II. Review of operations

1. Overview of operating results

(1) Operating results

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

In the real estate industry where Tosei Group operates, transactions are increasing. Domestic real estate transactions from January to September 2017 rose 6% year on year to ¥2.96 trillion, due to an increase in the number of investors considering sales of their real estate holdings against a backdrop of rising real estate prices and growing transactions in areas surrounding central Tokyo and regional areas, where the effects of rent increases can be seen. Demand for real estate investment is likely to continue for some time against the backdrop of a favorable financing environment, and real estate transactions for the full year 2018 are anticipated to rise around 10% year on year to approximately ¥4 trillion (according to a survey by a private research institute).

In the Tokyo metropolitan area condominium market, the number of units sold from January to October 2017 remained unchanged year on year. The average sales price in the Tokyo metropolitan area continued to rise due to comparatively favorable sales of high-priced properties in the central Tokyo area. However, the average contract rate for the first month, during the same period was below the 70% threshold from which market conditions are viewed as favorable, as sales of mainly suburban properties continued to struggle (according to a survey by a private research institute).

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

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

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

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

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

Performance by business segment is shown below.

Revitalization Business

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

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

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

Development Business

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

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

Rental Business

During the fiscal year under review, while the segment sold 37 buildings of its inventory assets held for leasing purposes, it newly acquired 41 properties including income-generating office buildings and apartments. In addition, the segment made efforts to lease vacancies out following acquisitions and also focused on leasing activities for its existing non-current assets and inventory assets.

As a result, revenue in this segment was ¥6,194 million (up 17.3% year on year) and the segment profit was ¥2,581 million (up 8.0%).

Fund and Consulting Business

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

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

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

Property Management Business

During the fiscal year under review, the segment worked to win new contracts and maintain existing contracts. Consequently, the total number of properties under management was 665 as of November 30, 2017, an increase of 71 properties from November 30, 2016, with that total comprising 395 office buildings, hotel, schools and other such properties, and 270 condominiums and apartments.

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

Others

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

(2) Cash flows

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

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

Cash Flows from Operating Activities

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

Cash Flows from Investing Activities

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

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

Cash Flows from Financing Activities

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

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

Accounting treatment for retirement benefit obligations

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

Due to this effect, retirement benefit costs in the previous fiscal year and the fiscal year under review decreased by ¥6,795 thousand and ¥2,344 thousand, respectively, compared with those under Japanese GAAP.

Accounting treatment for accrued compensated absences payable

Under IFRS, the estimated amount of paid absences of the Company and some subsidiaries is recorded as obligations.

Due to this effect, accrued compensated absences payable (selling, general and administrative expenses) in the previous fiscal year and the fiscal year under review increased by ¥8,677 thousand and ¥2,940 thousand, respectively, compared with those under Japanese GAAP.

Reclassification of presentation

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

2. Status of production, orders received and sales

(1) Actual production

As the Tosei Group's principle business activities are revitalization, development, rental, fund and consulting and property management, it is difficult to define "actual production." Accordingly, the Company does not report actual production.

(2) Actual orders received

Although subsidiaries of the Company receive orders for production, the Company does not report actual orders received because its amount is immaterial.

(3) Actual sales

Consolidated actual sales for each segment in the fiscal year under review are shown below.

Segment	Fiscal year ended November 30, 2017	Comparison with the previous fiscal year (%)
	Amount (¥ thousand)	
Revitalization Business	40,268,193	56.0
Development Business	5,197,322	(60.4)
Rental Business	6,194,849	17.3
Fund and Consulting Business	2,763,389	20.0
Property Management Business	3,330,553	13.1
Other	20	(100.0)
Total	57,754,328	15.9

Notes: 1. Transactions between segments were eliminated.

2. The amounts of sales to each major customer and the ratios of the said sales to total sales in the two most recent fiscal years are as follows.

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

3. The above amounts do not include consumption taxes.

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

(1) Fundamental management policy

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

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

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

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

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

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

a. Consolidated revenue for the final fiscal year: ¥100 billion

b. Consolidated profit before tax for the final fiscal year: ¥12 billion

c. Average profit growth rate of the three years: 10% or more

d. Average ROE of the three years: 12% or more

e. Expansion of the ratio of stable businesses

- To make the ratio of the gross profit of the trading business to that of the stable business 50:50 in the final fiscal year*

f. Guideline for equity ratio: 35%

*Of the five existing business segments, the Revitalization Business and the Development Business are defined as the "trading business" and the Rental Business, the Fund and Consulting Business and the Property Management Business are defined as the "stable business." Under this plan, gross profit of the trading business excludes sales expenses pertaining to property trading.

