II. Review of operations

1. Overview of operating results

(1) Operating results

During the fiscal year ended November 30, 2016, the Japanese economy remained on a moderate recovery track despite apparent weaknesses in exports and production. There is increasing uncertainty about the future of the global economy due primarily to the impact from concern of slowdown in emerging-market economies, the issue of Britain's withdrawal from the EU, and the direction that economic measures will take in the U.S., which will soon inaugurate a new president. However, a moderate recovery is expected backed by robust personal consumption amid steady improvement of the employment and income environment going forward.

In the real estate industry where Tosei Group operates, domestic real estate transactions by listed companies and other such entities from January 2016 to August 2016 decreased 20% year on year to ¥2.6665 trillion. Transactions decreased due to a fall in property supply available to the market in addition to investors, particularly overseas investors, refraining from making real estate transactions involving relatively expensive properties despite very high investment motivation for investors, both in Japan and overseas, against a backdrop of a favorable financing environment (according to a survey by a private research institution).

In the Tokyo metropolitan area condominium market, consumer buying motivation did not increase amid a surge in condominium prices and another postponement of the consumption tax hike, and sales companies have been reducing property supply. The number of newly-built condominium units sold from January 2016 to October 2016 decreased 15.3% year on year, and contract rates for each month were, in general, at levels below the 70% threshold from which market conditions are viewed as favorable. In projections by a private research institution, the number of units sold in 2016 is forecast to be around 37,000, marking the first time in seven years that the number of units sold has fallen below 40,000 since 2009, when supply fell after the Lehman Crisis.

In the Tokyo metropolitan area build-for-sale detached house market, housing starts from January 2016 to October 2016 rose 8.7% year on year. There continues to be strong demand for detached housing, which is relatively inexpensive compared to new condominiums, and robust demand is expected to continue going forward (according to the Ministry of Land, Infrastructure, Transport and Tourism data).

In the office leasing market of Tokyo's five business wards, demand from corporate businesses for relocation and expansion continued to be strong and the vacancy rate was low in the mid-3% range. The average asking rent continued to increase gradually and the price per tsubo (1 tsubo = 3.3m2) as of October 2016 was in the ¥18,400 range, rising 4.7% year on year (according to a survey by a private research institution).

In the real estate securitization market, expansion of the market is continuing against a backdrop of a favorable financing environment. The total value of assets under management in the J-REIT market as of October 31, 2016, (acquisition cost base) increased around ¥1.4 trillion year on year to around ¥15.2 trillion. As of June 30, 2016, the total value of assets under management in the J-REIT market amounted to approx. ¥14.8 trillion and private placement funds amounted to approx. ¥13.9 trillion for a total market size of approx. ¥28.7 trillion (according to a survey by a private research institution).

Amid this operating environment, in the Revitalization Business, the Tosei Group made steady progress in selling assets such as income-generating office buildings and apartments, while in the Development Business, the Group pushed ahead with sales and development of commercial facilities and 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 ¥49,818 million (up 15.8% year on year), operating profit was ¥9,279 million (up 34.6%), profit before tax was ¥8,450 million (up 39.9%), and profit for the year was ¥5,547 million (up 34.1%).

Performance by business segment is shown below.

Reportable segment classifications have been changed effective from the first quarter of the fiscal year ending November 30, 2016, and in the following yearly comparisons figures for the previous fiscal year have been recalculated according to the segment after such change.

Revitalization Business

During the fiscal year under review, the segment sold 32 properties it had renovated, including Kinshicho Tosei Building (Sumida-ku, Tokyo), STABLE NAKANO (Nakano-ku, Tokyo), City Forum Kamihongo

(Matsudo-shi, Chiba), Château Espoir Kokubunji (Kokubunji-shi, Tokyo), JPT Motomachi Building (Yokohama-shi, Kanagawa) and Hakusan Asanomi Building (Bunkyo-ku, Tokyo). In addition, the segment sold 57 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 54 income-generating office buildings and apartments and eight land lots for renovation and sales purposes.

