition policy according to the exit strategy (by size and area) on a regular basis and expand investment target; gather information efficiently and strengthen acquisitions; diversify the exit strategy utilizing DX
	2. Review value-up guidelines that contribute to creating added value; resolve issues in E and S; implement the most appropriate value-up activities suited to property characteristics and customer needs
	3. Expand sales channels and sales methods and pursue efficiency
	4. Strengthen investment judgment by leveraging IT; nurture persons who can make investment decisions
	5. Strengthen the business of condominium unit sales through stronger coordination among the Group
	6. Research value-up plan in awareness of E and S; increase sales price and enhance brand value
Development Business	1. Revise acquisition policy according to property type and usage on a regular basis; gather information efficiently and strengthen acquisitions
	2. Expand sales channels and sales methods according to property characteristics and exit strategy (such as size and area) and conduct efficient sales
	3. Survey and research commercialization and sales methods to expand high-end detached houses business
	4. Pursue planning and supply of products in awareness of E and S
Rental Business	1. Increase non-current assets; manage property and acquire environmental certifications in awareness of E and S
	2. Improve occupancy rates early and continue stable occupancy
	3. Sophisticate rental operations with a department dedicated to asset management; enhance property management capability as a building owner; transform operation process by promoting use of IT and leveraging DX
Fund and Consulting Business	1. Increase the balance of assets under management (REIT, private placement funds, and CRE)
	2. Improve operation quality by promoting use of IT; maximize investor returns through stronger coordination among the Group
	3. Continue to implement ESG and SDGs required of a real estate asset management company
Property Management Business	1. Strengthen capacity for new acquisition that accommodates increase in number of properties under management as well as work on improving operation quality and CS; establish implementation system for SDGs befitting a company that provides one-stop service for property management and building management
	2. Strengthen asset management capacity aiming for increase in property management of logistics facilities
	3. Increase profit margin by streamlining operation through the promotion of use of IT and reducing cost
Hotel Business	1. Achieve early positive cash flow in operating profit by enhancing the capturing of inbound demand; ensure early stabilization of newly opened hotels
	2. Establish and strengthen management system to expand hotel business
	3. Provide appealing menus in awareness of E and S; increase repeat customers; increase daily rate

2. Financial issues

Segment	Issues to be addressed preferentially
Financial strategy	1. Enhance funding capabilities commensurate with the expansion of business (Increase credit line, improve funding terms for acquiring non-current assets, implement bank formation strategy, leverage green loans)
	2. Implement capital allocation that balances growth investment, financial discipline, and return of profits to shareholders (Equity ratio of around 35%, net debt-to-equity ratio of about 1.3 times, ratio of stable businesses (operating profit basis) of 42% or more, payout ratio of 30.2%)
	3. Achieve ROE of 12% or higher which exceeds cost of capital (Target for the final year of the medium-term management plan)
	4. Reduce cost and administrative burden through efficient Group-wide fund management

(5) Status of operating results and assets

a. Trends in operating results and assets of the Group

	70th term (Year ended November 30, 2019)	71st term (Year ended November 30, 2020)	72nd term (Year ended November 30, 2021)	73rd term (Year under review) (Year ended November 30, 2022)
Revenue (Thousands of yen)	60,727,704	63,939,781	61,726,449	70,953,486
Profit before tax (Thousands of yen)	12,090,095	5,901,313	10,302,616	12,753,538
Profit attributable to owners of the parent (Thousands of yen)	8,447,032	3,602,339	6,721,305	8,607,088
Basic earnings per share (Yen)	176.40	76.05	142.56	181.66
Total assets (Thousands of yen)	161,894,056	161,684,503	195,010,899	210,955,801
Total equity (Thousands of yen)	58,306,499	58,969,524	65,958,740	72,290,677

(Note) The above table has been made under International Financial Reporting Standards (IFRS).

b. Trends in operating results and assets of the Company

	70th term (Year ended November 30, 2019)	71st term (Year ended November 30, 2020)	72nd term (Year ended November 30, 2021)	73rd term (Year under review) (Year ended November 30, 2022)
Net sales (Thousands of yen)	48,861,295	51,958,230	47,452,190	43,063,515
Ordinary income (Thousands of yen)	9,770,383	3,382,780	9,690,159	10,678,418
Net income (Thousands of yen)	7,273,194	2,594,607	7,452,678	8,687,116
Net income per share (Yen)	151.89	54.77	158.08	183.35
Total assets (Thousands of yen)	149,812,509	148,071,547	171,076,831	189,896,706
Net assets (Thousands of yen)	52,076,260	51,737,131	59,467,346	65,863,314

(Note) The above table has been made under Japanese GAAP.

(6) Status of significant subsidiaries

Name of company	Capital or investments in capital	Equity ownership [Indirect equity ownership]	Major lines of business
Tosei Community Co., Ltd.	¥99,500 thousand	100.0%	Property management business
Tosei Asset Advisors, Inc.	¥100,000 thousand	100.0	Fund and consulting business
Tosei Logistics Management Co., Ltd.	¥50,000 thousand	100.0	Real estate consulting business
Tosei Hotel Management Co., Ltd.	¥100,000 thousand	100.0	Hotel business
Tosei Hotel Service Co., Ltd.	¥10,000 thousand	100.0	Hotel business
Princess Square Co., Ltd.	¥96,000 thousand	100.0	Revitalization business
Tosei Chintai Hosho LLC	¥3,000 thousand	100.0	Property management business
Tosei Singapore Pte. Ltd.	S\$4,000,000	100.0	Rental business
Kishino Corporation	¥10,000 thousand	100.0	Rental business
Masuda Kenzai-ten Co., Ltd.	¥60,500 thousand	100.0	Revitalization business
Sanki-shoji Co., Ltd.	¥30,000 thousand	100.0	Revitalization business
Isogo Asset Management Co., Ltd.	¥15,000 thousand	100.0	Revitalization business

- (Notes)
1. Tosei Urban Home Corporation, which was a subsidiary during the previous fiscal year, has been excluded from the scope of consolidation as a result of the completion of its liquidation during the fiscal year under review.
 2. On April 1, 2022, Tosei Revival Investment Co., Ltd. changed its trade name to Tosei Logistics Management Co., Ltd.
 3. On March 18, 2022, the Company acquired all of the shares in Isogo Asset Management Co., Ltd. (trade name at the acquisition: Yokohama Subaru Inc.) and accordingly, has included it in the scope of consolidation.
 4. On April 25, 2022, ICOMPANY, Inc. concluded an absorption-type merger agreement with Princess Square Co., Ltd., with Princess Square Co. Ltd. as the surviving company, and ceased to exist on June 1, 2022, the effective date of the agreement.
 5. On August 25, 2022, Let's Creation Co., Ltd. concluded an absorption-type merger agreement with G.P. Asset Co., Ltd., with G.P. Asset Co., Ltd. as the surviving company, and ceased to exist on November 1, 2022, the effective date of the agreement.
 6. On August 25, 2022, G.P. Asset Co., Ltd. concluded an absorption-type merger agreement with Princess Square Co., Ltd., with Princess Square Co. Ltd. as the surviving company, and ceased to exist on November 1, 2022, the effective date of the agreement.

(7) Major lines of business (As of November 30, 2022)

Segment	Operations
Revitalization Business	<p>The Tosei Group acquires office buildings, commercial facilities, apartments and other properties whose asset value has declined through buying and selling real estate and M&A of companies with real estate holdings, boosts their value through “value-up plans” (“improved designs,” “enhanced security functions, etc.,” “increased eco-friendliness,” and “improved profitability”) judged to best match the characteristics of the properties’ areas and tenant requirements, and sells them as revitalized real estate to buyers including investors, real estate funds and individual business entities that acquire real estate for private use.</p> <p>The Tosei Group’s “value-up” activities go beyond just renewing properties and involve realizing comprehensive regenerations of their values. This puts a focus on not only improving the convenience and functionality of properties but also providing satisfaction to owners and giving end users a sense of pride.</p>
Development Business	<p>In the main districts of Tokyo, there is a mixture of needs for offices, commercial facilities, residences, logistics facilities, hotels and others, and the Tosei Group verifies the characteristics of land it acquires including area, shape, intended purpose, relevant needs, rent, and selling price. Based on this, the Tosei Group carries out development and new construction to maximize the value of the land.</p> <p>The Group is able to respond to diverse needs by developing office buildings, commercial buildings (T’s BRIGHTIA series) and mixed-use buildings, hotels, condominiums (the Palms series), as well as detached houses (Palms Court series and Comodo Casa series). Once development is complete or tenants have been found, the properties are sold to buyers including investors, real estate funds, and end-users.</p>
Rental Business	<p>The Tosei Group has expanded the scope of its business primarily in the main districts of Tokyo by acquiring office buildings, condominiums, stores and parking lots, and renting them out to end-users and others.</p> <p>As a landlord, the Tosei Group is capable of swiftly gathering accurate information on tenant needs to further enhance “value-up plans” by reflecting these needs.</p>
Fund and Consulting Business	<p>The Tosei Group conducts business as a type II financial instruments business as well as an investment advisory and agency business and an investment management business as provided for in the Financial Instruments and Exchange Act.</p> <p>Specifically, in addition to providing Tosei Reit Investment Corporation’s asset management services, the Tosei Group also provides services such as selling and brokering trust beneficiary rights, and management of income-generating properties as asset management services for real estate funds. Also, the Tosei Group provides consulting services and real estate brokerage related to corporate real estate held by business entities.</p>
Property Management Business	<p>This business carries out building and equipment management, and security (building maintenance) for office buildings, apartments, hotels, commercial facilities, and educational facilities; owner proxy services, tenant management, tenant solicitation, and building management (property management); and management services for condominiums.</p>
Hotel Business	<p>The Tosei Group is engaged in planning and operation of its TOSEI HOTEL COCONE brand as well as hotel development and conversion of used office buildings into hotels.</p>

(8) Major business offices (As of November 30, 2022)

Name	Business office and its location
Tosei Corporation (the Company)	Head office: Minato-ku, Tokyo
Tosei Community Co., Ltd.	Head office: Minato-ku, Tokyo
Tosei Asset Advisors, Inc.	Head office: Minato-ku, Tokyo
Tosei Logistics Management Co., Ltd.	Head office: Minato-ku, Tokyo
Tosei Hotel Management Co., Ltd.	Head office: Minato-ku, Tokyo
Tosei Hotel Service Co., Ltd.	Head office: Minato-ku, Tokyo
Princess Square Co., Ltd.	Head office: Shibuya-ku, Tokyo
Tosei Chintai Hoshō LLC	Head office: Minato-ku, Tokyo
Tosei Singapore Pte. Ltd.	Head office: Singapore
Kishino Corporation	Head office: Minato-ku, Tokyo
Masuda Kenzai-ten Co., Ltd.	Head office: Minato-ku, Tokyo
Sanki-shoji Co., Ltd.	Head office: Minato-ku, Tokyo
Isogo Asset Management Co., Ltd.	Head office: Minato-ku, Tokyo

- (Notes)
1. Tosei Urban Home Corporation, which was a subsidiary during the previous fiscal year, has been excluded from the scope of consolidation as a result of the completion of its liquidation during the fiscal year under review.
 2. On April 1, 2022, Tosei Revival Investment Co., Ltd. changed its trade name to Tosei Logistics Management Co., Ltd.
 3. On March 18, 2022, the Company acquired all of the shares in Isogo Asset Management Co., Ltd. (trade name at the acquisition: Yokohama Subaru Inc.) and accordingly, has included it in the scope of consolidation.
 4. On April 25, 2022, ICOMPANY, Inc. concluded an absorption-type merger agreement with Princess Square Co., Ltd., with Princess Square Co. Ltd. as the surviving company, and ceased to exist on June 1, 2022, the effective date of the agreement.
 5. On August 25, 2022, Let's Creation Co., Ltd. concluded an absorption-type merger agreement with G.P. Asset Co., Ltd., with G.P. Asset Co., Ltd. as the surviving company, and ceased to exist on November 1, 2022, the effective date of the agreement.
 6. On August 25, 2022, G.P. Asset Co., Ltd. concluded an absorption-type merger agreement with Princess Square Co., Ltd., with Princess Square Co. Ltd. as the surviving company, and ceased to exist on November 1, 2022, the effective date of the agreement.

(9) Status of employees (As of November 30, 2022)

a. Status of employees of the Group

Segment	Number of employees	Year-on-year change
Revitalization Business	111	(35)
Development Business	58	(9)
Rental Business	19	2
Fund and Consulting Business	149	28
Property Management Business	156	24
Hotel Business	72	(4)
Group-wide (common)	98	19
Total	663	25

(Note) The number of employees indicates the number of employees currently on duty and the yearly average number of part-time and temporary employees was 193.

b. Status of employees of the Company

Number of employees	Year-on-year change	Average age	Average years of service
244	29	36.1 years old	5.2 years

(Note) The number of employees indicates the number of employees currently on duty.

(10) Major lenders (As of November 30, 2022)

Lender	Loan balance
Sumitomo Mitsui Banking Corporation	¥18,798 million
MUFG Bank, Ltd.	¥11,892 million
Mizuho Bank, Ltd.	¥11,673 million
Aozora Bank, Ltd.	¥9,802 million
The Norinchukin Bank	¥7,384 million

(11) Other important matters regarding the current status of the Group

Not applicable.

2. Matters regarding the shares of the Company

- (1) Total number of shares authorized 150,000,000 shares
 (2) Total number of shares issued 48,683,800 shares (incl. 1,424,122 treasury shares)
 (3) Number of shareholders 19,643
 (4) Major shareholders (Top 10)

Name of shareholder	Number of shares held	Holding ratio
Seiichiro Yamaguchi	12,885,500 shares	27.26%
Zeus Capital Limited	6,000,000 shares	12.69%
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,296,900 shares	9.09%
SSBTC CLIENT OMNIBUS ACCOUNT	1,813,502 shares	3.83%
Custody Bank of Japan, Ltd. (Trust Account)	1,350,000 shares	2.85%
SMBC Nikko Securities Inc.	1,184,000 shares	2.50%
Hirotochi Deguchi	1,030,000 shares	2.17%
GOVERNMENT OF NORWAY	965,350 shares	2.04%
STATE STREET BANK AND TRUST COMPANY 505303	554,300 shares	1.17%
Aozora Bank, Ltd.	502,900 shares	1.06%

(Note) The holding ratio has been calculated by deducting the treasury shares (1,424,122 shares) and rounding it down to the second decimal place.

- (5) Status of shares delivered to officers as consideration for execution of duties during the fiscal year
 Not applicable.

(6) Other important matters regarding shares

- a. At the Board of Directors' meeting held on January 12, 2022, 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 and repurchased the shares as follows.
- | | |
|--|--|
| Class and number of shares repurchased | 475,700 ordinary shares |
| Total value of shares repurchased | ¥499,895,700 |
| Period for repurchase | From January 13, 2022 to March 25, 2022 |
| Method of repurchase | Discretionary investment by a securities company |
- b. At the Board of Directors' meeting held on July 5, 2022, 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. Total number of ordinary shares of the Company repurchased by November 30, 2022 following this resolution is 298,600 shares, and total value of shares repurchased is ¥386,076,300.
- | | |
|--|--|
| Class and total number of shares to be repurchased | 600,000 ordinary shares |
| Total value of shares to be repurchased | Up to ¥500,000,000 |
| Period for repurchase | From July 6, 2022 to December 31, 2022 |
| Method of repurchase | Discretionary investment by a securities company |

3. Matters regarding stock acquisition rights, etc. of the Company

(1) Status of stock acquisition rights delivered to and held by officers as consideration for the execution of duties (As of November 30, 2022)

Stock acquisition rights by resolution of the Board of Directors held on April 25, 2019 (Sixth Series of Stock Acquisition Rights)

- Number of stock acquisition rights
895 units
- Class and number of shares delivered upon exercise of stock acquisition rights
89,500 ordinary shares (100 shares per stock acquisition right)
- Amount to be paid in for stock acquisition rights
¥11,400 per stock acquisition right (¥114 per share)
- Value of property to be contributed upon exercise of stock acquisition rights
¥100,600 per stock acquisition right (¥1,006 per share)
- Period during which stock acquisition rights may be exercised
From May 1, 2021 to April 25, 2024
- Terms and conditions for exercising stock acquisition rights
 - i. Holders of stock acquisition rights are required to have the rank of Director of the Company at the time of exercising the stock acquisition rights; provided, however, that this shall not apply to holders of stock acquisition rights who no longer have the rank of Director due to retirement at the expiration of the period in office or due to resignation at the request of the Company.
 - ii. Inheritance of stock acquisition rights shall not be permitted.
 - iii. Pledging of stock acquisition rights or any other disposition shall not be permitted.
- Status of stock acquisition rights held by officers of the Company

	Number of stock acquisition rights	Class and number of shares delivered upon exercise of stock acquisition rights	Number of holders
Directors (excluding Outside Directors)	497 units	49,700 ordinary shares	5
Outside Directors	40 units	4,000 ordinary shares	2

(Note) The number of stock acquisition rights stated in “Directors (excluding Outside Directors)” above includes stock acquisition rights that were delivered as portions for employees before assuming office as Director.

(2) Status of stock acquisition rights delivered to employees as consideration for execution of duties during the fiscal year

Not applicable.

