II. Review of operations

1. Overview of operating results

(1) Operating results

During the fiscal year ended November 30, 2014 (December 1, 2013 to November 30, 2014–"fiscal year under review"), the Japanese economy followed a moderate recovery trend due to the effect of economic measures by the government aimed at overcoming deflation as well as monetary easing by the Bank of Japan.

In the real estate industry where Tosei Group operates, corporate real estate transactions increased amid expectations of rises in rents and low-interest rates. The total acquisition amount of properties acquired by listed companies and others in the period from April 2014 to September 2014 was approximately ¥2.1 trillion, an increase of 10% compared with the same period of the previous fiscal year and the second-highest acquisition amount to date (according to a survey by a private research institution).

In the Tokyo metropolitan area condominium market, the contract rate in October 2014, the latest data available, was 63.3%, remaining at a low level as a result of slowing consumer demand for condominium purchases due to a jump in prices reflecting rising building costs. The supply of condominiums was also low, showing a substantial decline due to a decrease in housing starts and a tendency among owners to hold back on selling. As a result, the number of condominium units sold in 2014 is expected to be approximately 43,000 units, down more than 20% from the previous fiscal year (according to a survey by a private research institution).

In the Tokyo metropolitan area build-for-sale detached house market, supply continued to decrease each month compared with the previous year due to a prolonged backlash from the consumption tax hike. The supply of detached houses in the period from January 2014 to September 2014 was down 6.1% compared with the previous period, fuelling concerns about a delayed market recovery (according to the Ministry of Land, Infrastructure, Transport and Tourism data).

At the same time, in the office leasing market of Tokyo's five business wards, the market situation recovered further and the vacancy rate in October 2014 declined to the mid-5% range. The average asking rent was ¥16,913/tsubo, an increase of ¥676 or 4.2% compared with the same month of the previous fiscal year, showing a modest upward trend for ten consecutive months (according to a survey by a private research institution).

In the real estate securitization market, although the financial inflow continued on the back of monetary easing and expectations of rises in rents, the pace of property acquisitions by J-REITs slowed down due to a decrease in yields resulting from property price increases. The total acquisition amount of properties in the period from January 2014 to October 2014 was ¥1.2 trillion, down 32.5% year on year (according to a survey by a private research institution).

As of the end of June 2014, the total value of assets under management in this market was ¥27.4 trillion, comprising ¥11.9 trillion at J-REITs and ¥15.5 trillion at privately placed funds (according to a survey by a private research institution).

Amid this operating environment, in the Revitalization Business, the Tosei Group made steady progress on the sale of assets such as income-generating office buildings and apartment buildings. In the Development Business, the Group pushed ahead with sales of detached houses, condominiums and other products. In addition, Tosei Reit Investment Corporation, which contracts out the management of its assets to Tosei Asset Advisors, Inc., a wholly-owned subsidiary of Tosei Corporation, was listed on the Tokyo Stock Exchange. We believe that this entry into the J-REIT sector will help to strengthen value chains in the Tosei Group's business portfolio, and will work to further increase the corporate value of the Group by supporting improved medium- and long-term revenue and stable growth at the Investment Corporation.

As a result, consolidated revenue for the fiscal year under review totaled ¥49,981 million (up 42.5% year on year), operating profit was ¥5,560 million (up 42.1%), profit before tax was ¥4,663 million (up 44.7%), and profit for the year was ¥2,874 million (up 43.2%).

Performance by business segment is shown below.

Revitalization Business

During the fiscal year under review, the segment sold 31 properties it had renovated, including Tama Center Tosei Building (Tama-shi, Tokyo), Inage Kaigan Building (Chiba-shi, Chiba), KM Shinjuku Building (Shinjuku-ku, Tokyo), Akihabara Tosei Building (Chiyoda-ku, Tokyo), Ueno Takeuchi Building

(Taito-ku, Tokyo), FLEG Nishiazabu (Minato-ku, Tokyo) and Yanagibashi Suzuwa Building (Taito-ku, Tokyo), and a land lot in Shinjuku 6-chome (Shinjuku-ku, Tokyo). In addition, the segment sold 58 units in the Restyling Business, including Hilltop Yokohama Negishi (Yokohama-shi, Kanagawa), Hilltop Yokohama Higashi Terao (Yokohama-shi, Kanagawa) and Estage Kaminoge (Setagaya-ku, Tokyo).
In the fiscal year ended November 30, 2014, it also acquired a total of 25 income-generating office buildings and apartment buildings and five land lots for renovation and sales purposes.

