Summary of Consolidated Financial Statements for the First Six Months of the Fiscal Year Ending November 30, 2007

July 10, 2007

These financial statements have been prepared for reference only in accordance with accounting principles and practices generally accepted in Japan.

Tosei Corporation
Code number: 8923
Representative: Seiichiro Yamaguchi, President and CEO
Contact: Noboru Hirano, Director and CFO
General Manager of Financial Division
Scheduled date for submission of first-half report: August 31, 2007

Stock exchange listings: Tokyo, Second Section; JASDAQ
http://www.toseicorp.co.jp
Head office location: Tokyo

Phone: +81-3-3435-2864

1. Consolidated Operating Results for the First Six Months of the Year Ending November 30, 2007

(1) Revenues and Income — Note: All amounts are rounded down to the nearest million yen.

	Revenues		Operating income		Ordinary income	
	(¥ million)	Change (%)	(¥ million)	Change (%)	(¥ million)	Change (%)
Six months ended May 31, 2007	22,205	25.1	3,019	(34.3)	2,595	(39.8)
Six months ended May 31, 2006	17,744	36.0	4,591	72.4	4,313	79.0
Year ended November 30, 2006	24,741	—	5,900	—	5,323	—

	Net income		Earnings per share	Earnings per share (diluted)
	(¥ million)	Change (%)	(¥)	(¥)
Six months ended May 31, 2007	1,482	(34.6)	3,932.98	3,932.97
Six months ended May 31, 2006	2,264	79.0	6,263.15	6,251.46
Year ended November 30, 2006	2,737	—	7,412.80	7,405.87

(Reference) Equity in earnings (loss) of affiliates: Six months ended May 31, 2007: ¥— million (Six months ended May 31, 2006: ¥— million, Year ended November 30, 2006: ¥— million)

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Net worth ratio (%)	Book value per share (¥)
As of May 31, 2007	75,732	16,189	21.4	42,961.47
As of May 31, 2006	48,240	14,756	30.6	39,161.76
As of November 30, 2006	60,136	15,229	25.3	40,414.50

(Reference) Net assets: As of May 31, 2007: ¥16,189 million (As of May 31, 2006: ¥14,756 million, As of November 30, 2006: ¥15,229 million)

(3) Cash Flow

	Net cash provided by (used in) operating activities (¥ million)	Net cash provided by (used in) investing activities (¥ million)	Net cash provided by financing activities (¥ million)	Cash and cash equivalents at end of period (¥ million)
Six months ended May 31, 2007	(11,542)	(328)	11,366	5,974
Six months ended May 31, 2006	1,893	343	3,380	8,148
Year ended November 30, 2006	(10,857)	471	14,339	6,484

2. Dividends

	Dividends per share (¥)		
	Interim	Year-end	Full year
Year ended November 30, 2006	—	1,400.00	1,400.00
Year ending November 30, 2007	—	—	2,000.00
Year ending November 30, 2007 (Projected)	—	2,000.00	

3. Projected Results for the Fiscal Year Ending November 30, 2007 (December 1, 2006 – November 30, 2007)

(Percentages represent change compared with the same period of the previous fiscal year)

	Revenues		Operating income		Ordinary income		Net income		Earnings per share
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥)
Year ending November 30, 2007	50,944	106.1	8,618	46.0	7,547	41.8	4,070	48.7	10,800.34

4. Other

(1) Changes in scope of consolidation and application of equity method: No

(2) Changes in accounting rules, procedures, presentation method, etc. for the Consolidated Financial Statements
(a) Changes in consolidated accounting methods: Yes
(b) Changes other than (a) above: No

(3) Number of shares issued and outstanding (common stock)
(a) Number of shares issued and outstanding at end of period (including treasury stock): Six months ended May 31, 2007: 376,840 shares, Six months ended May 31, 2006: 376,818 shares, Year ended November 30, 2006: 376,838 shares
(b) Treasury stock at end of period: Six months ended May 31, 2007: — shares, Six months ended May 31, 2006: — shares, Year ended November 30, 2006: — shares

(Reference) Summary of Nonconsolidated Results

1. Nonconsolidated Results for the First Six Months of the Fiscal Year Ending November 30, 2007

(1) Revenues and Income (Percentages represent change compared with the previous fiscal year.)

	Revenues		Operating income		Ordinary income	
	(¥ million)	Change (%)	(¥ million)	Change (%)	(¥ million)	Change (%)
Six months ended May 31, 2007	15,726	(5.7)	2,704	(37.1)	2,329	(42.4)
Six months ended May 31, 2006	16,684	27.9	4,302	60.9	4,045	67.1
Year ended November 30, 2006	22,572	—	5,630	—	5,151	—

	Net income		Earnings per share
	(¥ million)	Change (%)	(¥)
Six months ended May 31, 2007	1,378	(35.6)	3,658.15
Six months ended May 31, 2006	2,141	67.7	5,921.33
Year ended November 30, 2006	2,697	—	7,306.24

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Net worth ratio (%)	Book value per share (¥)
As of May 31, 2007	67,655	15,950	23.6	42,326.25
As of May 31, 2006	45,371	14,537	32.0	38,578.86
As of November 30, 2006	51,220	15,094	29.5	40,055.23

(Reference) Net assets: As of May 31, 2007: ¥15,950 million (As of May 31, 2006: ¥14,537 million, As of November 30, 2006: ¥15,094 million)

2. Projected Nonconsolidated Results for the Fiscal Year Ending November 30, 2007 (December 1, 2006 – November 30, 2007)

(Percentages represent change compared with the same period of the previous fiscal year)

	Revenues		Operating income		Ordinary income		Net income		Earnings per share
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥)
Year ending November 30, 2007	38,241	69.4	7,927	40.8	7,032	36.5	3,801	40.9	10,086.51

Note: Cautionary Remark Regarding Forward-Looking Statements
The above projections are forward-looking statements based on currently available information, and therefore contain elements of uncertainty. Actual performance may differ from projections due to changes in business results.

