II. Review of operations

1. Overview of operating results

(1) Operating results

During the fiscal year ended November 30, 2015, the Japanese economy remained on a moderate recovery track despite apparent weaknesses in some areas, amid a trend of an improving employment and income environment. Although we have concerns which include the risk of a business downturn in Asia's emerging markets and elsewhere as the U.S. moves toward normalization of its monetary policy, personal consumption has been firm overall and we see signs of recovery in housing construction.

In the real estate industry where Tosei Group operates, J-REITs and private placement funds have been actively making investments against a backdrop of expectations for higher rents and a favorable financing environment, and foreign-owned corporations have been engaging in sizeable transactions. According to a survey of private companies, in the first half of fiscal 2015, from April to September, domestic real estate transactions by listed companies and other such entities slightly decreased 2.5% compared with the same period of the previous fiscal year to ¥2.0898 trillion, and as such were largely unchanged year on year and at their third-highest level ever for the first half (according to a survey by a private research institution).

In the Tokyo metropolitan area condominium market, despite overall strength driven by business in popular areas within wards of Tokyo, the number of condominium units sold from January to October 2015 fell 4.4% year on year to just over 30,000 units amid an apparent trend of decreasing condominium supply due to surging costs of building in the suburbs of the Tokyo metropolitan area. Meanwhile, the contract rate hovered at around the 70% threshold from which market conditions are viewed as favorable, and moreover the forecast of a private research institute currently projects sales of 45,000 units over the entire fiscal 2015, which is the same level as last year. However, the outlook going forward remains uncertain, partially due to the potential adverse impact of the piling scandal (according to a survey by a private research institution).

In the Tokyo metropolitan area build-for-sale detached house market, housing starts for the months January to September 2015 decreased 4.2% year on year to 41,987 units. The market has been firm overall thanks in part to the government's move to expand Japan's home loan tax deduction and other such policy developments (according to the Ministry of Land, Infrastructure, Transport and Tourism data).

In the office leasing market of Tokyo's five business wards, the vacancy rate continued on a downward path to the mid-4% range, supported by strong demand largely fueled by companies expanding offices and integrating business locations. Robust demand with respect to offices fueled progressive hikes in asking rents, leading to modest gains in average asking rent ongoing since January 2014. After ending 2014 at around ¥17,000 per tsubo, average asking rent was in the ¥17,600 territory as of autumn 2015 (according to a survey by a private research institution).

In the real estate securitization market, the total acquisition amount of J-REIT properties over January to September 2015 increased 19.9% year on year to ¥1.3 trillion amid a scenario of buyers scrambling to buy properties in anticipation of higher real estate prices (according to a survey by a private research institution).

As of June 30, 2015, the total value of assets under management in the J-REIT market amounted to ¥13.5 trillion and private placement funds amounted to ¥15.1 trillion for a total market size of ¥28.6 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, and in the Development Business the Group pushed ahead with sales of detached houses, while also moving forward with initiatives for projects involving development of commercial facilities and other such properties. 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 ¥43,006 million (down 14.0% year on year), operating profit was ¥6,891 million (up 23.9%), profit before tax was ¥6,040 million (up 29.5%), and profit for the year was ¥4,135 million (up 43.9%).

Performance by business segment is shown below.

Revitalization Business

During the fiscal year under review, the segment sold 24 properties it had renovated, including Toyocho Tosei Building (Koto-ku, Tokyo), Shinjuku 6-chome Building (Shinjuku-ku, Tokyo), Ogawamachi Tosei Building (Chiyoda-ku, Tokyo), Shibuya 4-chome Building (Shibuya-ku, Tokyo), SEA SCAPE Chiba-minato (Chiba-shi, Chiba) and Kannai Tosei Building II (Yokohama-shi, Kanagawa). In addition, the segment sold 68 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). In the fiscal year under review, the segment also acquired a total of 25 income-generating office buildings, commercial facilities and apartments and eight land lots for renovation and sales purposes. In addition, consolidated subsidiary TOSEI SINGAPORE PTE. LTD. started acquiring properties in Malaysia with the acquisition of five units of income-generating office buildings and apartments under sectional ownership in Kuala Lumpur.

As a result, revenue in this segment was ¥25,986 million (down 25.2% year on year) and the segment profit was ¥4,187 million (up 25.7%).

Development Business

During the fiscal year under review, the segment focused on the sale of detached houses, for which there was firm demand. The segment sold 105 detached houses at such properties as THE Palms Court Kashiwa Hatsuishi (Kashiwa-shi, Chiba), THE Palms Court Mitsuike Kouen (Yokohama-shi, Kanagawa), THE Palms Court Bunkyo Honkomagome (Bunkyo-ku, Tokyo) and THE Palms Court Kawasaki Daishi (Kawasaki-shi, Kanagawa). In addition, the segment sold THE Palms Nishidai, which is a newly-built apartment, and six land lots. In the fiscal year under review, it also acquired eight land lots for detached housing projects.