As a result, revenue in this segment was ¥34,743 million (up 213.1% year on year) and the segment profit was ¥3,330 million (up 138.1%).

Development Business

During the fiscal year under review, the segment focused on the sale of newly-built condominiums and detached houses. The segment sold 33 newly-built condominium units in THE Palms Nihonbashi Kodenmacho Visage (Chuo-ku, Tokyo), as well as a total of 80 detached houses such as properties at Palms Court Setagaya Okamoto (Setagaya-ku, Tokyo), Palms Court Okusawa 1-Chome (Setagaya-ku, Tokyo), Palms Court Sanno 1-Chome (Ota-ku, Tokyo), THE Palms Court Yokohama Hakuraku (Yokohama-shi, Kanagawa) and THE Palms Court Kawasaki Daishi (Kawasaki-shi, Kanagawa).
The segment also acquired nine land lots for detached housing projects and one land lot for a store development project.

As a result, revenue in this segment was ¥6,112 million (down 62.6% year on year) and the segment profit was ¥432 million (down 70.1%).

Rental Business

During the fiscal year under review, while the segment sold 30 buildings of its inventory assets held for leasing purposes, it acquired a total of 23 income-generating office buildings and apartment buildings, and made an effort to lease them out. The segment also focused on leasing activities for its preexisting non-current assets and inventory assets.

As a result, revenue in this segment was ¥4,153 million (up 56.9% year on year), and the segment profit was ¥2,414 million (up 51.8%).

Fund and Consulting Business

During the fiscal year under review, while the segment obtained new asset management contracts in the amount of ¥130,896 million, the balance of assets under management decreased by ¥78,317 million, due mainly to property disposition by funds.
As a result, revenue in this segment was ¥949 million (down 32.1% year on year) and the segment profit was ¥174 million (down 73.9%).

The lower year-on-year revenue and profit results are primarily attributable to the segment having posted brokerage fee income pertaining to transactions involving large projects in the previous fiscal year.

As of November 30, 2014, the balance of assets under management (Note) totaled ¥300,607 million.

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

Property Management Business

As of November 30, 2014, the number of properties managed by the segment including office buildings, parking lots, schools and warehouses was 351, an increase of 8 from November 30, 2013, while the number of condominium and apartment buildings under management decreased by 10 to 193, making the total number of properties under management 544, a decrease of 2 from November 30, 2013.
As a result, revenue in this segment was ¥2,943 million (down 6.8% year on year) and segment profit was ¥227 million (up 84.1%).

Revenue decreased due to a decline in business involving schools, however the segment profit increased owing to increases in fee income and decreases in general and administrative expenses.

Alternative Investment Business

During the fiscal year under review, the segment focused on selling and leasing activities for properties

acquired by a substitute performance. Membership fees from Crystal Sports Club, which was acquired through an M&A transaction in the third quarter, also contributed to income in this segment.

As a result, revenue in this segment was ¥1,078 million (up 157.4% year on year) and the segment profit was ¥213 million (up 193.0%).

(2) Cash flows

Cash and cash equivalents (hereinafter "cash") as of November 30, 2014 totaled ¥16,100 million, an increase of ¥1,388 million compared with November 30, 2013.

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 ¥344 million (down 87.6% year on year). This is mainly due to profit before tax of ¥4,663 million as well as an increase in inventories of ¥3,378 million, which was a result of the Revitalization Business and Development Business segments purchasing properties at a steady pace surpassing that of the decrease in inventories associated with property sales.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥2,878 million (up 206.0% year on year). This is primarily due to purchases of available-for-sale financial assets totaling ¥2,196 million and purchases of investment properties totaling ¥1,125 million.

Cash Flows from Financing Activities

Net cash provided by financing activities totaled ¥3,891 million (up 12.6% year on year). This is primarily due to proceeds from long-term borrowings of ¥32,389 million, which was related to the acquisition of new properties, offsetting that of repayments of long-term borrowings of ¥27,206 million, which was mainly related to property sales.

(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 ¥4,855 thousand and ¥4,633 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 ¥2,781 thousand and decreased by ¥3,706 thousand, respectively, compared with those under Japanese GAAP.

Accounting treatment for unlisted securities, etc.