See “1. Business Results (1) Analysis of Business Results” on page 4 of the appendix for matters related to these projections.

1. Business Results

(1) Analysis of Business Results

1) Consolidated Results for the First Six Months of the Fiscal Year Ending November 30, 2007

Regarding the Japanese economy during the six months ended May 31, 2007, the Monthly Economic Report of the Cabinet Office issued in May 2007 indicated weakness in production. However, improved corporate earnings supported increased capital investment. Moreover, personal consumption trended upward because of the improved employment environment. Looking forward, the impact of crude oil price movements on the domestic and overseas economies and interest rates are issues that require attention. However, the economic recovery supported by domestic private-sector demand is projected to continue. The Tosei Group is in the real estate industry, which is being influenced by strong demand for housing and office space because of the economic recovery as well as the strong flow of investment capital into the real estate market. According to publicly disclosed land prices as of January 1, 2007, the national average price of real estate rose for the first time in 16 years as prices in Japan’s three major urban areas and in large regional cities rose. This increase resulted because pronounced price gains in certain areas with strong brand cachet and convenience that support solid revenues and earnings lifted the overall average. Prices for less convenient regional real estate that generates comparatively lower revenues and earnings continued to decrease, which has caused regional price differences to widen. Consequently, the current increase in real estate prices is not like the increases during Japan’s bubble economy because rising prices are limited to competitive areas and have a logical basis in the revenues properties can generate.

Looking forward, the price differential among properties is projected to increase. While increased due diligence will be required to determine the relative ability of investment in properties to generate revenues, the flow of investment capital into the real estate market is likely to continue.

The real estate trading market remains active. Three purchaser categories accounted for 88 percent of the average number of properties acquired in fiscal 2006. These were Japanese real estate investment trusts (J-REIT), due to aggressive acquisition of properties among new listed J-REITS, followed by construction and real estate companies, and special purpose corporations (SPC). As a result, the number of real estate transactions during fiscal 2006 increased 16 percent compared with the previous fiscal year, and the value of real estate transactions increased 7 percent compared with the previous fiscal year (source: private-sector survey).

The supply of condominium units for sale in the greater Tokyo area during fiscal 2007 will remain tight until around fall 2007. Suppliers continue to delay sales because of expectations that prices in the 23 wards of Tokyo will rise (source: private-sector survey).

In the market for leased office space in five central business districts of Tokyo, vacancy rates have decreased and stood at 2.72 percent as of April 2007. Market rents at large-scale office buildings in the five central business districts of Tokyo have continued to rise in reflection of the overall leasing market. The average lease rate at new large-scale buildings in the five central business districts of Tokyo as of April 30, 2007 was 19.52 percent higher than a year earlier, and the average lease rate at existing large-scale buildings as 10.98 percent higher than a year earlier (source: private-sector survey).

In the market for securitized real estate, the balance of domestic private funds as of December 31, 2006 was estimated at about ¥8.2 trillion and the balance of J-REITs at about ¥5.4 trillion, for a total of ¥13.6 trillion (source: private-sector survey). With over ¥32.7 trillion in real estate securitized up to 2006, this market continues to grow (source: Ministry of Land, Infrastructure and Transport survey of securitized real estate). The number of J-REITs reached 41 as of May 31, 2007. Competition to acquire properties is intensifying, resulting in a continuing decrease in expected yield from real estate investment. However, the supply of funds remains large.

In the property management market, office building management is estimated to be a ¥4.1 trillion market (source: private-sector survey), and the number of individual condominium units under management is approximately 4.85 million (source: Ministry of Land, Infrastructure and Transport 2005 survey of residential information). Competition is intensifying as market scale grows. While private funds and J-REITs are expanding their real estate holdings, they are putting pressure on property management profitability as they move to defend their yields by consistently working to reduce expenses. Nonetheless, office building management and condominium management are large markets in the 23 wards of Tokyo, and differentiation is progressing through corporate efforts in areas such as providing efficient operations and services, developing technical capabilities, diversifying into related businesses and strengthening property management capabilities.

In the alternative investment market, significantly undervalued properties are hard to find since major financial institutions have disposed of their non-performing loans. However, the M&A and real estate-backed non-performing loan market is still booming. With the price of debt shifting to an upward trend, it is becoming important to possess expertise in adding physical and intangible value in order to secure earnings.