As a result, revenue in this segment was ¥6,605 million (up 8.1% year on year) and the segment profit was ¥534 million (up 23.7%).

Rental Business

During the fiscal year under review, while the segment sold 14 buildings of its inventory assets held for leasing purposes, 20 properties including newly acquired income-generating office buildings, commercial facilities and apartments contributed to income in this segment. In addition, the segment also focused on leasing activities for its existing holdings of non-current assets and inventory assets.

As a result, revenue in this segment was ¥4,084 million (down 1.7% year on year) and the segment profit was ¥1,730 million (down 28.4%).

Fund and Consulting Business

During the fiscal year under review, while ¥182,329 million was subtracted from the balance of assets under management, due mainly to property dispositions by funds, ¥303,513 million was added to the balance of assets under management, due mainly to new asset management contracts of large projects the segment obtained. The acquisition of such large project contracts increased asset management fees and contributed to revenue.

As a result, revenue in this segment was ¥2,339 million (up 146.4% year on year) and the segment profit was ¥1,373 million (up 685.1%).

As of November 30, 2015, the balance of assets under management (Note) totaled ¥421,792 million.

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 as some customers terminated contracts partially as a result of their disposing of such managed properties. Consequently, the total number of properties under management was 547 as of November 30, 2015, an increase of three properties from November 30, 2014, with that total comprising 351 office buildings, parking lots, schools and other such properties, and 196 condominiums and apartments.

As a result, revenue in this segment was ¥3,069 million (up 4.3% year on year) and the segment profit was ¥146 million (down 35.4%).

Alternative Investment Business

During the fiscal year under review, membership fees from running a sports club contributed to income in this segment. In addition, the segment also focused on leasing activities for properties acquired by a substitute performance.

As a result, revenue in this segment was ¥921 million (down 14.6% year on year) and the segment profit was ¥322 million (up 50.9%).

(2) Cash flows

Cash and cash equivalents (hereinafter "cash") as of November 30, 2015 totaled ¥18,791 million, an increase of ¥2,690 million compared with November 30, 2014.
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 ¥4,443 million (net cash provided by operating activities totaled ¥344 million in the previous fiscal year). This is mainly due to profit before tax of ¥6,040 million as well as an increase in inventories of ¥8,845 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 provided by investing activities totaled ¥481 million (net cash used in investing activities totaled ¥2,878 million in the previous fiscal year). This is primarily due to collection of available-for-sale financial assets totaling ¥757 million and purchases of investment properties totaling ¥750 million.

Cash Flows from Financing Activities

Net cash provided by financing activities totaled ¥6,661 million (up 71.2% year on year). This mainly reflected a situation where loan proceeds exceeded repayments, as the Revitalization Business and Development Business segments purchased properties at a steady pace surpassing that of 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 ¥4,633 thousand and ¥6,222 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 decreased by ¥3,706 thousand and increased by ¥981 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 in the previous fiscal year and the fiscal year under review increased by ¥55,653 thousand and decreased by ¥55,653 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, 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, 2015	Comparison with the previous fiscal year (%)
	Amount (¥ thousand)	
Revitalization Business	25,986,125	(25.2)
Development Business	6,605,956	8.1
Rental Business	4,084,886	(1.7)
Fund and Consulting Business	2,339,184	146.4
Property Management Business	3,069,740	4.3
Alternative Investment Business	921,071	(14.6)
Total	43,006,964	(14.0)

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, 2014		Fiscal year ended November 30, 2015	
	Amount (¥ thousand)	Ratio (%)	Amount (¥ thousand)	Ratio (%)
Tosei Reit Investment Corporation	17,573,877	35.2	10,791,865	25.1

3. The above amounts do not include consumption taxes.

3. Issues to be addressed

(1) Description of present issues to be addressed

Issues the Tosei Group needs to address in order to achieve objectives of the medium-term management plan include the following.

1)We need to take steps toward achieving further expansion in our six existing areas of business. This involves strengthening of purchases of properties for renovation and development and land for projects, while enhancing our strengths for renovating, developing, selling and leasing, and also increasing our balances of leasing properties, assets under management and real estate under management. To that end, we will identify trends in the real estate investment and housing markets and the domestic and foreign financial markets, while also promptly responding to changes in the real estate market.