Under Japanese GAAP, the Company assessed financial assets for which there is no active market and unlisted securities, such as investments in funds, at cost. However, under IFRS, such assets are assessed as available-for-sale financial assets at fair value using certain valuation techniques. Due to this effect, net change in fair values of available-for-sale financial assets is an increase of ¥55,653 thousand compared with that 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, property management and alternative investment businesses, it is difficult to define "actual production." Accordingly, the Company does not report actual production.

(2) Actual orders received

As the Tosei Group does not receive orders for production, the Company does not report actual orders received.

(3) Actual sales

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

Segment	Fiscal year ended November 30, 2014	Comparison with the previous fiscal year (%)
	Amount (¥ thousand)	
Revitalization Business	34,743,813	213.1
Development Business	6,112,575	(62.6)
Rental Business	4,153,421	56.9
Fund and Consulting Business	949,437	(32.1)
Property Management Business	2,943,854	(6.8)
Alternative Investment Business	1,078,462	157.4
Total	49,981,563	42.5

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, 2013		Fiscal year ended November 30, 2014	
	Amount (¥ thousand)	Ratio (%)	Amount (¥ thousand)	Ratio (%)
Tosei Reit Investment Corporation	–	–	17,573,877	35.2

3. The above amounts do not include consumption taxes.

3. Issues to be addressed

(1) Description of present issues to be addressed

Business confidence followed a moderate recovery trend in line with a weakening yen and higher stock prices due to the effects of the economic measures under Abenomics. Consequently, the Japanese real estate market also recovered with rising real estate transaction prices and rents in addition to low vacancy rates. On the other hand, although the housing market has shown consistent firmness, these trends need to be monitored in view of the effects on the market of the consumption tax hike and rising building costs and the consequent slowdown in the pace of supply and downward trend in the contract rate.

Against this backdrop, the Group regards the following matters as issues to be addressed to achieve the new medium-term management plan, "Advancing Together 2017" (December 2014 through November 2017): i) strengthening of purchases of income-generating properties for renovation and land for development in view of changes in the real estate market and realization of the optimum investment balance, ii) further strengthening of the group's governance in addition to establishment and operation of an efficient operating structure to increase productivity, looking ahead to organizational growth in line with business expansion at Tosei Corporation and its group companies, iii) improvement in the satisfaction of all Group employees, including securing the personnel necessary for the expansion of the Group as well as human resources development for the next generation, and iv) establishing Tosei's brand recognition by combining "innovation and challenge" with "assurance and reliability" through original products and high quality services.

(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 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 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 (five members) from outside the company, and has notified all of the above seven 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.

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, 2014. 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.

(1) Business environment

1) Revitalization Business and Development Business

(a) Effects of real estate market conditions

The Tosei Group's core revitalization and development businesses purchase properties on their own account, and typically take several months to two years until they sell the properties after increasing their value or developing them. During that time, changes in the macro economy, such as trends in land prices, interest rates and fiscal policy, may occur, and any resulting deterioration of conditions in the real estate market could have an impact on the Tosei Group's operating results and financial position.

(b) Fluctuation in business results due to timing of property delivery

These two businesses book property sales amounts as sales, and therefore the amount per transaction is large. In addition, because the two businesses book sales upon delivery basis of the property, any delay in delivering the property could affect the Tosei Group's operating results and financial position. In particular, the presence or absence of deliveries of large-scale properties in every quarter could cause a considerable fluctuation in sales and income.

(c) Construction delays and increased construction costs due to natural disasters, etc.

The Tosei Group makes efforts to draw up a rational yearly budget using the buildup method based on concrete purchasing and sales plans. However, construction delays and the accompanying increase in construction/renovation costs due to natural disasters or other unforeseen events as well as a rise in construction cost due to growing construction demand and other factors have the potential to affect the Tosei Group's operating results and financial position.

(d) Application of accounting standard for measurement of inventories

The Tosei Group adopts IAS 2 "Inventories" (ASBJ Statement No. 9 "Accounting Standard for Measurement of Inventories" for the non-consolidated financial statements) for inventories held for sale. As a result, inventories held at year-end are written down if fair value (net realizable value) is lower than acquisition cost, and the loss on the write-down of the difference is then charged as the cost of sales. In the future, the Tosei Group will lower the book values of inventories if fair value (net realizable value) is lower than acquisition cost due to deterioration in financial or real estate market conditions or other cause, and the resulting loss could have an impact on the Tosei Group's operating results and financial position.