In this operating environment, the Tosei Group formulated its new mission, “to create new value and inspiration in all aspects of real estate as a global-minded group of seasoned professionals.” Aiming to restore the value of real estate, with a focus on the 23 wards of Tokyo, the Group worked to increase its overall corporate value by increasing synergy among its six businesses. These include the four businesses of Tosei Corporation – the revitalization and fund businesses, which are Tosei Corporation’s growth areas, the development business, in which the Company has solid expertise, and the rental business – as well as the Group company businesses of property management, conducted by Tosei Community Co., Ltd., and alternative investment, conducted by Tosei Revival Investment Co., Ltd. As a result of the above, revenues for the six months ended May 31, 2007 increased 25.1 percent compared with the same period of the previous fiscal year to ¥22,205 million, operating income increased 34.3 percent to ¥3,019 million, ordinary income increased 39.8 percent to ¥2,595 million, and net income increased 34.6 percent to ¥1,482 million.

Segment results were as follows.

Revitalization Business

For the six months ended May 31, 2007, segment revenues decreased 7.1 percent compared with the same period of the previous fiscal year to ¥10,996 million, and segment operating income decreased 39.7 percent to ¥1,833 million. Tosei sold 14 properties it had revitalized, including the Tonegi Building (Chiyoda Ward, Tokyo) and the Nishi Shinjuku Sanko Building (Shinjuku Ward, Tokyo).

Development Business

For the six months ended May 31, 2007, segment revenues increased 148.4 percent compared with the same period of the previous fiscal year to ¥8,184 million, and segment operating income increased 54.1 percent to ¥901 million. Tosei sold 140 condominium units at THE Palms Setagaya Sakura (Setagaya Ward, Tokyo), THE Palms Honkomagome (Bunkyo Ward, Tokyo) and THE Palms Yoga (Setagaya Ward, Tokyo), and sold THE Palms Denenchofu (Ota Ward, Tokyo).

Rental Business

For the six months ended May 31, 2007, segment revenues increased 59.2 percent compared with the same period of the previous fiscal year to ¥1,280 million, and segment operating income increased 16.3 percent to ¥526 million. Rental revenues increased steadily because of purchases of real estate for sale, and Tosei maintained high occupancy rates at rental properties included in its portfolio of owned assets.

Fund Business

For the six months ended May 31, 2007, segment revenues decreased 34.9 percent compared with the same period of the previous fiscal year to ¥510 million, and segment operating income decreased 51.2 percent to ¥323 million. Income from sources such as acquisition fees and asset management fees increased as a result of steady growth in assets under management due to purchases of properties by funds for which Tosei provides asset management services.

Property Management Business

For the six months ended May 31, 2007, segment revenues increased 44.4 percent compared with the same period of the previous fiscal year to ¥1,024 million, and segment operating income decreased 21.5 percent to ¥44 million. In the office building management business, changes in building ownership resulted in contract cancellations. As a result of efforts to conclude new contracts, Tosei managed 293 properties as of April 30, 2007, including office buildings and parking lots. In the condominium management business, Tosei managed 138 properties as of April 30, 2007, including one property for which another company is selling the units and 11 new contracts to manage rental condominiums.

Alternative Investment Business

For the six months ended May 31, 2007, segment revenues decreased 34.5 percent compared with the same period of the previous fiscal year to ¥207 million, and segment operating income decreased 52.5 percent to ¥142 million. Tosei provided debtor in possession financing to Tokyo Onsen Co., Ltd., thus completing support for that firm’s fiscal rehabilitation. Segment results for the six months ended May 31, 2007 therefore included income from recovery of doubtful loans and interest income.

2) Outlook for the Fiscal Year Ending November 30, 2008

The Tosei Group’s operating environment includes a number of unstable factors, including high crude oil prices and rising domestic interest rates. However, the fundamentals of Japan’s economy are solid, which will support corporate earnings and improved employment conditions. Economic recovery is therefore projected to continue, centered on domestic demand driven by factors such as personal consumption and capital expenditures. In the real estate investment market, the inversion of urban land prices and competition to purchase properties are intensifying, and concerns about rising sales prices and purchase costs are spreading. However, the securitization of real estate in Japan is low compared with Europe and North America, which provides excellent growth potential. The flow of capital into Japan’s real estate market from a diverse array of domestic and overseas investors is therefore projected to continue.

In this environment, the Tosei Group’s goal is steady growth through a focus on small and medium-sized office buildings, which is a large-scale market with comparatively lower competition. In addition, the Tosei Group will use synergy among its businesses to choose from among a diverse array of financing techniques with realistic exit strategies. The Tosei Group will also accurately meet future market needs by implementing its medium-term management plan with the objective of maximizing corporate value.

The Tosei Group has revised the full-year projections announced with results for the first quarter of the fiscal year ending November 2007. Factors leading to the revision include the decision to change the planned sales period for several buildings in the Development business, and higher sales prices than projected in the Revitalization business.

As a result of the above, for the year ending November 30, 2007 the Tosei Group projects that consolidated revenues will increased 106.1 percent year-on-year to ¥50,994 million, consolidated operating income will increase 46.0 percent year-on-year to ¥8,618 million, consolidated ordinary income will increase 41.8 percent year-on-year to ¥7,547 million, and consolidated net income will increase 48.7 percent year-on-year to ¥4,070 million.

