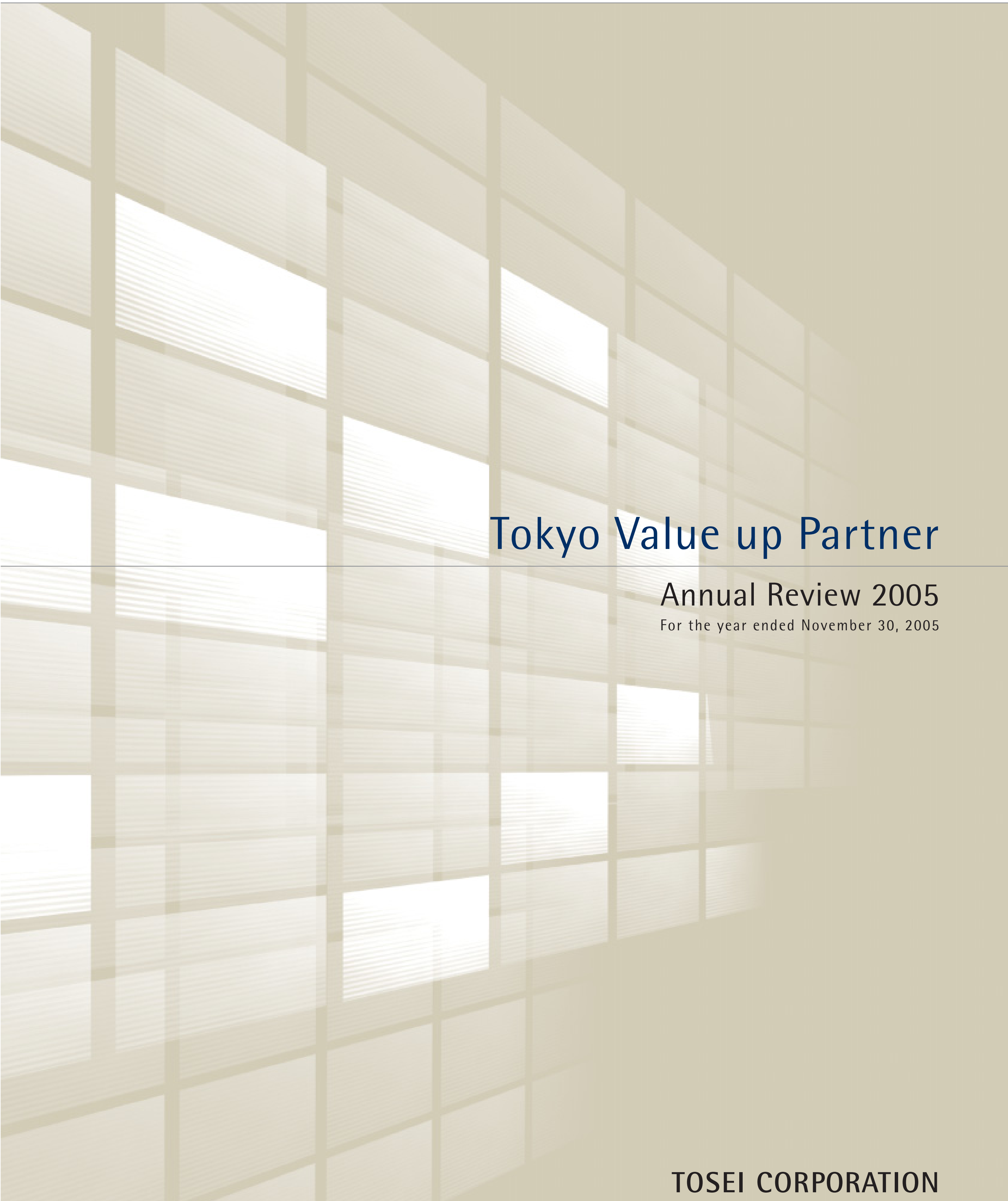


Tokyo Value up Partner

Annual Review 2005

For the year ended November 30, 2005

TOSEI CORPORATION

Profile

The Tosei Group corporate mission is to create new value in all real estate business areas in order to enhance the wellbeing of the community. Under the slogan "Tokyo Value up Partner," the Group focuses on quality as it works to contribute to society and increase its corporate value by restoring the value of real estate from a view 10 to 20 years in the future through synergy among its six businesses: revitalization, development, funds, rental, property management and alternative investment.

Contents

Corporate Philosophy

Mission

To create new value in all real estate business areas in order to enhance the wellbeing of the community

Management Principles

- Fulfilling its promises
- Placing a high priority on problem solving
- Strong will to meet goals and objectives
- Persistent pursuit of quality
- Value of work = quality of work × amount of work × pace of work

Forward-looking Statements

This annual report contains forward-looking statements regarding the Company's plans, outlook, strategies and results for the future. All forward-looking statements are based on judgments derived from the information available to the Company at the time of publication.

Certain risks and uncertainties could cause the Company's actual results to differ materially from any projections presented in this report. These risks and uncertainties include, but are not limited to, the economic circumstances surrounding the Company's businesses; competitive pressures; related laws and regulations; product development programs; and changes in exchange rates.

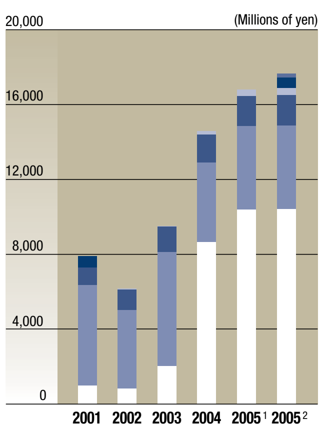
Financial Highlights

Tosei Corporation and its Consolidated Subsidiaries
Years ended November 30

	Consolidated (Note 1)		Non-consolidated (Note 1)			
	Millions of yen	Thousands of U.S. dollars (Note 3)	Millions of yen	Millions of yen	Change (%)	Thousands of U.S. dollars (Note 3)
	2005	**2005**	**2005**	2004	2005/2004	**2005**
Operating Results (For the year):						
Revenues	**¥ 17,644**	**$147,453**	**¥ 16,828**	¥ 14,514	15.9%	**$140,634**
Operating income	**3,536**	**29,552**	**3,323**	2,093	58.8	**27,775**
Net income	**1,593**	**13,309**	**1,495**	793	88.6	**12,500**
Per Share Data (In yen and U.S. dollars):						
Retained earnings:						
Net income per share (Note 2)	**¥ 4,571.59**	**$ 38.20**	**¥ 4,291.79**	¥ 2,577.65	66.5%	**$ 35.87**
Cash dividends	**—**	**—**	**450**	120		**3.76**
Book value per share	**24,018.05**	**200.72**	**23,739.56**	19,829.73	19.7	**198.39**
Financial Position (At year-end):						
Total assets	**¥ 40,407**	**$337,680**	**¥ 38,335**	¥ 29,438	30.2%	**$320,369**
Shareholders' equity	**8,294**	**69,309**	**8,197**	6,658	23.1	**68,507**
Return on total assets (ROA) (%)	**3.9%**	**—**	**4.4%**	3.3%		
Return on equity (ROE) (%)	**19.2%**	**—**	**20.1%**	18.2%		
Number of employees	**107**	**—**	**68**	44		

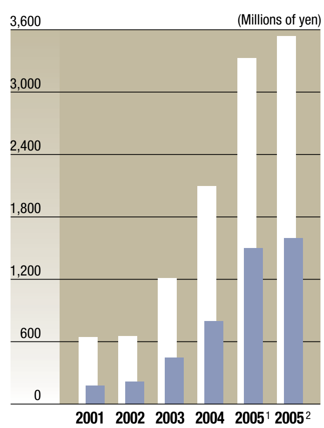
Notes: 1. Both consolidated and non-consolidated figures are shown for the fiscal year ended November 30, 2005, as the Tosei Group commenced consolidated financial reporting in that year.
2. Net income per share figures are fully diluted.
3. U.S. dollar amounts have been translated from yen, solely for the convenience of the reader, at the rate prevailing on November 30, 2005 of ¥119.66 to US$1.

Revenues



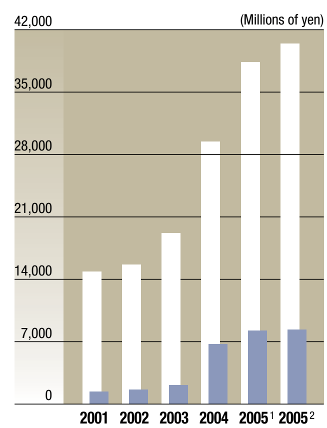
- Revitalization Business
- Development Business
- Rental Business
- Fund Business
- Property Management Business
- Alternative Investment Business

Operating Income/Net Income



- Operating Income
- Net Income

Total Assets/Shareholders' Equity



- Total Assets
- Shareholders' Equity

Notes: 1. Non-consolidated
2. Consolidated
3. Both consolidated and non-consolidated figures are shown for the fiscal year ended November 30, 2005, as the Tosei Group commenced consolidated financial reporting in that year.

To Our Stakeholders

President and CEO
Seiichiro Yamaguchi

The Tosei Group established its new medium-term management plan, GROWING UP 2008, based on the fundamental principle that raising corporate value requires achieving a good balance between expanding corporate earnings and improving operational quality. By promoting expansion in the scale of business and compliance in its operations while at the same time establishing its corporate brand, the Tosei Group will lay the groundwork for further growth.