2) Rental Business

In the rental business of the Tosei Group, changes in general economic conditions or interest rates, the emergence of competing properties, or the occurrence of declines in rental fees or large numbers of vacancies or other events have the potential to affect the Tosei Group's operating results and financial position.

3) Fund and Consulting Business

(a) Management performance of funds

The fund and consulting business, which plays a significant role in the growth and positioning of the Tosei Group, earns fees in compensation for asset management including locating real estate properties that match the needs of investors, raising their value, conducting lease-up activities and then selling them. Therefore, asset management advisory and other capabilities play a role in the performance of the real estate funds, and the Tosei Group has accumulated expertise in both real estate and finance. Tosei's reputation as an asset management company may decline, which could have an impact on the Tosei Group's operating results and financial position in the event that rental conditions or other aspects of the real estate properties which Tosei provides discretionary investment, management and advises on do not achieve the performance expected by investors.

(b) Changes in investor trends due to fiscal policy, etc.

Real estate funds are one means of investment, and the Tosei Group's operating results and financial

position could be affected if investors withdraw from or refrain from investing in real estate funds due to changes in fiscal policies or the macro economy, or if funds can no longer continue due to funding problems.

(c) Compensation in connection with non-recourse loans

A special purpose company operated by a real estate fund that is managed by the Tosei Group may borrow funds via a non-recourse loan (debt can only be collected from income and sale proceeds of underlying real estate collateral. Also known as a limited recourse loan) when acquiring real estate. In this case, there are also borrowings for which the Tosei Group, in its capacity as an asset manager, may be held liable to compensate for damages, etc. incurred by the lender on the grounds of fraud or unlawful acts, environmental pollution or other incident resulting from willful intent or gross negligence by interested parties on the borrower side such as the borrower or the asset manager, in connection with the non-recourse loan. This liability is generally no guarantee of performance of the loan obligation but if such damage did occur as a result of gross negligence on the part of the Tosei Group, the Company or the Tosei Group may assume liability for compensation.

4) Property Management Business

(a) Decline of property management fees

Property management fees for condominiums and office buildings are continuing their downward trend due to increasing competition with other companies and cost-reduction pressure from customers. The Tosei Group is making efforts to raise efficiency and cut management contracting costs, but further reductions in property management fee or a surge in cancellations of consignment contracts have the potential to affect the Tosei Group's operating results and financial position.

(b) Workplace accidents, etc.

The Tosei Group has obtained ISO 9001 certification for its execution of contracted businesses and provision of services. Although the Group is striving to enhance its business quality and services, unpredictable workplace accidents, defects in construction or facilities, problems with services, or other incidents have the potential to affect the Tosei Group's operating results and financial position.

5) Alternative Investment Business

The alternative investment business, primarily purchases real estate collateralized loans and invests in M&As of real estate-owning companies. However, the inability to acquire real estate-collateralized loans in a shrinking market for non-performing loans, the stagnation in M&As of real estate-owning companies to take place, or the inability to recover capital invested in acquired loans or companies as planned have the potential to affect the operating results and financial position of the Tosei Group

(2) 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.

In procuring funds, the Tosei Group negotiates with multiple financial institutions on every project to obtain the best financing terms. Unexpected changes in the operating environment and other factors that might impede access to funding could delay or suspend projects or render them untenable, which could affect the operating results and financial position of the Tosei Group.

<Changes in balance of interest-bearing debt>

Term	61st term	62nd term	63rd term	64th term	65th term
Accounting period	Fiscal year ended Nov. 30, 2010	Fiscal year ended Nov. 30, 2011	Fiscal year ended Nov. 30, 2012	Fiscal year ended Nov. 30, 2013	Fiscal year ended Nov. 30, 2014
Balance of interest-bearing debt (¥ million)	34,264	30,075	32,401	35,036	40,404
Total assets (¥ million)	62,682	59,967	65,363	71,283	80,858
LTV (%)	54.7	50.2	49.6	49.2	50.0

Note: As from the 64th term, Tosei has adopted IFRS for the figures above for the 64th term and after are based on IFRS. In addition, the figures above for the 63rd term are also based on IFRS.