(Millions of yen)

		Revenues	Ordinary income	Net income
Full Year	Current projection	50,994	7,547	4,070
	Previously announced projection	51,527	6,778	3,538

(2) Analysis of Financial Position

1) Assets, Liabilities and Net Assets as of May 31, 2007

Total assets increased ¥27,491 million from a year earlier to ¥75,732 million. Primary factors included an increase in real estate for sale totaling ¥24,372 million and an increase in real estate for sale in progress totaling ¥3,782 million.

Total liabilities increased ¥26,059 million from a year earlier to ¥59,542 million. Primary factors included an increase of ¥19,080 million in long-term debt due within one year and an increase of ¥4,010 million in long-term debt.

Net assets increased ¥1,432 million from a year earlier to ¥16,189 million. Primary factors included an increase of ¥1,427 million in retained earnings

2) Cash Flow for the Six Months Ended May 31, 2007

Cash and cash equivalents as of May 31, 2007 decreased ¥510 million from the end of the previous fiscal year to ¥5,974 million. While income before income taxes and minority interests for the six months ended May 31, 2007 totaled ¥2,605 million, the Tosei Group used cash to support new purchases of properties in the Revitalization and Development businesses.

Cash Flow from Operating Activities

Operating activities used net cash totaling ¥11,542 million. Operating activities provided net cash totaling ¥1,893 million in the same period a year earlier. Primary factors included the use of cash totaling ¥15,688 million for new acquisitions of properties in the Revitalization and Development businesses.

Cash Flow from Investing Activities

Net cash used in investing activities totaled ¥328 million. Investing activities provided net cash totaling ¥343 million in the same period a year earlier. Primary factors included the acquisition of equity in subsidiaries totaling ¥471 million.

Cash Flow from Financing Activities

Net cash provided by financing activities totaled ¥11,366 million, a year-on-year increase of 236.2 percent. Primary factors included an increase in proceeds from long-term debt to fund the new acquisition of properties. On the other hand, the Tosei Group also used proceeds from the sale of properties to repay long-term debt.

Trends in cash flow indicators are as follows.

	Year ended Nov. 30, 2005		Year ended Nov. 30, 2006		Year ending Nov. 30, 2007
	Interim	Full-year	Interim	Full-year	Interim
Net worth ratio (%)	23.0	20.5	30.6	25.3	21.4
Net worth ratio on market value basis (%)	73.4	85.3	82.8	82.7	56.2
Cash current debt coverage ratio (%)	–	–	14.6	–	–
Interest coverage ratio (times)	–	–	7.3	–	–

- Net worth ratio: Net assets/ Total assets
- Net worth ratio on market value basis: Market capitalization/Total assets
- Cash current debt coverage ratio: Interest-bearing debt/Cash flow from operating activities
- Interest coverage ratio: Cash flow from operating activities/Interest expenses

Notes: 1. All indicators are calculated using consolidated financial figures.
2. Market capitalization is calculated by multiplying the number of shares issued and outstanding as of May 30, 2007 by the closing stock price on the same day.
3. The cash current debt coverage ratio employs cash flow from operating activities.
4. Interest-bearing debt includes all debt listed in the consolidated balance sheets on which interest is paid.
5. The cash current debt coverage ratio is not presented as of May 31 or November 30, 2005, November 30, 2006, or November 30, 2007, because operating activities used net cash for the periods ending on those dates.

(3) Fundamental Earnings Distribution Policy

Tosei's fundamental earnings distribution policy is to strive to continuously provide stable dividends while comprehensively considering operating results, the future operating environment and progress in its business plan to balance dividends with the need for internal capital resources to generate long-term growth in corporate value by taking advantage of highly profitable business opportunities.

For the fiscal year ending November 30, 2008, the final year of the Growing Up 2008 medium-term management plan, Tosei aims to achieve a nonconsolidated payout ratio of 20 percent. For the fiscal year ending November 30, 2007 (the 58th Period), Tosei has increased projected cash dividends per share by ¥400 to ¥2,000 from the projection of ¥1,600 announced earlier because Tosei has revised its full-year performance projections.

(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 June 30, 2007. 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

(a) 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 six 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 revenues, and therefore the amount per transaction is large. In addition, because the two businesses book revenues 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 the fourth quarter could cause a considerable change in revenues and income.

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

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

(b) 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 amounts of vacancies due to natural disasters or other events have the potential to affect the Tosei Group's operating results and financial position.

(c) Fund Business

(i) Management Performance of Funds

The fund business, the growth business of the Tosei Group, earns fees as an asset manager by locating real estate properties that match the needs of investors, structuring and managing funds, raising the value of the real estate and then selling it. Therefore, asset management capability plays a role in the performance of the real estate funds, and the Tosei Group has accumulated expertise in both real estate and finance. Even though the real estate funds are strictly investment products predicated on the responsibility of investors, and Tosei makes no warranty and accepts no liability regarding the funds' performance, in the event that rental conditions or other aspects of the real estate properties do not achieve the performance that investors expect, 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.

(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.

(d) 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 costs, but further reductions in unit prices 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, unavoidable 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.

(e) Alternative Investment Business

The alternative investment business, the incubation business of the Tosei Group, primarily purchases real estate-backed non-performing loan (NPL) funds and invests in mergers and acquisitions of real estate-owning companies. However, the inability to acquire real estate-backed NPL funds in a shrinking market for non-performing loans, the failure of mergers and acquisitions 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, 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 procuring funds, the Tosei Group does not rely on any particular financial institution. Rather, the 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.