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

1) Contents of basic policy

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

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

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

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

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

2) Overview of special measures to realize the basic policy

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

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

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

The plan is a measure to prevent decisions on the Company's financial and business policies from being controlled by persons deemed inappropriate under the above basic policy, and its objective is to ensure and enhance the Company's corporate value and, in turn, the common interests of its shareholders.

The plan stipulates procedures that must be followed in any cases of purchase, etc. of share certificates, etc. of the Company ((i) a purchase or other acquisition that would result in the holding ratio of share certificates, etc. *(*kabuken *tou hoyuu wariai)*of a holder *(hoyuusha)* totaling at least 20% of the share certificates, etc. issued by the company; or (ii) a tender offer *(koukai kaitsuke)* that would result in the party conducting the tender offer's ownership ratio of share certificates, etc. and the ownership ratio of share certificates, etc. of a person having a special relationship totaling at least 20% of the share certificates, etc. issued by the Company; or (iii) any similar action to (i) or (ii) above)

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

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

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

4) Decisions by the Company's board of directors regarding specific measures and reasons therefor

Company's board of directors deems that the new medium-term management plan and other measures such as the efforts to enhance the corporate value and the strengthening of corporate governance were establishedas specific measures to continuously and sustainably enhance the corporate value of the Company and, in turn, the common interests of its shareholders, and that these are truly in accordance with the basic policy, not detrimental to the common interests of the Company's shareholders and not for the purpose of maintaining the positions of the Company's corporate officers.

In addition, the Company's board of directors deems that the plan is not detrimental to the common interests of the Company's shareholders, not for the purpose of maintaining the positions of the Company's corporate officers, and in accordance with the basic policy based on the following reasoning: approval from the general meeting of shareholders must be obtained for its renewal; its effective period is stipulated as a maximum of three years and it can be abolished at any time by the resolution of the Company's board of directors; an independent committee, which is composed of members who are independent from the management of the Company, has been established; in the event that the plan's countermeasures are triggered, the Company must obtain a resolution by the independent committee when making a decision for triggering the countermeasures in the plan, and the plan fully satisfies the three principles set out in the Guidelines Regarding Takeover Defense for the Purposes of Protection and Enhancement of Corporate Value and Shareholders' Common Interests released by the Ministry of Economy, Trade and Industry and the Ministry of Justice on May 27, 2005.

4. Business and other risks

Risks that have the potential to affect the performance, share price and financial position of the Tosei Group include, but are not limited to, the issues discussed below. Forward-looking statements are based on Tosei Group judgments as of November 30, 2017. The Tosei Group maintains a policy of recognizing the potential for risks to occur and working to preclude them or manage them if they arise. Furthermore, the information below is not intended to be an exhaustive list of all risks associated with the businesses of the Tosei Group or investment in the Company's shares.

(1) Trends in economic conditions

The demand for office buildings and commercial facilities owned by the Tosei Group may be affected by economic trends, and willingness of customers buying houses to buy is easily influenced by economic trends and the resulting employment situation as well as by a decline in land prices stemming from a downturn in the real estate market or other cause. Due to these factors, when worsening of domestic and foreign economic conditions results in decreased motivation to invest in real estate, a drop in real estate transactions, a rise in the vacancy rate or a decline in rent, there may be an impact on the Tosei Group's operating results and financial position.

(2) Disasters, etc.

The occurrence of a natural disaster such as a major earthquake in Tokyo, which is believed likely to happen in the future, destructive storm or flood, or a human disaster such as war, terrorism or fire, could cause substantial losses in the values of the real estate the Tosei Group invests in, manages, develops and controls, and therefore has the potential to affect the Tosei Group's operating results and financial position.

(3) Dependency on interest-bearing debt and interest rate trend

The Tosei Group procures debt financing, primarily from financial institutions, on a project-by-project basis, to fund expenses associated with business activities including acquisition of land and buildings and construction. Consequently, the ratio of interest-bearing debt to total assets is consistently at a certain level. Increases in interest rates increase fund procurement costs, and therefore have the potential to affect the Tosei Group's operating results and financial position.