(3) Business areas

1) Competitive conditions

The Tosei Group's primary market is the 23 wards of Tokyo, and the Group sells small and medium-sized income-generating properties, condominiums for end users and detached houses. The Group has flexibly mobilized the information and know-how of its six businesses to conduct synergistic business operations. However, declines in selling prices in the Company's sale of properties due to price competition, which may be caused by the decline in real estate transactions, a decrease in foreign investors' motivation to invest, a slowdown in housing demand due mainly to the economic downturn, in particular, have the potential to affect the operating results and financial position of the Group.

2) Occurrence of disasters

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 value of the real estate the Group invests in, manages, develops and controls, and therefore has the potential to affect the Tosei Group's results and financial position.

(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 • Financial Instruments and Exchange 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, 2016	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, 2016	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)	Kanto Financial Bureau	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 (2) No. 85736	April 7, 2016	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)
Registered Financial Instrument Business (Investment Management Business, Type 2 Financial Instrument Business, Advisor and Agency)	Kanto Financial Bureau	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)

Name of license or permit	Authority	Content of license or permit	Expiration	Rescission, cancellation or other reasons
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 (3) No. 80048	September 28, 2016	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, 2016	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, (2) No. 31311	March 16, 2016	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)

NAI TOSEI Japan, 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 (1) No. 94116	April 13, 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)

3) Accounting standards and tax system

(i) 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.

(ii) Scope of consolidation of real estate funds

Consolidation or non-consolidation of real estate funds in which Tosei conducts asset management is determined individually on the basis of the extent of Tosei's control over and influence on management entities including the investment partnership. Changes in interpretation of consolidation that affect accounting auditors' opinions on the scope of consolidation and cause a change in the scope of consolidation of the Tosei Group have the potential to affect the operating results and financial position of the Tosei Group.

(5) Defect liability and after-sale service warranty

Under the Building Lots and Buildings Transaction Business Act, real estate business operators assume defect liability when they sell a property to parties other than real estate businesses, regardless of whether the property is new or second-hand. Under the Housing Quality Assurance Act, real estate business operators are obligated to provide a 10-year warranty on the main structural components of the building for new properties. The Act on Assurance of Performance of Specified Housing Defect Warranty, which came into effect on October 1, 2009, requires businesses providing new properties to take out insurance that any of insurance companies designated by the Minister of Land, Infrastructure, Transport and Tourism offers on new properties, etc. In addition, the Tosei Group provides customers with an after-sale service warranty (valid for 1–10 years, depending on the item) according to the Group's "After-Sale Service Standards."

The Tosei Group conducts quality checks through its Architectural Design and Planning Department, and also works to mitigate business risks by taking measures such as requiring vendors and construction companies to provide an after-sale service warranty equivalent to that of the Tosei Group. However, if for some reason a defect arises in a property supplied by the Tosei Group, the Group is unable to impose the defect liability on the vendor or the vendor and contractor are incapable of fulfilling the warranty, and a property supplied becomes excluded from housing warranty insurance coverage, the Tosei Group would incur additional expenses, which have the potential to affect the operating results and financial position of the Tosei Group.

(6) Human resources

In view of the characteristics of the Tosei Group's businesses, people are an extremely important management resource, and further securing competent personnel, educating them to master competencies unique to each Tosei Group company and developing management candidates are essential to continue and expand business. The inability of the Tosei Group to secure or train the personnel that it requires, or the departure of management currently in office, has the potential to affect the operating results and financial position of the Tosei Group.

(7) Personal information protection

In its revitalization business, development business, rental business, fund and consulting business, property management business and alternative investment business, the Tosei Group holds the personal information of many customers, including persons involved in these businesses. The volume of personal information the Group holds is expected to increase along with future business expansion. In line with the Act on the Protection of Personal Information and guidelines of relevant ministries, each group company

has established regulations concerning information assets management, trained its employees, strengthened its information management system and taken thorough measures to manage personal information. However, the release or leak of personal information or material corporate information held by the Tosei Group to outside parties due to unforeseen circumstances could cause a loss of trust in the Tosei Group, and thus have the potential to affect the Group's operating results and financial position.

(8) Other

When purchasing a second-hand property, the Tosei Group confirms the building's structure, whether or not asbestos is used, soil pollution survey and other elements. However, business execution may be temporarily suspended or prolonged if, for example, a building's structural design data has not been saved, a building that contains asbestos is demolished, or the results of the soil pollution survey show that soil improvement is necessary. Such suspension of business has the potential to affect the operating results and financial position of the Tosei Group.

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, 2014 is as follows.