3. Business Areas

(a) Competitive Conditions

The Tosei Group's primary market is the 23 wards of Tokyo, and the Group invests primarily in 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, acquisition of properties has the potential to become increasingly competitive because of continued brisk activity in real-estate transactions and foreign investors' strong willingness to invest in the 23 wards of Tokyo. The Tosei Group has maintained and enhanced its competitiveness by exercising its advantage of specialization in the Tokyo market. However, if acquisition of properties becomes difficult due to excessive competition, this has the potential to affect the operating results and financial position of the Tosei Group.

(b) 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

(a) Legal Regulations

In addition to the Company Law, which took effect in May 2006, and the Securities and Exchange Law, which was revised in the Financial Instruments and Exchange Law, 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.

Segment Name	Main Legal Regulations
Revitalization Business Development Business Rental Business	･Real Estate Transaction Business Law ･National Land Use Plan Law ･City Planning Law ･Building Standard Law ･Construction Business Law ･Architect Law ･Housing Quality Assurance Law
Fund Business Alternative Investment Business	･Investment Trust and Investment Corporation Law (amended Investment Trust Law) ･Real Estate Specific Joint Enterprise Law ･Trust Business Law ･Law on Securitization of Assets ･Real Estate Investment Advisory Business Registration Rules ･Law Concerning the Regulation, etc., of an Investment Advisory Business Relating to Securities ･Intermediate Corporation Law
Property Management Business	･Law Concerning Proper Condominium Management ･Law Concerning Assurance of Sanitary Environments in Buildings ･Security Service Law ･Fire Service Law

(b) Licenses and Permits, Etc.

The Tosei Group's businesses have obtained the following related permits in accordance with the laws listed above. The operating results and financial position of the Tosei Group could be affected if revision of laws or other issues impede ongoing operations in businesses relevant to these licenses.

Moreover, while the Tosei Group has not operated in a manner that could result in the revocation of licenses or permits or the suspension of business operations, the operating results and financial position of the Tosei Group could be affected in the event that cause for such revocation or suspension arises.

(i) Revitalization Business, Development Business, Rental Business and Fund Business

Name of License or Permit	Authority	Expiration	Content of License or Permit
Real Estate Business License	Governor of Tokyo	March 23, 2012	Tokyo Governor's License (11) No. 24043
General Real Estate Investment Advisory Business Registration	Minister of Land, Infrastructure and Transport	February 28, 2011	General－000127
First Class Architect's Office License	Governor of Tokyo	April 10, 2011	Tokyo Governor's Registration (No. 46219)
Specified Construction Business License	Governor of Tokyo	December 9, 2007	Tokyo Governor's License (Special－14) No. 107905
Real Estate Specific Joint Enterprise Permit	Governor of Tokyo		Tokyo Governor, No. 58
Securities Investment Advisory Business Registration	Kanto Financial Bureau		Kanto Financial Bureau Chief, No. 1324
Registered Dealer of Investment Trust Beneficiary Rights	Kanto Financial Bureau	June 1, 2008	Kanto Financial Bureau Chief (trust sales) No. 164

(ii) Property Management Business

Name of License or Permit	Authority	Expiration	Content of License or Permit
Condominium Management Business	Minister of Land, Infrastructure and Transport	May 21, 2012	Minister of Land, Infrastructure and Transport (2) No. 030488
Real Estate Business License	Governor of Tokyo	September 28, 2011	Tokyo Governor's License (2) No. 80048
First-Class Architect's Office License	Governor of Tokyo	January 14, 2009	Tokyo Governor's Registration (No. 49526)
Building Environmental Health General Management Company	Governor of Tokyo	September 25, 2007	Tokyo　Section 13, No. 6560
General Building License	Governor of Tokyo	March 10, 2008	Tokyo Governor's License (General－14) No. 119534
Security Service License	Tokyo Public Safety Commissioner	October 4, 2011	Security Service Law Authorization No. 30002591

(iii) Alternative Investment Business

Name of License or Permit	Authority	Expiration	Content of License or Permit
General Real Estate Investment Advisory Business Registration	Minister of Land, Infrastructure and Transport	February 28, 2011	General－000127
Real Estate Specific Joint Enterprise Permit	Governor of Tokyo		Tokyo Governor, No. 58
Securities Investment Advisory Business Registration	Kanto Financial Bureau		Kanto Financial Bureau Chief, No. 1324
Registered Dealer of Investment Trust Beneficiary Rights	Kanto Financial Bureau	June 1, 2008	Kanto Financial Bureau Chief (trust sales) No. 164

(c) 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 Tosei's *Tokumei Kumiai* (private equity) investment ratio and the extent of its control over the fund. Accounting rules at affiliated institutions are being discussed, but there is a possibility that interpretations of consolidation may differ from prior interpretations, and changes in accounting methods causing 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 Real Estate Transaction Business Law, 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 Law, real estate businesses are obligated to provide a 10-year warranty on the main structural components of the building for new properties. 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 Architect 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. Medium-Term Management Plan

The Tosei Group is working diligently to meet the targets of its medium-term management plan, GROWING UP 2008, which covers the period from December 1, 2005 to November 30, 2008. The plan includes fixed numerical targets, and the Group regularly checks progress while working to reach these targets, which were set on the basis of information gathering and analysis believed to be proper when the plan was established. However, the Group may not be able to gather all necessary information, or may be unable to reach the targets due to changes in the business environment or various other factors.