As part of the acquisition, our company acquired Kishino Coporation and Kishino Real Estate Corporation, companies hold income properties mainly in Toshima-ku, Tokyo, in the second quarter and acquired Four Big Corporation, company hold income properties mainly in Nakano-ku, Tokyo, in third quarter, through M&A transaction and converted them into consolidated subsidiaries.

As a result, revenue in this segment was ¥25,809 million (down 0.7% year on year) and the segment profit was ¥4,001 million (down 4.1%).

Development Business

During the fiscal year under review, the segment sold new commercial facilities T's BRIGHTIA Minami Aoyama (Minato-ku, Tokyo) and T's BRIGHTIA Tsunashima (Yokohama-shi, Kanagawa). In addition, the segment focused on the sale of detached houses, for which there was firm demand. The segment sold 119 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 Mitaka Osawa (Mitaka-shi, Tokyo), THE Palms Court Hashimoto (Sagamihara-shi, Kanagawa) and THE Palms Court Kitakoiwa (Edogawa-ku, Tokyo). During the fiscal year under review, it also acquired five land lots for detached housing projects, one land lot for condominium and three land lots for commercial facility projects.

From the three months ended February 29, 2016, the segment embarked on efforts to enhance acquisition and sales networks in the outskirts of Tokyo and the Kanagawa area, facilitated by the Company making Urban Home Corporation, detached house sales and custom home construction company based in Machida-shi, Tokyo, a consolidated subsidiary.

As a result, revenue in this segment was ¥13,138 million (up 98.9% year on year) and the segment profit was ¥3,674 million (up 586.8%).

Rental Business

During the fiscal year under review, while the segment sold 21 buildings of its inventory assets held for leasing purposes, it newly acquired 51 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 ¥5,282 million (up 25.4% year on year) and the segment profit was ¥2,389 million (up 33.0%).

Fund and Consulting Business

During the fiscal year under review, while ¥74,462 million was subtracted from the balance of assets under management (Note), due mainly to property dispositions by funds, ¥100,856 million was added to the balance of assets under management ¥421,792 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, 2016, was ¥448,186 million. The acquisition of such large project contracts increased asset management fees and contributed to revenue.

As a result, revenue in this segment was ¥2,302 million (down 5.6% year on year) and the segment profit was ¥951 million (down 35.0%).

(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 594 as of November 30, 2016, an increase of 47 properties from November 30, 2015, with that total comprising 375 office buildings, hotel, schools and other such properties, and 219 condominiums and apartments.

As a result, revenue in this segment was ¥2,944 million (down 4.1% year on year) and segment profit was ¥141 million (down 3.8%).

Others

During the fiscal year under review, revenue in this segment was ¥340 million (down 51.0% year on year)

and the segment loss was ¥17 million (in comparison with segment profit of ¥178 million in the previous fiscal year).

(2) Cash flows

Cash and cash equivalents (hereinafter "cash") as of November 30, 2016 totaled ¥21,640 million, an increase of ¥2,849 million compared with November 30, 2015.

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 used in operating activities totaled ¥7,472 million (up 68.2% year on year). This is mainly due to profit before tax of ¥8,450 million, as well as an increase in inventories of ¥15,971 million, which was a result of property acquisitions in the Revitalization Business and Development Business, and income taxes paid of ¥2,297 million.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥8,193 million (net cash provided by investing activities totaled ¥481 million in the previous fiscal year). This is primarily due to purchases of investment properties ¥1,743 million, payments of loans receivable ¥2,935 million and purchase of investments in subsidiaries resulting in change in scope of consolidation totaling ¥3,297 million.

Cash Flows from Financing Activities

Net cash provided by financing activities totaled ¥18,522 million (up 178.1% year on year).