Forward-looking statements included in this section are based on information available to the Group's management as of November 30, 2014.

(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., Notes to Consolidated Financial Statements."

(2) Analysis of financial position

The consolidated financial position as of November 30, 2014 was as follows. Total assets increased 13.4% compared with the end of the previous fiscal year to ¥80,858 million, liabilities rose 16.8% to ¥48,130 million, and equity rose 8.8% to ¥32,727 million. The ratio of equity attributable to owners of the parent to total assets was 40.5%, compared with 42.2% at the end of the previous fiscal year.

Current assets

As of November 30, 2014, the balance of current assets was ¥59,882 million, an increase of ¥6,202 million compared with the end of the previous fiscal year. This was mainly attributable to a ¥3,524 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.

Non-current assets

As of November 30, 2014, the balance of non-current assets was ¥20,975 million, up ¥3,372 million compared with the end of the previous fiscal year. This was mainly due to a ¥1,154 million increase in investment properties and a ¥1,635 million increase in available-for-sale financial assets.

Current liabilities

As of November 30, 2014, the balance of current liabilities was ¥9,632 million, down ¥1,353 million compared with the end of the previous fiscal year. This was mainly due to a ¥2,207 million decrease in short-term interest bearing debt and a ¥528 million increase in current income tax liabilities.

Non-current liabilities

As of November 30, 2014, the balance of non-current liabilities was ¥38,498 million, up ¥8,293 million compared with the end of the previous fiscal year. This was mainly due to a ¥7,575 million increase in long-term interest bearing debt.

Equity

As of November 30, 2014, equity was ¥32,727 million, an increase of ¥2,635 million compared with the end of the previous fiscal year. This was mainly due to a ¥2,482 million increase in retained earnings.

(3) Analysis of operating results

For the fiscal year under review, operating results were as follows. Revenue rose 42.5% year on year to ¥49,981 million, profit before tax rose 44.7% to ¥4,663 million, and profit for the year rose 43.2% to ¥2,874 million.

Revenue

In the fiscal year under review, revenue was ¥49,981 million, an increase of ¥14,911 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 ¥40,018 million, up ¥13,626 million compared with the previous fiscal year due to an increase in revenue.

As a result, gross profit was ¥9,962 million, an increase of ¥1,284 million compared with the previous fiscal year.

The gross profit margin was 19.9%, down from 24.7% 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 ¥4,381 million, a decrease of ¥395 million compared with the previous fiscal year. This was mainly due to a ¥455 million decrease in sales expenses in the Development Business.

As a result, operating profit in the fiscal year under review was ¥5,560 million, an increase of ¥1,646 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 ¥3 million, an increase of ¥0 million compared with the end of the previous fiscal year. Finance costs, mainly interest expenses, were ¥900 million, an increase of ¥204 million compared with the end of the previous fiscal year.

As a result, profit before tax in the fiscal year under review was ¥4,663 million, an increase of ¥1,441 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 ¥1,789 million, an increase of ¥573 million compared with the previous fiscal year.

As a result, profit for the year was ¥2,874 million, an increase of ¥867 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, 2012	Fiscal year ended Nov. 30, 2013	Fiscal year ended Nov. 30, 2014
Ratio of equity attributable to owners of parent to total assets (%)	40.6	42.2	40.5
Market value ratio of equity attributable to owners of parent to total assets (%)	25.1	52.6	43.0
Interest-bearing debt to cash flow ratio (years)	–	12.6	117.3
Interest coverage ratio (times)	–	3.8	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 fiscal year ended November 30, 2012 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 most important task for the Group is to strive to maintain the sound financial condition and steadily enhance business results.

As of the end of the fiscal year under review, the Group recognizes i) effects of a rise in property trading price and construction cost supported by the improvement in business confidence on investing activities including acquisition of income-generating properties for renovation and land for development, ii) establishment and operation of a highly productive operation system capable of responding to increases in the number of sales transactions and in the rental properties held and buildings under management, etc. in line with business expansion at Tosei Corporation and its group companies, iii) securing of the personnel and human resources development necessary for the expansion of the Group.

In order to address such issues, the Group plans to efficiently seize business opportunities and conduct thorough cost management through further strengthening of the group's governance as well as establishment and operation of an efficient operating structure with an aim to continue to increase both revenue and profits. In addition, the Group strives to improve customer satisfaction by establishing Tosei's brand recognition through original products and high quality services.