8. Structural Design Data Falsification Scandal

In August 2006, the report on "Building Administration Recommendations for Safety Assurance of Buildings" was submitted to the Minister of Land, Infrastructure and Transport by the Panel on Infrastructure Development. The report included the current status of the registered architect system and the building administration enforcement system and basic thinking for reform of these systems, and indicated measures to be taken to ensure building safety.

Prior to the scandal revealed in November 2005 involving falsification of structural data by the Aneha Architectural Design Office (established in May 1990), Tosei had set up an Architect Planning Department staffed by six first-class architects to perform work related to quality assurance in design and construction.

In condominium development in the Development business, the Tosei Group has established its own quality management system, Palms Quality Check (PQC), which has received ISO 9001 certification. In the PQC system, design drawings are checked against a standard spec sheet, and major elements (including those that cannot be checked after completion, such as building placement, foundation reinforcement bars and upper-floor reinforcement bars) are inspected by supervisors and a 14-point checklist is used to check reports of the inspections done by supervisors at each site. Through measures such as these, the Tosei Group promotes thorough quality assurance.

In addition, surveys were performed on all properties developed by the Tosei Group since May 1999 (when the revised Building Standards Law permitting construction verification inspections by private inspection organizations went into effect) to determine possible involvement of the Aneha Architectural Design Office in the structural design data, and confirmed that there was no connection.

The falsification scandal resulted in widespread distrust of designated inspection institutions. In addition, among the Tosei Group's properties, nine had building certifications from e-Homes, and one was certified by Japan ERI Co., Ltd. Therefore, the Tosei Group requested an architectural design firm other than the firms that handled the design of the buildings to re-check the structural design data for all of its condominium complexes that have received architectural checks since May 1999 by either public or private inspection institutions. This firm reported that as a result of its examination of structural design data for all the properties for possible falsification, in its judgment, no serious falsification was done. Subsequently, Tosei has continued to perform the same type of re-checks for building certifications its has received for condominiums.

Tosei will undergo examinations by the designated architectural inspection institution announced in May 2007. Looking forward, the implications of these examinations include a longer period prior to the start of construction. Costs are likely to rise as a result, which has the potential to affect the Group's operating results and financial position.

9. Personal Information Protection

In its businesses, the Tosei Group holds the personal information of many customers, including property buyers, building owners and tenants. The volume of personal information the Group holds is expected to increase along with future business expansion. In line with the Personal Information Protection Law, the Group has strengthened its information management system and takes thorough measures to manage personal information. However, the release or leak of personal 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 has the potential to affect the Group's operating results and financial position.

10. 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 buildings are demolished because their structural design data has not been saved or they contain asbestos, or due to soil improvement or other measures. Such suspension of business has the potential to affect the operating results and financial position of the Tosei Group.

2. Overview of the Tosei Group

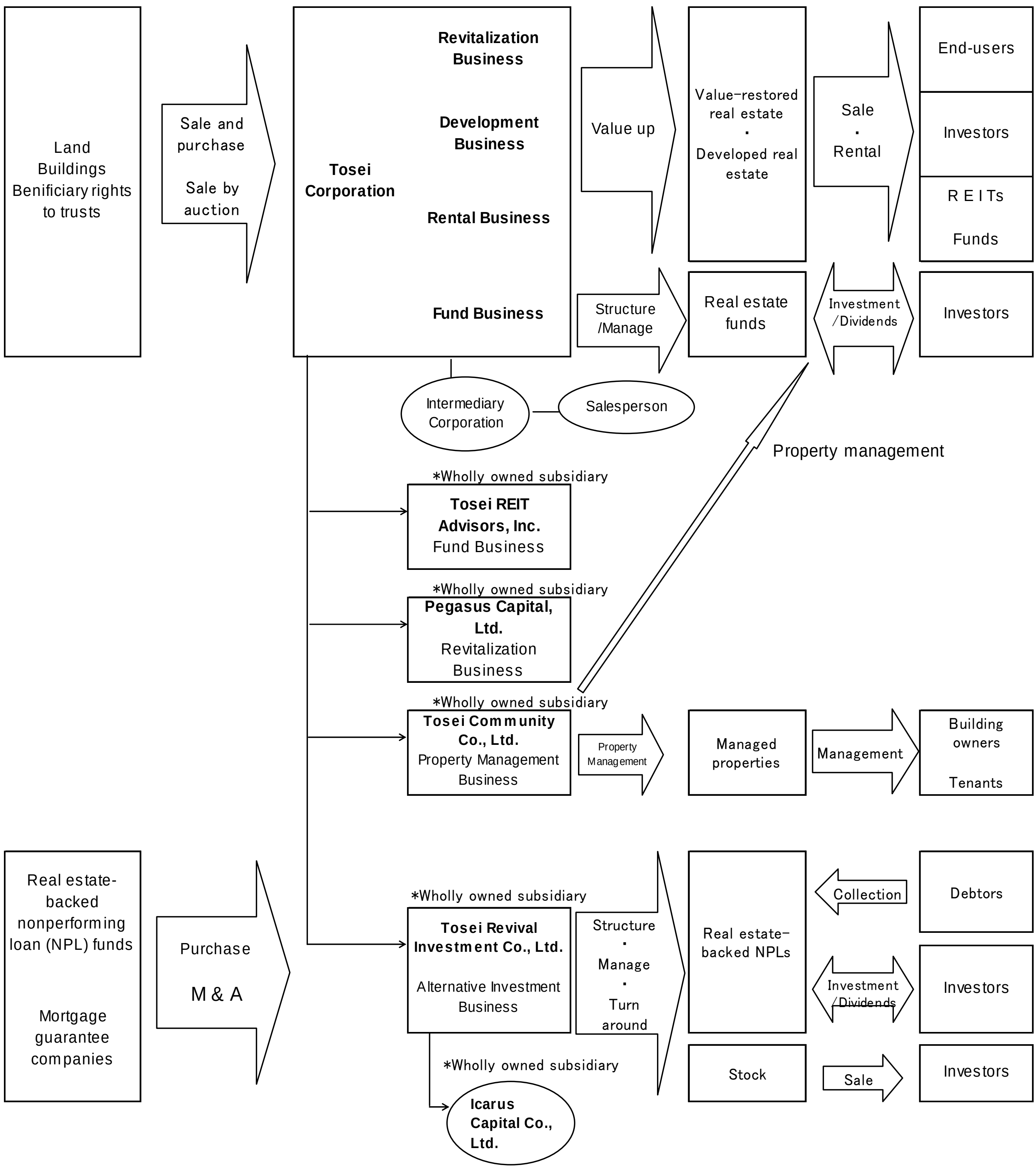
The Tosei Group is composed of Tosei Corporation ("Tosei" or the "Company") and 13 subsidiaries. Its main businesses are the revitalization business, the development business, the rental business, the fund business, the property management business, and the alternative investment business.