(3) Other important matters regarding stock acquisition rights, etc.

Not applicable.

4. Matters regarding officers of the Company

(1) Names, etc. of Directors and Audit & Supervisory Board Members (As of November 30, 2022)

Position in the Company	Name	Areas of responsibility in the Company and important concurrent positions outside the Company
President and CEO	Seiichiro Yamaguchi	President and CEO
Director	Noboru Hirano	CFO and Senior Executive Officer of Administrative Division In charge of Human Resource Department Representative Director of Tosei Logistics Management Co., Ltd. Director of Tosei Asset Advisors, Inc.
Director	Hideki Nakanishi	Senior Executive Officer of Business Division In charge of Asset Solution Department 4 and Asset Solutions Business Promotion Department Director of Tosei Logistics Management Co., Ltd.
Director	Masaaki Watanabe	Managing Executive Officer and Deputy Chief of Business Division In charge of Asset Solution Department 5 Director of Tosei Community Co., Ltd.
Director	Shunsuke Yamaguchi	Executive Officer In charge of Finance Department and General Affairs Department Audit & Supervisory Board Member of Tosei Asset Advisors, Inc.
Director	Hitoshi Oshima	Executive Officer In charge of Asset Solution Department 1 and Crowd Funding Department Director of Princess Square Co., Ltd.
Director	Kenichi Shohtoku	Representative Director of SCS Global Consulting (S) Pte Ltd. Outside Audit & Supervisory Board Member of ROKI GROUP HOLDINGS CO., LTD.
Director	Hiroyuki Kobayashi	CEO of Social Capital Management, Inc. Vice President and Director of Precious Square, Inc. Outside Auditor of Tohto Suisan Co., Ltd. Director of SEIWA HOLDINGS Co., Ltd. Representative Director of WATASU Company Limited. Outside Auditor of Taiheiyo Kensetsu Kogyo Co., Ltd. Outside Auditor of Taiheiyo Remicon Co., Ltd.
Director	Masao Yamanaka	Partner lawyer of RENAISS Law Office Outside Auditor of Chiyoda Co., Ltd. Outside Auditor of System Location Co., Ltd.
Audit & Supervisory Board Member (full-time)	Hitoshi Yagi	Audit & Supervisory Board Member of Tosei Hotel Management Co., Ltd.
Audit & Supervisory Board Member (full-time)	Toshinori Kuroda	Audit & Supervisory Board Member of Tosei Community Co., Ltd.
Audit & Supervisory Board Member	Tatsuki Nagano	President and Representative Director of All Nippon Asset Management, Co., Ltd. Outside Director of System Location Co., Ltd.
Audit & Supervisory Board Member	Osamu Doi	

- (Notes)
1. Directors Kenichi Shohtoku, Hiroyuki Kobayashi, and Masao Yamanaka are Outside Directors.
 2. All the Audit & Supervisory Board Members above are Outside Audit & Supervisory Board Members.
 3. The Company notified the Tokyo Stock Exchange of Directors Kenichi Shohtoku, Hiroyuki Kobayashi, and Masao Yamanaka and all members of the Audit & Supervisory Board as independent directors/auditors pursuant to the regulations of the said Exchange.

(2) Remuneration, etc. for Directors and Audit & Supervisory Board Members

a. Matters regarding the policy for determining the content of remuneration, etc. for individual Directors

1) Determination method of the determination policy

The policy for determining the content of remuneration, etc., for individual Directors is deliberated by the Nominating and Compensation Advisory Committee, before being decided by the resolution of the Board of Directors.

2) Overview of the content of the determination policy

i) Composition

With regard to remuneration for Directors, the maximum total amount of monetary remuneration and the maximum total amount of remuneration as stock options are determined by resolutions of the General Meeting of Shareholders. Remuneration for full-time Directors consists of “fixed remuneration” based on the ratio depending on the position set in accordance with job responsibilities, “performance evaluation-based remuneration” in accordance with each full-time Director’s achievement level of targets of business performance, etc., monetary remuneration as “Directors’ bonuses” linked to consolidated profit before tax, and “stock options” with the aim of further incentivizing Directors to contribute to the medium- to long-term improvement in corporate value.

The ratio of fixed remuneration to performance-linked remuneration is kept at around 60:40 and for the 73rd term, the ratio was 56:44.

Remuneration for Outside Directors consists of “fixed remuneration” and “stock options.”

ii) Policy for determining individual amounts of fixed remuneration (monetary remuneration)

On the basis of comparisons with the results of surveys of Directors’ remuneration at listed companies, conducted by external specialist agencies, and surveys of the levels of Directors’ remuneration at the Company’s competitors, conducted by the Company, as well as comparison with the highest amounts of remuneration paid to employees of the Company, the Company has established fixed remuneration scaling guidelines, based on positions of Directors, and posts of concurrently serving Executive Officers. Remuneration for each Director is discussed by the Nominating and Compensation Advisory Committee, before being decided by the Board of Directors.

iii) Matters regarding performance-linked remuneration (performance evaluation-based remuneration and bonus)

- Performance evaluation-based remuneration

The performance evaluation-based remuneration for full-time Directors is based on their individual achievement of single-year performance targets. A standard evaluation remuneration amount equal to 33% of the fixed remuneration is paid monthly together with the fixed remuneration by resolution of the Board of Directors, and when there is an adjustment based on the achievement of performance targets (of between +55% and -50% of the standard evaluation remuneration), this is added to and paid together with Directors’ bonuses or deducted from Directors’ bonuses after the conclusion of the Ordinary General Meeting of Shareholders held during the fiscal year.

- Directors’ bonuses

Directors’ bonuses, which are linked to single-year consolidated profit before tax, are calculated by multiplying the fixed remuneration per annum by a coefficient, a sum of a predetermined coefficient based on the level of profit before tax, and an extra coefficient when the single-year target profit before tax has been achieved. This is paid as a lump sum after the conclusion of the Ordinary General Meeting of Shareholders held during the fiscal year. As directors of a listed company, engaged in consolidated management, the Company’s Directors are charged with the important tasks of maintaining and increasing the

level of consolidated profit before tax and achieving the consolidated profit before tax targets each fiscal year. For these reasons, consolidated profit before tax is used to index Directors' bonuses. Remuneration for each Director is discussed by the Nominating and Compensation Advisory Committee, evaluates the level of contribution to the governance of the Company and the Group as a whole, achievement of the department in charge, and maintenance/improvement of consolidated management indicators (ROE, stock price, etc.), before being decided by the Board of Directors. The trends in consolidated profit before tax, including that of the fiscal year under review, are as stated in 1 - (5) - a. "Trends in operating results and assets of the Group."

iv) Content of stock options (non-monetary remuneration)

In order to practice corporate management with a focus on enhancing corporate value over the medium- to long-term, the President and Representative Director drafts proposals for the number of stock options to be granted to each Director, based on positions of Directors, and posts of concurrently serving Executive Officers, for each medium-term management plan. These proposals are deliberated by the Nominating and Compensation Advisory Committee, before being decided for each Director by the Board of Directors. In addition, a fixed number of stock options are granted to Outside Directors, considering the importance of their management monitoring and supervisory function aimed at enhancing corporate value. The content of these stock options and the status of granting stock options are as stated in 3 - (1) "Status of stock acquisition rights delivered to and held by officers as consideration for their execution of duties."

3) Reasons why the Board of Directors determined that the content of remuneration, etc., for individual Directors for the fiscal year under review is in line with the determination policy

The Nominating and Compensation Advisory Committee had conducted a multi-faceted examination of the content of the amount of remuneration for individual Directors for the fiscal year under review, including from the viewpoint of consistency with the determination policy. The Board of Directors basically respected the results of the Committee's deliberations and judged that it was in line with the determination policy.

As explained in 2) above, at the Company, the Board of Directors determines the content of remuneration, etc. for individual Directors, and does not delegate this determination to a Director or other third parties.

b. Matters regarding the resolution of the General Meeting of Shareholders on the remuneration, etc. of Directors and Audit & Supervisory Board Members

The maximum total amount of Directors' monetary remuneration is set at ¥500 million (including a maximum of ¥80 million of Outside Directors' remuneration; excluding employee salaries) per year as determined at the 70th Ordinary General Meeting of Shareholders held on February 26, 2020. At the conclusion of this Ordinary General Meeting of Shareholders, the number of Directors was nine (including three Outside Directors). In addition, separate from this monetary remuneration amount, Directors' remuneration as stock options within the range of ¥100 million per year (including ¥10 million or less for Outside Directors) was approved at the 69th Ordinary General Meeting of Shareholders held on February 27, 2019. At the conclusion of this Ordinary General Meeting of Shareholders, the number of Directors was seven (including two Outside Directors).

The maximum total amount of monetary remunerations for Audit & Supervisory Board Members is set at ¥60 million per year as determined at the 54th Ordinary General Meeting of Shareholders held on February 28, 2004. At the conclusion of this Ordinary General Meeting of Shareholders, the number of Audit & Supervisory Board Members was two.

c. Total amount of remunerations, etc. for the fiscal year under review

Category	Total amount of remunerations, etc. (thousand yen)	Total amount of remunerations, etc. by type (thousand yen)				Number of eligible Directors
		Fixed remuneration	Performance-linked remuneration		Non-monetary remuneration, etc.	
			Performance evaluation-based remuneration	Directors' bonuses	Stock options	
Directors (of which Outside Directors)	291,248 (20,850)	171,789 (20,850)	50,313 (-)	69,146 (-)	- (-)	9 (3)
Audit & Supervisory Board Members (of which Outside Audit & Supervisory Board Members)	33,060 (33,060)	33,060 (33,060)	- (-)	- (-)	- (-)	4 (4)

(3) Matters regarding outside officers

a. Status of important concurrent positions in other corporations, etc. and relationships between the Company and such other corporations, etc.

- Director Kenichi Shohtoku serves concurrently as Representative Director of SCS Global Consulting (S) Pte Ltd., as well as Outside Audit & Supervisory Board Member of ROKI GROUP HOLDINGS CO., LTD. There are no special relationships between the Company and each of the above companies.
- Director Hiroyuki Kobayashi serves concurrently as President and CEO of Social Capital Management, Inc., as well as serving as Vice President and Director of Precious Square, Inc., Outside Auditor of Tohto Suisan Co., Ltd., Director of SEIWA HOLDINGS Co., Ltd., Representative Director of WATASU Company Limited, Outside Auditor of Taiheiyo Kensetsu Kogyo Co., Ltd., and Outside Auditor of Taiheiyo Remicon Co., Ltd. There are no special relationships between the Company and each of the above companies.
- Director Masao Yamanaka serves concurrently as a partner lawyer of RENAISS Law Office, as well as serving as Outside Auditor of Chiyoda Co., Ltd., and Outside Auditor of System Location Co., Ltd. There are no special relationships between the Company and each of the above companies.
- Audit & Supervisory Board Member Tatsuki Nagano serves concurrently as President and Representative Director of All Nippon Asset Management, Co., Ltd. He is also Outside Director of System Location Co., Ltd. There are no special relationships between the Company and each of the above companies.

b. Main activities during the fiscal year under review

Position and name	Attendance	Comments and other activities and duties performed with respect to the expected role
Kenichi Shohtoku, Director	Meetings of the Board of Directors: 23/24	He offered advice and proposals to help secure adequate and appropriate decision making by the Board of Directors, mainly by such means as stating opinions from his objective standpoint as an accounting expert based on his wide-ranging experience and expertise as a certified public accountant, including overseas service. He also attended the Nominating and Compensation Advisory Committee, expressed opinions on the appropriateness of Directors' remunerations, and contributed to ensuring its fairness.

Position and name	Attendance	Comments and other activities and duties performed with respect to the expected role
Hiroyuki Kobayashi, Director	Meetings of the Board of Directors: 23/24	He offered advice and proposals to help secure adequate and appropriate decision making by the Board of Directors, mainly by such means as stating opinions from his external objective perspective based on his abundant experience and specialist knowledge gained from his service at major financial institutions and in corporate management. He also attended the Nominating and Compensation Advisory Committee, expressed opinions on the appropriateness of Directors' remunerations, and contributed to ensuring its fairness.
Masao Yamanaka, Director	Meetings of the Board of Directors: 23/24	He offered advice and proposals to help secure adequate and appropriate decision making by the Board of Directors, mainly by such means as stating opinions from his objective standpoint as a legal expert based on his wide-ranging experience and a high level of expertise on corporate legal affairs as a lawyer. He also attended the Nominating and Compensation Advisory Committee, expressed opinions on the appropriateness of Directors' remunerations, and contributed to ensuring its fairness.

Position and name	Attendance	Comments and other activities
Hitoshi Yagi, Audit & Supervisory Board Member	Meetings of the Board of Directors: 24/24 Meetings of the Audit & Supervisory Board: 16/16	He made necessary comments as appropriate mainly from the standpoint of risk management at meetings of the Audit & Supervisory Board and Board of Directors based on the abundant experience and specialist knowledge that he gained at audit divisions of major financial institutions.
Toshinori Kuroda, Audit & Supervisory Board Member	Meetings of the Board of Directors: 24/24 Meetings of the Audit & Supervisory Board: 16/16	He made necessary comments as appropriate at meetings of the Audit & Supervisory Board and Board of Directors based on his abundant experience including his overseas postings at a major financial institution and high level of insight as a holder of such qualifications as Certified Internal Auditor (CIA).
Tatsuki Nagano, Audit & Supervisory Board Member	Meetings of the Board of Directors: 21/24 Meetings of the Audit & Supervisory Board: 13/16	He made necessary comments as appropriate at meetings of the Audit & Supervisory Board and Board of Directors based on his abundant experience and specialist knowledge gained from his service at major financial institutions and in corporate management.
Osamu Doi, Audit & Supervisory Board Member	Meetings of the Board of Directors: 23/24 Meetings of the Audit & Supervisory Board: 16/16	He made necessary comments as appropriate at meetings of the Audit & Supervisory Board and Board of Directors on the basis of his abundant experience at major securities companies and at companies that conduct investment banking activities as well as his specialist knowledge.

<Reference> Independence standards for Outside Directors

Standards for independence for Outside Directors provided by the Company are as follows:

- (i) He/she has not been an officer/employee of the Group in the past 10 years;
- (ii) He/she is not or was not an employee of any business partner whose value of transaction with the Group accounts for 2% or more of the Company's consolidated revenue (except for a former employee with respect to whom three years or more have passed since he/she ceased to belong to such business partner);
- (iii) He/she is not a major shareholder of the Company (holding 10% or more of the total voting rights) or a person who executes its business;
- (iv) He/she is not a person with respect to whom the Group holds 10% or more of the total voting rights or a person who executes its business;
- (v) He/she is not an attorney, accountant, etc. who receives remuneration of ¥10 million or more per annum from the Group other than remuneration for officers; and
- (vi) There are otherwise no circumstances with respect to him/her that may cause doubt as to the independence in executing duties as Independent Outside Director.

<Reference> Skills matrix of Directors

Name	Internal/ Outside	Specialty, knowledge, and experience								Nominating and Compensation Advisory Committee	Sustainability Committee
		Corporate management	Real estate business	Finance/ Accounting	Global business	ESG	IT/DX	Human Resource/ Labor	Compliance /Risk management		
Seiichiro Yamaguchi	Internal	●	●	●		●			●	○	
Noboru Hirano	Internal	●		●		●		●		○	○ (Chairperson)
Hideki Nakanishi	Internal		●			●					○
Masaaki Watanabe	Internal		●			●					○
Shunsuke Yamaguchi	Internal						●		●		
Hitoshi Oshima	Internal		●				●				
Kenichi Shohtoku	Outside (Independent)	●		●	●					○(Chairperson)	
Hiroyuki Kobayashi	Outside (Independent)	●		●		●		●		○	Observer
Masao Yamanaka	Outside (Independent)			●					●	○	

(4) Outline of content of limited liability agreement

The Company has concluded contracts for limitation of liability with Outside Directors and Outside Audit & Supervisory Board Members pursuant to the provisions of Article 427, paragraph 1 of the Companies Act for the liability for damages provided for in Article 423, paragraph 1 of the same, and limits their liability to the amount provided by relevant laws and regulations.

(5) Outline of the directors and officers liability insurance agreement

The Company has concluded a directors and officers liability insurance agreement provided for in Article 430-3, paragraph 1 of the Companies Act with an insurance company, with the Directors, Audit & Supervisory Board Members and Executive Officers of the Company, and the Directors and Audit & Supervisory Board Members of the subsidiaries as the insured. The insurance premiums are fully borne by the Company. The insurance covers any damages that may result from the insured being liable for the performance of their duties or being subject to a claim for the pursuit of such liability. The said insurance agreement is renewed each year.

However, to ensure the appropriateness of the performance of duties by the insured, there are certain exclusions of liability, such as the non-payment of compensation for losses when the insured unlawfully gain benefits or conveniences or when the insured engage in acts while they were aware that such acts were criminal acts, wrongful acts, fraud or violations of laws or regulations.

5. Status of Accounting Auditor

(1) Name Shinsoh Audit Corporation

(2) Amount of remuneration, etc.

