II. Review of operations

1. Overview of operating results

(1) Operating results

During the year ended November 30, 2012 (December 1, 2011 to November 30, 2012), the Japanese economy began to recover, supported by factors such as government policies and earthquake rebuilding demand. Recently, however, the economy has shown signs of weakness due to a slowdown in overseas economies such as Europe and China. The economic outlook is likely to remain uncertain against a continued backdrop of instability in financial markets and deflationary risk in Japan.

In the real estate sector, where the Tosei Group operates, the total value of property acquisitions by J-REITs and other real estate funds reached roughly ¥750 billion between January and the end of October 2012, the highest level for four years. This reflected active buying driven by overseas fund flows into the domestic real estate market on expectations that real estate prices have bottomed. As a result, in the first half of fiscal 2012, the number of real estate transactions rebounded to 329 and real estate transaction value recovered to ¥853.3 billion, returning to the level seen in the first half of fiscal 2010 before the Great East Japan Earthquake (market research company data). In addition, from January 2010 to October 2012, the closing rate for condominium sales contracts in the greater Tokyo area essentially remained above the 70% level, which is viewed as a key indicator of favorable conditions in the condominium market. From January 2012 to October 2012, the number of condominium units supplied in the greater Tokyo area totaled 33,763 units, an increase of 2,074 units compared with the previous year (market research company data).

In the market for leased office buildings in Tokyo's five business wards, the average vacancy rate increased at a modest pace in fiscal 2012, peaking at 9.43% at the end of June (up 0.62 percentage points year on year). The rate then saw a sustained improvement in the four months from July, falling back to 8.74% at the end of October due to progress with contract closings for new and existing buildings. The average asking rent for the same five wards continued to decline slowly, falling to ¥16,628/tsubo (1 tsubo=3.3m^2) as of the end of October 2012, a decline of ¥383 year on year (market research company data).

In the market for securitized real estate, the balance of assets under management by real estate funds as of the end of June 2012 totaled ¥27.0 trillion, an increase of ¥0.9 trillion from the end of December 2011. This included an increase of ¥0.4 trillion to ¥8.7 trillion for J-REITs and a rise of ¥0.5 trillion to ¥18.3 trillion for private placement funds due to an upturn in activity in the real estate investment market and improving conditions for fund procurement (market research company data).

In this operating environment, the Tosei Group faced delays in selling some of the Restyling properties in the Revitalization business, but the Group sold five properties it had refurbished. The development business handed over two condominiums and registered strong sales contracts for detached houses. In purchasing, the Group continued to focus on acquiring residential properties and land for residential properties, demand for which has become stronger, and it also resumed full-scale investment in office buildings and other properties for the Revitalization business. We also set up our first overseas base with the establishment of a local subsidiary in Singapore, and concluded a membership contract with NAI Global, a network of global commercial real estate brokers as well. The Group plans to reinforce its relationships with overseas investors going forward.

As a result, for the year under review, net sales totaled ¥24,539 million (a decrease of 0.9% compared with the previous year), operating income was ¥3,030 million (an increase of 26.9%), ordinary income was ¥2,274 million (an increase of 44.5%), and net income was ¥1,405 million (an increase of 86.9%).

Segment results were as follows:

Revitalization Business

During the year under review, the Company sold a total of 106 units in the Restyling properties. The properties sold included Hilltop Yokohama Negishi (Yokohama City, Kanagawa Prefecture), Hilltop Yokohama Higashi Terao (Yokohama City, Kanagawa Prefecture), Estage Kaminoge (Setagaya Ward, Tokyo), and Glenpark Ikedayama (Shinagawa Ward, Tokyo). In addition, the Company sold five properties it had refurbished, including Uchikanda Kitahara Building (Chiyoda Ward, Tokyo) and Belmidor Ebisu (Shibuya Ward, Tokyo).

As a result, net sales in this segment totaled ¥5,980 million, a decline of 50.3% compared with the previous year.

Also, due to the adoption of the Accounting Standard for Measurement of Inventories (the LCM method), the Company reduced the book value of two office buildings after lowering its projection for rental income for the vacant portion of the buildings. Book value for the two buildings was reduced by ¥265 million and charged to cost of sales. As a result, segment profit was ¥390 million, a decrease of 79.3% compared with the previous year.