The operations of each business segment and the main affiliates and other companies conducting those operations are as follows.

Segment	Operations	Main Companies
Revitalization Business	Tosei acquires properties whose asset value has declined, increases their value through "value-up plans" that best match local characteristics and user needs, and resells them to investors, individual end-users and corporations as revitalized real estate. "Value-up plans" include increasing the physical value of the property itself in ways such as improving utilities and upgrading IT, communications and other infrastructure. They also encompass intangible improvements that increase the profitability of the property and satisfaction of the owner or user, such as increasing the occupancy rate through leasing, improving the aesthetic design and resolving legal issues. Tosei's "value up plans" take cost performance into account, based on multi-faceted studies. "Value up" activities do not end with renewal. Tosei works to comprehensively restore property value by focusing on providing property owners with satisfaction and end-users with pride in addition to improving convenience and functionality.	Tosei Corporation Pegasus Capital, Ltd.
Development Business	Tosei decides on development plans for land it has purchased in order to develop office buildings and commercial facilities, and to construct new condominiums and residential dwellings, for sale to investors, real estate funds and end-users. It mainly provides condominiums and single family dwellings for end-users and revenue-producing properties for investors and real estate funds. Realizing that the foremost need of investors and end-users is convenience, the Company selects land largely in the 23 wards of Tokyo. With THE Palms Series condominiums, which are designed for individual sale to end-users, the intention was to develop a product that reconciles 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. Likewise, the Company's THE Palms Court Series of urban style single family dwellings offers original plans and high quality.	Tosei Corporation
Rental Business	As of May 31, 2007, the Tosei Group owns 65 office buildings, condominium complexes and other properties primarily in the 23 wards of Tokyo, which it rents to end-users as office, residential and commercial space, and for parking. As a landlord, the Tosei Group can quickly gather accurate information on tenant needs, which contributes to further enhancing "value up plans" to reflect those needs and improving asset management capabilities in the Fund Business.	Tosei Corporation, Tosei Community Co., Ltd. Pegasus Capital, Ltd.
Fund Business	The Tosei Group makes *Tokumei Kumiai* (private equity) investments in its own funds and those structured by third parties on behalf of various investors, and primarily manages funds by purchasing revenue-producing properties. It restores the value of properties purchased by funds on both tangible and intangible levels through renewal, rent	Tosei Corporation, Tosei REIT Advisors, Inc.

	revision, lease-up and other means. In addition, the Company acquires fee income by managing fund assets and receives dividends on *Tokumei Kumiai* (private equity) investments.	
Property Management Business	Tosei Community Co., Ltd. conducts comprehensive property management to meet a variety of real estate needs, including administration, facility management, cleaning and security for condominium complexes and office buildings and facilities, specialized building and utilities repair work for units in condominiums complexes and office buildings, and office interior renovation contracting. 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. Tosei Community maintains the asset value of aging office buildings with accurate maintenance plans offering meticulous services that rationalize building owner management, such as maintenance engineering and management of utilities, water supply and drainage sanitation and cleaning. As of April 30, 2007, Tosei Community manages a total of 431 properties.	Tosei Community Co., Ltd.
Alternative Investment Business	This business primarily involves investing in real estate-backed nonperforming loan (NPL) funds and the stock of mortgage guarantee companies and other companies associated with real estate through mergers and acquisitions. It also acquires fee income by structuring funds for such investments, and by offering related asset management and advisory services. For the medium term, the Tosei Group will make use of its accumulated know-how in the fund business, mergers and acquisitions through leveraged buy-outs and other areas to provide turnaround assistance to poorly performing businesses by holding non-performing loans and devalued assets.	Tosei Revival Investment Co., Ltd.,

A schematic diagram of the businesses of the Tosei Group is shown below.