➤ Overview of Results for the Fiscal Year Ended November 30, 2005

Amid an overall recovery trend in the Japanese economy, despite concerns such as lower yields in conjunction with the increase in real estate prices, surplus funds continued to flow into the real estate investment market due to the function of rational market mechanisms that brought earnings and cash flow to the forefront in the composition of real estate prices. As of November 30, 2005, a total of 28 J-REITs had been listed in the domestic market and overall fund assets, which totaled approximately ¥6 trillion including private funds, continued to expand.

In this business environment, the Tosei Group worked to restore the value of real estate mainly in the 23 wards of Tokyo by deploying its overall strengths to promote a broader range of offerings. The Company achieved greater synergy among its six businesses: revitalization and funds, which are Tosei Corporation's growth areas; development and rental, in which the Company has substantial expertise; property management, conducted by Tosei Community Co., Ltd.; and alternative investment, conducted by Tosei Revival Investment Co., Ltd., the latter two which the Company added in the fiscal year under review. As a result of these efforts, the Tosei Group achieved revenues of ¥17,644 million, operating income of ¥3,536 million and net income of ¥1,593 million.

➤ The New Medium-Term Management Plan, GROWING UP 2008

The Tosei Group is working diligently to meet the targets of its new medium-term management plan, GROWING UP 2008, which it established to cover the period from December 1, 2005 to November 30, 2008. Targets for the final year of the Plan include increasing consolidated revenues 130 percent and consolidated ordinary income 102 percent compared to the year ended November 30, 2005, as well as achieving a shareholders' equity ratio of 30 percent through the accumulation of profits and a real estate fund asset balance of ¥100,000 million, or ¥130,000 million including a J-REIT.

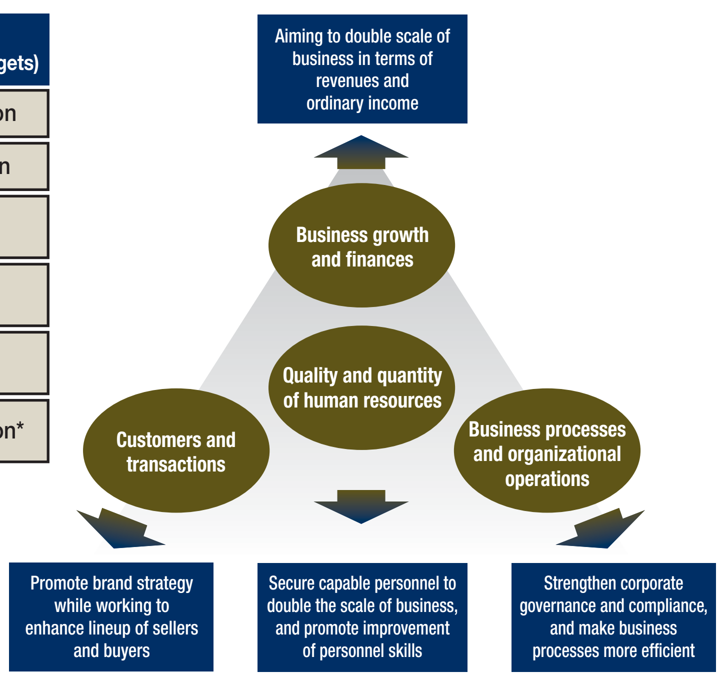
Central to GROWING UP 2008 is "quality and quantity of human resources," which entails a strategic objective of securing capable personnel to double the scale of business, and promoting personnel skills. Associated with this are three other strategic objectives. The first objective, under "business growth and finances," is to double the scale of business in terms of revenues and ordinary income; the second, under "business processes and organizational operations," is to strengthen corporate governance and compliance, and make business processes more efficient; and the third, under "customers and transactions," is to promote brand strategy while working to enhance the lineup of sellers and buyers.

Strategies under "business growth and finances" will entail expanding existing businesses by making effective use of "value up" capabilities, including taking an aggressive approach to real estate development with a firm focus on quality and increasing the real estate fund operating balance. Another aim is to expand in new business areas such as higher value-added product development, development of the non-performing loan (NPL) business by Tosei Revival Investment and expansion of our fee business by listing J-REITs. In addition, through ongoing research of financing methods, the Company will promote more efficient financing by increasing employee consciousness regarding the

Objectives of the New Medium-Term Management Plan GROWING UP 2008 (Consolidated)

	Year ended Nov. 30, 2005 (Actual)	Year ending Nov. 30, 2008 (Targets)
Revenues	¥17,644 million	¥40,500 million
Ordinary income	¥2,969 million	¥6,000 million
Shareholders' equity ratio	20.5%	30.0%
Return on equity (ROE)	19.2%	18.3%
Return on total assets (ROA)	3.9%	5.5%
Fund asset balance	¥20,244 million	¥130,000 million*

* Includes ¥30,000 million in a J-REIT.



Cautionary Note Regarding Quantitative Targets of GROWING UP 2008

The Company has set quantitative targets under GROWING UP 2008 based on an analysis of information, conditions and other factors existing at the time of plan formulation, and is monitoring progress toward their achievement. However, factors such as insufficient information and subsequent business changes could prevent the Company from achieving those targets.

cost of capital and implementing thorough control of income and expenditures.

Strategies under “business processes and organizational operations” will include reinforcing operational compliance by promoting activities of the Compliance Committee such as setting compliance rules and formulating a compliance guidebook. The Company will also work to improve corporate governance by promoting stronger internal controls and oversight and reviewing and improving the evaluation system for directors. In addition, it will make business processes more efficient by building a core system to improve account processing capabilities and upgrading work manuals to standardize process flows.

Under “customers and transactions,” the Company will strengthen purchasing that builds growth capacity by achieving an accurate grasp of property owner needs and by strengthening data management and use. It will also expand the range of customers through diversified exit strategies by expanding direct sales, enhancing the product lineup and improving the occupancy rate of revitalized rental properties. In addition, the Company will promote brand development by maintaining corporate brand image while building a range of product brands that respond to customer needs and by promoting marketing that takes customer lifestyle into account.

Securing capable personnel and improving their skills to ensure “quality and quantity of human resources” is vital to the success of GROWING UP 2008. To achieve this, the Company will unify brand and media strategies to strengthen hiring capabilities aimed at efficiently hiring and appropriately allocating personnel who can meet the challenge of expanding the scale of business. To promote improvement of real estate portfolio management skills, it will also take measures such as strengthening hierarchical education and training and further enhancing its performance-based system.

➤ Further Strengthening Stakeholder Trust

By steadily achieving these objectives and targets and making full use of the Tosei Group’s collective strengths and synergy, we will achieve continuous growth in earnings amid diversifying real estate needs and carry out our corporate mission, which is to create new value in all real estate business areas in order to enhance the wellbeing of the community.

With regard to profit distribution, we consider stable shareholder returns to be the most important management issue. In setting dividends, our fundamental policy is to comprehensively consider business results, the future operating environment and progress of business plans in order to balance shareholder returns with sufficient internal resources to provide highly profitable business opportunities that raise corporate value over the long term. Based on steady implementation of GROWING UP 2008 and expected performance for the next fiscal year and beyond, the Company is aiming for a payout ratio of 20 percent in the fiscal year ending November 30, 2007.

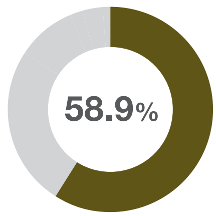
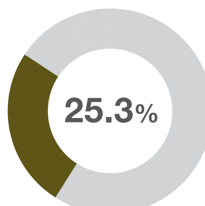
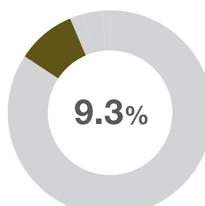
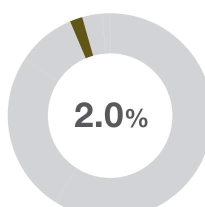
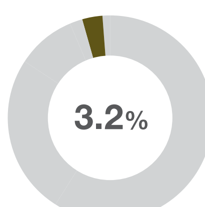
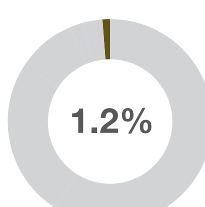
We look forward to your continuing support.