Category	Amount paid
Amount of remuneration, etc. to be paid during the fiscal year under review	¥45,000 thousand
Total amount of money and other economic benefits to be paid by the Company and its subsidiaries to the Accounting Auditor	¥62,400 thousand

- (Notes)
1. Because amounts of audit fees and others for audits under the Companies Act and for audits under the Financial Instruments and Exchange Act are not clearly segmented in an auditing agreement between the Company and the Accounting Auditor, and cannot be distinguished practically, the total amount of these fees and others is shown in the amount of remuneration, etc. for the fiscal year under review.
 2. Pursuant to Article 399, paragraph 1 of the Companies Act, the Audit & Supervisory Board gives its consent on the amount of remuneration, etc. to be paid for the Accounting Auditor based on the assessment of the audit plans prepared by the Accounting Auditor, the status of its execution of duties, the trend of audit fees, and the basis for estimating remuneration, etc. in accordance with the “Practical Guidelines on Coordination with Accounting Auditors” issued by Japan Audit & Supervisory Board Members Association, a Public Interest Incorporated Association.

(3) Policy for determining dismissal or non-reappointment of Accounting Auditor

If any of the matters set forth in items of Article 340, paragraph 1 of the Companies Act is deemed to apply to the Accounting Auditor, the Audit & Supervisory Board shall dismiss the Accounting Auditor based on the agreement of all Audit & Supervisory Board Members. If this occurs, an Audit & Supervisory Board Member appointed by the Audit & Supervisory Board shall report the dismissal of the Accounting Auditor and provide the reasons for the dismissal at the first General Meeting of Shareholders convened after the said dismissal.

In addition, if something interferes with the Accounting Auditor’s execution of duties or if otherwise judged necessary, the Audit & Supervisory Board determines a proposal for the dismissal or non-reappointment of the Accounting Auditor to be resolved at the General Meeting of Shareholders, and based on the determination, the Board of Directors submits such proposal as a matter for resolution at the General Meeting of Shareholders.

6. Systems to ensure properness of operations

Regarding systems to ensure that directors’ execution of their duties is in compliance with laws and regulations and the Articles of Incorporation and other systems necessary to ensure the properness of a company’s operations (internal control system), the Company has established the following basic policies.

- a. Basic policies for compliance with laws and regulations
 - (i) Ensure awareness among all officers and employees regarding compliance with laws and regulations.
 - (ii) Strengthen the checking function for breaches of laws and regulations.
 - (iii) Promptly react to any breach of laws and regulations, and make timely and appropriate information disclosure concerning such breaches.
 - (iv) Eliminate any association with anti-social forces.
- b. Basic policies for storing and managing information
 - (i) Ensure awareness among all officers and employees regarding the importance of storing and managing information.
 - (ii) Enhance the measures for preventing the leakage of material information.
 - (iii) Ensure thorough familiarity with material information and information requiring timely disclosure and prevention of misstatements or material omissions.
- c. Basic policies for management of risk of loss
 - (i) Ensure thorough understanding, analysis and assessment of risks that may hinder the continuation of the Company's corporate activities.
 - (ii) Enhance monitoring of risk management.
 - (iii) Establish a proper internal reporting system for any occurrences and/or signs that contingencies may occur.
 - (iv) Promptly react to any occurrence of contingencies and/or accidents, and make timely and appropriate disclosure of information regarding such occurrences.
- d. Basic policies for efficient execution of duties by Directors
 - (i) Carry out deliberation and decision-making on the important management matters of the Company, in an efficient, timely and appropriate manner.
 - (ii) Eliminate excessive pursuit of efficiencies in management plans and/or business targets and make balanced decisions considering the soundness of the Company.
 - (iii) Establish a system to allow appropriate and efficient execution of business in accordance with the rules on delegation of operational authority.
- e. Basic policies for properness of the operations of the entire Group
 - (i) Strive for a full penetration of the understanding of the Company's corporate philosophy and awareness for the compliance among the officers and the employees of each of the Group companies and ensure that each of the Group companies complies with laws and regulations.
 - (ii) Strive for full awareness, analysis and evaluation of risks that impede the sustenance and continuation of the businesses of each of the Group companies, prepare for contingencies, and establish a system to compel prompt reporting if contingencies occur.
 - (iii) Formulate a medium-term management plan, business plan for single fiscal year and budgets for the same relating to the entire Group, periodically check the progress of these plans, and compel timely reporting on newly occurring problems and appropriately handle such problems.
 - (iv) For matters that are important and those for which timely disclosure is required at each of the Group companies, and other matters relating to execution of duties by officers and employees at each of the Group companies, establish a system to compel prompt reporting from each of the Group companies to the Company.
 - (v) Enhance the system for ensuring the appropriateness of financial reporting relating to the

entire Group.

- (vi) Eliminate wrongful acts and/or irregular transactions using the Group.
- f. Basic policies for systems to ensure effective audits by Audit & Supervisory Board Members
- (i) Designate members of staff to assist Audit & Supervisory Board Members in their duties, and have them carry out assistance duties under the command of the Audit & Supervisory Board Members.
 - (ii) Ensure the independence of the aforementioned members of staff from Directors and obtain concurrence from the Audit & Supervisory Board for personnel matters for the said members of staff such as transfers and performance evaluations.
 - (iii) In addition to deliberations on proposals and reports on important matters at the Board of Directors, have Audit & Supervisory Board Members attend important meetings for business execution, and carry out periodic interviews with Directors and important employees. Furthermore, ensure prompt reporting to Audit & Supervisory Board Members from all officers and employees who have identified any material loss and signs of the same or any breach of regulations or misconduct, and prompt reporting to the same in response to demands from Audit & Supervisory Board Members.
 - (iv) Establish a system to compel prompt reporting to Audit & Supervisory Board Members from all officers and employees at each of the Group companies who have identified any material loss caused by management at each of the Group companies and signs of the same or any breach of laws and regulations or misconduct, or from officers and employees of the Company who have received reports from such persons, and strive for its full implementation, and also compel prompt reporting if reporting is demanded by Audit & Supervisory Board Members.
 - (v) Ensure full notification of policy not to mete out disadvantageous treatment for the reason of a report described in the preceding two paragraphs made by officers and employees of the Company and each of the Group companies to Audit & Supervisory Board Members.
 - (vi) Develop a whistle-blowing system across the entire Group and promptly report to Audit & Supervisory Board Members if whistle-blowing occurs.
 - (vii) When Audit & Supervisory Board Members request advance payments, etc. of expenses, promptly handle the said expenses or debt obligations, except in cases where they are deemed unnecessary for the execution of duties.
 - (viii) Directors are to make efforts to understand and support audits by Audit & Supervisory Board Members and proactively work to improve issues raised by Audit & Supervisory Board Members.
 - (ix) In order to accomplish adequate audits of the entire Group performed by Audit & Supervisory Board Members, Directors are to cooperate with Audit & Supervisory Board Members as necessary.

Under the basic policies above, in a continuous effort to develop the internal control system, the Company establishes plans for implementation and operation of the internal control system annually taking into consideration of revisions of relevant laws and regulations, changes in the business environment of the Group, expansion of the businesses, etc.

The internal control system of the Group implemented and operated as of the end of the fiscal year (November 30, 2022) is as follows.

*Major meetings cited in the text

Meeting name	Frequency of meeting	Attendees
Board of Directors' meeting	Monthly + Extraordinary	Directors and Audit & Supervisory Board Members
Pre-Board meeting discussion	Monthly + As necessary	Full-time Directors, full-time Audit & Supervisory Board Members, and Executive Officer in charge of administrative department
Corporate governance meeting	Monthly	Full-time Directors and full-time Audit & Supervisory Board Member
Management meeting	Twice a month + Extraordinary	Executive Officers, and Audit & Supervisory Board Members
Risk Management and Compliance Committee's meeting	Monthly	Executive Officers (excluding President and CEO), heads of each department, officers responsible for risk management and compliance at each Group company, and full-time Audit & Supervisory Board Members
Information Disclosure Committee's meeting	Monthly + Extraordinary	Officers responsible for information disclosure, Senior Executive Officers, and Executive Officers designated by chairman of the Committee

a. Compliance with laws and regulations, etc.

i) Ensure awareness regarding compliance with laws and regulations

At the beginning of each fiscal year the Risk Management and Compliance Program is drawn up, and trainings in the relevant laws and regulations, measures to cultivate awareness of legal issues have been implemented, in addition to which a compliance and corporate philosophy questionnaire is circulated every fiscal year to all officers and employees of the Group in order to identify issues and consider responses to such issues, and reflect them to each measure for the next fiscal year's Program.

During the fiscal year under review, we had legal advisors offer a training course regarding relevant laws and regulations amended during the fiscal year under review, including the Whistleblower Protection Act and the Act on the Protection of Personal Information. We also distributed video lectures by a full-time Directors on the Group's philosophy to focus on promoting legitimate and appropriate business activity.

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

ii) Strengthen the checking function for breaches of laws and regulations

As well as the monitoring and supervising system by three Outside Directors and four Audit & Supervisory Board Members (all Outside Audit & Supervisory Board Members) at the

Board of Directors' meeting, periodic meetings are held to exchange opinions between Audit & Supervisory Board Members and Outside Directors, and between Audit & Supervisory Board Members and legal advisors, so as to check for any signs of breaches of laws and regulations by the Directors responsible for executing business.

Moreover, full-time Audit & Supervisory Board Members conduct business audits on the Company's businesses and investigation of subsidiaries, while the Internal Audit Department conducts internal audits on the Company and the Group companies and self-inspections at the departmental level are implemented. Meanwhile, the Company continues to operate the whistle-blowing system providing three points of contact, internal, external and through Audit & Supervisory Board Members, and to conduct training sessions to promote an understanding of the system including protection of whistle-blowers.

During the fiscal year under review, we also revised relevant internal regulations, etc., to appropriately comply with the amended Whistleblower Protection Act (enforced in June 2022), and further ensured that officers and employees are well aware of the importance of protecting whistle-blowers.

- iii) Promptly react to any breach of laws and regulations, and make information disclosure

At important meetings and committees attended by full-time Directors, including those of the Board of Directors, checks are made for signs, or actual occurrences, of breaches of laws and regulations, instructions are given regarding responses, and status reports are made. Also, the Company has established a system to establish a crisis management office headed by the President and CEO and disclose information in a timely and appropriate manner based on the Crisis PR Manual in the event that serious breaches and/or incidents occur.

- iv) Eliminate any association with anti-social forces

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

b. Storing and managing information

- i) Ensure awareness regarding the importance of storing and managing information

Every fiscal year we implement training for the information asset management, including personal information (this includes training for the prevention of insider trading) for all employees of the Company, and by doing so, we have continued to educate and inculcate rules for the handling of important information. In addition, through the trainings, we make employees well aware of measures to be taken by the Company, etc. in the event of infringement of the rules, and make efforts to enhance awareness of information management.

During the fiscal year under review, the Group appropriately complied with the amended Act on the Protection of Personal Information and implemented training for employees, etc. to help improve IT literacy with the aim of strengthening information management system (total 22 courses, 30 hours of training). In addition, we conducted mock drills related to targeted e-mail attacks and vulnerability assessments of our internal network by an external third party to reduce the risk of information leaks and information isolation triggered by fast-growing network crimes.

- ii) Enhance the initiatives for preventing the leakage of important information

With regard to the state of compliance with rules for the handling of information assets (printed and electronic information), in addition to self-inspections implemented at all departments and audits conducted by the Internal Audit Department, we have strengthened the penalties for breaches and continued targeted guidance for those who infringe the rules.

During the fiscal year under review, we reviewed contracts with external subcontractors related to maintenance and other operations of the IT environment at each of the Group companies to enhance information management systems including that of the Company. We

also introduced an electronic contract (signature) system for some contracts to prevent the leakage of documents and other materials, including material information, outside the Group.

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

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

c. Management of risk of loss

- i) Ensure thorough understanding, analysis and assessment of risks

In accordance with the Risk Management and Compliance Program formulated at the beginning of each fiscal year, we implement a survey to identify about 30 significant risks that have material impacts on the Group's business (once a year), and stress tests (twice a year), taking account of real estate market conditions, transaction conditions, and the financing status of financial institutions. The results are reported at the Board of Directors' meetings.

We have also instructed each Group company to formulate plans for managing risks and promoting compliance in light of each company's business operations, focusing on ensuring that the parent company organization appropriately supports these plans.

- ii) Enhance monitoring of risk management

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

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

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

- iv) Promptly react to any occurrence of contingencies and disclose information

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

During the fiscal year under review, in response to the spread of COVID-19 from the end of 2021 (the sixth wave), we implemented an occupational vaccination program (second dose) to prevent our business from being severely affected. Furthermore, we periodically review the Crisis PR Manual, and develop simulation of possible crisis in response to conditions at the time and consider countermeasures on an ongoing basis.

d. Efficient execution of duties by Directors

- i) Carry out deliberation and decision-making on the important management matters, in an efficient, timely and appropriate manner

In order to further enrich and to make more efficient the deliberations of the Board of Directors (held on a regular and a temporary basis), we have implemented management

meetings held on a monthly basis and pre-Board meeting discussions to confer beforehand on matters to be resolved by the Board of Directors.

- ii) Eliminate excessive pursuit of efficiencies in the management plans, etc. and pursue the balance with the soundness

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

When drawing up the business plans and budgets for each fiscal year, we analyze the economic environment in Japan and overseas and the operating environment in the real estate market, conduct separate discussions with each department and Group company without setting goals that are over-ambitious, and make our final decisions as consolidated budgets at the Board of Directors' meeting.

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

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

e. Properness of operations of entire Group

- i) Ensure compliance with laws and regulations by officers and employees of each Group company

Through various trainings, etc. conducted by the Company and each Group company, we are striving for a full penetration of the understanding of the Group's philosophy and improvement of compliance awareness. In addition, we share information on compliance through implementation of the Risk Management and Compliance Program, established by the Company and each Group company, and attendance of responsible personnel of each Group company to meetings of the Company's Risk Management and Compliance Committee. Furthermore, the Company's in-house booklets about compliance with laws and regulations, called the Compliance Mind, are distributed to the Group companies to keep them informed of the importance of compliance. Also, we conduct the compliance and corporate philosophy questionnaire every fiscal year for all officers and employees in the Group, identify issues of each Group company, and consider responses to such issues.

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

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

During the fiscal year under review, we continued to implement the same measures to prevent the spread of COVID-19 across the Group and also focused on sharing the Group's basic policies for risk management and compliance with employees of companies that newly joined the Group.

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

appropriately

Annual business plans and budgets are prepared for each Group company, aimed toward the achievement of the Group's three-year medium-term management plan. When drawing up these plans and budgets, we analyze the economic environment in Japan and overseas as well as the environment for the business of each Group company, then make final decisions as consolidated budgets at the Board of Directors' meeting of the Company following separate discussions with each Group company so as to avoid setting goals that are over-ambitious.

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

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

With regard to important matters in the management and latent risks of each Group company, reports are made each month at meetings of the pre-Board meeting discussion and the Risk Management and Compliance Committee of the Company. Any contingencies, if occurred, are immediately reported to the chairman of the Risk Management and Compliance Committee of the Company, and a contingency management meeting composed of members including officers of the Company and each Group company is established to deliberate and implement countermeasures as a Group and to disclose information in a timely and appropriate manner.

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

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

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

In addition, the Company strengthens the system to ensure the appropriateness of financial reporting for the entire Group by leveraging a shared service in which the Company undertakes the accounting operations of some of the Group companies.

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

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

- f. System to ensure effective auditing by Audit & Supervisory Board Members

- i) Designate members of staff to assist Audit & Supervisory Board Members in their duties

The Internal Audit Department has been assigned as the department in charge, and the personnel of the Internal Audit Department provide assistant duties under the command of

Audit & Supervisory Board Members and carry out administrative duties for the Audit & Supervisory Board.

- ii) Ensure the independence of the aforementioned members of staff from Directors
Evaluations, rewards and punishments, and transfers of personnel of the Internal Audit Department are carried out after the concurrence from the Audit & Supervisory Board is obtained in advance.

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

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

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

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

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

At the pre-Board meeting discussions of the Company, where each Group company makes the monthly management reporting, and at interviews by full-time Audit & Supervisory Board Members of the Company with representative directors of each Group company held on a regular basis, each Group company is required to report occurrence and signs of any material losses and significant risks associated with management of the Group company. In addition, all officers and employees of the Group are continuously informed at morning briefings and training sessions that those who identify any breach of laws and regulations or misconduct have a duty to report Audit & Supervisory Board Members of the Company promptly.

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

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

In the compliance training sessions held during the fiscal year under review, video recording of a lecture by the Company's Director was widely distributed, in an effort to get across to its employees the Group's emphasis on protection of whistle-blowers in the Group whistle-blowing system in particular.

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

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

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

- vii) Provision of expenses associated with execution of duties of Audit & Supervisory Board Members

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

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

At the Board of Directors' meeting held subsequently to the Ordinary General Meeting of Shareholders, the Directors receive explanations of Audit & Supervisory Board Members' annual audit plans and make efforts to understand such plans and cooperate in their implementation. Also, Directors receive reports on audit activities by full-time Audit & Supervisory Board Members on a monthly basis, and report at the Board of Directors' meeting once every three months the status of their responses to the issues raised by Audit & Supervisory Board Members through meetings, etc.