Development Business

During the year under review, the Company focused on selling newly built condominiums and detached houses, demand for which is strong. The Company sold a total of 154 newly built condominium units in properties such as THE Palms Tsukishima Luna Garden (Chuo Ward, Tokyo) and THE Palms Takadanobaba (Shinjuku Ward, Tokyo). The Company also sold 24 detached houses at Palms Court Setagaya Okamoto (Setagaya Ward, Tokyo), Palms Court Hatsudai (Shibuya Ward, Tokyo), and Palms Court Koishikawa (Bunkyo Ward, Tokyo).

As for office buildings, the Company sold Nihonbashi Hongokucho Tosei Building (Chuo Ward, Tokyo).

As a result, net sales in this segment came to ¥10,985 million, an increase of 109.0% compared with the previous year, and segment profit came to ¥2,318 million (segment loss in the previous year was ¥22 million).

Rental Business

During the year under review, the Company focused on leasing activities for its noncurrent assets and inventories and worked to maintain occupancy rates. As a result, segment net sales were essentially steady compared with the previous year.

As a result, net sales in this segment were ¥2,446 million, a decrease of 0.5% compared with the previous year, and segment profit was ¥1,192 million, an increase of 0.8%.

Fund Business

During the year under review, the balance of assets under management grew steadily, but total asset management fees declined due to a drop in the level of fees charged.

As a result, net sales in this segment were ¥776 million, a decrease of 44.4% compared with the previous year while segment profit was ¥184 million, a decrease of 71.8%.

The main reason for the sharp decline in segment income year on year was the absence of brokerage fees and other income related to large-scale transactions that were booked in the previous year.

As of November 30, 2012, the balance of assets under management* totaled ¥311,335 million.

*Note: The balance of assets under management includes a part of the balance of assets that were subject to consulting contracts, etc. based on the Company's internal rules.

Property Management Business

During the year under review, the number of office buildings, parking lots and schools under management declined by two properties year on year to 306, while the number of condominiums and rental apartments increased by 13 properties to 216. As a result, the total number of properties under management increased by 11 year on year to 522.

As a result, although net sales in this segment rose year on year, increasing by 2.5% to ¥3,512 million, segment profit was down 34.7% to ¥68 million, as allowance for doubtful accounts regarding certain transactions were recorded in general and administrative expenses.

Alternative Investment Business

During the year under review, the Company focused on the sale of properties acquired through M&A and the leasing of properties that the Company acquired through the collection and payment in substitution.

As a result, net sales in this segment came to ¥838 million, an increase of 363.7% compared with the previous year, and segment profit was ¥59 million (segment loss in the previous year was ¥190 million).

(2) Cash flows

Cash and cash equivalents (hereinafter "cash") as of November 30, 2012 totaled ¥9,410 million, an increase of ¥1,104 million from the end of the previous year, as a result of ¥2,172 million in income

before income taxes and minority interests and ¥15,777 million in proceeds from long-term loans payable despite a decrease of ¥4,129 million due to an increase in inventories and ¥13,841 million in repayment of long-term loans payable.

The respective cash flow positions and the factors thereof for the year under review are as follows.

Cash Flows from Operating Activities

Net cash used in operating activities totaled ¥1,005 million (net cash provided by operating activities totaled ¥6,017 million in the previous year). This is a result of an increase due to the recording of ¥2,172 million in income before income taxes and minority interests and a decrease of ¥4,129 million due to an increase in inventories.

Cash Flows from Investing Activities

Net cash provided by investing activities totaled ¥17 million (net cash used in investing activities totaled ¥116 million in the previous year). This is primarily due to proceeds from sales of property, plant and equipment totaling ¥216 million and purchase of property, plant and equipment totaling ¥140 million.

Cash Flows from Financing Activities

Net cash provided by financing activities totaled ¥2,090 million (net cash used in financing activities in the previous year was ¥4,416 million). This mainly reflected ¥15,777 million in proceeds from long-term loans payable related to the purchase of new properties, and ¥13,841 million in repayment of long-term loans payable related to the sale of properties.