February 24, 2006

Seiichiro Yamaguchi
President and CEO

Seiichiro Yamaguchi

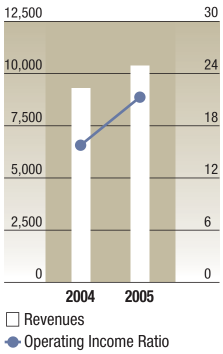
The Tosei Group at a Glance

Business Segment	Percentage of Revenues	Major Initiatives in Fiscal Year Ended November 2005
Revitalization Business ➜ Conducts "value up" activities to increase asset value of properties matched to local characteristics and needs and sells them as revitalized real estate ➜ Specializes in small and medium-scale properties, primarily in inner Tokyo ➜ Uses planning and design capabilities of its first-class architectural office to offer superior revitalization activities rooted in quality		➤ As Tosei Corporation's core business, achieved further expansion of revitalization and trading by making full use of its expertise in quality construction ➤ Sold a total of 19 properties mostly located in five inner-city wards of Tokyo, including Central Daikanyama and Kanda Ekimae Building ➤ Conducted aggressive purchasing through an industry information network developed over many years
Development Business ➜ Formulates development plans for purchased land, develops and sells commercial facilities and residential dwellings for investors, end-users and others ➜ Develops business largely in the 23 wards of Tokyo, with a priority on convenience ➜ Offers "THE Palms Series" condominiums and "Palms Court Series" single-family dwellings		➤ Achieved growth through large-scale properties while steadily expanding business in small and medium-scale properties, where Tosei has an advantage ➤ Added commercial and office buildings to offer almost a full lineup of properties ➤ Built and sold 17 single-family dwellings to end-users and sold three rental condominium complexes to investors ➤ Commenced construction on a condominium complex in Sakura, Setagaya Ward with estimated revenues of ¥5,500 million
Rental Business ➜ Positioned as a steady source of income in the Tosei Group's long-term growth strategy ➜ As a lessor, further enhances revitalization plans by quickly and accurately gathering information on tenant needs		➤ Holdings included 44 buildings, of which 16 fixed asset properties achieved high occupancy rates ➤ Aimed for solid business development by considering overall asset balance and avoiding rapid expansion of fixed assets over the medium term
Fund Business ➜ Structures and manages real estate funds, and *Tokumei Kumiai* (private equity) investments ➜ Generates fee revenues by increasing the value of properties purchased by funds and by managing their assets ➜ Positioned as an additional stable source of income		➤ Increased total fund asset balance by adding to existing funds and structuring new funds ➤ Achieved a fiscal year-end asset balance of over ¥20,244 million with six funds ➤ Established Tosei REIT Advisors, Inc. as a J-REIT asset management company
Property Management Business ➜ Conducted by Tosei Community Co., Ltd., which was made a subsidiary in April 2005 ➜ Provides comprehensive property management, including security and contracting for renovation and repair, for condominiums, office buildings and other properties		➤ During the fiscal year, the total number of managed office buildings, parking lots and similar properties was 254, and the total number of managed condominium complexes was 125 ➤ Only about 7 percent of all managed properties were Tosei Corporation holdings ➤ Promoted further growth of the property management business in conjunction with expansion of the fund and alternative investment businesses
Alternative Investment Business ➜ Conducted by Tosei Revival Investment Co., Ltd., a wholly owned subsidiary established in March 2005 ➜ Structures and invests in real estate-backed NPL funds, structures and invests in similar funds for mortgage guarantee companies, and offers advisory and asset management services for each		➤ Achieved a fiscal year-end fund operating asset balance of ¥3,942 million ➤ Provided turnaround assistance for Tokyo Onsen Co., Ltd. through a form of debtor in possession (DIP) financing and scheduled to acquire Tokyo Onsen's Ginza Wall Building in March 2007

Review of Operations

Revitalization Business

Revenues/
Operating Income Ratio
(Millions of yen / %)



➤ **Extremely favorable market due to a rise in liquidity in the real estate market.**

➤ **Achieved unique real estate value restoration through "value up" activities rooted in Tosei Corporation's expertise in construction**

➤ **Will continue to promote further growth in the number of properties handled as the growth driver of the Tosei Group**

The revitalization business entails acquiring properties whose asset value has declined and restoring value for resale by matching local characteristics and user needs. It is the core business of the Tosei Group, accounting for 60 percent of revenues. Value restoration includes increasing the physical value of the property itself in ways such as improving utilities and upgrading IT, communications and other infrastructure. It also encompasses intangible improvements that increase the profitability of the property and satisfaction of the owner or user, such as increasing the occupancy rate through lease up and resolving legal issues, and improving the aesthetic design. The Tosei Group successfully restores the overall value of real estate by conducting "value up" activities based on a consideration of all these aspects and focused on cost performance. This success is largely due to our specialization in real estate development and expertise in construction that incorporates our planning and design capabilities as a first-class architectural office. In addition, because the Tosei Group is also involved in the real estate rental business, it is able to achieve a real-time understanding of tenant needs and trends as a property owner. This helps increase restoration value.

The real estate revitalization market is extremely favorable due to growing momentum backed by a focus on investment in real estate financial products that has increased the number of market participants and capital inflow.

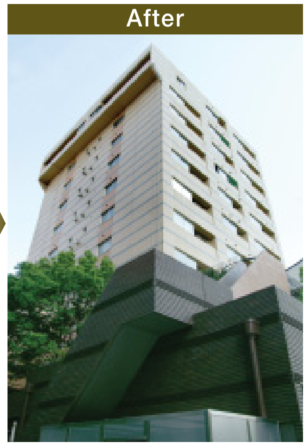
In addition, excluding certain high-rise districts, most of inner Tokyo consists of an enormous number of small and medium-scale properties. In this environment, Tosei Corporation has been leveraging the industry information network it has built over many years to conduct real estate restoration focused on these small and medium-scale properties, making use of its expertise in quality construction. For Tosei Corporation, which has differentiated itself from other companies in this way, the current real estate market environment will continue to offer high growth potential.

Backed by the above-mentioned advantages, the revitalization business promoted aggressive development during the year ended November 30, 2005 that resulted in the sale of a total of 19 properties mostly located in five inner-city wards of Tokyo, including Central Daikanyama in Shibuya Ward and the Kanda Ekimae Building in Chiyoda Ward. Of the 19 properties, 13 were office buildings and six were condominium complexes.

As the growth driver of the Tosei Group, the revitalization business will continue to conduct "value up" activities that make use of Tosei Corporation's expertise in construction and promote further growth in the number of properties handled.

Before

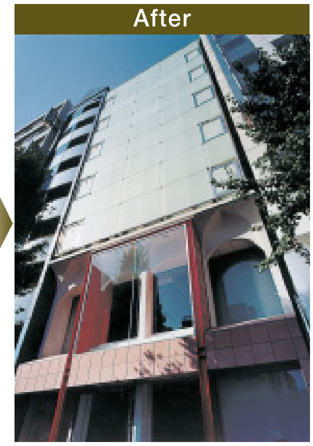
After



Completed in 1981, THE Palms Gotanda in Shinagawa Ward was restored to newly built condition through complete renovation of all common areas, including facades, entrance and exterior.

Before

After

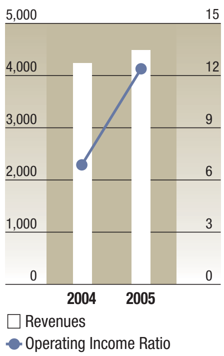


Full occupancy was achieved for the Kanda Ekimae Building in Chiyoda Ward by taking advantage of the property's excellent location and undertaking large-scale renewal featuring glass walls.

Note: Tosei Corporation commenced consolidated financial reporting as of the year ended November 30, 2005. Revenues and operating income figures in this Review of Operations for the fiscal year ended November 30, 2004 are shown for reference.

Development Business

Revenues/ Operating Income Ratio
(Millions of yen / %)



➤ Developed very convenient and comfortable properties largely in the 23 wards of Tokyo

➤ Favorable sales of properties to both investors and end-users

➤ Plan to increase the number of large-scale properties handled in the year ending November 30, 2006, including development of environmentally conscious condominiums and new office buildings

In the development business, Tosei Corporation purchases land on which it develops office buildings and commercial facilities, and constructs new condominiums and single-family dwellings, for sale to investors, real estate funds and end-users.

The development business, which began in 1994 under the current management framework, still accounts for approximately 25 percent of the Tosei Group's total revenues. It is the expertise in construction accumulated over many years in this business that has given rise to our original "value up" approach in the revitalization business.

Realizing that the foremost need of investors and end-users is convenience, the Tosei Group selects land largely in the 23 wards of Tokyo. With THE Palms Series condominiums in particular, the intention was to develop a product that reconciled comfort with convenience by offering value-added services to meet the daily living needs of end-users while incorporating natural materials in an urban setting to create a comforting environment. As urban-style single-family dwellings, THE Palms Court Series homes offer original plans and high quality with a focus on homes that owners can take pride in, in addition to providing convenience and functionality.

In the year ended November 30, 2005, properties sold to investors included three rental condominium complexes, New City Residence Nihonbashi Ningyocho I and II, comprising 32 and 38 units, respectively, and the DINKS and family-oriented THE Palms Yoyogi Uehara Cosmo Terrace, comprising 30 units, which were sold to real estate funds. As for properties targeting individuals, sales commenced of the 43 lots of THE Premium Court Ota Chuo subdivision in Ota Ward, the largest residential subdivision to be developed in that ward since 1983 (source: Real Estate Economic Institute Co., Ltd.). In addition, the Group worked to aggressively expand its range of offerings with the development of a commercial building in the Shinjuku Station business district, and the start of construction of an office building in Toranomon, Minato Ward. With these new developments, the Tosei Group now offers almost a full lineup of properties.

During the year ending November 30, 2006, development initiatives scheduled include construction of an environmentally conscious condominium complex in Sakura, Setagaya Ward with estimated revenues in the area of ¥5,500 million and sales of units at a condominium complex with estimated revenues in the area of ¥1,100 million, both scheduled to commence in spring 2006. Office properties include a revenue-producing rental SOHO development in Nihonbashi, Chuo Ward with estimated revenues of ¥3,400 million and a new large-scale office building development in Kanda, Chiyoda Ward. Construction of this office building, which will be the Company's second such development following the Toranomon Building, is scheduled to be completed in July 2006.