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

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

7. Basic policy regarding the control of the Company

a. Details of the basic policy

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

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

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

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

1) 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 summary of the current medium-term management plan "Infinite Potential 2023," covering the period from December 2020 to November 2023 is stated in "1. Current status of the Group (4) Issues to be addressed" of the Business Report. During the fiscal year under review, as part of measures to "expand existing businesses" upheld in the said plan, the Group focused on the acquisition of non-current assets in an effort to increase its rental income and the increase of the balance of fund assets under management.

In addition, as part of measures to "create new income-generating models," the Group promoted measures to build a diverse real estate fund scheme and to fuse the Revitalization Business/Fund and Consulting Business with digital transformation (DX), in order to reinforce its competitive edge, and sold TREC No.3 and 4 securitizing condominium units within the framework of the Tosei Real Estate Crowd (TREC) Funding scheme, while pushing forward with research on real estate tech such as NFTs (non-fungible tokens). We also continue to make efforts with the aim of issuing security tokens backed by domestic real estate, which were launched in the previous fiscal year.

With regard to the promotion of sustainability and ESG management, we developed basic rules on the promotion of sustainability and rules on climate change risk management, and carried out efforts to enhance ESG information disclosure, raise in-house awareness, and leverage green loans. As a part of measures related to sustainability, we also established the "Tosei Group Human Rights Policy" and considered new plans for social contribution.

We aim to ensure and enhance the common interests of shareholders by improving the Group's corporate value through steady achievement of the targets set in the medium-term management plan and realization of proper corporate governance.

- 2) Measures to prevent decisions on the Company's financial and business policies from being controlled by persons deemed inappropriate under the basic policy

The Company renewed the "Plan for countermeasures to large-scale acquisitions of the shares in the Company (takeover defense plan)" with the approval at the 71st Ordinary General Meeting of Shareholders held on February 25, 2021 (the renewed takeover defense plan is to be referred to as the "Plan").

(i) Purpose of the Plan

The purpose of the Plan is, on the occasion that a proposal of large-scale acquisition of the shares in the Company is made, to ensure necessary and sufficient time and information for the shareholders to make appropriate decisions and to ensure opportunities to negotiate with the acquirer and the like, and thereby to deter takeovers that are against the corporate value of the Company and the common interests of its shareholders, and to ensure and enhance the corporate value of the Company and the common interests of its shareholders.

(ii) Targeted acquisitions

The Plan will be applied in cases of (i) a purchase or other acquisition that would result in the holding ratio of share certificates, etc. of a holder totaling at least 20% of the share certificates, etc. issued by the Company; or (ii) a tender offer that would result in the ownership ratio of share certificates, etc. of the party making the tender offer and the ownership ratio of share certificates, etc. of a person having a special relationship with the party totaling at least 20% of the share certificates, etc. issued by the Company, or any similar action, or a proposal for such action (except for those approved by the Board of Directors; such an action or proposal is to be referred to as the "Acquisition" and the party attempting the Acquisition is to be referred to as the "Acquirer").

(iii) Submission of Acquirer's Statement

The Company will request the Acquirer to submit to the Company in the form separately prescribed by the Company a document that includes an undertaking that the Acquirer will comply with the procedures set out in the Plan (signed by or affixed with the name and seal of the representative of the Acquirer) and a qualification certificate of the person who signed or affixed its name and seal to that document (collectively, "Acquirer's Statement") before commencing or effecting the Acquisition. The Acquirer's Statement must include the name, address or location of headquarters, location of offices, governing law for establishment, name of the representative, contact information in Japan for the Acquirer and the outline of the intended Acquisition.

(iv) Request to the Acquirer for the provision of information

The Company will provide the Acquirer the format for the Acquisition Document no later than 10 business days after receiving the Acquirer's Statement. The Acquirer must provide the Board of Directors with the document in the form provided by the Company, which includes the information described in each item of the list below.

The Company defines 60 days from the day following the day when the Company's Board of Directors first provides the Acquirer with the format for the Acquisition Document as the maximum period when the Company's Board of Directors and the Independent Committee request the Acquirer to provide information and the Acquirer replies to the request ("Period for Providing Information"). Even if sufficient Essential Information is not provided, the Independent Committee Consideration Period (to be described later in (v)) starts immediately when the maximum Period for Providing Information ends. The consideration shall be based on the information that has been provided up to that point of time. (If the Acquirer requests an extension of the period for a reasonable ground, the Company's Board of Directors and the Independent Committee may extend the period as necessary.)

- (a) Details (including name, capital structure, financial position, operation results, status of compliance with laws or ordinances, terms of previous transactions by the Acquirer similar to the Acquisition and effects on the corporate value of the target companies as a result of the transactions) of the Acquirer and its group (including Joint Holders, persons having a special relationship, members (in the case of a fund) and persons having a special relationship with a person in relation to whom the Acquirer is the controlled corporation)
- (b) The purpose, method and specific terms of the Acquisition (including the amount and type of consideration, the timeframe, the scheme of any related transactions, the legality of the Acquisition method, terms and conditions and the probability of the Acquisition)
- (c) The amount and basis for the calculation of the purchase price of the Acquisition (including assumptions and the like)
- (d) Financial support for the Acquisition (including the names of providers of funds (including all indirect providers of funds), financing methods and the terms of any related transactions and the like)
- (e) Details of communications regarding the Acquisition with a third party (if any)
- (f) Post-Acquisition management policy, administrative organization, business plan, capital, dividend and asset management policies for the Company and the Company group
- (g) Post-Acquisition policies for the Company's shareholders (other than the Acquirer), employees, business partners, customers, and any other parties such as stakeholders in the Company
- (h) Specific measures to prevent conflicts of interests between the Acquirer and other shareholders in the Company
- (i) Any other information that the Independent Committee reasonably considers necessary
- (v) Independent Committee Consideration

The Independent Committee will conduct its consideration of the Acquisition terms, collection of information on the materials such as the management plans and business plans of the Acquirer and the Board of Directors and comparison thereof, and consideration of any alternative plan presented by the Board of Directors, and the like for a period of time that does not, as a general rule, exceed 60 days after the date on which the Independent Committee receives the information (including the information additionally requested) from the Acquirer and (if the Independent Committee requests the Board of Directors to provide information) the Board of Directors or the date on which the Period for Providing Information ends, whichever is earlier. (The time required for such collection and consideration of information by the Independent Committee is referred to as the Independent Committee Consideration Period.) Further, if it is necessary in order to improve the terms of the Acquisition from the standpoint of ensuring and enhancing the corporate value of the Company and the common interests of its shareholders, the Independent Committee will directly or indirectly discuss and negotiate with the Acquirer.

If the Independent Committee determines that the Acquisition by the Acquirer falls under any of the requirements described in (ix) below, the Independent Committee will recommend the implementation of the gratis allotment of stock acquisition rights to the Board of Directors except in any specific case where further disclosure of information by the Acquirer or discussion or negotiation with the Acquirer is necessary.

- (vi) Resolutions by the Board of Directors

The Board of Directors will pass a resolution relating to the implementation or non-implementation of a gratis allotment of stock acquisition rights respecting the recommendation of the Independent Committee described above to the maximum extent. If a meeting of shareholders is convened in accordance with (vii) below, the Board of Directors will pass a resolution in accordance with the resolution at the meeting of

shareholders.

(vii) Convocation of the Shareholders Meeting

Upon the implementation of the gratis allotment of the stock acquisition rights pursuant to the Plan, the Board of Directors may convene a meeting of shareholders (the “Shareholders Meeting”) and confirm the intent of the Company’s shareholders regarding the implementation of the gratis allotment of the stock acquisition rights, if (i) the Independent Committee recommends implementation of the gratis allotment of stock acquisition rights subject to confirming the shareholders’ intent in advance, or (ii) the applicability of Trigger Event (2) becomes an issue in respect of the Acquisition and the Board of Directors determines it appropriate to confirm the shareholders’ intent taking into consideration the time required to convene the Shareholders Meeting or other matters pursuant to the duty of care of a director.

(viii) Information disclosure

The Company will disclose, in a timely manner, information on matters that the Board of Directors considers appropriate including the progress of each procedure set out in the Plan, an outline of recommendations made by the Independent Committee, an outline of resolutions by the Board of Directors and an outline of resolutions at the Shareholders Meeting.

(ix) Requirements for the gratis allotment of stock acquisition rights

The requirements to trigger the Plan to implement a gratis allotment of stock acquisition rights are as follows. The Board of Directors will make a determination as to whether any of the following requirements applies to an Acquisition for which the recommendation by the Independent Committee has been obtained.

Trigger Event (1)

The Acquisition is not in compliance with the procedures prescribed in the Plan (including cases that time and information reasonably necessary to consider the details of the Acquisition is not offered) and it is reasonable to implement the gratis allotment of stock acquisition rights.

Trigger Event (2)

The Acquisition falls under any of the items below and it is reasonable to implement the gratis allotment of stock acquisition rights.

- (a) An Acquisition that threatens to cause obvious harm to the corporate value of the Company and, in turn, the common interests of its shareholders through any of the following actions
- A buyout of share certificates, etc. to require such share certificates, etc. to be compulsorily purchased by the Company or the Company’s affiliates at a high price
 - Management that achieves an advantage for the Acquirer to the detriment of the Company, such as temporary control of the Company’s management for the low-cost acquisition of the Company’s material assets
 - Diversion of the Company’s assets to secure or repay debts of the Acquirer or its group company
 - Temporary control of the Company’s management to bring about the disposal of high-value assets that have no current relevance to the Company’s business and declaring temporarily high dividends from the profits of the disposal, or selling the shares at a high price taking advantage of the opportunity afforded by the sudden rise in share prices created by the temporarily high dividends
- (b) Certain Acquisitions that threaten to have the effect of coercing shareholders into selling shares, such as coercive two-tiered tender offers (meaning acquisitions of shares

including tender offers, in which no offer is made to acquire all shares in the initial acquisition, and acquisition terms for the second stage are set that are unfavorable or unclear)

- (c) Acquisitions to which the terms (including the amount and type of consideration, timeframe, legality of the Acquisition method, probability of the Acquisition being effected, and post-Acquisition management policies or business plans and policies dealing with the Company's other shareholders, employees, customers, business partners and any other stakeholders in the Company) are inadequate or inappropriate in light of the Company's intrinsic value
- (d) Acquisitions that materially threaten to oppose the corporate value of the Company and, in turn, the common interests of shareholders, by destroying relationships with the Company's employees, customers, business partners and the like and the brand strength or the corporate culture of the Company, which are indispensable to the generation of the Company's corporate value
- (e) An Acquisition to be effected by an Acquirer who is extremely inappropriate to acquire the control of the Company in terms of public order and morals in cases such as where a person related to an anti-social force is included in the management of or the major shareholders in the Acquirer
- (x) Outline of the stock acquisition rights

The stock acquisition rights which will be allotted gratis in accordance with the Plan can be exercised by paying the amount determined by the Board of Directors within the range between the lower limit of one yen and the upper limit of 50% of the market price of one share of the stock of the Company. As a general rule, one ordinary share can be acquired by the exercise. Further, a term of exercise that an exercise of rights by non-qualified parties including the Acquirer is not permitted and a term of acquisition that the Company can acquire one stock acquisition right in exchange for one share of the stock of the Company as a general rule from parties other than non-qualified parties are attached.

- (xi) Effective period of the Plan

The effective period of the Plan expires at the conclusion of the ordinary general meeting of shareholders relating to the last fiscal year ending within three years after the conclusion of the 71st Ordinary General Meeting of Shareholders. However, if, before the expiration of the Effective Period, the Board of Directors resolves to abolish the Plan, the Plan will be abolished at that time.

- (xii) Impact on shareholders

Even after introducing the Plan, assuming gratis allotment of stock acquisition rights has not been implemented, there is no direct or specific impact on shareholders. If the gratis allotment of stock acquisition rights has been implemented in accordance with the Plan, and the shareholders do not follow the procedures for exercising stock acquisition rights, the value of shares held may be diluted (However, if the Company acquires stock acquisition rights in exchange for shares in the Company, no dilution of share value will take place.).

- c. Decisions and reasoning by the Board of Directors regarding above specific measures

The medium-term management plan and various measures such as the enhancement of corporate government of the Company are developed as specific measures to continuously and sustainably improve the corporate value of the Company and the common interests of its shareholders, and are consistent with the Company's basic policy.

The Plan is a mechanism to ensure and enhance the corporate value of the Company and the common interests of its shareholders and thus is consistent with the basic policy. In particular, fairness and objectivity are ensured under the Plan because: the Plan satisfies the three principles set out in the Guidelines Regarding Takeover Defense (the Ministry of Economy, Trade and Industry, etc.); approval of the General Meeting of Shareholders has been obtained regarding the

renewal of the Plan, the effective period is to be a maximum of approximately three years and the Plan may be abolished at any time by a resolution by the Board of Directors; the Independent Committee composed of highly independent members including Outside Directors has been established and the Plan must never be triggered without a decision of the Independent Committee; reasonable and objective requirements regarding the triggering are established; the Independent Committee may at the cost of the Company obtain advice from independent third party specialists; the Board of Directors shall, under certain circumstances, confirm the intent of the shareholders at the Shareholders Meeting regarding the need to trigger the Plan; and the Plan is not a takeover defense measure in which even if a majority of the members of the Board of Directors are replaced, the triggering of the measure cannot be stopped (dead-hand type), or a takeover defense measure in which it takes long time to replace a majority of the members of the Board of Directors due to a staggered board of directors system (slow-hand type). Accordingly, the purpose of the Plan is not to maintain the position of the Company's Directors and Audit & Supervisory Board Members, but to contribute to the corporate value of the Company and, in turn, the common interests of its shareholders.

<Consolidated Financial Statements>

Consolidated Statement of Financial Position

(As of November 30, 2022)

(¥ thousand)

Assets		Liabilities	
Item	Amount	Item	Amount
Current assets	137,131,544	Current liabilities	22,436,575
Cash and cash equivalents	31,767,008	Trade and other payables	5,681,615
Trade and other receivables	10,038,132	Interest-bearing liabilities	13,739,325
Inventories	95,303,762	Current income tax liabilities	1,935,664
Other current assets	22,640	Provisions	1,079,970
Non-current assets	73,824,257	Non-current liabilities	116,228,549
Property, plant and equipment	22,963,356	Trade and other payables	3,612,629
Investment properties	39,864,258	Interest-bearing liabilities	111,108,220
Goodwill	1,401,740	Retirement benefits obligations	704,268
Intangible assets	205,354	Provisions	15,449
Trade and other receivables	1,457,809	Deferred tax liabilities	787,980
Other financial assets	7,219,963	Total liabilities	138,665,124
Deferred tax assets	698,518	Equity	
Other non-current assets	13,254	Equity attributable to owners of the parent	72,290,677
		Share capital	6,624,890
		Capital reserves	6,775,532
		Retained earnings	60,029,994
		Treasury shares	(1,533,670)
		Other components of equity	393,929
		Total equity	72,290,677
Total assets	210,955,801	Total liabilities and equity	210,955,801

Consolidated Statement of Comprehensive Income

(From December 1, 2021 to November 30, 2022)

	(¥ thousand)
Item	Amount
Revenue	70,953,486
Cost of revenue	45,686,452
Gross profit	25,267,033
Selling, general and administrative expenses	12,107,013
Other income	359,807
Other expenses	5,624
Operating profit	13,514,203
Finance income	377,620
Finance costs	1,138,284
Profit before tax	12,753,538
Income tax expense	4,146,450
Profit for the year	8,607,088
Other comprehensive income	
Items that will not be reclassified to net profit or loss	
Net change in financial assets measured at fair values through other comprehensive income	105,128
Remeasurements of defined benefit pension plans	(11,680)
Total items that will not be reclassified to net profit or loss	93,447
Items that may be reclassified to net profit or loss	
Exchange differences on translation of foreign operations	38,663
Net change in fair values of cash flow hedges	45,168
Total items that may be reclassified to net profit or loss	83,832
Other comprehensive income for the year, net of tax	177,279
Total comprehensive income for the year	8,784,368
Profit attributable to:	
Owners of the parent	8,607,088
Total comprehensive income attributable to:	
Owners of the parent	8,784,368

Consolidated Statement of Changes in Equity

(From December 1, 2021 to November 30, 2022)

(¥ thousand)

	Equity attributable to owners of the parent					Total equity attributable to owners of the parent	Total equity
	Share capital	Capital reserves	Retained earnings	Treasury shares	Other components of equity		
Balance as of December 1, 2021	6,624,890	6,790,172	53,250,370	(911,662)	204,969	65,958,740	65,958,740
Comprehensive income for the year							
Profit for the year			8,607,088			8,607,088	8,607,088
Other comprehensive income					177,279	177,279	177,279
Total comprehensive income for the year	–	–	8,607,088	–	177,279	8,784,368	8,784,368
Amount of transactions with owners							
Purchase of treasury shares		(1,837)		(885,972)		(887,809)	(887,809)
Disposal of treasury shares		(12,802)		263,964		251,161	251,161
Dividends from surplus			(1,815,783)			(1,815,783)	(1,815,783)
Transfer from other components of equity to retained earnings			(11,680)		11,680	–	–
Total amount of transactions with owners	–	(14,640)	(1,827,463)	(622,007)	11,680	(2,452,431)	(2,452,431)
Balance as of November 30, 2022	6,624,890	6,775,532	60,029,994	(1,533,670)	393,929	72,290,677	72,290,677

Notes to Consolidated Financial Statements

1. Significant matters in preparing consolidated financial statements

(1) Basis of preparation of consolidated financial statements

Pursuant to the provisions of Article 120, paragraph 1 of the Regulations on Corporate Accounting, consolidated financial statements have been prepared in conformity with the International Financial Reporting Standards (IFRS). In accordance with the provision of the latter part of the same paragraph, some disclosure items required under IFRS are omitted in the consolidated financial statements.