2. Status of production, orders received and sales

(1) Actual production

As the Tosei Group's principle business activities are revitalization, development, rental, fund, 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 year under review are shown below.

Segment	Year ended November 30, 2012 (Dec. 1, 2011 to Nov. 30, 2012)	Comparison with the previous fiscal year (%)
	Amount (¥ thousand)	
Revitalization Business	5,980,183	49.7
Development Business	10,985,270	209.0
Rental Business	2,446,682	99.5
Fund Business	776,723	55.6
Property Management Business	3,512,228	102.5
Alternative Investment Business	838,736	463.7
Total	24,539,823	99.1

Notes: 1. Transactions between segments were eliminated.
2. The above amounts do not include consumption taxes.

3. Issues to be addressed

(1) Description of present issues to be addressed

As of the end of the year under review, the following issues have been identified as needing to be addressed.

In the real estate sector, where the Tosei Group operates, the real estate trading market is showing signs of further recovery. The market in the greater Tokyo area has largely recovered from the stagnation triggered by the Great East Japan Earthquake and overseas funds are flowing into the real estate market on expectations that prices have bottomed.

In this operating environment, the Tosei Group has developed and started implementing "Next Stage 2014," its current three-year medium-term management plan. The year ended November 30, 2012 was the plan's first year.

Under this management plan, the Group aims to become a world-class real estate firm by setting three key policies: expand and grow the existing six business segments, move into overseas markets, and reform the management infrastructure.

In order to expand and grow the existing six business segments, the Group will carefully monitor the constantly changing trends in the real estate market and continuously respond to customer needs. To achieve this, the Group will reinforce the revitalization and development businesses further, with a particular focus on expanding business with end users and investors. In the Fund business, the Group will aim to benefit from an upturn in the investment market by increasing the balance of assets under management and expanding fee income. In particular, it will seek to capture opportunities of the establishment of new funds.

As part of moves into overseas markets, the Group will work to reinforce relationships with global investors in the Fund business and other segments. In January 2012, the Group established Tosei Singapore Pte. Ltd. as a local subsidiary. The following November, it concluded a membership contract with NAI Global, a network of global commercial real estate brokers. Membership of this network will give the Tosei Group opportunities to diversify its real estate portfolio. We plan to step up efforts to generate earnings from these initiatives.

In order to reform the management infrastructure, the Group aims to build an organization and infrastructure that supports the development of human resources and the implementation of strategy, maintain a sound financial structure, and establish an organization capable of meeting the challenges of globalization and a disclosure system.

While tackling these areas under its three key policies, the Group will also continue to place emphasis on compliance, risk management, and timely and appropriate disclosure in order to create a world-class management structure by stepping up efforts to enhance group-wide corporate governance.

(2) Fundamental policy on what the person(s) should be like to control the determination of the financial and business policies of the Company

a. Contents of basic policy

The Company believes it is necessary for persons who control decision making regarding the Company's financial and business policies to have a sufficient understanding of the details of the financial and business affairs of the Company and the source of its corporate value, and for such persons to make it possible to continuously and sustainably ensure and enhance the Company's corporate value and, in turn, the common interests of its shareholders.

The Company also believes that decisions regarding takeover propositions involving a change of control of the Company should ultimately be taken by the shareholders of the Company as a whole. Furthermore, the Company will not reject a large-scale acquisition of the shares of the Company if it will contribute to the corporate value of the Company and, in turn, the common interests of its shareholders.

Nevertheless, 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. Such acquisitions include 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.

In particular, it is necessary and essential for the Company 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 Tosei Group, (ii) maintain employees who support that system with specialist knowledge and experience of real estate and finance, (iii) maintain trust in the Company in the real estate industry, which has been built up over a long period of time based on the establishment of ability and information networks supporting various value creation technologies, and (iv) have an understanding of 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 the financial and business affairs of the Company and would ensure and enhance these elements over the medium-to-long term, the corporate value of the Company and, in turn, the common interests of its shareholders would be harmed.