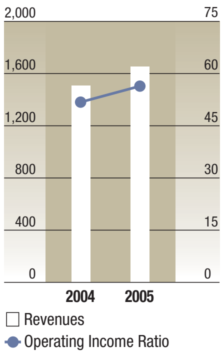
THE Premium Court Ota Chuo residential subdivision in Ota Ward features 43 large-scale lots on a south-facing slope.

New City Residence Nihonbashi Ningyocho II in Chuo Ward offers high-quality condominium-standard utilities.

The Shinjuku Shogyo Building in Shinjuku Ward, Tosei's first commercial development project, takes maximum advantage of its location.

Rental Business

Revenues/
Operating Income Ratio
(Millions of yen / %)



➤ Positioned as a steady source of income in the Group's long-term strategy

➤ Aims for solid business growth by avoiding rapid expansion of fixed assets over the medium term

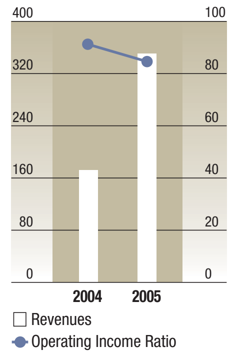
➤ Fixed asset properties maintained high occupancy rates

The rental business is positioned as a steady source of income in the Tosei Group's business strategy. The recent real estate market is extremely favorable, but the Tosei Group believes it is vital to establish a solid revenue base to respond to expected changes in the economy. Continuous growth in the real estate market is not possible, and economic cycles are a reality. Although a recession on the scale of the post-Bubble era is unlikely, factors such as real estate trading price adjustments, primarily in inner-city districts, are a concern. Based on this outlook, the Tosei Group's rental business does not target rapid expansion, but instead aims for solid growth of the balance of fixed assets held while considering the overall asset balance.

In the year ended November 30, 2005, the rental business held a total of 44 properties, of which 16 fixed asset properties achieved high occupancy rates.

Fund Business

Revenues/
Operating Income Ratio
(Millions of yen / %)



➤ Achieved a high growth rate since its start in 2003, backed by Tosei's original "value up" capabilities

➤ Accelerated growth in large-scale properties handled, accelerated growth of asset balance

➤ Aims to list a J-REIT in the year ending November 30, 2007 and achieve an asset balance of ¥130,000 million in the year ending November 30, 2008.

The fund business structures and manages real estate funds and *Tokumei Kumiai* (private equity) investments. The Tosei Group earns fee revenues by raising the physical and intangible value of properties purchased by funds through its original "value up" method and by managing their assets. In addition, the fund business receives dividends from *Tokumei Kumiai* (private equity) investments.

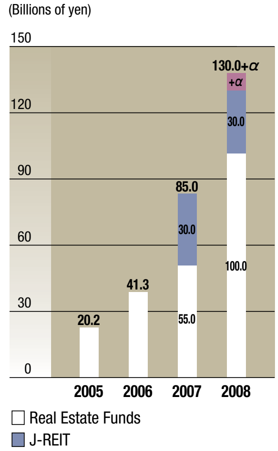
The fund business began in 2003, and since then the asset balance has grown at an extremely high rate, reaching ¥20,244 million in the year ended November 30, 2005.

Looking ahead, the fund business aims to list a J-REIT during the fiscal year ending November 30, 2007 and plans to accelerate growth of large properties handled in order to achieve a real estate fund asset balance of ¥100,000 million, or ¥130,000 million including the J-REIT, in the fiscal year ending November 30, 2008.

The Kanda Ogawamachi Tosei Building in Chiyoda Ward is an office building featuring glass facades.

The Ebisu Building in Shibuya Ward is appealing because of its close proximity to Ebisu Station.

Fund Asset Balance Targets
(Billions of yen)



Aggressively develop funds structured by Tosei Corporation

➤ Broaden the investor base and diversify the product lineup

➤ Aim for an asset balance of ¥41,300 million in the fiscal year ending November 30, 2006 (a year-on-year increase of 104.5 percent)

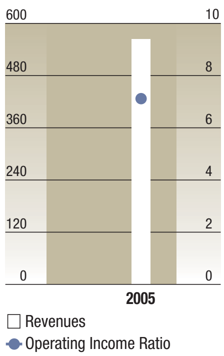
Work toward listing a J-REIT

➤ Aim to begin operating a J-REIT in the fiscal year ending November 30, 2007 with an initial operating asset target of at least ¥30,000 million.

➤ Established Tosei REIT Advisors, Inc. in September 2005 as a J-REIT asset management company

Property Management Business

Revenues/
Operating Income Ratio
(Millions of yen / %)



- Provides comprehensive property management services for office buildings, condominiums and other properties, based on many years of experience
- 93 percent of management contracts are for non-Group holdings
- Aims to promote further growth of the property management business in conjunction with expansion of the fund business

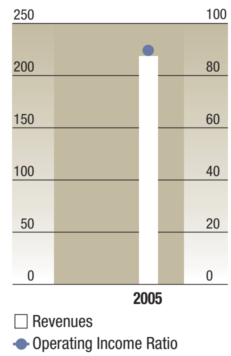
The property management business is handled by Tosei Community Co., Ltd., which was made a subsidiary in April 2005. Based on many years of experience in managing condominiums, Tosei Community offers consulting and advice to holders of comparted-ownership and condominium associations, and provides total support from the startup to the smooth operation of condominium associations. It also preserves the asset value of office buildings by offering meticulous maintenance and facility management services that help rationalize owners' operations.

Efforts to acquire new contracts in the year ended November 30, 2005, resulted in the addition of four condominium complexes for a fiscal year-end total of 125 managed condominiums, and a year-on-year increase of 105 managed office buildings and other properties to 254, for a total of 379 managed properties.

The property management business is aiming for further growth in conjunction with expansion of the Tosei Group's fund business and promotion of the alternative investment business.

Alternative Investment Business

Revenues/
Operating Income Ratio
(Millions of yen / %)

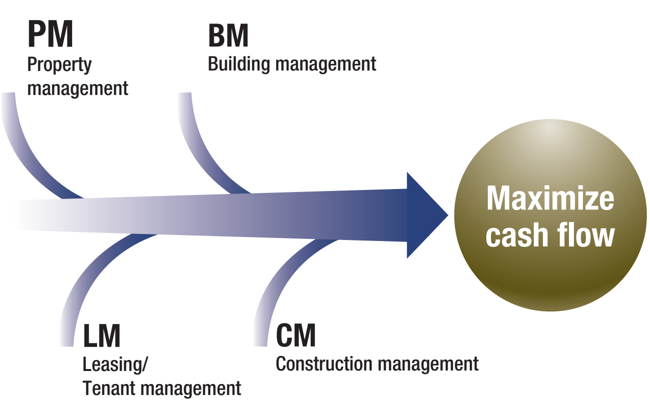


- Developed to diversify entry strategies in real estate purchasing
- Makes use of expertise accumulated by Tosei Corporation in areas such as real estate funds, leveraged buyouts (LBOs) and mergers and acquisitions (M&As)
- Aims to expand turnaround business beyond real estate

The alternative investment business is handled by Tosei Revival Investment Co., Ltd., a wholly owned subsidiary established in March 2005. Tosei Revival Investment invests in real estate-backed non-performing loan (NPL) funds and mortgage guarantee companies, structures similar investment funds, and offers advisory and asset management services for each.

The business is currently being developed to diversify strategies in real estate purchasing. In the medium term, however, the Tosei Group is working aggressively to develop the turnaround business beyond the boundaries of real estate to include new fields by making use of expertise accumulated by Tosei Corporation in areas such as real estate funds, LBOs, M&As and turnaround assistance.

The asset balance of real estate-backed NPL funds as of November 30, 2005 was ¥3,942 million.



The property management business strategically provides services that maximize cash flow and raise asset value.

As part of the turnaround assistance for Tokyo Onsen Co., Ltd., the Ginza Wall Building in Chuo Ward is scheduled for acquisition in March 2007 following the implementation of a form of Debtor in Possession financing.

Corporate Governance and Compliance

(As of May 31, 2006)

The Tosei Group considers corporate governance to be an important management issue as it aims to achieve sustainable growth by responding promptly to changes in its operating environment and practicing sound, highly transparent management.

Basic Thinking on Corporate Governance

The Tosei Group recognizes that meeting the expectations of all its stakeholders by responding promptly and accurately to changes in the operating environment and maintaining sound business activities is an important management issue. Accordingly, the Group establishes systems to quickly identify and formulate preventative measures for a variety of management risks, proactively and appropriately discloses information beyond legal requirements, and actively promotes enhancement of internal operational oversight and highly transparent management.

Corporate Governance Measures

➤ Board of Directors

Consisting of four directors, the Board of Directors of Tosei Corporation is the topmost management decision-making body. In accordance with Board of Directors regulations, it convenes once a month and on an as-needed basis to decide management policies and other important matters, and supervises the execution of directors' duties.

➤ Corporate Auditors

Tosei Corporation has adopted a corporate auditor system. The Board of Auditors, consisting of two full-time and two part-time corporate auditors, meets once a month, as a general rule. All corporate auditors are from outside the Company to ensure highly objective and fair auditing.

➤ Executive Officer System

Tosei Corporation has introduced an executive officer system under which six executive officers appointed by the Board of Directors execute business tasks delegated by the President, who concurrently holds the positions of Representative Director and Chief Executive Officer, in accordance with Board decisions. The President convenes a Management Meeting twice a month, as a general rule, to obtain advice in advance of making important decisions.