This mainly reflects ¥23,866 million in the repayments of non-current borrowings, ¥ 926 million in interest expenses paid and ¥771 million in cash dividends paid, despite ¥42,442 million in proceeds from non-current 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 ¥6,222 thousand and ¥6,795 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 ¥981 thousand and ¥8,677 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, 2016	Comparison with the previous fiscal year (%)
	Amount (¥ thousand)	
Revitalization Business	25,809,872	(0.7)
Development Business	13,138,715	98.9
Rental Business	5,282,131	25.4
Fund and Consulting Business	2,302,732	(5.6)
Property Management Business	2,944,458	(4.1)
Other	340,203	(51.0)
Total	49,818,113	15.8

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, 2015		Fiscal year ended November 30, 2016	
	Amount (¥ thousand)	Ratio (%)	Amount (¥ thousand)	Ratio (%)
Tosei Reit Investment Corporation	10,791,865	25.1	7,342,359	14.7

3. The above amounts do not include consumption taxes.

3. Issues to be addressed

(1) Description of present issues to be addressed

The Group is aiming to establish a firm management structure that is able to withstand any changes in the market environment, and set the "vision of revenue ¥100 billion" a medium- to long-term vision for the 2020 fiscal year. The fiscal year ending November 30, 2017, is the final year of the current medium-term management plan and we are working toward realizing the 2020 concept that is the Company's aim. Based on future forecasts for the real estate investment market going forward and the housing market targeting end users, we recognize that formulating a more practical new medium-term management plan is an issue to be addressed.

(2) 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 internally covers the six business fields (Note) 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 that system with knowledge and experience specializing in real estate and finance, (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

Under the new medium-term management plan called "Advancing Together 2017" (the targeted period of the plan is three years from December 2014 to November 2017), the Company group aims to further strengthen the business infrastructure by expanding and developing of the existing six business (Note) areas and considering its advance to peripheral areas of business, to build optimum corporate governance for expansion of the Company group and increase of the employees which are entailed in expansion of the business, and to establish efficient organization management structure. Further, the Company group will emphasize the cultivation of the most valuable asset of the Company group, i.e. the human resources to increase satisfaction of the employees of the Company group. As the Basic Policy in the new medium-term management plan for the further growth of the Company group, the Company group is determined to establish the original and distinctive "Tosei brand" by providing products ensuring high customer satisfaction and high-quality services.

Based on these policies, the Company group is dedicated to redefine existing ideas with the spirit of challenge and advance as the risk-taking group of companies, to aim "creation of new values and sensation as the truly globally-minded and promising professionals".

The Company group has previously appointed multiple outside directors (two members), invited all Audit & Supervisory Board Members (four members) from outside the company, and has notified all of the above six outside directors and Audit & Supervisory Board Members as "independent directors and/or Audit & Supervisory Board Members" in accordance with the "Principles of Corporate Governance for Listed Companies" of the Tokyo Stock Exchange. Also, the Company group has reinforced the business execution function by the introduction of the executive officer system, and the establishment of the corporate governance board, and will continue to endeavor to further strengthen corporate governance. Specifically, the Company group will focus on putting into practice actions based on a high-level awareness of compliance through raising awareness from the level of "role model" to that of "ideal" in accordance with the Compliance Principles of the Company, thorough implementation of risk management by correctly understanding and analyzing risks involved in corporate activities, continuous performance of accountability to various stakeholders including investors by promptly publicly disclosing correct corporate information under the spirit of fair disclosure, and other efforts for strengthening corporate governance.

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 65th 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 established

as 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.

Note: Reportable segment classifications have been changed effective from the first quarter of the fiscal year ending November 30, 2016. For details, please refer to "6. Segment information" in "V. Accounting 1. Consolidated financial statements, etc. (1) Consolidated financial statements [Notes to Consolidated Financial Statements]"

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, 2016. 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

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 (12) No. 24043	March 23, 2017	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–24) No. 107905	December 9, 2017	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 (3) No. 030488	May 21, 2017	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 (2) No. 88903	February 22, 2018	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)

Kishino Real Estate 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.99270	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)

(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, 2016 is as follows.

Forward-looking statements included in this section are based on information available to the Group's management as of November 30, 2016.

(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, 2016 was as follows. Total assets increased 30.1% compared with the end of the previous fiscal year to ¥121,276 million, liabilities rose 40.9% to ¥80,266 million, and equity rose 13.2% to ¥41,010 million. The ratio of equity attributable to owners of parent to total assets was 33.8%, compared with 38.9% at the end of the previous fiscal year.