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

b. Overview of the special measures to realize the basic policy

Because the Tosei Group was fully aware of the fact that as a listed company on the First Section of the Tokyo Stock Exchange it would be required to demonstrate even higher standards of behavior, dignity and the like from external parties in the future, the Company, aiming to move to the next stage, established a new medium-term management plan called "Next Stage 2014" (the targeted period of the plan is three years from December 2011 to November 2014) and commenced its efforts under the plan from the previous fiscal year. Under the new medium-term management plan, although the Company faces an external environment that is dramatically changing due to the financial crisis and the Great East Japan Earthquake, in order to realize further progress as a company intending to make continuous innovation, the Company will create new value and inspiration in all aspects of real estate in a wider business field than in the past by (i) further strengthening each segment currently owned by the Company group including expansion of the business for end users in Japan, (ii) making new steps toward starting business abroad with broader global perspectives and (iii) reform its management infrastructure.

The Company group has previously taken measures to strengthen corporate governance, such as the appointment of an outside directors (two members), the invitation of all corporate auditors (four members) from outside the company, the notification of two outside directors and four outside corporate auditors (six members in total) as "independent directors and/or corporate auditors" in accordance with the "Principles of Corporate Governance for Listed Companies" of the Tokyo Stock Exchange, the reinforcement of the business execution function by the introduction of the executive officer system, and the establishment of the corporate governance board, and will in the future endeavor to further strengthen corporate governance as a listed company on the First Section of the Tokyo Stock Exchange. 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.

c. Overview of the 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 kaitsukei)* 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 relationshiop 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 62nd 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.

d. Decisions by the Company's board of directors regarding specific measures and reasons thereof

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, stock price and financial position of the Tosei Group include, but are not limited to, the issues discussed below. Forward-looking statements represent Tosei Group judgments as of November 30, 2012. 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

(i) 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 general 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.

(ii) Changes in Business Results due to Timing of Property Transfer

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 transfer of the property, any delay in transferring the property could affect the Tosei Group's operating results and financial position. In particular, the presence or absence of transfers of large-scale properties in every quarter could cause a considerable change in sales and income.

(iii) Construction Delays and Increased Construction Costs due to Natural Disasters, Etc.

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 have the potential to affect the Tosei Group's operating results and financial position.

(iv) Application of Accounting Standard for Measurement of Inventories

The Company adopted "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 5, 2006) 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 Company 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, a source of stable revenue for 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 due to natural disasters or other events have the potential to affect the Tosei Group's operating results and financial position.

3) Fund Business

(i) Management Performance of Funds

The fund 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.

(ii) 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 global economy, or if funds can no longer continue due to funding

problems.

(iii) 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, the Tosei Group, in its capacity as 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

(i) Decline of Management Commission Costs

Currently, management commission costs 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 management commission costs or a surge in contract cancellations have the potential to affect the Tosei Group's operating results and financial position.

(ii) Workplace Accidents, Etc.

The Tosei Group has obtained ISO 9001 certification for its business execution 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 of a scale that could impact society 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 failure of 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) Reliance on interest-bearing debt and interest rates

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 typically 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 partial 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 to obtain the best financing terms. Unexpected changes in the operating environment and other factors that might impede access to funding could delay projects or render them untenable, which could affect the operating results and financial position of the Tosei Group.

<Balance of Interest-Bearing Debt>

Term	59th term	60th term	61st term	62nd term	63rd term
Accounting period	Year ended Nov. 30, 2008	Year ended Nov. 30, 2009	Year ended Nov. 30, 2010	Year ended Nov. 30, 2011	Year ended Nov. 30, 2012
Balance of Interest-Bearing Debt (¥ million)	47,631	35,296	34,264	30,075	32,401
Total Assets (¥ million)	78,309	62,235	62,682	59,967	64,732
LTV (%)	60.8	56.7	54.7	50.2	50.0

(3) Business areas

1) Competitive Conditions

The Tosei Group's primary market is the 23 wards of Tokyo, and the Group purchases and sells primarily small and medium-sized properties. The Group has flexibly mobilized the information and know-how of its six businesses to conduct synergistic business operations. However, declines in selling prices of properties due to price competition caused by the recent decline in real estate transactions and deterioration of foreign investment 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 Companies Act and 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 • Law for Execution of Warranty against Housing Defects • 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 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 due to violation of law.

Moreover, an adverse change in any of the above laws may lead to a negative impact on the operating results or financial position of the Group.