➤ Corporate Governance Meetings

Corporate Governance Meetings are held twice a month, as a general rule, to ensure ongoing enhancement of corporate governance. Attended by directors and full-time corporate auditors, these meetings serve as a venue for identifying and discussing important matters related to governance and internal control that affect corporate value. When necessary, advice is also sought from outside professionals such as lawyers and certified public accountants.

As subsidiary organizations of the Corporate Governance Meeting, Tosei Corporation has established a Compliance Committee, which is focused on enhancing Group awareness of compliance, and a Risk Management Committee, which studies countermeasures for risks throughout the Group. Each committee discusses and considers how to resolve matters identified by its members, not only in terms of legal compliance, but from the perspective of corporate ethics and social contribution as well.

➤ Internal Audits

The Internal Audit Department, established in March 2005 under the direct supervision of the President, conducts Group-wide audits based on fiscal year plans, and makes recommendations for improvement to divisions where inadequacies have been found. It implements highly effective audits by enhancing follow-up, such as discussing matters requiring corrections with concerned divisions and giving specific guidance.

➤ Basic Policy on Internal Control Systems

An important responsibility of Tosei Corporation's directors is to develop a framework that promotes not only legal compliance but also fair, prompt and sound management. Recognizing this, the Company is working to develop and strengthen its internal control systems.

With regard to corporate governance, the Tosei Group has established and is working to publicize its Group Compliance Standards, which regulate the behavior of all Group directors and employees. At the same time, it is working to enhance directors' awareness of compliance through Corporate Governance Meetings.

To protect personal information, the Senior Executive Managing Officer of the Management Division has been assigned responsibility for managing personal information, and the Personal Information Protection Office has been set up in the General Administration and Human Resource Department. In addition, each division head has been appointed as a personal information manager to enforce thorough management.

To promote comprehensive risk management throughout the Group and clarify the risk management structure, the Risk Management Committee has enacted Risk Management Standards which specify responsible divisions for each risk category.

The basic policy for internal control systems outlined above was adopted by the Board of Directors of Tosei Corporation at its meeting on May 25, 2006.

Management's Discussion and Analysis of Operations and Finances

Presentation of Consolidated Information

Tosei Corporation prepared consolidated financial statements for the first time for the year ended November 30, 2005. Consolidated performance and financial data for prior years is not available. All data presented in the following discussion is consolidated unless otherwise noted.

Income and Expenses

➤ Revenues

In the operating environment of Tosei Corporation and its consolidated subsidiaries (the "Tosei Group"), against the backdrop of the ongoing recovery of the domestic economy, real estate prices have risen, causing returns on investment in real estate to decrease. These and other factors have led to concerns about a slowdown in some sectors of the real estate market. However, capital continues to flow into an active real estate investment market.

Given this environment, the Tosei Group has increased synergy among its six businesses and made progress in expanding the products and services they offer. As a result of concentrated efforts to enhance the comprehensive strengths of the Tosei Group, revenues totaled a solid ¥17,644 million. Non-consolidated revenues represented 95.4 percent of consolidated revenues, and increased 15.9 percent year-on-year to ¥16,828 million.

➤ Cost of Revenues, Selling, General and Administrative (SGA) Expenses, and Operating Income

Overall, the real estate market was strong during the year ended November 30, 2005. The Tosei Group emphasized profit margin improvement, with the result that cost of revenues totaled ¥12,788 million and gross profit totaled ¥4,856 million. However, SGA expenses totaled ¥1,320 million because the Tosei Group added employees with the aim of achieving further growth. As a result, operating income totaled ¥3,536 million, and the operating margin was 20.0 percent. On a non-consolidated basis, operating income increased 58.8 percent year-on-year to ¥3,323 million.

➤ Segment Information

Segment Revenues and Operating Income for the Year Ended November 30, 2005

(Millions of yen)

	Revenues	Operating Income
Revitalization Business	¥10,401	¥2,222
Development Business	4,467	548
Rental Business	1,645	929
Fund Business	349	295
Property Management Business	562	40
Alternative Investment Business	220	197

Note: Excludes intersegment revenues

Revitalization Business

Against the backdrop of a lively real estate market, the Tosei Group made strong progress in aggressively developing this business through original "value up" activities that increase the value of real estate. The Tosei Group sold 19 properties during the year ended November 30, 2005. As a result, segment revenues totaled ¥10,401 million, and segment operating income totaled ¥2,222 million.

Development Business

The Tosei Group sold 17 single-family dwellings and 3 rental condominium complexes. As a result, segment revenues totaled ¥4,467 million, and segment operating income totaled ¥548 million.

Rental Business

The occupancy rate improved at rental buildings owned by the Tosei Group. In addition, inventory of buildings for rent for use in the revitalization business increased. Consequently, segment revenues totaled ¥1,645 million, and segment operating income totaled ¥929 million.

Fund Business

Increased acquisitions of new properties resulted in expansion in assets under management. Acquisition fees and asset management fees also increased. In addition, strong asset management results generated incentive fees for the Tosei Group. As a result of these and other factors, segment revenues totaled ¥349 million, and segment operating income totaled ¥295 million. Assets under management in this segment as of November 30, 2005 totaled ¥20,244 million.

Property Management Business

Segment revenues to outside customers totaled ¥562 million, and segment operating income totaled ¥40 million. Tosei Corporation acquired the shares of Tosei Community Co., Ltd. on May 31, 2005, the end of the first half of the fiscal year ended November 30, 2005. Tosei Community therefore became a consolidated subsidiary, and its results are consolidated with results of this segment for the six months ended November 30, 2005.

Alternative Investment Business

Revenues from arrangement fees related to real estate-backed NPL funds and credit management fees totaled ¥210 million. Interest revenues received from CMOs held by Tosei Revival Investment Co., Ltd. subsidiary Icarus Capital Co., Ltd. totaled ¥9 million. As a result, segment revenues totaled ¥220 million, and segment operating income totaled ¥197 million. Assets under management in this segment totaled ¥3,942 million as of November 30, 2005.

➤ Other Income and Expenses and Income before Income Taxes

Other expenses, net totaled ¥554 million, primarily because interest expense totaled ¥534 million. Other income totaled ¥27 million, and resulted primarily from one-time items including refund of earnest money at cancellation.

As a result of the above, income before income taxes totaled ¥2,982 million. The ratio of income before income taxes to revenues was 16.9 percent. Income before income taxes per employee as of November 30, 2005 was ¥28 million.

➤ Net Income

As a result of the above, net income for the year ended November 30, 2005 totaled ¥1,593 million. Diluted net income per share totaled ¥4,571.59. On a non-consolidated basis, net income increased 88.5 percent year-on-year to ¥1,495 million.

Shareholder Returns Policy

Stable dividends are a key management priority for Tosei Corporation. The Company's fundamental policy is to comprehensively consider operating results, the future operating environment and progress in its business plan in balancing distributions of earnings and the need for internal capital resources to generate long-term growth in corporate value through the acquisition of highly profitable business opportunities. Based on this fundamental policy, cash dividends per share for the year ended November 30, 2005 totaled ¥450.

Liquidity and Financial Position

➤ Liquidity Management

The Tosei Group aims to secure sufficient capital for its business activities, maintain liquidity and achieve a sound financial position.

➤ Cash Flow

Cash Flow Summary

(Millions of yen)

	Year ended November 30, 2005
Cash flow from operating activities	¥(8,839)
Cash flow from investing activities	(607)
Cash flow from financing activities	9,361
Cash and cash equivalents at the end of the year	2,531

Cash Flow from Operating Activities

Net cash used in operating activities totaled ¥8,839 million. Income before income taxes totaling ¥2,982 million was a primary source of cash. Increase in inventories, however, used cash totaling ¥7,062 million as a result of acquisitions of buildings to which the Tosei Group will add value and sell in expanding its revitalization business.

Cash Flow from Investing Activities

Net cash used in investing activities totaled ¥607 million. A primary factor was net investment in securities, which used cash totaling ¥545 million primarily to fund the alternative investment business and investment in private equity in the fund business.

Tosei did not generate free cash flow during the year ended November 30, 2005. The sum of net cash used in operating activities and net cash used in investing activities totaled ¥9,446 million.

Cash Flow from Financing Activities

Net cash provided by financing activities totaled ¥9,361 million. Proceeds from long-term debt net of repayments of long-term debt totaled ¥8,308 million. The Tosei Group intends to deploy this capital to acquire new buildings in expanding its revitalization and development businesses.

As a result of the above, together with the effect of newly consolidated subsidiaries, cash and cash equivalents at the end of the fiscal year decreased ¥70 million from the beginning of the fiscal year to ¥2,531 million.

➤ Financial Position

Assets

Total assets as of November 30, 2005 were ¥40,407 million, and return on average total assets (ROA) was 3.9 percent.

Current assets totaled ¥32,569 million. Inventories, as represented by real estate for sale and real estate for sale in progress, was the principal component of current assets and are primarily the result of the acquisition of properties through expansion of the real estate trading business. Purchased receivables acquired in the alternative investment business were another notable component of current assets.

Property and equipment totaled ¥6,664 million and consisted mainly of land. Investments and other assets totaled ¥1,174 and consisted primarily of investments in securities, which encompass private equity investments in the fund business.