(2) Scope of consolidation

1) Number and names of consolidated subsidiaries

- Number of consolidated subsidiaries: 12
- Names of consolidated subsidiaries: Tosei Community Co., Ltd.
Tosei Asset Advisors, Inc.
Tosei Logistics Management Co., Ltd.
Tosei Hotel Management Co., Ltd.
Tosei Hotel Service Co., Ltd.
Princess Square Co., Ltd.
Tosei Chintai Hosho LLC
Tosei Singapore Pte. Ltd.
Kishino Corporation
Masuda Kenzai-ten Co., Ltd.
Sanki-shoji Co., Ltd.
Isogo Asset Management Co., Ltd.

2) Change in scope of consolidation

During the fiscal year under review, the Company acquired shares in Isogo Asset Management Co., Ltd. and Threefold Co., Ltd., and accordingly, has included them in the scope of consolidation.

Princess Holdings Co., Ltd., ICOMPANY, Inc., G.P. Asset Co., Ltd. and Let's Creation Co., Ltd. ceased to exist due to an absorption-type merger with Princess Square Co., Ltd. as the surviving company, and accordingly, they have been excluded from the scope of consolidation.

Furthermore, Tosei Urban Home Corporation and Threefold Co., Ltd. have been excluded from the scope of consolidation as a result of the completion of their liquidation.

(3) Application of equity method

There are no subsidiaries and affiliates to be accounted for by the equity method.

(4) Accounting policies

1) Financial instruments

(i) Valuation basis and methods for financial assets

The Group classifies investments in financial assets in three categories: financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income, and financial assets measured at fair value through profit or loss. This classification is made according to the nature of assets and for what purpose the assets were acquired. The classification of investments is determined on initial recognition, and whether the classification is appropriate is reassessed at each reporting date.

(A) Classification of financial assets

(a) Financial assets measured at amortized cost

Financial assets are classified as financial assets measured at amortized cost, if both of the

following conditions are met:

- The asset is held based on a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(b) Financial assets measured at fair value through other comprehensive income (debt financial assets)

Financial assets are classified as financial assets measured at fair value through other comprehensive income, if both of the following conditions are met:

- The asset is held based on a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After the initial recognition, the assets are measured at fair value and subsequent changes are recognized in other comprehensive income. As of the end of the fiscal year under review, no financial assets measured at fair value through other comprehensive income (debt financial assets) were held by the Group.

(c) Financial assets measured at fair value through other comprehensive income (equity financial assets)

Equity financial assets are classified as financial assets measured at fair value through other comprehensive income, with the exception of some assets.

Of the financial assets measured at fair value through other comprehensive income (equity financial assets) held by the Group, the fair value of listed securities is measured at quoted market prices. For financial assets for which there is no active market and unlisted securities, the Group calculates fair value using certain valuation techniques, in particular, which include recent cases of arm's length transactions, references to prices of other financial instruments that are substantially equivalent, the discounted cash flow method, and others.

(d) Financial assets measured at fair value through profit or loss

Financial assets other than financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income are classified as financial assets measured at fair value through profit or loss.

(B) Recognition and subsequent measurement

Purchase and sale of a financial asset are recognized at the transaction date, which is the date on which the Group commits itself to purchase or sell the asset. A financial asset is derecognized when the rights to receive cash flows from the asset are extinguished or transferred, and the Group has substantially transferred all the risks and economic value incidental to ownership of the asset. A financial asset is initially recognized at the fair value plus directly attributable transaction costs, and subsequently measured at the fair value.

(C) Impairment

The Group assesses financial assets or financial asset groups on a quarterly basis on whether there is any objective evidence that the asset or asset group is impaired. When there is objective evidence, impairment losses are recognized. Of financial assets measured at amortized cost, objective evidences for impairment of trade and other receivables are debtors' financial difficulties, possibility of bankruptcy, or impossibility or significant delays of payments. Book values of such assets are written down using allowance based on the amount

of impairment loss calculated as the difference between the present value of estimated future cash flows discounted at the initial effective interest rate and the book value. If the asset becomes unrecoverable, the amount of impairment loss is directly reduced from the book value of the financial asset.

Reversal of an amount previously amortized is recognized in the profit or loss item in which impairment loss is accounted for. If such amount can be objectively measured because the amount of impairment loss has decreased resulting from an increase in the present value of estimated future cash flows discounted at the initial effective interest rate, the amount of decrease in the allowance is recognized in profit or loss in subsequent accounting periods. The book value of assets previously impaired are increased within the scope of amount not exceeding the amortized cost that are assumed in case of non-impairment.

For equity financial assets, the possibility that the cost of investment is not recoverable and whether there is a significant or long-term decrease of fair value, which are included in information on significant changes that have adverse effects arising in the business environment where an issuer runs its business, are also taken into account in assessing whether there is any objective evidence for impairment. When there is objective evidence of impairment for equity financial assets, accumulated other comprehensive income are immediately transferred to retained earnings.

(ii) Valuation basis and methods for financial liabilities

The Group recognizes a financial liability at the transaction date on which the Group becomes a party to the contract of the financial instrument.

The Group derecognizes a financial liability when it is extinguished, that is, when the contractual obligation is either discharged, cancelled, or expires.

Furthermore, the Group initially recognizes a financial liability at fair value and subsequently measures at amortized cost based on the effective interest method.

2) Valuation basis and methods for inventories

Inventories are assessed at cost or, if lower, at net realizable value. Net realizable value is calculated by deducting costs to sell from the estimated selling price.

The cost of inventories is comprised of purchase prices, development expenses, borrowing costs and separately identified expenditure including other related expenditure.

Borrowing costs for borrowings for developed real estate are capitalized as part of cost of the developed real estate over the period up to the end of the development, based on the specific identification method.

3) Depreciation method for significant depreciable assets

(i) Property, plant and equipment

The Group applies the cost model in measurement of property, plant and equipment.

Property, plant and equipment are measured at the carrying amount, which is calculated as cost less any accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes cost directly incidental to the acquisition of assets, and costs of dismantling and removing the assets and restoring the site on which they are located, and borrowing costs directly attributable to acquisition, construction or production of qualifying assets.

Subsequent expenditures on property, plant and equipment that have already been recognized are included in the carrying amount of the assets only if it is highly probable to generate future economic benefits related to the items for the Group and the expenditures can be measured reliably. Costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss when incurred.

Depreciation of assets except for land and construction in progress is principally computed

under the straight-line method over the following estimated useful lives. The declining balance method is applied, if depreciation based on the declining balance method better reflects the pattern in which the future economic benefits embodied in the asset are expected to be consumed by the entity.

Buildings and structures 3 to 50 years

Tools, furniture and fixtures 3 to 20 years

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

(ii) Investment properties

Investment properties are properties held to earn rentals or for capital gain or both, and do not include properties for sale in the ordinary course of business or used for administrative purposes.

The Group applies the cost model in measurement of investment properties.

Investment properties are initially recognized at cost, and subsequently presented at the carrying amount, which is calculated as cost less any accumulated depreciation and accumulated impairment losses. Depreciation of investment properties is principally computed under the straight-line method over the following estimated useful lives. The declining balance method is applied, if depreciation based on the declining balance method better reflects the pattern in which the future economic benefits embodied in the asset are expected to be consumed by the entity.

Buildings and structures 3 to 50 years

Tools, fixtures and fittings 3 to 10 years

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

(iii) Goodwill and intangible assets

(A) Goodwill

Goodwill is presented at the carrying amount, which is calculated as cost less any accumulated impairment losses. Goodwill is not amortized, and is tested for impairment at the end of each year or whenever there is an indication of impairment. Impairment losses on goodwill are recognized in the consolidated statement of comprehensive income and are not subsequently reversed.

(B) Intangible assets

The Group applies the cost model in measurement of intangible assets. An intangible asset is carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets with finite useful lives are amortized using the straight-line method over their estimated useful lives. The estimated useful lives and amortization methods are reviewed in each fiscal year, and if there are any changes made, those changes are applied prospectively as a change in accounting estimate.

The estimated useful lives of major asset items are as follows:

- Software 5 years

Subsequent expenditures on intangible assets that have already been recognized are included in the carrying amount of the assets only if it is highly probable to generate future economic benefits related to the items for the Group and the expenditures can be measured reliably. Other expenditures are recognized in profit or loss when incurred.

Acquired software is initially recognized at cost including purchase consideration (net of discounts and rebates) and expenditures directly attributable to the preparation for the asset for the intended use.

Intangible assets with indefinite useful lives are not amortized, and are tested for impairment at the end of each year or whenever there is an indication of impairment.

(iv) Leases

The Group assesses whether a contract is or contains a lease at inception of a contract. A contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. When the Group assesses that a contract is or contains a lease, at the commencement of the lease, the Group recognizes right-of-use assets and lease liabilities.

Lease liabilities are measured at the present value of the total accrued lease payments. Right-of-use assets are measured at acquisition costs that are calculated using the amount of the initial measurement of the lease liabilities, adjusted by any initial direct costs incurred by the lessee, such as lease payments made at or before the commencement date.

Subsequent to the initial recognition, the right-of-use assets are depreciated using the straight-line method over their estimated useful life or lease term, whichever is shorter. The lease payments are apportioned between the finance costs and the reduction in the lease liabilities based on the effective interest method. The finance costs are recognized in the consolidated statement of comprehensive income.

Provided, however, for lease payments for short-term leases within 12 months and leases of low-value assets, right-of-use assets and lease liabilities are not recognized, and the lease payments are recognized as an expense over the lease term on a straight-line basis.

4) Impairment of non-financial assets

The Group assesses whether there is any indication of impairment on a quarterly basis for the carrying amount of non-financial assets except inventories and deferred tax assets. If any such indication exists, the Group estimates the recoverable amount of the asset or each cash-generating unit to which the asset belongs for impairment testing. Goodwill and intangible assets with indefinite useful lives are tested for impairment at the same time annually, or whenever there is an indication of impairment, by estimating the recoverable amount of the asset.

A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amount is the higher of its fair value less costs to sell and its value in use. When the recoverable amount of an asset or cash-generating unit falls below the carrying amount, the carrying amount of the asset or cash-generating unit is reduced to the recoverable amount.

The difference between the carrying amount and the recoverable amount is recognized in profit or loss as an impairment loss.

Impairment losses related to goodwill are not reversed.

With regard to other assets other than goodwill for which an impairment loss has been recognized in prior years, the Group assesses whether there is any indication that the loss has decreased or been extinguished. If any such indication exists, the Group estimates the recoverable amount of the asset or cash-generating unit.

If the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, the impairment loss is reversed up to the carrying amount that would have been determined had no impairment loss been recognized, net of necessary depreciation and amortization, and is recognized as profit or loss.

5) Recognition of significant provisions

Provisions are recognized when there are present legal or constructive obligations as a result of past events; it is probable that outflows of economic benefits will be required to settle the obligations; and reliable estimates can be made of the amount of obligations.

6) Employment benefits

(i) Defined benefit pension plans

Liabilities associated with defined benefit pension plans are calculated by discounting the estimated amount of future benefits obtained in return for services that employees rendered in prior years or the fiscal year under review to the present value. The yield of gilt-edged corporate bonds of which the maturity largely matches that of the Group's debts is used as the discount rate. These liabilities are calculated by actuaries using the projected unit credit method. Remeasurement amounts arising from defined benefit pension plans are recognized as other comprehensive income and the amounts are transferred to retained earnings.

(ii) Defined contribution pension plans

Defined contribution pension plans are post-employment benefit plans in which an employer pays fixed contributions to a separate entity and will have no obligation to pay further contributions. Contributions associated with defined-contribution pension plans are recognized in profit or loss in the period during which employees render services.

(iii) Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are recognized as profit or loss when the related service is rendered.

Bonus accrual and paid absences are recognized as liabilities, when the Group has present legal or constructive obligations to pay, and when a reliable estimate of the amount of obligations can be made.

7) Revenue

(i) Revenue from contracts with customers

The Group recognizes revenue from contracts with customers based on the following five-step approach, except for interest and dividend income, etc. under IFRS 9 *Financial Instruments* and rental income, etc. under IFRS 16 *Leases*.

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

The Group's major businesses are the Revitalization Business, the Development Business, the Rental Business, the Fund and Consulting Business, the Property Management Business and the Hotel Business. Revenue generated from these businesses is recorded in accordance with contracts with customers. Information related to performance obligations, the method of determining transaction price, and the timing of revenue recognition in each business are outlined below.

(Revitalization Business)

This business acquires office buildings, commercial facilities, apartments and other properties whose asset value has declined, boosts their value through "value-up plans" judged to best match the characteristics of the properties' areas and tenant requirements, and sells them as revitalized real estate to buyers including investors, real estate funds and individual business entities that acquire real estate for private use. With regard to sale of properties, the Group is obliged to transfer a property to a customer based on a property sale and purchase contract with the customer, etc. Such performance obligation is satisfied at a point in time when the property is transferred, and revenue is recognized at the time of property transfer. The transaction price is determined based on the property sale and purchase contract, etc. A portion of the selling price is received as a deposit at the time the contract is concluded, and the remaining amount is received at the time the property is transferred.

(Development Business)

In this business, the Group verifies the characteristics of land it acquires including area, shape, intended purpose, relevant needs, rent, and selling price. Based on this, the Group carries out development and new construction to maximize the value of the land, and sells whole buildings or individual units. The performance obligations of the business and the timing of fulfillment thereof, the method of determining transaction price, the timing of revenue recognition, etc. are the same as those of the Revitalization Business.

(Rental Business)

In this business, the Group rents its own office buildings, condominiums, stores and parking lots to end-users and others primarily in the main districts of Tokyo. With regard to leasehold properties, the Group is obliged to make available electricity, gas, water, and other services based on a lease contract with a customer. The performance obligation is satisfied over a certain period of time during which the service is provided. Based on the measured amount of electricity, gas, water, and other services used by the customer, the Group recognizes as revenue the amount obtained by multiplying the measured amount of usage by the billing unit price. The Group receives payment for the previous month's usage at the end of the month.

(Fund and Consulting Business)

The Group provides asset management services for real estate funds, including the acquisition and disposal of trust beneficiary rights, etc., and management thereof during the holding period.

Based on an asset management contract, the Group is obligated to provide services related to the acquisition and disposal of trust beneficiary rights, etc., and management thereof during the holding period.

The obligation to provide services related to the acquisition and disposal of trust beneficiary rights, etc. is satisfied at a point in time when the services are completed, and revenue is recognized upon completion of services. The transaction price is determined based on the relevant contract and payment is received at the time of acquisition or disposal.

On the other hand, the performance obligation for management services during the holding period is satisfied over a certain period of time during which the services are provided. Revenue in each fee calculation period is recognized in the amount obtained by multiplying the book value of trust beneficiary rights, etc. by a certain interest rate for the period. The transaction price is determined based on the relevant contract and payments are received on a quarterly basis.

(Property Management Business)

This business includes equipment management, cleaning, and security for real estate properties, tenant management, and tenant solicitation.

Based on a property management contract, the Group is obligated to provide services such as equipment management and cleaning. This performance obligation is satisfied over a certain period of time. Property management reports are obtained by a specified date each month, and the amount based on the contract is recognized as revenue. The transaction price is determined based on the contract and payment for the month is received at the end of the following month.

(Hotel Business)

The Group is engaged in planning, operation, etc. of its own hotels mainly in the Tokyo metropolitan area.

The Group is obligated to provide hotel accommodation services based on accommodation terms and conditions. The performance obligation is satisfied at a point in time when the service is completed, and revenue is recognized upon completion of service. The transaction price is determined based on the accommodation terms and conditions, hotel rates in the neighboring area, and other factors, and payment is received at the time of departure of the guest or upon requested by the hotel.

With regard to performance obligations to be satisfied over a certain period of time in the Rental

Business, the Fund and Consulting Business, and the Property Management Business, revenue is recognized using the output method according to the stage of provision of services or when provision of services is finished, and the point at which a performance obligation is satisfied is determined in accordance with the content of a contract with a customer.

(ii) Operating lease of rental properties

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

(iii) Interest income

Interest income is recognized using the effective interest method.

(iv) Dividend income

Dividend income is recognized when the right to receive dividend is vested.

8) Significant hedge accounting method

Derivatives are initially recognized at fair value on the day when the derivative contract is entered into, and subsequently remeasured at fair value at each reporting date.

The Group has concluded interest rate swap contracts in order to hedge changes in future cash flows associated with floating-rate borrowings. At the inception of the hedge, concluded derivatives are designated as cash flow hedge and documented.

The Group also assesses whether a derivative used in the hedge transaction is highly effective in offsetting fair value of the hedged item or changes in cash flows, at the inception of the hedge or on an ongoing basis.