In addition, lump-sum repayments due to conflicts with financial covenants on some loans, delays of project sales, and lower-than-expected sales revenues also have the potential to affect the operating results and financial position of the Tosei Group.

(4) Legal regulations

1) Legal regulations

In addition to the regulations in the Companies Act and the regulations in the Financial Instruments and Exchange Act that apply to listed companies, the main legal regulations pertaining to the businesses of the Tosei Group are as follows.

If these legal regulations are strengthened in the future, the cost of legal compliance measures could increase.

Main legal regulations
• Building Lots and Buildings Transaction Business Act • National Land Use Planning Act • City Planning Act • Building Standards Act • Construction Business Act • Act on Architects and Building Engineers • Housing Quality Assurance Act • Act on Sales, etc. of Financial Products • Real Estate Specified Joint Enterprise Act • Trust Business Act • Act on Investment Trust and Investment Corporations • Act on Securitization of Assets • Real Estate Investment Advisory Business Registration Rules • Act on Assurance of Performance of Specified Housing Defect Warranty • Act on Prevention of Transfer of Criminal Proceeds • Act on Advancement of Proper Condominium Management • Act on Maintenance of Sanitation in Buildings

- Security Services Act
- Fire and Disaster Management Act
- Act on the Rational Use of Energy
- Money Lending Business Act
- Inns and Hotels Act

2) Licenses and permits, etc.

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

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

Tosei Corporation

Name of license or permit	Authority	Content of license or permit	Expiration	Rescission, cancellation or other reasons
Real Estate Business License	Governor of Tokyo	Tokyo Governor's License (13) No. 24043	March 23, 2022	When the license has been obtained through wrongful means, or the provisions of causes for disqualification of officers, etc. become applicable, the license shall be rescinded. (Article 66 of the Building Lots and Buildings Transaction Business Act)
Real Estate Investment Advisory Business Registration	Minister of Land, Infrastructure, Transport and Tourism	General–No. 127	February 28, 2021	When the registration has been made through wrongful means, or the provisions of causes for disqualification of officers, etc. become applicable, the registration shall be rescinded. (Article 30 of the Real Estate Investment Advisory Business Registration Rules)
Specified Construction Business License	Governor of Tokyo	Tokyo Governor's License (Special–29) No. 107905	December 9, 2022	When a situation arises so that there is no fulltime officer or employee in the company who has experience of being engaged for five (5) years or more in specified construction business, the permission shall be rescinded. (Article 29 of the Construction Business Act)
First Class Architect's Office License	Governor of Tokyo	Tokyo Governor's Registration No. 46219	April 9, 2021	When the registration has been made through wrongful means, or the provisions of causes for disqualification of the first-class registered architect, etc. become applicable, the registration shall be rescinded. (Article 26 of the Act on Architects and Building Engineers)
Real Estate Specific Joint Enterprise Permit	Governor of Tokyo	Tokyo Governor, No. 58	–	When license of the building lots and buildings transaction business has been rescinded, or the provisions of causes for disqualification of officers, etc. become applicable, the authorization shall be rescinded. (Article 36 of the Real Estate Specified Joint Enterprise Act)
Registered Financial Instrument Business (Type 2 Financial Instrument Business, Advisor and Agency)	Financial Services Agency	Kanto Financial Bureau Chief (Financial Instruments) No. 898	–	When the registration has been made through wrongful means, or there is a risk of insolvency in the light of capital or operation or the status of property, the registration shall be rescinded. (Article 52 of the Financial Instruments and Exchange Act)

Tosei Asset Advisors, Inc.

Name of license or permit	Authority	Content of license or permit	Expiration	Rescission, cancellation or other reasons
Real Estate Business License	Governor of Tokyo	Tokyo Governor's License (3) No. 85736	April 7, 2021	When the license has been obtained through wrongful means, or the provisions of causes for disqualification of officers, etc. become applicable, the license shall be rescinded. (Article 66 of the Building Lots and Buildings Transaction Business Act)

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

Tosei Community Co., Ltd.