Liabilities

Current liabilities totaled ¥14,942 million. The sum of short-term borrowings and long-term debt due within one year was ¥12,398 million, which accounted for most of current liabilities.

Long-term liabilities totaled ¥17,171 million, and consisted primarily of long-term debt used to acquire properties. Total interest-bearing debt was ¥28,385 million.

Shareholders' Equity

Shareholders' equity as of November 30, 2005 was ¥8,294 million. The ratio of shareholders' equity to total assets was 20.5 percent. Return on average total shareholders' equity (ROE) was 19.2 percent.

Risk Information

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, 2005. 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) Real Estate Market Risk

In the Tosei Group's core businesses of revitalization and development, the acquisition of properties for the Group's own account, the acquisition of properties for ownership, time required for divestiture and interest rates have the potential to affect the Tosei Group's results and financial position.

(2) Risk Associated with Competitive Conditions

The Tosei Group's primary market is the Tokyo metropolitan area, and the Group invests primarily in small and medium-sized properties. Acquisition of properties has the potential to become increasingly competitive because of the continuing recovery in real estate market conditions in metropolitan Tokyo and the increase in recent years in the number of new entrants in the fund business. The Tosei Group has strengthened its competitiveness by enhancing business development flexibility through subsidiaries operating in the property management business and the alternative investment business and is working to differentiate itself from competitors. However, failure by the Tosei Group to maintain its competitive advantages would have the potential to affect the Group's results and financial position.

(3) Risk Associated with Reliance on Interest-bearing Debt and Interest Rates

The Tosei Group procures debt financing, including non-recourse loans, primarily from financial institutions to fund expenses associated with business activities including acquisition of land and buildings and renovation. Consequently, the ratio of interest-bearing debt to total assets is high. Conventionally, increases in interest rates have increased fund procurement costs, and therefore have the potential to affect the Tosei Group's results and financial position.

In procuring funds, the Tosei Group does not rely on a particular financial institution. Rather, the Group negotiates with multiple financial institutions on a project-by-project basis, and as a matter of policy, only initiates a project once its funding has been procured. Unexpected changes in the operating environment and other factors that might impede access to funding could delay projects or render them untenable, which would have the potential to affect the results and financial position of the Tosei Group.

(4) Risk of Changes in Accounting Standards for Special Purpose Vehicles (SPVs)

The Tosei Group establishes SPVs in its fund business. However, accounting practices for SPVs have not been clearly delineated in Japan. At present, the Tosei Group therefore decides whether or not to consolidate each particular SPV on the basis of factors including share of private equity ownership and level of control. As the fund business expands in the future, the Tosei Group may establish many similarly structured SPVs, and definitive accounting practices for SPVs may be delineated in Japan. Consequent changes in the Tosei Group's accounting methods may cause changes in the scope of consolidation, which would have the potential to affect the results and financial position of the Tosei Group.

(5) Other Risks

The Tosei Group employs its Palms Quality Check (PQC) system for condominium buildings as part of its operational commitment to quality construction. In addition, the Group has established its own standards and specifications, including the 35 "Value Up" Points, as part of its meticulous approach to quality control. Recently, problems have arisen in Japan due to the falsification of structural design data. Since May 1999, a private inspection organization has verified the construction of the Tosei Group's condominium complexes. The Tosei Group requested architectural firms other than the firms that handled the design of these buildings to quickly confirm that there are no indications that structural design data was falsified. However, factors such as reduced willingness to buy among customers for residential housing and increased costs that may result from more stringent regulations have the potential to affect the results and financial position of the Tosei Group.

In addition, issues associated with used properties, including failure to save structural design blueprints for most buildings, asbestos problems, or soil contamination problems, could impede real estate investment activities over the medium term, which would have the potential to affect the results and financial position of the Tosei Group.

Consolidated Balance Sheets

Tosei Corporation and Consolidated Subsidiaries
As of November 30, 2005

	Millions of yen	Thousands of U.S. dollars (Note 1)
ASSETS	**2005**	**2005**
Current assets:		
Cash (Note 3)	¥ 2,671	$ 22,318
Marketable securities	10	84
Notes and accounts receivable	147	1,230
Real estate for sale (Note 3)	12,607	105,355
Real estate for sale in progress (Note 3)	13,977	116,805
Purchased receivables (Note 3)	1,723	14,399
Supplies	1	11
Deferred tax assets (Note 6)	130	1,085
Other	1,307	10,924
Less: allowance for doubtful accounts	(4)	(34)
Total current assets	32,569	272,176
Property and equipment:		
Buildings and structures (Note 3)	1,725	14,416
Tools and furniture	33	278
Land	4,906	41,000
Total property and equipment	6,664	55,694
Investments and other assets:		
Investments in securities	904	7,553
Loans receivable	4	30
Deferred tax assets (Note 6)	68	569
Bond issue cost	7	54
Software	30	251
Telephone rights	2	19
Other	160	1,340
Less: allowance for doubtful accounts	(1)	(7)
Total investments and other assets	1,174	9,810
Total assets	¥40,407	$337,680

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2005	Thousands of U.S. dollars (Note 1) 2005
Current liabilities:		
Short-term borrowings (Note 3)	¥ 4,390	$ 36,687
Bonds due within one year (Note 3)	194	1,621
Long-term debt due within one year (Note 3)	8,008	66,920
Notes and accounts payable	372	3,107
Income taxes payable	1,081	9,038
Advance received	383	3,204
Accrued bonuses to employees	10	82
Other	504	4,211
Total current liabilities	14,942	124,869
Long-term liabilities:		
Bonds (Note 3)	322	2,691
Long-term debt (Note 3)	15,471	129,292
Deferred tax liabilities (Note 6)	22	188
Accrued severance costs	31	263
Accrued retirement benefits to officers	152	1,268
Consolidation adjustment	6	46
Other	1,167	9,754
Total long-term liabilities	17,171	143,502
Total liabilities	32,113	268,371
Shareholders' equity (Notes 5 and 8):		
Common stock:		
Authorized: 800,000 shares		
Issued: 344,858 shares	1,966	16,431
Additional paid-in capital	2,050	17,128
Retained earnings	4,270	35,686
Unrealized gain on securities	8	64
Total shareholders' equity	8,294	69,309
Total liabilities and shareholders' equity	¥40,407	$337,680

Consolidated Statements of Operations and Retained Earnings

Tosei Corporation and Consolidated Subsidiaries
Year ended November 30, 2005

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2005	2005
Revenues	¥17,644	$147,453
Cost of revenues	12,788	106,869
Gross profit	4,856	40,584
Selling, general and administrative expenses	1,320	11,032
Operating income	3,536	29,552
Other income (expenses):		
Interest and dividend income	1	7
Refund of property tax	9	74
Refund of earnest money at cancellation	7	61
Refund of insurance premium at cancellation	10	83
Interest expense	(534)	(4,462)
Penalty at contract cancellation	(17)	(141)
Other, net	(30)	(256)
	(554)	(4,635)
Income before income taxes	2,982	24,917
Income taxes (Note 6):		
Current	1,434	11,988
Deferred	(45)	(380)
	1,389	11,608
Net income	1,593	13,309
Retained earnings:		
Balance at beginning of the year	2,719	22,720
Decrease due to newly consolidated subsidiaries	(1)	(6)
Cash dividends	(41)	(337)
Balance at end of the year	¥ 4,270	$ 35,686
	Yen	U.S. dollars (Note 1)
Per share of common stock:		
Net income: Basic	¥4,664.46	$38.98
Diluted	4,571.59	38.20
Cash dividends applicable to the year	450.00	3.76

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flow

Tosei Corporation and Consolidated Subsidiaries
Year ended November 30, 2005

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2005	2005
Cash flow from operating activities:		
Income before income taxes	¥ 2,982	$ 24,917
Depreciation	181	1,511
Amortization of consolidation adjustment	(1)	(5)
Increase in allowances	38	319
Interest and dividend income	(1)	(7)
Interest expenses	534	4,462
Tokumei Kumiai (private equity) investments	(24)	(205)
Increase in notes and accounts receivable	(31)	(258)
Increase in purchased receivables	(1,723)	(14,399)
Increase in inventories	(7,062)	(59,019)
Increase in advance payment	(1,095)	(9,148)
Decrease in notes and accounts payable	(1,082)	(9,043)
Decrease in advance received	(453)	(3,787)
Increase in deposits received	26	214
Other	262	2,192
Sub-total	(7,449)	(62,256)
Receipts of interest and dividends	57	480
Payments of interest	(542)	(4,528)
Payments of income taxes	(905)	(7,567)
Net cash used in operating activities	(8,839)	(73,871)
Cash flow from investing activities:		
Decrease in time deposits	45	376
Purchases of property and equipment	(144)	(1,205)
Purchases of intangible assets	(31)	(257)
Investments in securities	(3,865)	(32,297)
Sales of investments in securities	3,320	27,745
Collection of investments in securities	77	645
Acquisition of equity in newly consolidated subsidiary	(7)	(55)
Purchases of investments	(12)	(100)
Other	10	81
Net cash used in investing activities	(607)	(5,068)
Cash flow from financing activities:		
Net increase in short-term borrowings	1,041	8,700
Proceeds from long-term debt	14,570	121,765
Repayments of long-term debt	(6,262)	(52,333)
Redemption of bonds	(24)	(201)
Proceeds from new stock issue	76	636
Cash dividends paid	(40)	(337)
Net cash provided by financing activities	9,361	78,230
Net decrease in cash and cash equivalents	(85)	(709)
Cash and cash equivalents of newly consolidated subsidiaries at beginning of the year	15	125
Cash and cash equivalents at beginning of the year	2,601	21,734
Cash and cash equivalents at end of the year	¥ 2,531	$ 21,150

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

Tosei Corporation and Consolidated Subsidiaries
Year ended November 30, 2005

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Tosei Corporation (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥119.66 to $1, the approximate rate of exchange at November 30, 2005. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of Significant Accounting Policies

a. Consolidation

The consolidated financial statements as of November 30, 2005 include the accounts of the Company and its 11 (7 in 2004) significant subsidiaries (together, the "Companies").