Changes in fair value of derivative transactions that are designated as cash flow hedge and qualify for cash flow hedge are recognized in equity through other comprehensive income. Of changes in fair value of derivative transactions, ineffective portion is immediately recognized in profit or loss.

9) Foreign currency translation methods

(i) Foreign currency transactions

Foreign currency transactions are translated into the functional currencies of each entity in the Group using the exchange rates at the date of the transactions. Assets and liabilities denominated in foreign currencies to be remeasured at the end of each reporting period are retranslated into the functional currencies using the exchange rates at that date. Non-monetary assets and liabilities measured at fair value in foreign currencies are retranslated into the functional currencies using the exchange rates at the date when the fair value was determined.

Foreign exchange differences arising on the settlement of such transactions, and exchange differences arising on translating foreign currency-denominated monetary assets and liabilities using the exchange rates at the end of the reporting period, are recognized in profit or loss. However, when a gain or loss on a non-monetary item is recognized in other comprehensive income, the foregoing exchange differences are also recognized in other comprehensive income.

(ii) Foreign operations

Assets and liabilities of foreign operations are translated into Japanese yen using the exchange rate at the reporting date. Income and expenses are translated into Japanese yen using the average exchange rate for the period. However, if such an average exchange rate is not considered as a reasonable approximation of the cumulative effect of the exchange rates at the transaction dates, the exchange rates at the transaction dates are used.

Exchange differences arising on translating financial statements of foreign operations are recognized in other comprehensive income. On the disposal of the interest in a foreign operation involving loss of control or significant influence, the cumulative amount of the exchange differences in connection with the foreign operation is recognized in profit or loss in the period during which the interest is disposed of.

(5) Notes on accounting estimates

Valuation of inventories

1) Amount recorded in the consolidated financial statements for the fiscal year under review

Real estate for sale	¥74,267,531 thousand
Real estate for sale in process	¥21,036,231 thousand
Loss on valuation of inventories (reversal of loss)	¥(576,133) thousand

2) Information on the nature of significant accounting estimates for identified items

(i) Calculation method

Real estate for sale and real estate for sale in progress are assessed at the lower of cost or net realizable value. Net realizable value is calculated for each individual property by deducting costs to sell from the estimated selling price. If the net realizable value is less than the cost, the cost is reduced to the net realizable value and the difference is recognized as a loss on valuation of inventories in the cost of revenue. In addition, when it is evident that the net realizable value has recovered due to changes in economic conditions and other factors, the loss on valuation of inventories is reversed accordingly, up to the acquisition cost.

(ii) Key assumptions

In calculating the net realizable value of properties for investors, assumptions such as rent, vacancy rate, and rental expenses are determined by comprehensively taking into account market trends, transaction cases of similar properties, past performance, and other factors. The discount rate is determined based on similar transactions, interest rate trends, etc. In addition, real estate appraisals are obtained as necessary.

For build-for-sale detached houses, assumptions are determined based on the most recent sales results, market trends, and other factors.

In making accounting estimates, the Group estimates selling prices of real estate for sale and real estate for sale in progress as well as development costs, such as value-up activities and construction costs, which are the basis for calculating their net realizable value, for each individual property. In the course of long-term real estate development and sales activities, these components of estimates have been affected by fluctuations in the economic environment and interest rates, competitive conditions in the real estate market, external factors in real estate development, and the impact of COVID-19 and other factors.

(iii) Effect on the consolidated financial statements for the fiscal year ending November 30, 2023

Key assumptions are determined based on the best estimates available at the time of preparation of the consolidated financial statements. However, in the event of unexpected events such as deterioration in the economic environment and any subsequent changes in key assumptions, such changes may have a significant impact on the calculation of net realizable value.

Impairment losses on non-current assets

1) Amount recorded in the consolidated financial statements for the fiscal year under review

Property, plant and equipment	¥22,963,356 thousand
Investment properties	¥39,864,258 thousand

2) Information on the nature of significant accounting estimates for identified items

(i) Calculation method

The Group assesses whether there is any indication that an asset or asset group may be impaired, and if any such indication exists, estimates the recoverable amount of the cash-generating unit. Recoverable amount is the higher of fair value less costs of disposal and value in use. If the recoverable amount of a cash-generating unit is less than its carrying amount, the carrying amount is reduced to its recoverable amount, and the amount of reduction is recognized as an

impairment loss.

(ii) Key assumptions

In calculating future cash flows for hotels, assumptions such as occupancy rates and average room rates are determined by comprehensively taking into account market trends, past performance, and other factors. The discount rate used to calculate the value in use is determined based on similar transactions, interest rate trends, etc. The fair value after deducting the costs of disposal is set at an amount considered appropriate based on comparable transactions in the surrounding area, real estate appraisals, published land prices, and other data. The recoverable amount is measured by the greater of value in use based on estimated future cash flows and a discount rate, or fair value less costs of disposal. Key assumptions made in the business plan are the future occupancy rates, average room rates and discount rates in the Hotel Business, which are the basis for the future cash flows. The future cash flows were estimated based on the assumption that the business will recover from the effects of COVID-19.

In calculating future cash flows for properties other than hotels, assumptions such as rent, vacancy rate, and rental expenses are determined by comprehensively taking into account market trends, transaction cases of similar properties, past performance, and other factors. The discount rate used to calculate the value in use is determined based on similar transactions, interest rate trends, etc. The fair value after deducting the costs of disposal is set at an amount considered appropriate based on comparable transactions in the surrounding area, real estate appraisals, published land prices, and other data.

(iii) Effect on the consolidated financial statements for the fiscal year ending November 30, 2023

Key assumptions are determined based on the best estimates available at the time of preparation of the consolidated financial statements. However, in the event of unexpected events such as deterioration in the economic environment and any subsequent changes in key assumptions, such changes may have a significant impact on the calculation of fair value less costs of disposal or value in use.

(6) Additional information

Impact of the spread of COVID-19 on accounting estimates

In determining accounting estimates for valuation of inventories, impairment accounting for non-current assets, recoverability of deferred tax assets, and other items, the Group has assumed that the spread of COVID-19 will have a certain impact on future earnings.

In the fiscal year under review, the Group recognizes that real estate markets other than hotels and commercial facilities have already recovered. For hotels and commercial facilities, the Group expects that the impact of COVID-19 will persist for the time being, and that it will gradually recover toward November 30, 2023.

2. Notes to consolidated statement of financial position

(1) Assets pledged as security

	(¥ thousand)
Details of pledged assets and the amounts	
Inventories	89,623,916
Property, plant and equipment	21,485,468
Investment properties	34,025,422
Total	145,134,807
Amount of securitized obligation	
Interest-bearing liabilities	118,911,154
Total	118,911,154

- (2) Allowance for credit losses deducted directly from assets ¥4,681 thousand
- (3) Accumulated depreciation on assets
- | | |
|-------------------------------|--------------|
| | (¥ thousand) |
| Property, plant and equipment | 3,024,940 |
| Investment properties | 3,261,935 |
- (4) Change in holding purpose of assets
- The following asset transfers were made due to changes in holding purpose of assets.
- | | |
|---|---------------------|
| From investment properties to inventories | ¥2,645,443 thousand |
|---|---------------------|

3. Notes to consolidated statement of changes in equity

- (1) Class and total number of shares issued

(shares)				
Class of shares	Number of shares at beginning of the fiscal year under review	Increase	Decrease	Number of shares at end of the fiscal year under review
Ordinary shares	48,683,800	–	–	48,683,800

- (2) Class and total number of treasury shares

(shares)				
Class of shares	Number of shares at beginning of the fiscal year under review	Increase	Decrease	Number of shares at end of the fiscal year under review
Ordinary shares	900,022	774,300	250,200	1,424,122

(Notes) 1. The increase in the number of treasury shares is mainly due to the acquisition pursuant to the Articles of Incorporation of the Company in accordance with the provision of Article 165, paragraph 2, of the Companies Act.

2. The decrease in the number of treasury shares is mainly due to the exercising of stock options.

- (3) Dividends from surplus

- 1) Cash dividends paid, etc.

Matters regarding dividends based on the resolution of the 72nd Ordinary General Meeting of Shareholders held on February 25, 2022

- Total dividends ¥1,815,783 thousand
- Dividends per share ¥38
- Record date November 30, 2021
- Effective date February 28, 2022

- 2) Dividends whose record date is in the fiscal year under review and effective date is after the end of the fiscal year under review

A proposal will be submitted as follows at the 73rd Ordinary General Meeting of Shareholders to be held on February 24, 2023.

- Total dividends ¥2,410,243 thousand
- Dividends per share ¥51
- Dividend resources Retained earnings
- Record date November 30, 2022
- Effective date February 27, 2023

- (4) Number of shares delivered upon exercise of stock acquisition rights as of the fiscal year-end
337,300 ordinary shares (93,000 shares) of the Company

(Note) The number of treasury share acquisition rights is stated in parentheses.

4. Notes on financial instruments

(1) Status of financial instruments

The Group procures necessary funds for purchasing properties that are products for sale mainly in the Revitalization Business and the Development Business through bank loans. Funds are invested in highly secure financial assets (such as deposits). The Group hedges interest rate fluctuation risk on some of borrowings by using interest rate swap transactions. The Group uses derivative transactions not for speculative purposes, but for hedging risks of fluctuations in interest rates on borrowings.

Trade and other receivables are exposed to credit risks of customers. With respect to these risks, the due dates and outstanding balances are managed for each business partner. Past due receivables are periodically reported to the management meeting and individually monitored and responded to.

Other financial assets are exposed to market fluctuation risk. For this risk, the market values are periodically monitored and reported to the management meeting.

With respect to trade and other payables, the majority of them are due within a year.

Corporate bonds and borrowings are to finance the purchase of properties that are products for sale mainly in the Revitalization Business and the Development Business. Most of them are with floating interest rates and are exposed to interest rate fluctuation risk. For this risk, the Group periodically makes a list of interest rates for each financial institution and monitors the fluctuations of interest rates.

For some of borrowings, the Group uses derivative transactions (interest rate swaps) in order to hedge the interest rate fluctuation risk and fix interest expenses. The effectiveness of hedges is assessed based on fluctuations in interest rates and others of hedged items and hedging instruments by comparing cumulative changes in fair value of hedged items and hedging instruments.

Corporate bonds and borrowings, which are extended by financial institutions, are exposed to the liquidity risks stemming from changes in attitudes of such financial institutions toward transactions with the Group. For these risks, the Group appropriately monitors information on fund demand of the Group and cash flow situation, strengthens relations with financial institutions with which we do business, and also makes efforts to diversify financing methods.

(2) Fair values of financial instruments

The carrying amounts in consolidated statement of financial position and the fair values, and differences thereof as of November 30, 2022 are shown below.

(¥ thousand)

	Carrying amount in consolidated statement of financial position	Fair value	Differences
Financial assets			
Financial assets measured at amortized cost			
(1) Cash and cash equivalents	31,767,008	31,767,008	—
(2) Trade and other receivables	8,977,304	8,977,304	—
Financial assets measured at fair value through other comprehensive income			
(3) Other financial assets	7,219,963	7,219,963	—
Financial liabilities			
Financial liabilities measured at amortized cost			
(4) Trade and other payables	7,428,561	7,428,561	—
(5) Interest-bearing liabilities	124,847,546	124,832,181	(15,364)

Method for measuring fair value of financial instruments

1) Cash and cash equivalents, trade and other receivables, trade and other payables, and current interest-bearing liabilities

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.

2) 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 determines fair values using certain valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, and the discounted cash flow method.

3) Non-current interest-bearing liabilities

The fair values of non-current interest-bearing liabilities with floating interest rates approximate the book values, as interest rates reflect market interest rates in short-term intervals. The fair values of those with fixed interest rates 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.

(3) 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, 2022			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair values through other comprehensive income	7,054,562	40,317	125,083	7,219,963
Financial assets measured at fair values through other comprehensive income (derivative) (Note)	—	63,749	—	63,749
Financial liabilities measured at fair values through other comprehensive income (derivative) (Note)	—	3,580	—	3,580

(Note) These are interest rate swap contracts hedging changes in future cash flows associated with floating-rate borrowings. The estimated period of cash flows arising in association with designated cash flow hedges and the period in which they are expected to have impact on profit or loss is four years or less after the end of the fiscal year under review.

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

(¥ thousand)

	Fiscal year ended November 30, 2022
Balance at beginning of period	447,918
Acquisition	43,361
Comprehensive income	
Profit (loss) (Note 1)	(53)
Other comprehensive income (Note 2)	(737)
Disposal	(365,405)
Balance at end of period	125,083

(Notes) 1. All of the amounts are related to the Fund and Consulting Business, which are included in “Revenue” or “Cost of revenue” in the consolidated statement of comprehensive income.
2. Gains or losses recognized in other comprehensive income are shown in “Net changes in financial assets measured at fair values through other comprehensive income” in the consolidated statement of comprehensive income.

5. Notes on investment properties

(1) Status of investment properties

The Company and certain consolidated subsidiaries own rental office buildings mainly in Tokyo to earn rental revenue.

(2) Fair value of investment properties

The following table shows the carrying amount in the consolidated statement of financial position and the fair value of investment properties as of the end of the fiscal year under review.

	Carrying amount in consolidated statement of financial position			Fair value at end of the fiscal year
	Balance at beginning of the fiscal year	Increase/decrease during the fiscal year	Balance at end of the fiscal year	
Investment properties	39,812,070	52,188	39,864,258	75,206,426

(¥ thousand)

- (Notes)
1. The carrying amount in consolidated statement of financial position shown above indicates cost less any accumulated depreciation and accumulated impairment losses.
 2. For the increase/decrease during the fiscal year, main increases were new acquisition (¥3,172,982 thousand), and a main decrease was transfer to inventories (¥2,645,443 thousand) due to the change in business policy.
 3. The fair value as of November 30, 2022 was internally calculated in accordance with the Real Estate Appraisal Standards.

6. Recognition of revenue

(1) Disaggregation of revenue recognized from contracts with customers

The Group engages in six major businesses consisting of the Revitalization Business, the Development Business, the Rental Business, the Fund and Consulting Business, the Property Management Business, and the Hotel Business. Revenue generated from these businesses is recorded in accordance with contracts with customers, and the promised amount of consideration does not contain significant financing components.

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

Fiscal year ended November 30, 2022 (December 1, 2021 – November 30, 2022)

	(¥ thousand)						
	Revitalization Business	Development Business	Rental Business	Fund and Consulting Business	Property Management Business	Hotel Business	Total
Sales of real estate	37,477,067	13,776,235	—	—	—	—	51,253,303
Revenue from services	—	16,523	615,365	5,442,529	6,228,354	1,817,405	14,120,178
Revenue recognized from other sources	—	—	5,468,426	1,493	—	110,085	5,580,005
Revenue from external customers	37,477,067	13,792,758	6,083,791	5,444,022	6,228,354	1,927,490	70,953,486

- (Note) Revenue recognized from other sources is revenue recognized under IFRS 16 *Leases* and IFRS 9 *Financial Instruments*.

(2) Useful information in understanding revenue

This information is as stated in “1. Significant matters in preparing consolidated financial statements, (4) Accounting policies, 7) Revenue.”

(3) Useful information in understanding the amount of revenue for the fiscal year under review and subsequent fiscal years

1) Contract balance

	(¥ thousand)	
	As of December 1, 2021	As of November 30, 2022
Receivables arising from contracts with customers	1,535,199	1,831,472
Contract liabilities	1,069,240	1,187,749

- (Notes) 1. Receivables arising from contracts with customers are included in “trade and other receivables” on the consolidated statement of financial position, while contract liabilities are included in “trade and other payables.”
2. Contract liabilities are mainly related to advances received from customers. Said advances mainly consist of deposits received from customers at the time the contract is concluded in the sale of real estate, and rents of the following months received from customers in the rental of real estate properties. Of the income recognized in the fiscal year under review, ¥1,062,046 thousand was included in the balance of contract liabilities as of December 1, 2021.

2) Amount of the transaction price allocated to remaining performance obligations

The Group has no significant transactions where the expected duration of any individual contract exceeds one year and accordingly, description on information related to remaining performance obligations is omitted by applying the practical expedient. In addition, there is no significant amount of the consideration that arises from contracts with customers that is not included in the transaction price.

7. Per share information

(1) Equity attributable to owners of the parent per share	¥1,529.65
(2) Basic earnings per share	¥181.66

8. Significant subsequent events

Not applicable.

9. Other

All amounts in this report are rounded down to the nearest thousand yen, unless otherwise noted.