2)We need to adjust our internal operations to reflect our expanded business operations and the heightening public demand for more stringent governance practices. To that end, we will rebuild the Tosei Group's overall systems to ensure effective and efficient internal controls and strengthen operations of our divisions that handle internal administration.

3)We need to secure a diverse workforce and implement education and training in view of business expansion. To that end, we will increase levels of employee satisfaction by encouraging sophistication of company operations, delegating authority, creating new types of operations and other such means.

4)We need to further reinforce our continuous efforts (supplying products, providing services and contributing to society) geared toward establishing the "Tosei brand" as one that conveys the combined notions of "innovation and challenge" and "assurance and reliability."

(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, 2015. 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) 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 buildings 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	62nd term	63rd term	64th term	65th term	66th term
Accounting period	Fiscal year ended Nov. 30, 2011	Fiscal year ended Nov. 30, 2012	Fiscal year ended Nov. 30, 2013	Fiscal year ended Nov. 30, 2014	Fiscal year ended Nov. 30, 2015
Balance of interest-bearing debt (¥ million)	30,075	32,401	35,036	40,404	48,668
Total assets (¥ million)	59,967	65,363	71,283	80,858	93,196
LTV (%)	50.2	49.6	49.2	50.0	52.2

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 • 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. As per the Act on Assurance of Performance of Specified Housing Defect Warranty, which went into effect on October 1, 2009, it is necessary to either "take our insurance" or "deposit a security" to secure financial resources for the assurance of performance. 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, 2015 is as follows.

Forward-looking statements included in this section are based on information available to the Group's management as of November 30, 2015.

(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, 2015 was as follows. Total assets increased 15.3% compared with the end of the previous fiscal year to ¥93,196 million, liabilities rose 18.4% to ¥56,967 million, and equity rose 10.7% to ¥36,228 million. The ratio of equity attributable to owners of parent to total assets was 38.9%, compared with 40.5% at the end of the previous fiscal year.

<u>Current assets</u>

As of November 30, 2015, the balance of current assets was ¥67,888 million, an increase of ¥8,006 million compared with the end of the previous fiscal year. This was mainly attributable to a ¥4,590 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, 2015, the balance of non-current assets was ¥25,307 million, up ¥4,331 million compared with the end of the previous fiscal year. This was mainly due to a ¥4,927 million increase in investment properties and a ¥1,220 million decrease in available-for-sale financial assets.

Current liabilities

As of November 30, 2015, the balance of current liabilities was ¥13,819 million, up ¥4,187 million compared with the end of the previous fiscal year. This was mainly due to a ¥4,112 million increase in short-term interest bearing debt and a ¥243 million decrease in current income tax liabilities.

Non-current liabilities

As of November 30, 2015, the balance of non-current liabilities was ¥43,148 million, up ¥4,650 million compared with the end of the previous fiscal year. This was mainly due to a ¥4,151 million increase in long-term interest bearing debt.

Equity

As of November 30, 2015, equity was ¥36,228 million, an increase of ¥3,500 million compared with the end of the previous fiscal year. This was mainly due to a ¥3,551 million increase in retained earnings.

(3) Analysis of operating results

For the fiscal year under review, operating results were as follows. Revenue fell 14.0% year on year to ¥43,006 million, profit before tax rose 29.5% to ¥6,040 million, and profit for the year rose 43.9% to ¥4,135 million.

Revenue

In the fiscal year under review, revenue was ¥43,006 million, a decrease of ¥6,974 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 ¥31,091 million, down ¥8,926 million compared with the previous fiscal year due to an decrease in revenue.

As a result, gross profit was ¥11,915 million, an increase of ¥1,952 million compared with the previous fiscal year.

The gross profit margin was 27.7%, up from 19.9% 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 ¥5,099 million, an increase of ¥717 million compared with the previous fiscal year. This was mainly due to a ¥369 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 ¥6,891 million, an increase of ¥1,331 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 ¥22 million, an increase of ¥19 million compared with the end of the previous fiscal year. Finance costs, mainly interest expenses, were ¥874 million, a decrease of ¥26 million compared with the end of the previous fiscal year.

As a result, profit before tax in the fiscal year under review was ¥6,040 million, an increase of ¥1,376 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 ¥1,904 million, an increase of ¥115 million compared with the previous fiscal year.

As a result, profit for the year was ¥4,135 million, an increase of ¥1,261 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, 2013	Fiscal year ended Nov. 30, 2014	Fiscal year ended Nov. 30, 2015
Ratio of equity attributable to owners of parent to total assets (%)	42.2	40.5	38.9
Market value ratio of equity attributable to owners of parent to total assets (%)	52.6	43.0	39.2
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, 2015 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.