The Company has no unconsolidated subsidiaries and no affiliated companies in which investments are accounted for by the equity method.

All assets and liabilities of subsidiaries are marked to fair value at the time of acquisition of control. Consolidation adjustment, a difference between investment and equity of subsidiary, is amortized on a straight-line basis over 5 years.

b. Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash and cash equivalents at the end of the year in the consolidated statements of cash flows for the year ended November 30, 2005 are reconciled with cash in the consolidated balance sheets as follows:

	Millions of yen	Thousands of U.S. dollars
	2005	**2005**
Cash	**¥2,671**	**$22,318**
Time deposits with maturities of more than three months	**(140)**	**(1,168)**
Cash and cash equivalents	**¥2,531**	**$21,150**

c. Inventories

Real estate for sale, real estate for sale in progress and purchased receivables are stated at cost determined by the specific identification method.

Supplies are stated at cost determined by the last purchase method.

d. Marketable and Investment Securities

Available-for-sale securities with market quotations are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. Cost at the time of sale is determined by the moving-average method.

Available-for-sale securities without market quotations are stated at cost determined by the moving-average method.

e. Property, Plant and Equipment

Property and equipment are stated at cost.

Depreciation of property and equipment of the Companies is computed by the declining-balance method at rates based on the estimated useful lives of the assets. However, buildings purchased on or after April 1, 1998 are depreciated by the straight-line method.

f. Retirement Benefit Plans

The Companies have an unfunded retirement benefit plan for employees. Accrued severance costs are stated at the amount which would be required if all employees voluntarily terminated their employment at the balance sheet date.

Accrued retirement benefits to officers (directors and corporate auditors) are stated at the amount which would be required if all directors and corporate auditors retired at the balance sheet date.

g. Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions.

h. Income Taxes

The Companies apply an inter-period allocation of income taxes based on the asset and liability method. Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes.

i. Appropriations of Retained Earnings

Appropriations of retained earnings at each year end are reflected in the financial statements for the following year upon shareholders' approval.

3. Short-term Borrowings and Long-term Debt

Short-term borrowings, amounting to ¥4,390 million (US$36,687 thousand) as of November 30, 2005, were loans from banks with an average interest rate of 1.76% per year.

Bonds as of November 30, 2005 consisted of the following:

				Millions of yen	Thousands of U.S. dollars
	Issued	**Due**	**Interest (%)**	**2005**	**2005**
Unsecured bonds	3/31/04	3/31/09	0.19	¥ 250	$ 2,089
Unsecured bonds	6/10/04	6/10/09	0.31	96	802
Unsecured bonds	8/10/04	8/10/09	0.46	170	1,421
				516	4,312
Less: current portion of bonds				(194)	(1,621)
Total				¥ 322	$ 2,691

Annual maturities of bonds as of November 30, 2005 within four years were as follows:

Years ending November 30	Millions of yen	Thousands of U.S. dollars
2006	¥194	$1,621
2007	24	201
2008	24	201
2009	274	2,289

Long-term debt, amounting to ¥23,479 million (US$196,212 thousand) as of November 30, 2005, consisted of loans from banks with an average interest rate of 1.95% per year. Annual maturities of bonds as of November 30, 2005 (except for current portion of ¥8,008 million (US$66,920 thousand) within five years were as follows:

Years ending November 30	Millions of yen	Thousands of U.S. dollars
2007	¥7,564	$63,210
2008	2,765	23,106
2009	696	5,820
2010	480	4,015

The book values of assets pledged as collateral for debt as of November 30, 2005 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2005	**2005**
Cash	**¥ 170**	**$ 1,421**
Real estate for sale	**11,487**	**95,992**
Real estate for sale in progress	**13,235**	**110,606**
Purchased receivables	**1,091**	**9,126**
Other	**900**	**7,521**
Buildings and structures	**1,397**	**11,671**
Land	**4,020**	**33,591**
Total	**¥32,230**	**$269,928**

Debt related to the above pledged assets as of November 30, 2005 was as follows:

	Millions of yen	Thousands of U.S. dollars
	2005	**2005**
Short-term borrowings	**¥ 4,370**	**$ 36,520**
Long-term debt due within one year	**7,900**	**66,017**
Long-term debt	**15,039**	**125,682**
Total	**¥27,309**	**$228,219**

4. Contingent Liabilities

As of November 30, 2005 the Company was contingently liable for guarantees on six customers' housing loans from (株)アルカ, amounting, to ¥13 million (US$111 thousand).

5. Shareholders' Equity

The Japanese Commercial Code (the "Code") requires at least 50% of the issue price of new shares to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to additional paid-in capital.

A stock option plan for directors and employees of the Company was resolved by the shareholders' meeting held on April 25, 2003. Details of the stock options are as follows:

Type of share:	Common stock
Number of shares:	Equal to or less than 11,100 shares in total
Grant price:	¥8,500 per share
Effective period:	June 1, 2005 to May 31, 2008

6. Income Taxes

The Companies are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.7% for the year ended November 30, 2005.

Major components of deferred tax assets as of November 30, 2005 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2005	**2005**
Deferred tax assets (current):		
Unpaid enterprise taxes	**¥ 72**	**$ 602**
Excess depreciation	**41**	**338**
Other	**17**	**145**
	130	**1,085**
Deferred tax assets (non-current):		
Excess accrued severance costs	**13**	**106**
Excess accrued retirement benefits to officers	**62**	**516**
Other	**11**	**94**
Valuation allowance	**(12)**	**(102)**
	74	**614**
Total deferred tax assets	**204**	**1,699**
Deferred tax liabilities (non-current):		
Valuation difference on assets and liabilities of subsidiaries	**(23)**	**(188)**
Unrealized gain on securities	**(5)**	**(45)**
Total deferred tax liabilities	**(28)**	**(233)**
Net deferred tax assets	**¥176**	**$1,466**

Deferred taxes are represented in the consolidated balance sheets as follows:

	Millions of yen	Thousands of U.S. dollars
	2005	**2005**
Current assets	**¥130**	**$1,085**
Non-current assets	**68**	**569**
Non-current liabilities	**(22)**	**(188)**
Total	**¥176**	**$1,466**

Reconciliation between the normal effective statutory tax rate for the year ended November 30, 2005 and the actual effective tax rate reflected in the accompanying consolidated statement of income was as follows:

Normal effective statutory tax rate	40.7%
Expenses not deductible for income tax purposes	0.2
Tax on undistributed income	5.2
Other - net	0.5
Actual effective tax rate	46.6%

7. Segment Information

Information about industry segments of the Companies for the year ended November 30, 2005 was as follows:

	Millions of yen								
	Revitalization Business	Development Business	Rental Business	Fund Business	Property Management Business	Alternative Investment Business	Total	Eliminations or corporate	Consolidated
Sales and operating income:									
Revenue from operations:									
Outside customers	**¥10,401**	**¥ 4,467**	**¥1,645**	**¥349**	**¥562**	**¥ 220**	**¥17,644**	**¥ —**	**¥17,644**
Intersegment	**—**	**—**	**—**	**—**	**96**	**—**	**96**	**(96)**	**—**
Total revenues	**10,401**	**4,467**	**1,645**	**349**	**658**	**220**	**17,740**	**(96)**	**17,644**
Operating expenses	**8,179**	**3,919**	**716**	**54**	**618**	**23**	**13,509**	**599**	**14,108**
Operating income	**¥ 2,222**	**¥ 548**	**¥ 929**	**¥295**	**¥ 40**	**¥ 197**	**¥ 4,231**	**¥ (695)**	**¥ 3,536**
Assets, depreciation and capital expenditures:									
Assets	**¥15,656**	**¥12,300**	**¥5,227**	**¥905**	**¥323**	**¥2,017**	**¥36,428**	**¥3,979**	**¥40,407**
Depreciation	**1**	**1**	**150**	**0**	**0**	**—**	**152**	**29**	**181**
Capital expenditures	**13**	**8**	**65**	**4**	**—**	**—**	**90**	**88**	**178**

	Thousands of U.S. dollars								
	Revitalization Business	Development Business	Rental Business	Fund Business	Property Management Business	Alternative Investment Business	Total	Eliminations or corporate	Consolidated
Sales and operating income:									
Revenue from operations:									
Outside customers	**$ 86,916**	**$ 37,331**	**$13,749**	**$2,918**	**$4,698**	**$ 1,841**	**$147,453**	**$ —**	**$147,453**
Intersegment	**—**	**—**	**—**	**—**	**802**	**—**	**802**	**(802)**	**—**
Total revenues	**86,916**	**37,331**	**13,749**	**2,918**	**5,500**	**1,841**	**148,255**	**(802)**	**147,453**
Operating expenses	**68,350**	**32,748**	**5,983**	**456**	**5,164**	**194**	**112,895**	**5,006**	**117,901**
Operating income	**$ 18,566**	**$ 4,583**	**$ 7,767**	**$2,462**	**$ 336**	**$ 1,647**	**$ 35,360**	**$ (5,808)**	**$ 29,552**
Assets, depreciation and capital expenditures:									
Assets	**$130,838**	**$102,790**	**$43,683**	**$7,561**	**$2,703**	**$16,859**	**$304,433**	**$33,247**	**$337,680**
Depreciation	**8**	**5**	**1,256**	**2**	**1**	**—**	**1,273**	**238**	**1,511**
Capital expenditures	**109**	**71**	**540**	**30**	**—**	**—**	**750**	**741**	**1,491**

8. Subsequent Events

a. Resolutions of Shareholders' Meeting

At the general shareholders' meeting held on February 24, 2006, the Company's shareholders approved the following appropriation of retained earnings for the year ended November 30, 2005 and issue of stock options.