<Non-consolidated Financial Statements>

Non-Consolidated Balance Sheet

(As of November 30, 2022)

(¥ thousand)

Assets		Liabilities	
Item	Amount	Item	Amount
Current assets	110,689,883	Current liabilities	14,991,334
Cash and deposits	22,197,659	Accounts payable-trade	925,996
Accounts receivable-trade	214,307	Short-term loans payable	2,383,700
Real estate for sale	58,060,988	Current portion of long-term loans payable	6,882,952
Real estate for sale in process	20,710,757	Lease obligations	4,004
Supplies	12,369	Accounts payable-other	3,190,848
Short-term loans receivable from subsidiaries and affiliates	1,815,000	Accrued expenses	104,425
Accounts receivable-other	5,865,052	Income taxes payable	205,812
Advance payments-trade	690,702	Advances received	622,101
Prepaid expenses	363,750	Unearned revenue	5,871
Other	760,071	Deposits received	271,320
Allowance for credit losses	(776)	Provision for bonuses	375,667
Non-current assets	79,206,822	Provision for loss on rental business	18,634
Property, plant and equipment	59,289,391	Non-current liabilities	109,042,057
Buildings	18,360,623	Long-term loans payable	104,767,667
Structures	127,825	Guarantee deposits	2,876,569
Machinery and equipment	37,986	Lease obligations	3,291
Vehicles	7,967	Asset retirement obligations	7,456
Tools, furniture and fixtures	157,627	Provision for retirement benefits	472,428
Land	40,584,328	Long-term accounts payable-other for directors	302,679
Lease assets	6,645	Long-term unearned revenue	43,054
Construction in progress	6,385	Deferred tax liabilities	568,911
Intangible assets	121,461	Total liabilities	124,033,392
Software	119,572	Net assets	
Telephone subscription right	1,889	Shareholders' equity	65,484,017
Investments and other assets	19,795,968	Capital stock	6,624,890
Investment securities	7,132,898	Capital surplus	6,885,972
Stocks of subsidiaries and affiliates	11,064,247	Legal capital surplus	6,708,366
Investments in capital	6,221	Other capital surplus	177,606
Long-term loans receivable	25,066	Retained earnings	53,506,824
Long-term loans receivable from subsidiaries and affiliates	140,320	Legal retained earnings	7,250
Long-term prepaid expenses	230,673	Other retained earnings	53,499,574
Derivative assets	63,749	General reserve	15,000
Long-term accounts receivable-other	108,157	Reserve for tax purpose reduction entry of non-current assets	1,539,134
Claims provable in bankruptcy, claims provable in rehabilitation and other	927	Retained earnings brought forward	51,945,440
Lease and guarantee deposits	1,020,771	Treasury shares	(1,533,670)
Other	4,014	Valuation and translation adjustments	348,625
Allowance for credit losses	(1,077)	Valuation difference on available-for-sale securities	304,396
		Deferred gains (losses) on hedges	44,229
		Stock acquisition rights	30,670
Total assets	189,896,706	Total net assets	65,863,314
		Total liabilities and net assets	189,896,706

Non-Consolidated Statement of Operations

(From December 1, 2021 to November 30, 2022)

(¥ thousand)

Item	Amount	
Net sales		43,063,515
Cost of sales		30,449,413
Gross profit		12,614,101
Selling, general and administrative expenses		5,438,984
Operating income		7,175,116
Non-operating income		
Interest income	32,250	
Dividends income	4,361,531	
Foreign exchange gains	19,571	
Miscellaneous income	68,919	4,482,272
Non-operating expenses		
Interest expenses	975,389	
Share issuance cost	778	
Miscellaneous loss	2,803	978,970
Ordinary income		10,678,418
Extraordinary income		
Gain on exchange from dividends in kind	278,552	278,552
Extraordinary losses		
Loss on liquidation of subsidiaries and affiliates	13,550	13,550
Income before income taxes		10,943,421
Income taxes-current	2,023,716	
Income taxes-deferred	232,588	2,256,304
Net income		8,687,116

Non-Consolidated Statement of Changes in Net Assets

(From December 1, 2021 to November 30, 2022)

(¥ thousand)

	Shareholders' equity								
	Capital stock	Capital surplus			Legal retained earnings	Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surpluses		Other retained earnings			Total retained earnings
						General reserve	Reserve for tax purpose reduction entry of non-current assets	Retained earnings brought forward	
Balance at the beginning of the year	6,624,890	6,708,366	161,346	6,869,713	7,250	15,000	1,539,134	45,074,107	46,635,491
Changes of items during the year									
Dividends from surplus								(1,815,783)	(1,815,783)
Net income								8,687,116	8,687,116
Purchase of treasury shares									
Disposal of treasury shares			16,259	16,259					-
Net changes of items other than shareholders' equity									
Total changes of items during the year	-	-	16,259	16,259	-	-	-	6,871,333	6,871,333
Balance at the end of the year	6,624,890	6,708,366	177,606	6,885,972	7,250	15,000	1,539,134	51,945,440	53,506,824

	Shareholders' equity		Valuation and translation adjustments			Stock acquisition rights	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Total valuation and translation adjustments		
Balance at the beginning of the year	(911,662)	59,218,432	198,705	(8,984)	189,720	59,193	59,467,346
Changes of items during the year							
Dividends from surplus		(1,815,783)					(1,815,783)
Net income		8,687,116					8,687,116
Purchase of treasury shares	(885,972)	(885,972)					(885,972)
Disposal of treasury shares	263,964	280,224				(28,522)	251,701
Net changes of items other than shareholders' equity			105,690	53,213	158,904		158,904
Total changes of items during the year	(622,007)	6,265,585	105,690	53,213	158,904	(28,522)	6,395,967
Balance at the end of the year	(1,533,670)	65,484,017	304,396	44,229	348,625	30,670	65,863,314

Notes to Non-consolidated Financial Statements

1. Notes on significant accounting policies

(1) Valuation basis and methods for assets

1) Valuation basis and methods for securities

Stocks of subsidiaries	Stated at cost determined by the moving-average method
Available-for-sale securities	
• Securities other than shares, etc. that do not have a market value	Stated at fair value (unrealized gains and losses, net of applicable taxes, are reported in a separate component of net assets, and costs of securities sold are determined by the moving-average method).
• Shares, etc. that do not have a market value	Stated at cost determined by the moving-average method

2) Valuation basis and method for derivatives

Derivatives	Stated at fair value
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3) Valuation basis and methods for inventories

The cost method (the carrying amounts in the non-consolidated balance sheet are written down due to a decline in profitability of assets) is used as the valuation basis.

• Real estate for sale	Specific identification method
• Real estate for sale in process	Specific identification method
• Supplies	Last purchase price method

(2) Depreciation methods for non-current assets

1) Property, plant and equipment (excluding lease assets)	The straight-line method is applied. For certain assets, the declining balance method is applied.
2) Intangible assets (excluding lease assets)	
• Internal use software	Amortized by the straight-line method over the estimated useful life.
3) Lease assets	Lease assets are depreciated by the straight-line method over the lease term with no residual value.

(3) Recognition of allowances

1) Allowance for credit losses	To cover losses from bad debts, allowance for credit losses is provided in the amount expected to be uncollectible based on historical experience of bad debts for general receivables and individual collectability for specific receivables such as doubtful receivables.
2) Provision for bonuses	To cover bonus payments to employees, provision for bonuses is provided in the amount for the fiscal year based on the estimated amount of payment.
3) Provision for retirement benefits	To cover retirement benefits to employees, the amount that would be required to pay if all eligible employees retired at the fiscal year-end is provided based on the estimated amount of retirement benefit obligations as of the fiscal

year-end. In calculating retirement benefit obligations, the portion of expected benefits attributed to the periods up to the fiscal year-end is determined using the benefit formula basis.

Actuarial differences are amortized on a straight-line basis over a period equal to or less than the average remaining service period of eligible employees at the time of occurrence.

4) Provision for loss on rental business

To cover losses from subleasing contracts, etc., the amount of total rental expenses with payment obligations, etc., minus total expected rental revenues, etc., arising from subleasing is recorded.

(4) Recognition of income and expenses

The details of the main performance obligations in the major businesses related to revenue from contracts with the Company's customers and the timing at which the Company typically satisfies these performance obligations (when it typically recognizes revenue) are as follows:

(Revitalization Business)

This business acquires office buildings, commercial facilities, apartments and other properties whose asset value has declined, boosts their value through "value-up plans" judged to best match the characteristics of the properties' areas and tenant requirements, and sells them as revitalized real estate to buyers including investors, real estate funds and individual business entities that acquire real estate for private use. With regard to sale of properties, the Group is obliged to transfer a property to a customer based on a property sale and purchase contract with the customer, etc. Such performance obligation is satisfied at a point in time when the property is transferred, and revenue is recognized at the time of property transfer. The transaction price is determined based on the property sale and purchase contract, etc. A portion of the selling price is received as a deposit at the time the contract is concluded, and the remaining amount is received at the time the property is transferred.

(Development Business)

In this business, the Group verifies the characteristics of land it acquires including area, shape, intended purpose, relevant needs, rent, and selling price. Based on this, the Group carries out development and new construction to maximize the value of the land, and sells whole buildings or individual units. The performance obligations of the business and the timing of fulfillment thereof, the method of determining transaction price, the timing of revenue recognition, etc. are the same as those of the Revitalization Business.

(Rental Business)

In this business, the Group rents its own office buildings, condominiums, stores and parking lots to end-users and others primarily in the main districts of Tokyo. With regard to leasehold properties, the Group is obliged to make available electricity, gas, water, and other services based on a lease contract with a customer. The performance obligation is satisfied over a certain period of time during which the service is provided. Based on the measured amount of electricity, gas, water, and other services used by the customer, the Group recognizes as revenue the amount obtained by multiplying the measured amount of usage by the billing unit price. The Group receives payment for the previous month's usage at the end of the month.

(5) Other significant matters for preparing financial statements

- | | |
|---|--|
| 1) Translation of assets and liabilities denominated in foreign currencies into Japanese currency | Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rate prevailing at the balance sheet date, and differences arising from such translation are recognized in the non-consolidated statement of operations. |
| 2) Accounting for hedges | Deferral hedge accounting is applied. |

2. Notes to Changes in Accounting Policies

The Group has applied the Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019; hereinafter “Fair Value Measurement Standard”) and other standards from the beginning of the fiscal year under review, and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Standard, etc. in accordance with the transitional treatment provided in Paragraph 19 of the Fair Value Measurement Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). This does not affect the non-consolidated financial statements.

3. Notes on accounting estimates

Valuation of inventories

1) Amount recorded in the financial statements for the fiscal year under review

Real estate for sale	¥58,060,988 thousand
Real estate for sale in process	¥20,710,757 thousand
Loss on valuation of inventories (reversal of loss)	¥(931,083) thousand

2) Information on the nature of significant accounting estimates for identified items

(i) Calculation method

Real estate for sale and real estate for sale in progress are assessed at the lower of cost or net selling value. Net selling value is calculated for each individual property by deducting costs to sell from the estimated selling price. If the net selling value is less than the cost, the cost is reduced to the net selling value and the difference is recognized as a loss on valuation of inventories in the cost of sales. In addition, when it is evident that the net selling value has recovered due to changes in economic conditions and other factors, the loss on valuation of inventories is reversed accordingly, up to the acquisition cost.

(ii) Key assumptions

In calculating the net selling value of properties for investors, assumptions such as rent, vacancy rate, and rental expenses are determined by comprehensively taking into account market trends, transaction cases of similar properties, past performance, and other factors. The discount rate is determined based on similar transactions, interest rate trends, etc. In addition, real estate appraisals are obtained as necessary.

For build-for-sale detached houses, assumptions are determined based on the most recent sales results, market trends, and other factors.

In making accounting estimates, the Company estimates selling prices of real estate for sale and real estate for sale in progress as well as development costs, such as value-up activities and construction costs, which are the basis for calculating their net selling value, for each individual property. In the course of long-term real estate development and sales activities, these components of estimates have been affected by fluctuations in the economic environment and interest rates, competitive conditions in the real estate market, external factors in real estate development, and the

impact of COVID-19 and other factors.

(iii) Effect on the financial statements for the fiscal year ending November 30, 2023

Key assumptions are determined based on the best estimates available at the time of preparation of the financial statements. However, in the event of unexpected events such as deterioration in the economic environment and any subsequent changes in key assumptions, such changes may have a significant impact on the calculation of net selling value.

Impairment losses on non-current assets

1) Amount recorded in the financial statements for the fiscal year under review

Property, plant and equipment ¥59,289,391 thousand

2) Information on the nature of significant accounting estimates for identified items

(i) Calculation method

The Company assesses whether there is any indication that an asset or asset group may be impaired, and if any such indication exists, compares the total undiscounted future cash flows from the asset or asset group with its carrying amount. If the total undiscounted future cash flows are less than the carrying amount, the carrying amount is reduced to its recoverable amount, and the amount of reduction is recognized as an impairment loss. The recoverable amount is the higher of the net selling value and the value in use.

(ii) Key assumptions

In calculating the total amount of undiscounted future cash flows, assumptions such as rent, vacancy rate, and rental expenses are determined by comprehensively taking into account market trends, transaction cases of similar properties, past performance, and other factors. The discount rate used to calculate the value in use is determined based on similar transactions, interest rate trends, etc.

The net selling value is set at an amount considered appropriate based on comparable transactions in the surrounding area, real estate appraisals, published land prices, and other data.

The total undiscounted future cash flows of non-current assets leased for hotel use are based on their rents, which were estimated based on the assumption that the business will recover from the effects of COVID-19. Key assumptions made in estimating rents are the future occupancy rates and average room rates in the Hotel Business.

(iii) Effect on the financial statements for the fiscal year ending November 30, 2023

Key assumptions are determined based on the best estimates available at the time of preparation of the financial statements. However, in the event of unexpected events such as deterioration in the economic environment and any subsequent changes in key assumptions, such changes may have a significant impact on the calculation of net selling value or value in use.

4. Additional information

Impact of the spread of COVID-19 on accounting estimates

In determining accounting estimates for valuation of inventories, impairment accounting for non-current assets, recoverability of deferred tax assets, and other items, the Company has assumed that the spread of COVID-19 will have a certain impact on future earnings.

In the fiscal year under review, the Company recognizes that real estate markets other than hotels and commercial facilities have already recovered. For hotels and commercial facilities, the Company expects that the impact of COVID-19 will persist for the time being, and that it will gradually recover toward November 30, 2023.

5. Notes to non-consolidated balance sheet

(1) Assets pledged as security

	(¥ thousand)
Details of pledged assets and the amounts	
Real estate for sale	56,971,457
Real estate for sale in process	18,483,685
Buildings	17,513,223
Land	36,113,503
<hr/>	
Total	129,081,869
Amounts of securitized obligation	
Short-term loans payable	699,000
Current portion of long-term loans payable	6,882,952
Long-term loans payable	100,007,267
<hr/>	
Total	107,589,219

(2) Accumulated depreciation on property, plant and equipment ¥5,111,493 thousand

(3) Contingent liabilities

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

Tosei Logistics Management Co., Ltd.	¥240,080 thousand
Kishino Corporation	¥587,200 thousand

(4) Monetary receivables from and payables to subsidiaries and affiliates

	(¥ thousand)
1) Short-term monetary receivables	105,215
2) Long-term monetary receivables	108,157
3) Short-term monetary payables	2,020,897
4) Long-term monetary payables	106,957

(5) Change in holding purpose of assets

The following asset transfers were made due to changes in holding purpose of assets.

From property, plant and equipment to real estate for sale	¥1,355,087 thousand
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6. Notes to non-consolidated statement of operations

(1) Volume of transactions with subsidiaries and affiliates

	(¥ thousand)
1) Sales	585,700
2) Purchase amount	994,473
3) Other business turnover	192,960
4) Transaction volume other than business turnover	4,072,967

- (2) The inventory balance at the end of the fiscal year is presented after book values were written down due to a decline in profitability of assets and the following loss on valuation of inventories (reversal of loss) are included in cost of sales.

¥(931,083) thousand

7. Notes to non-consolidated statement of changes in net assets

Class and total number of treasury shares

	(shares)			
Class of shares	Number of shares at beginning of the fiscal year under review	Increase	Decrease	Number of shares at end of the fiscal year under review
Ordinary shares	900,022	774,300	250,200	1,424,122

(Notes) 1. The increase in the number of treasury shares is mainly due to the acquisition pursuant to the Articles of Incorporation of the Company in accordance with the provision of Article 165, paragraph 2, of the Companies Act.

2. The decrease in the number of treasury shares is mainly due to the exercising of stock options.

8. Notes on tax effect accounting

Significant components of deferred tax assets and liabilities

	(¥ thousand)
Deferred tax assets	
Accrued enterprise taxes, currently not deductible	62,684
Provision for bonuses	115,029
Loss on valuation of inventories	146,357
Provision for retirement benefits	111,539
Long-term accounts payable-other for directors	92,680
Dividends income as withdrawal of investments	971,376
Other	53,730
Subtotal	1,553,398
Valuation reserves	(1,083,778)
Total deferred tax assets	469,619
Deferred tax liabilities	
Valuation difference on available-for-sale securities	(134,341)
Reserve for tax purpose reduction entry of non-current assets	(679,277)
Deferred gains (losses) on hedges	(19,519)
Gain on exchange from dividends in kind	(205,392)
Total deferred tax liabilities	(1,038,531)
Net deferred tax liabilities	(568,911)

9. Notes on transactions with related parties

Subsidiaries and affiliates

Attribute	Name	Percentage of voting rights (%)	Business relationship	Transaction	Transaction amount (¥ thousand)	Account title	Balance at the end of the fiscal year (¥ thousand)
Subsidiary	Tosei Community Co., Ltd.	100% direct ownership	Concurrent positions held by officers	Receipt of dividends	945,000	—	—
	Tosei Asset Advisors, Inc.	100% direct ownership	Concurrent positions held by officers	Receipt of dividends	1,708,000	—	—
	Tosei Logistics Management Co., Ltd.	100% direct ownership	Concurrent positions held by officers	Receipt of dividends	780,000	—	—
	Kishino Corporation	100% direct ownership	Concurrent positions held by officers	Receipt of dividends	326,893	—	—
	Sanki-shoji Co., Ltd.	100% direct ownership	—	Receipt of dividends	21,157	—	—
	Tosei Urban Home Corporation	—	—	Receipt of dividends	203,824	—	—

- (Notes) 1. Receipt of dividends is reasonably determined in consideration of performance trends.
2. Tosei Urban Home Corporation completed liquidation on May 25, 2022.