Name of license or permit	Authority	Content of license or permit	Expiration	Rescission, cancellation or other reasons
Real Estate Business License	Governor of Tokyo	Tokyo Governor's License (4) No. 80048	September 28, 2021	When the license has been obtained through wrongful means, or the provisions of causes for disqualification of officers, etc. become applicable, the license shall be rescinded. (Article 66 of the Building Lots and Buildings Transaction Business Act)
General Construction Building License	Governor of Tokyo	Tokyo Governor's License (General–24) No. 119534	March 10, 2018	When a situation arises so that there is no fulltime officer or employee in the company who has experience of being engaged for five (5) years or more in general construction business, the permission shall be rescinded. (Article 29 of the Construction Business Act)
Specified Construction Business License	Governor of Tokyo	Tokyo Governor's License (Special–24) No. 119534	March 10, 2018	When a situation arises so that there is no fulltime officer or employee in the company who has experience of being engaged for five (5) years or more in specified construction business, the permission shall be rescinded. (Article 29 of the Construction Business Act)
First Class Architect's Office License	Governor of Tokyo	Tokyo Governor's Registration No. 49526	January 14, 2019	When the registration has been made through wrongful means, or the provisions of causes for disqualification of the first-class registered architect, etc. become applicable, the registration shall be rescinded. (Article 26 of the Act on Architects and Building Engineers)
Condominium Management Business	Minister of Land, Infrastructure, Transport and Tourism	Minister of Land, Infrastructure, Transport and Tourism (4) No. 030488	May 21, 2022	When the registration has been made through wrongful means, or the provisions of causes for disqualification of officers, etc. become applicable, the registration shall be rescinded. (Article 83 of the Act on Advancement of Proper Condominium Management)
Building Environmental Health Comprehensive Management Company	Governor of Tokyo	Tokyo Governor's License (Comprehensive 19) No. 273	October 3, 2019	When the registration has been made through wrongful means, or the provisions of causes for disqualification of officers, etc. become applicable, the registration shall be rescinded. (Article 12-4 of the Act on Maintenance of Sanitation in Buildings)
Security Service License	Tokyo Public Safety Commissioner	Security Service Law Authorization No. 30002591	October 14, 2021	When the recognition has been obtained through wrongful means, or the provisions of causes for disqualification are applicable, the recognition shall be rescinded. (Article 8 of the Security Services Act)

Tosei Revival Investment Co., Ltd.

Name of license or permit	Authority	Content of license or permit	Expiration	Rescission, cancellation or other reasons
Real Estate Business License	Governor of Tokyo	Tokyo Governor's License (3) No. 88903	February 22, 2023	When the license has been obtained through wrongful means, or the provisions of causes for disqualification of officers, etc. become applicable, the license shall be rescinded. (Article 66 of the Building Lots and Buildings Transaction Business Act)
Money Lending Business Registration	Governor of Tokyo	Tokyo Governor, (3) No. 31311	March 16, 2019	When the registration has been made through wrongful means, or the provisions of causes for disqualification are applicable, the registration shall be rescinded. (Article 24-6-5 of the Money Lending Business Act)

Urban Home Corporation

Name of license or permit	Authority	Content of license or permit	Expiration	Rescission, cancellation or other reasons
Real Estate Business License	Minister of Land, Infrastructure, Transport and Tourism	Minister of Land, Infrastructure, Transport and Tourism (1) No. 9038	August 19, 2021	When the license has been obtained through wrongful means, or the provisions of causes for disqualification of officers, etc. become applicable, the license shall be rescinded. (Article 66 of the Building Lots and Buildings Transaction Business Act)
Specified Construction Business License	Governor of Tokyo	Tokyo Governor's License (Special–26) No.112893	March 24, 2020	When a situation arises so that there is no fulltime officer or employee in the company who has experience of being engaged for five (5) years or more in specified construction business, the permission shall be rescinded. (Article 29 of the Construction Business Act)
First Class Architect's Office License	Governor of Tokyo	Tokyo Governor's Registration No.54776	June 24, 2018	When the registration has been made through wrongful means, or the provisions of causes for disqualification of the first-class registered architect, etc. become applicable, the registration shall be rescinded. (Article 26 of the Act on Architects and Building Engineers)