(1) Appropriation of retained earnings

Appropriation of retained earnings for the year ended November 30, 2005 was as follows:

	Millions of yen	Thousands of U.S. dollars
	2005	**2005**
Year-end cash dividends, ¥450 ($3.76) per share	**¥155**	**$1,297**
Officers' bonuses	**11**	**90**

(2) Stock option plan

A stock option plan for directors and employees of the Company and directors of its subsidiaries was resolved. Details of the stock options are as follows:

Type of share:	Common stock
Number of shares:	Equal to or less than 5,000 shares in total
Grant price:	105 % of average of closing prices for the month prior to exercise of stock options
Effective period:	March 1, 2008 to February 28, 2011

b. New Stock Issue

The Board of Directors of the Company resolved to issue 30,000 shares of common stock outside Japan at the issue price of ¥144,900 (US$1,211) per share, effective February 27, 2006. As a result, capital stock and additional paid-in capital of the Company increased by ¥2,174 million (US$18,164 thousand), respectively.

Corporate Data

Company name	Tosei Corporation (Tosei Fudosan Co., Ltd.)
President and CEO	Seiichiro Yamaguchi
Date of establishment	February 2, 1950
Address	2-3 Kanda Awaji-cho, Chiyoda-ku, Tokyo
Capital	¥1,966,096,500 (As of November 30, 2005)
Employees	68 (As of November 30, 2005)
Fields of business	Revitalization; Development; Rental; Property management; Funds; Alternative investment
Licenses	Real Estate Broker, Construction Contractor, First-class Architect's Office, Real Estate Investment Advisor
Consolidated subsidiaries	Tosei Revival Investment Co., Ltd. Tosei Community Co., Ltd. Tosei REIT Advisors, Inc.

Management Team (As of February 24, 2006)

President and CEO
Seiichiro Yamaguchi

Director and COO
Katsuhito Kosuge

Director and CFO
Noboru Hirano

Director and Executive Officer of Asset Solution Department
Syunichiro Naito

Corporate Auditors
Yasuhiro Honda (full-time)
Kimio Harada (full-time)
Shigeru Yamagishi (part-time)
Eiji Sakomoto (part-time)

Executive Officer of Architect Planning Department
Minoru Inatsuka

Officer of Corporate Planning Department
Ryohei Yasuda

History

1950	**February**	Established as Yukari Kogyo Co., Ltd. (Head Office: Oita City, Oita Prefecture)
1952	**April**	Moved Head Office to Kameido, Koto-ku, Tokyo
1964	**June**	Initiated real estate sales, brokerage, rental and property management businesses
1968	**May**	Moved Head Office to Soto-Kanda, Chiyoda-ku, Tokyo
1969	**July**	Company name changed to Yukari Co., Ltd.
1983	**March**	Company name changed to Tosei Building Co., Ltd.
1994	**June**	Seiichiro Yamaguchi appointed as President and CEO
	October	Initiated residential condominium development (The Palms Series)
1995	**September**	Kanda Awaji-cho Building Co., Ltd. established
1996	**March**	Company name changed to Tosei Fudosan Co., Ltd.
	December	Moved Head Office to Kanda, Awaji-cho, Chiyoda-ku, Tokyo
1997	**December**	Initiated construction contractor operations, including repair and renovation, as part of the property management business
1999	**July**	Initiated single-family dwelling home development with Palms Court Series
2001	**February**	Initiated asset management business
	March	Acquired and merged three companies through leveraged buyouts
	April	Acquired First-class Architect's Office License (License No. Tokyo Governor's Registration (46219))
	November	Building Management Division spun off to Tosei Community Co., Ltd.
	December	Formed Securitization Division aiming to enter real estate securitization business
2002	**August**	Structured first private real estate investment trust fund, the Argo Fund, targeting rental condominiums (commencement of real estate securitization business)
	December	Acquired and merged Kanda Awaji-cho Building Co., Ltd.
2004	**February**	Listed on the JSDA Over-the-Counter Trading Securities Market
	December	Listed on JASDAQ following closure of the JSDA Over-the-Counter Trading Securities Market
2005	**March**	Established the subsidiary Tosei Revival Investment to revive the company and the business
	April	Tosei Fudosan made Tosei Community a consolidated subsidiary, to expand the coverage of the field for real estate business.
	September	Established the subsidiary Tosei REIT Advisors, Inc.

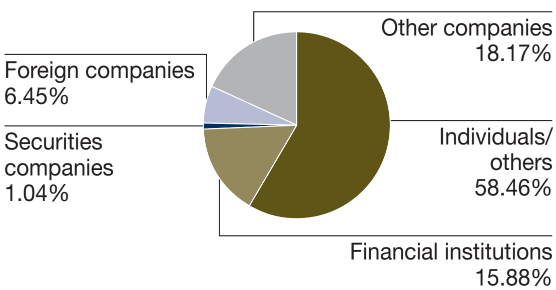
Investor Information

Authorized number of shares 800,000

Issued number of shares 344,858
(As of November 30, 2005)

Number of shareholders 5,582
(As of November 30, 2005)

Shareholder composition



Ticker code 8923

Stock listing JASDAQ Securities Exchange
(Listed company shares on
February 27, 2004)

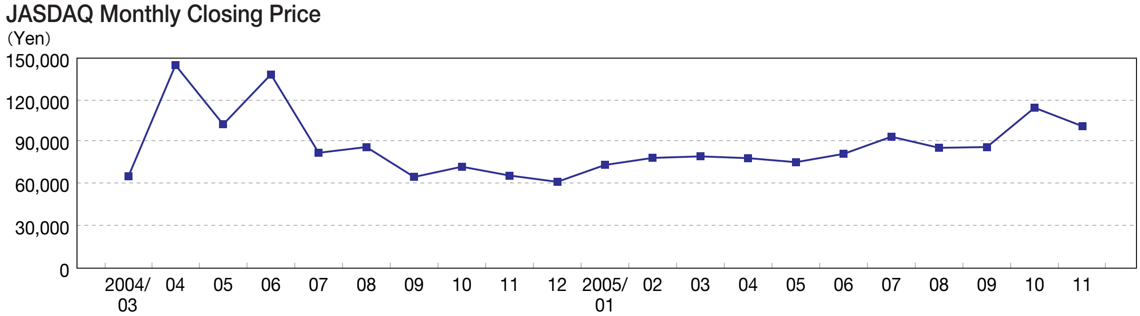
Closing of accounts November

General stockholder meeting Every February

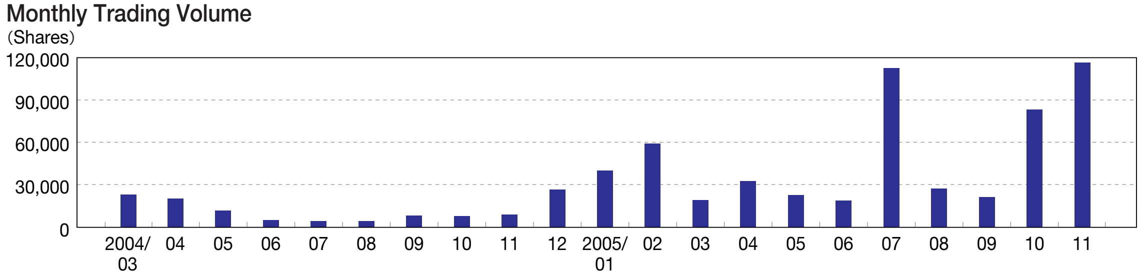
Major Shareholders (As of November 30, 2005)

Shareholders	Number of shares held	Shareholding ratio (%)
Seiichiro Yamaguchi	138,855	40.26
Zeus Capital Limited	60,000	17.40
The Master Trust Bank of Japan, Ltd. (Trust Account)	16,570	4.80
Japan Trustee Service Bank, Ltd. (Trust Account)	13,205	3.83
Morgan Stanley and Company International Limited	9,275	2.68
Nomura Trust and Banking Co., Ltd. (Trust Account)	6,632	1.92
Japan Securities Finance Co., Ltd.	6,028	1.74
Sumitomo Life Insurance Company (Special Account)	3,113	0.90
Trust & Custody Services Bank., Ltd. (Stock Investment Trust Account)	2,904	0.84
Nissin Co., Ltd.	2,000	0.57
Katsuhito Kosuge	2,000	0.57

JASDAQ Monthly Closing Price



Monthly Trading Volume



TOSEI
Corporation

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