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–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)
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–19) No. 119534	March 10, 2013	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–19) No. 119534	March 10, 2014	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, 2014	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, 2013	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, (1) No. 31311	March 16, 2013	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)

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 the investment partnership. Changes in interpretation of consolidation that affect accounting auditors' opinions 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

Under the Building Lots and Buildings Transaction Business Act, real estate businesses assume liability for defects 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 businesses are obligated to provide a 10-year warranty on the main structural components of the building for new properties. The Law for Execution of Warranty against Housing Defects, 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, and the Group is unable to impose the defect liability on the vendor, or the vendor or contractor is incapable of fulfilling the warranty, 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

Because of the characteristics of the Tosei Group's businesses, people are an extremely important management resource, and further securing high-caliber personnel, educating them to master Tosei's unique competencies and developing management candidates are essential to accomplishing the medium-term management plan. 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 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, the Group has established regulations for managing information assets, 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 surveys the building's structure, use of asbestos, soil pollution 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 flow position

Analysis of financial position, operating results and cash flow position for the year ended November 30, 2012 is as follows. Forward-looking statements included in this section are based on information available to the Group's management as of November 30, 2012.

(1) Important accounting policies and estimates

The financial statements of the Tosei Group are prepared in accordance with Japanese Generally Accepted Accounting Principles ("Japanese GAAP"). For significant accounting policy for the presentation of these consolidated financial statements, please refer to "Significant matters in preparing consolidated financial statements" in V. Accounting, 1. Consolidated financial statements, etc., (1) Consolidated financial statements.

(2) Analysis of financial position

The consolidated financial position at the end of the year under review was as follows. Total assets increased 7.9% compared with the end of the previous year to ¥64,732 million, liabilities rose 10.3% to ¥38,580 million, and net assets rose 4.7% to ¥26,152 million. The equity ratio was 40.4%, compared with 41.6% at the end of the previous year.

(Current assets)

At the end of the year under review, the balance of current assets was ¥49,133 million, an increase of ¥5,225 million compared with the end of the previous year. This was mainly attributable to a ¥1,104 million increase in cash and deposits, which were due to robust sales, and a ¥4,141 million increase in real estate for sale in the Tosei Group's mainstay Revitalization Business and Real Estate Development Business.

(Noncurrent assets)

At the end of the year under review, the balance of noncurrent assets was ¥15,599 million, down ¥460 million compared with the end of the previous year. This was mainly due to a ¥787 million decrease in deferred tax assets.

(Current liabilities)

At the end of the year under review, the balance of current liabilities was ¥11,284 million, up ¥2,493 million compared with the end of the previous year. This was mainly due to a ¥1,569 million increase in short-term interest-bearing debt that accompanied active purchasing in the Revitalization Business and Real Estate Development Business.

(Noncurrent liabilities)

At the end of the year under review, the balance of noncurrent liabilities was ¥27,296 million, up ¥1,095 million compared with the end of the previous year. This was mainly due to a ¥750 million increase in long-term interest bearing debt.

(Net assets)

Net assets were ¥26,152 million, an increase of ¥1,176 million compared with the end of the previous year. This was mainly due to a ¥1,176 million increase in retained earnings.

(3) Analysis of operating results

For the year under review, operating results were as follows. Net sales declined 0.9% year on year to ¥24,539 million, ordinary income rose 44.5% to ¥2,274 million, and net income rose 86.9% to ¥1,405 million.

(Net sales)

In the year under review, net sales were ¥24,539 million, a decline of ¥219 million compared with the previous year. For net sales by segment, please refer to "(1) Operating results" in "II. Review of

operations, 1. Overview of operating results."

(Cost of sales and gross profit)

In the year under review, cost of sales was ¥18,291 million, down ¥998 million compared with the previous fiscal year due to a decline in net sales. In addition, valuation losses of ¥267 million (¥894 million in the previous year) were recorded as cost of sales due to the application of the "Accounting Standard for Measurement of Inventories." As a result, gross profit was ¥6,248 million, an increase of ¥778 million compared with the previous year.

The gross profit margin was 25.5%, up from 22.1% in the previous year.

(Selling, general and administrative expenses and operating income)

In the year under review, selling, general and administrative expenses were ¥3,217 million, an increase of ¥137 million compared with the previous year. This was mainly due to a ¥124 million increase in personnel expenses.