10. Per share information

- | | |
|--------------------------|-----------|
| (1) Net assets per share | ¥1,393.00 |
| (2) Net income per share | ¥183.35 |

11. Recognition of revenue

Useful information in understanding revenue from contracts with customers is stated in “1. Notes on significant accounting policies (4) Recognition of income and expenses” in the Notes to Non-consolidated Financial Statements.

12. Significant subsequent events

Not applicable.

13. Other

All amounts in this report are rounded down to the nearest thousand yen, unless otherwise noted.

Accounting Audit Report on Consolidated Financial Statements

Independent Auditors' Audit Report

January 17, 2023

To the Board of Directors of
Tosei Corporation

Shinsoh Audit Corporation
Chuo-ku, Tokyo

Designated and Engagement Partner,
Certified Public Accountant:

Takashi Aikawa

Designated and Engagement Partner,
Certified Public Accountant:

Atushi Iijima

Opinion

Pursuant to Article 444, paragraph 4 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the notes to the consolidated financial statements, of Tosei Corporation for the fiscal year from December 1, 2021 to November 30, 2022.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and results of operations of Tosei Corporation and consolidated subsidiaries for the period covered by these consolidated financial statements in accordance with the accounting standards which have omitted some disclosure items required under International Financial Reporting Standards (IFRS), as set forth in the provisions of the latter part of Article 120, paragraph 1 of the Regulations on Corporate Accounting.

Basis for the Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibility under the auditing standards is stated in *Auditor's Responsibility for the Audit of the Consolidated Financial Statements*. We are independent of the Company and its consolidated subsidiaries in accordance with the provisions related to professional ethics in Japan, and are fulfilling other ethical responsibilities as an auditor. We believe that we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Other Information

The other information comprises the information included in the business report and the supplementary schedules. Management is responsible for the preparation and the disclosure of the other information. Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for monitoring the execution of Directors' duties related to designing and operating the reporting process of the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management, Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the provisions of the accounting standards which have omitted some disclosure items required under IFRS as set forth in the provisions of the latter part of Article 120, paragraph 1 of the Regulations on Corporate Accounting, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing whether it is appropriate to prepare the consolidated financial statements in accordance with the premise of a going concern, and for disclosing matters relating to going concern when it is required to do so in accordance with the provisions of the accounting standards which have omitted some disclosure items required under IFRS as set forth in the provisions of the latter part of Article 120, paragraph 1 of the Regulations on Corporate Accounting.

Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for monitoring the execution of Directors' duties related to designing and operating the financial reporting process.

Auditor's Responsibility for the Audit of the Consolidated Financial Statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to express an opinion on the consolidated financial statements from an independent standpoint in an audit report, based on our audit. Misstatements can occur as a result of fraud or error, and are deemed material if they can be reasonably expected to, either individually or collectively, influence the decisions of users taken on the basis of the consolidated financial statements.

We make professional judgment in the audit process in accordance with auditing standards generally accepted in Japan, and perform the following while maintaining professional skepticism.

- Identify and assess the risks of material misstatement, whether due to fraud or error. Design and implement audit procedures to address the risks of material misstatement. The audit procedures shall be selected and applied as determined by the auditor. In addition, sufficient and appropriate audit evidence shall be obtained to provide a basis for the audit opinion.
- In making those risk assessments, the auditor considers internal control relevant to the entity's audit in order to design audit procedures that are appropriate in the circumstances, although the purpose of the audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control.
- Assess the appropriateness of accounting policies adopted by management and the method of their application, as well as the reasonableness of accounting estimates made by management and the adequacy of related notes.
- Determine whether it is appropriate for management to prepare the consolidated financial statements on the premise of a going concern and, based on the audit evidence obtained, determine whether there is a significant uncertainty in regard to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If there is a significant uncertainty concerning the

premise of a going concern, the auditor is required to call attention to the notes to the consolidated financial statements in the audit report, or if the notes to the consolidated financial statements pertaining to the significant uncertainty are inappropriate, issue a modified opinion on the consolidated financial statements. While the conclusions of the auditor are based on the audit evidence obtained up to the date of the audit report, depending on future events or conditions, an entity may be unable to continue as a going concern.

- Besides assessing whether the presentation of and notes to the consolidated financial statements are in accordance with the provisions of the accounting standards which have omitted some disclosure items required under IFRS as set forth in the provisions of the latter part of Article 120, paragraph 1 of the Regulations on Corporate Accounting, assess the presentation, structure, and content of the consolidated financial statements including related notes, and whether the consolidated financial statements fairly present the transactions and accounting events on which they are based.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the Company and its consolidated subsidiaries in order to express an opinion on the consolidated financial statements. The auditor is responsible for instructing, supervising, and implementing the audit of the consolidated financial statements, and is solely responsible for the audit opinion.

The auditor reports to Audit & Supervisory Board Members and the Audit & Supervisory Board regarding the scope and timing of implementation of the planned audit, material audit findings including material weaknesses in internal control identified in the course of the audit, and other matters required under the auditing standards.

The auditor reports to Audit & Supervisory Board Members and the Audit & Supervisory Board regarding the observance of provisions related to professional ethics in Japan as well as matters that are reasonably considered to have an impact on the auditor's independence and any safeguards that are in place to reduce or eliminate obstacles.

Interest

Our firm and engagement partners have no interests in the Company or its consolidated subsidiaries requiring disclosure under the provisions of the Certified Public Accountants Act of Japan.

Note: The English version of the consolidated financial statements consists of an English translation of the audited Japanese consolidated financial statements and is not covered by our audit. Consequently, the auditor's report attached to the English consolidated financial statements is a translation of the Japanese original.

Accounting Audit Report on Non-consolidated Financial Statements

Independent Auditors' Audit Report

January 17, 2023

To the Board of Directors of
Tosei Corporation

Shinsoh Audit Corporation
Chuo-ku, Tokyo

Designated and Engagement Partner,
Certified Public Accountant:

Takashi Aikawa

Designated and Engagement Partner,
Certified Public Accountant:

Atushi Iijima

Opinion

Pursuant to Article 436, paragraph 2, item 1 of the Companies Act, we have audited the non-consolidated financial statements, namely, the balance sheet, the related statements of operations and changes in net assets, the notes to the non-consolidated financial statements, and the supplementary schedules of Tosei Corporation for the 73rd term from December 1, 2021 to November 30, 2022.

In our opinion, the non-consolidated financial statements and the supplementary schedules referred to above present fairly, in all material respects, the financial position and results of operations for the period covered by these non-consolidated financial statements and the supplementary schedules in conformity with accounting principles generally accepted in Japan.

Basis for the Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibility under the auditing standards is stated in *Auditor's Responsibility for the Audit of the Financial Statements and the Accompanying Supplementary Schedules*. We are independent of the Company in accordance with the provisions related to professional ethics in Japan, and are fulfilling other ethical responsibilities as an auditor. We believe that we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Other Information

The other information comprises the information included in the business report and the supplementary schedules. Management is responsible for the preparation and the disclosure of the other information. Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for monitoring the execution of Directors' duties related to designing and operating the reporting process of the other information.

Our opinion on the financial statements and the accompanying supplementary schedules does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements and the accompanying supplementary schedules, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the accompanying supplementary schedules or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management, Audit & Supervisory Board Members and the Audit & Supervisory Board for the Financial Statements and the Accompanying Supplementary Schedules

Management is responsible for the preparation and fair presentation of the financial statements and the accompanying supplementary schedules in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the financial statements and the accompanying supplementary schedules that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the accompanying supplementary schedules, management is responsible for assessing whether it is appropriate to prepare the financial statements and the accompanying supplementary schedules in accordance with the premise of a going concern, and for disclosing matters relating to going concern when it is required to do so in accordance with accounting principles generally accepted in Japan.

Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for monitoring the execution of Directors' duties related to designing and operating the financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statements and the Accompanying Supplementary Schedules

Our responsibility is to obtain reasonable assurance about whether the financial statements and the accompanying supplementary schedules as a whole are free from material misstatement, whether due to fraud or error, and to express an opinion on the financial statements and the accompanying supplementary schedules from an independent standpoint in an audit report, based on our audit. Misstatements can occur as a result of fraud or error, and are deemed material if they can be reasonably expected to, either individually or collectively, influence the decisions of users taken on the basis of the financial statements and the accompanying supplementary schedules.

We make professional judgment in the audit process in accordance with auditing standards generally accepted in Japan, and perform the following while maintaining professional skepticism.

- Identify and assess the risks of material misstatement, whether due to fraud or error. Design and implement audit procedures to address the risks of material misstatement. The audit procedures shall be selected and applied as determined by the auditor. In addition, sufficient and appropriate audit evidence shall be obtained to provide a basis for the audit opinion.
- In making those risk assessments, the auditor considers internal control relevant to the entity's audit in order to design audit procedures that are appropriate in the circumstances, although the purpose of the audit of the financial statements and the accompanying supplementary schedules is not to express an opinion on the effectiveness of the entity's internal control.
- Assess the appropriateness of accounting policies adopted by management and the method of their application, as well as the reasonableness of accounting estimates made by management and the adequacy of related notes.
- Determine whether it is appropriate for management to prepare the financial statements and the accompanying supplementary schedules on the premise of a going concern and, based on the audit evidence obtained, determine whether there is a significant uncertainty in regard to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If there is a significant uncertainty concerning the premise of a going concern, the auditor is required to call attention to the notes to the financial statements and the accompanying supplementary schedules

in the audit report, or if the notes to the financial statements and the accompanying supplementary schedules pertaining to the significant uncertainty are inappropriate, issue a modified opinion on the financial statements and the accompanying supplementary schedules. While the conclusions of the auditor are based on the audit evidence obtained up to the date of the audit report, depending on future events or conditions, an entity may be unable to continue as a going concern.

- Besides assessing whether the presentation of and notes to the financial statements and the accompanying supplementary schedules are in accordance with accounting principles generally accepted in Japan, assess the presentation, structure, and content of the financial statements and the accompanying supplementary schedules including related notes, and whether the financial statements and the accompanying supplementary schedules fairly present the transactions and accounting events on which they are based.

The auditor reports to Audit & Supervisory Board Members and the Audit & Supervisory Board regarding the scope and timing of implementation of the planned audit, material audit findings including material weaknesses in internal control identified in the course of the audit, and other matters required under the auditing standards.

The auditor reports to Audit & Supervisory Board Members and the Audit & Supervisory Board regarding the observance of provisions related to professional ethics in Japan as well as matters that are reasonably considered to have an impact on the auditor's independence and any safeguards that are in place to reduce or eliminate obstacles.

Interest

Our firm and engagement partners have no interests in the Company requiring disclosure under the provisions of the Certified Public Accountants Act of Japan.

Note: The English version of the non-consolidated financial statements consists of an English translation of the audited Japanese non-consolidated financial statements and is not covered by our audit. Consequently, the auditor's report attached to the English non-consolidated financial statements is a translation of the Japanese original.

Audit Report by Audit & Supervisory Board

Audit Report

With respect to the Directors' performance of their duties during the 73rd term (from December 1, 2021 to November 30, 2022), the Audit & Supervisory Board has prepared this audit report after deliberations based on the audit reports prepared by each Audit & Supervisory Board Member, and hereby report as follows:

1. Method and Contents of Audit by Audit & Supervisory Board Members and the Audit & Supervisory Board

- (1) The Audit & Supervisory Board has established the audit policies, audit plan, etc. and received a report from each Audit & Supervisory Board Member regarding the status of implementation of their audits and results thereof. In addition, the Audit & Supervisory Board has received reports from the directors, etc. and the accounting auditor regarding the status of performance of their duties, and requested explanations as necessary.
- (2) In conformity with the Audit & Supervisory Board Member Auditing Regulations established by the Audit & Supervisory Board, and in accordance with the audit policies and audit plan, etc., each Audit & Supervisory Board Member endeavored to facilitate a mutual understanding with the Directors, the Internal Auditing Department and other employees, etc., endeavored to collect information and maintain and improve the audit environment, and conducted the audit by the following methods.
 - i) Each Audit & Supervisory Board Member has attended the meetings of the Board of Directors, management meetings and other important meetings, received reports on the status of performance of duties from the Directors and employees, etc. and requested explanations as necessary, examined important approval/decision documents, and inspected the status of the corporate affairs and assets at each department in the head office. With respect to the subsidiaries, each Audit & Supervisory Board Member endeavored to facilitate a mutual understanding and exchanged information with the Directors and Audit & Supervisory Board Members, etc. of each subsidiary and received from subsidiaries reports on their respective business as necessary.
 - ii) Also, each Audit & Supervisory Board Member regularly received reports from the Directors and employees, etc. requested explanations as necessary, and expressed an opinion on the status of establishment and operation regarding (i) the contents of the Board of Directors' resolutions regarding the improvement and maintenance of the systems to ensure that directors' execution of their duties is in compliance with laws and regulations and the Articles of Incorporation of the Company as is described in the business report as well as other systems that are set forth in Article 100, paragraphs 1 and 3 of the Ordinance for Enforcement of the Companies Act of Japan as systems necessary for ensuring the properness of operations of a stock company (*kabushiki kaisha*) and consolidated subsidiaries, and (ii) the systems (internal control systems) improved and maintained based on such resolutions.
 - iii) The contents of the basic policies set forth in Article 118, item 3-(a) of the Ordinance for Enforcement of the Companies Act and measures set forth in item 3-(b) of said article, as described in the business report, were also considered in light of the status, etc. of deliberations by the Board of Directors and other bodies.
 - iv) Each Audit & Supervisory Board Member monitored and verified whether the Accounting Auditor maintained its independence and properly conducted its audit, received a report from the Accounting Auditor on the status of its performance of duties, and requested explanations as necessary. Each Audit & Supervisory Board Member was notified by the Accounting Auditor

that it had established a “system to ensure that the performance of duties was properly conducted” (the matters listed in the items of Article 131 of the Regulations on Corporate Accounting) in accordance with the “Quality Control Standards for Audits” (Business Accounting Council on October 28, 2005), and requested explanations as necessary.

Based on the above-described methods, each Audit & Supervisory Board Member examined the business report and the supplementary schedules, the non-consolidated financial statements (balance sheet, statement of operations, statement of changes in net assets, and the notes to the non-consolidated financial statements), and the supplementary schedules, as well as the consolidated financial statements (the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the notes to the consolidated financial statements, which were prepared with some disclosure items required under IFRS omitted pursuant to the provisions of the latter part of Article 120, paragraph 1 of the Regulations on Corporate Accounting), for the fiscal year under review.

2. Results of Audit

(1) Results of Audit of Business Report, etc.

- i) We acknowledge that the business report and the supplementary schedules fairly present the status of the Company in conformity with the applicable laws and regulations and the Articles of Incorporation of the Company.
- ii) We acknowledge that no dishonest act or material fact constituting a breach of any law or regulation or the Articles of Incorporation of the Company was found with respect to the Directors’ performance of their duties.
- iii) We acknowledge that the Board of Directors’ resolutions with respect to the internal control systems are appropriate. We did not find any matter to be indicated with respect to the contents of the business report and the Directors’ performance of their duties concerning the internal control systems.
- iv) We did not find any matter to be indicated with respect to the basic policies, described in the business report, regarding those who control decisions on the Company’s financial and business policies. Measures, described in the business report, set forth in Article 118, item 3-(b) of the Ordinance for Enforcement of the Companies Act of Japan are in line with the basic policies, do not impair the common interests of the Company’s shareholders, and are not directed to the purpose of maintaining the status of the Company’s officers.

(2) Results of Audit of Non-consolidated Financial Statements and the Supplementary Schedules

We acknowledge that the methods and results of audit performed by the Accounting Auditor, Shinsoh Audit Corporation, are appropriate.

(3) Results of Audit of Consolidated Financial Statements

We acknowledge that the methods and results of audit performed by the Accounting Auditor, Shinsoh Audit Corporation, are appropriate.

January 20, 2023

Audit & Supervisory Board of Tosei Corporation

Audit & Supervisory Board Member (full-time)
(Outside Audit & Supervisory Board Member):

Hitoshi Yagi (Seal)

Audit & Supervisory Board Member (full-time)
(Outside Audit & Supervisory Board Member):

Toshinori Kuroda (Seal)

Audit & Supervisory Board Member
(Outside Audit & Supervisory Board Member):

Tatsuki Nagano (Seal)

Audit & Supervisory Board Member
(Outside Audit & Supervisory Board Member):

Osamu Doi (Seal)

Note: The English version of the consolidated and non-consolidated financial statements consists of an English translation of the audited Japanese consolidated and non-consolidated financial statements and is not covered by our audit. Consequently, the auditor's report attached to the English consolidated and non-consolidated financial statements is a translation of the Japanese original.