Kishino Corporation

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

Four Big Corporation

Name of license or permit	Authority	Content of license or permit	Expiration	Rescission, cancellation or other reasons
Real Estate Business License	Governor of Tokyo	Tokyo Governor's License (1) No.99828	October 21, 2021	When the license has been obtained through wrongful means, or the provisions of causes for disqualification of officers, etc. become applicable, the license shall be rescinded. (Article 66 of the Building Lots and Buildings Transaction Business Act)

KS Properties Corporation

Name of license or permit	Authority	Content of license or permit	Expiration	Rescission, cancellation or other reasons
Real Estate Business License	Governor of Tokyo	Tokyo Governor's License (1) No.100581	May 19, 2022	When the license has been obtained through wrongful means, or the provisions of causes for disqualification of officers, etc. become applicable, the license shall be rescinded. (Article 66 of the Building Lots and Buildings Transaction Business Act)

Tosei Hotel Kanda Co., Ltd.

Name of license or permit	Authority	Content of license or permit	Expiration	Rescission, cancellation or other reasons
Hotel Operating License	Mayor of Chitoda-ku,	Hotel Operating License	—	Cancellation of approvals due to the violation of structure, facility, or health standards

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

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

(6) New businesses

The Tosei Group has acquired companies, established subsidiaries, and conducted other activities for the purpose of launching new businesses such as a hotel business, expanding the existing businesses and others. Since entry into these businesses and business performance after the entry involve various uncertainties, the Tosei Group has established the internal management system, developed human resources, obtained insurance, etc. on the assumption of all possible risks. However, there may be an impact on the Tosei Group's financial position and operating results, depending on occurrence of risks beyond the assumption or changes in laws and regulations.

5. Important operational contracts, etc.

None

6. Research and development activities

None

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

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

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

(1) Significant accounting policies and estimates

The financial statements of the Tosei Group are prepared in accordance with IFRS. For significant accounting policies and estimates for the presentation of these consolidated financial statements, please refer to "3. Significant accounting policies" and "4. Significant accounting estimates and judgments requiring estimates" in "V. Accounting, 1. Consolidated financial statements, etc., (1) Consolidated financial statements, Notes to Consolidated Financial Statements."

(2) Analysis of financial position

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

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

Current assets

As of November 30, 2017, the balance of current assets was ¥85,643 million, an decrease of ¥6,948 million compared with the end of the previous fiscal year.
This is mainly due to, decrease in inventories (down ¥7,579 year on year) because sales of properties in the revitalization and development businesses, which are the core operations of the Company, exceeded the number of properties the Company recently purchased.

Non-current assets

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

Current liabilities

As of November 30, 2017, the balance of current liabilities was ¥11,945 million, down ¥2,706 million compared with the end of the previous fiscal year.
This is mainly due to, decrease in borrowings (down ¥2,938 year on year).

Non-current liabilities

As of November 30, 2017, the balance of non-current liabilities was ¥64,446 million, down ¥1,168 million compared with the end of the previous fiscal year.
This is mainly due to, decrease in trade and other payables (down ¥1,069 year on year) .

Equity

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

(3) Analysis of operating results

For the fiscal year under review, operating results were as follows. Revenue increased 15.9% year on year to ¥57,754 million, profit before tax up7.1% to ¥9,049 million, and profit for the year up 11.0% to ¥6,155 million.

Revenue

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

Cost of revenue and gross profit

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

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

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

Selling, general and administrative expenses and operating profit

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

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

Profit before tax

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

fiscal year.

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

Income tax expense and profit for the year

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

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

(4) Analysis of cash flows

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

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

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

Ratio of equity attributable to owners of parent to total assets:	Equity attributable to owners of parent to total assets / Total assets
Market value ratio of equity attributable to owners of parent to total assets:	Market capitalization / Total assets
Interest-bearing debt to cash flow ratio:	Interest-bearing debt /Cash flows
Interest coverage ratio:	Cash flows / Interest expenses

Notes:
1. All indicators are calculated using consolidated financial figures.
2. Market capitalization is calculated based on the number of issued shares, excluding treasury shares.
3. The figures for cash flows employ net cash from operating activities.
4. Interest-bearing debt includes all debt recorded in the consolidated statement of financial position on which interest is paid.
5. Interest-bearing debt to cash flows ratio and interest coverage ratio are not presented for the consolidated fiscal year ended November 30, 2015 and the consolidated fiscal year ended November 30, 2016 because net cash used in operating activities was recorded in the consolidated statements of cash flows for the said fiscal year.