As a result, operating income in the year under review was ¥3,030 million, an increase of ¥641 million compared with the previous year.

(Non-operating income or loss and ordinary income)

In the year under review, non-operating income was ¥22 million, a decrease of ¥49 million compared with the previous year, and non-operating expenses were ¥779 million, a decrease of ¥107 million. The main reason for the decline in operating expenses was a ¥110 million decrease in interest expenses due to a decrease in the interest rate on loans.

As a result, ordinary income was ¥2,274 million, an increase of ¥699 million compared with the previous year.

(Extraordinary gains or losses and income before income taxes and minority interests)

In the year under review, extraordinary loss was ¥102 million, an increase of ¥65 million compared with the previous year. The main factors for the extraordinary loss was the reporting of ¥76 million in contributions for withdrawing from the pension fund of the consolidated subsidiaries, Tosei Community Co., Ltd.

As a result, income before income taxes and minority interests was ¥2,172 million, an increase of ¥634 million compared with the previous year.

(Income taxes and net income)

In the fiscal year under review, income taxes were ¥766 million, a decrease of ¥18 million compared with the previous fiscal year.

As a result, net income was ¥1,405 million, an increase of ¥653 million compared with the previous year.

(4) Analysis of cash flow position

For the cash flow position 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.

Term	60th term	61st term	62nd term	63rd term
Accounting period	Year ended Nov. 30, 2009	Year ended Nov. 30, 2010	Year ended Nov. 30, 2011	Year ended Nov. 30, 2012
Equity ratio (%)	35.7	39.0	41.6	40.4
Equity ratio on a market value basis (%)	13.6	23.7	14.2	25.3
Interest-bearing debt to cash flows ratio (years)	2.9	–	5.0	–
Interest coverage ratio (times)	12.5	–	6.8	–

Equity ratio: Net assets/Total assets
Equity ratio on market value basis: Market capitalization/Total assets
Interest-bearing debt to cash flows 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 shares issued and outstanding, excluding treasury stock.
3. The debt redemption period employs cash flows from operating activities.
4. Interest-bearing debt includes all debt listed in the consolidated balance sheets on which interest is paid.
5. Debt redemption period and interest coverage ratio are not presented for the fiscal year ended November 30, 2010 and the fiscal year ended November 30, 2012 because cash flows from operating activities were negative.

(5) Issue recognition of the management and future policies

In the Tosei Group's operating environment, the economy overall has entered a recovery phase, supported by earthquake rebuilding demand and government policies. However, the outlook remains uncertain due to a slowdown in overseas economies, such as the financial crisis in Europe and the sluggish Chinese economy. In the real estate sector, the market in the greater Tokyo area has largely recovered from the downturn caused by the Great East Japan Earthquake, and overseas funds are flowing into the real estate market on expectations that prices have bottomed. Against this backdrop, J-REITs and other players are becoming increasingly active in the market and the recovery in real estate prices is gaining momentum.

In this environment, in the Revitalization business, the Company will continue to work to sell existing condominium units for appropriate prices in the "Restyling Business," which will enter its fourth year of operations in the year ending November 30, 2013. In income-generating real estate for investors, which is becoming an increasingly active field, the Company will step up property purchases and revitalize and sell properties rapidly.

In the Development business, the Company will focus on selling new condominiums and detached houses scheduled for completion during the next year, as well as step up operations at its new Kichijoji Center and Ikebukuro Center, opened in the year under review. It will also actively purchase prime land.

The Company will also work to steadily expand its fee business, which generates stable income without relying on asset growth.

In the Fund business, the Company will continue to capture more business for managing fund assets, an area it has been developing since the financial crisis, as investment funds switch to contractors to manage their assets. Tosei will also aim to establish new funds, with a particular focus on stepping up activities at its subsidiary in Singapore. In addition, the Company will more actively promote its consulting business (CRE operations), which helps to improve the profitability of real estate owned by other companies.

In the Property Management business, the Company will work to boost the level of stable fee income by increasing the number of properties under management, leveraging the expertise it has built up through its wholly owned subsidiary Tosei Community Co., Ltd.