<u>Current assets</u>

As of November 30, 2016, the balance of current assets was ¥92,592 million, an increase of ¥24,703 million compared with the end of the previous fiscal year. This was mainly attributable to a ¥21,142 million increase in inventories because the acquisition of properties progressed at a steady pace in the Tosei Group's mainstay Revitalization Business and Development Business.

<u>Non-current assets</u>

As of November 30, 2016, the balance of non-current assets was ¥28,683 million, up ¥3,376 million compared with the end of the previous fiscal year. This was mainly due to a ¥2,942 million increase in investment properties.

<u>Current liabilities</u>

As of November 30, 2016, the balance of current liabilities was ¥14,651 million, up ¥832 million compared with the end of the previous fiscal year. This was mainly due to a ¥709 million increase in current income tax liabilities.

Non-current liabilities

As of November 30, 2016, the balance of non-current liabilities was ¥65,614 million, up ¥22,465 million compared with the end of the previous fiscal year. This was mainly due to a ¥21,596 million increase in Borrowings.

Equity

As of November 30, 2016, equity was ¥41,010 million, an increase of ¥4,781 million compared with the end of the previous fiscal year. This was mainly due to a ¥4,792 million increase in retained earnings.

(3) Analysis of operating results

For the fiscal year under review, operating results were as follows. Revenue increased 15.8% year on year to ¥49,818 million, profit before tax rose39.9% to ¥8,450 million, and profit for the year rose 34.1% to ¥5,547 million.

Revenue

In the fiscal year under review, revenue was ¥49,818 million, a increase of ¥6,811 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 ¥33,468 million, up ¥2,376 million compared with the previous fiscal year.

As a result, gross profit was ¥16,349 million, an increase of ¥4,434 million compared with the previous fiscal year.

The gross profit margin was 32.8%, up from 27.7% 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 ¥7,021million, an increase of ¥1,922 million compared with the previous fiscal year. This was mainly due to a ¥660 million increase in sales expenses accordance with revenue increase in development business and a ¥751 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 ¥9,279 million, an increase of ¥2,387 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 ¥63 million, an increase of ¥40 million compared with the end of the previous fiscal year. Finance costs, mainly interest expenses, were ¥892 million, an increase of ¥18 million compared with the end of the previous fiscal year.

As a result, profit before tax in the fiscal year under review was ¥8,450 million, an increase of ¥2,409 million compared with the previous fiscal year.

Income tax expense and profit for the year

In the fiscal year under review, income tax expense were ¥2,902 million, an increase of ¥998 million compared with the previous fiscal year.

As a result, profit for the year was ¥5,547million, an increase of ¥1,411 million 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, 2014	Fiscal year ended Nov. 30, 2015	Fiscal year ended Nov. 30, 2016
Ratio of equity attributable to owners of parent to total assets (%)	40.5	38.9	33.8
Market value ratio of equity attributable to owners of parent to total assets (%)	43.0	39.2	33.1
Interest-bearing debt to cash flow ratio (years)	117.3	—	—
Interest coverage ratio (times)	0.3	—	—

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.

(5) Issue recognition of the management and future policies

The Group aspires to continue to be a group of companies that make a meaningful contribution to all their stakeholders by promptly and accurately responding to changes in the management environment and continually carrying out business activities that enable the Group to achieve sound growth. To this end, it recognizes the Group's basic management policy is to strive to maintain the sound financial condition and steadily enhance business results.

The Group is aiming to establish a firm management structure that is able to withstand any changes in the market environment, and set the "vision of revenue ¥100 billion" a medium- to long-term vision for the 2020 fiscal year. The fiscal year ending November 30, 2017, is the final year of the current medium-term management plan and we are working toward realizing the 2020 concept that is the Company's aim. Based on future forecasts for the real estate investment market going forward and the housing market targeting end users, we recognize that formulating a more practical new medium-term management plan is an issue to be addressed.