3. Management Policies

(1) Basic Management Policy

The Tosei Group's mission is to create new value and inspiration in all aspects of real estate as a global-minded group of seasoned professionals. With constant commitment to quality construction, the Group 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 by integrating real estate and finance in its six businesses: revitalization, development, rental, funds, property management and alternative investment.

(2) Performance Targets and Medium-to-Long-Term Management Strategies

The Tosei Group is committed to meeting the targets of GROWING UP 2008, its medium-term management plan for the period December 1, 2005 to November 30, 2008. Under a fundamental policy that enhancing corporate value requires both increased earnings and improvements in management quality, this plan is aimed at strengthening the Group's business base and building a foundation for further growth by doubling the scale of business in terms of revenues and income and establishing its corporate brand.

The Tosei Group has revised numerical targets announced as of November 30, 2006 because it has steadily exceeded its initial targets for consolidated revenues and consolidated ordinary income set for the six months ended May 31, 2007.

Performance Targets for the Year Ending Nov. 30, 2008

	Six Months Ended May 31, 2007	Year Ending Nov. 30, 2007	Year Ending Nov. 30, 2008
Consolidated revenues	¥22.2 billion	¥51.5 billion	¥54.0 billion
Consolidated ordinary income	2.5 billion	¥6.7 billion	¥7.7 billion
Ordinary income ratio	11.7%	13.2%	14.3%
Net worth ratio	21.4%	23.3%	26.3%
Return on equity（ROE）	9.4%	21.2%	21.2%
Return on total assets (ROA)	2.2%	5.1%	5.3%
Fund asset balance [Portion expected from J-REIT]	¥63.4 billion —	¥115.8 billion [¥39.8 billion]	¥165.8 billion [¥59.8 billion]

Notes:
1. The targets for the year ending November 30, 2007 listed above are based on the targets contained in the medium-term management plan and differ from Tosei's most recently announced performance objectives.
2. Numerical targets are forward-looking statements based on currently available information, and therefore contain elements of uncertainty. Actual performance may differ from targets due to changes in business results.

(3) Tasks to Be Addressed

The Tosei Group is addressing the following tasks to double the scale of business and establish the corporate brand, two main themes of the medium-term management plan.

I. Tasks to Double the Scale of Business

(a) Increase Property Purchases to Expand Existing Business

In the 23 wards of Tokyo, Tosei Group's business area, competition is intensifying to acquire land, used office buildings, rental condominiums and other properties. The Tosei Group will work to strengthen its purchasing capabilities by accelerating decision-making through personnel enhancement to further strengthen its existing purchasing information network, swift response to information received and management and use of a database including examples of actual transactions.

(b) Provide High-Value-Added and Distinctive Products by Enhancing Development and "Value Up" Capabilities

Prices are rising as property purchasing intensifies. Providing end-users and investors with products that meet their needs will therefore become important for securing adequate income. The Tosei Group combines capabilities in developing family- to singles-oriented condominiums, office buildings, commercial buildings and single family dwellings with the "value up" capabilities of renovation, renewal, conversion, and improving the design and profitability of older properties. The Group will provide appealing products by further increasing these capabilities to determine optimal use and investment efficiency on an individual property basis.

(c) Expand the Fund Business

As of December 31, 2006, the total asset balance of real estate funds in Japan, including J-REITs, was estimated to have reached ¥13.6 trillion. As of May 31, 2007, a total of 41 J-REITs had been listed, and the domestic market for securitized real estate is expected to grow, even compared to markets in Europe and North America. By expanding both real estate investment on its own account (on-balance) and investment of third-party capital (off-balance, or fee business), the Tosei Group will increase opportunities for real estate transactions (including development, “value up,” holdings management, asset management and property management) while expanding its business in areas that integrate real estate and finance.

(d) Achieve Stable Procurement of Capital

Among the various businesses that the Tosei Group conducts, revitalization, development and alternative investment require large amounts of capital for real estate, real-estate-backed NPLs and other purchases. The Group also makes long-term investments in the rental business. To promote and expand these businesses, the Group must use interest-bearing debt aggressively but stably. The Group will work to provide timely financing by shifting to fixed interest rates, using commitment contracts and other means that meet particular capital needs.

II. Tasks to Establish the Corporate Brand

(a) Enhance Corporate Governance

The Tosei Group is committed to maintaining its social significance by establishing a corporate brand that offers shareholders, employees, customers and all other stakeholders a combination of “innovation and challenge” and “security and reliability.” To achieve this, the Group considers enhancing corporate governance most important. It especially focuses on the three main areas of instilling awareness of compliance, strengthening risk management and practicing timely disclosure. The entire Group, from top management to Group employees, will work to strengthen its organizational structure toward establishing an internal control system, as called for in the Company Law and the Financial Instruments and Exchange Law.

(b) Secure and Train Capable Personnel

Human resources sustain the Tosei Group’s organization and drive the further growth and development of its businesses. As such, securing and training capable personnel to expand the organization is considered an extremely important task. In the past, the majority of recruits have been mid-career hires, but the Group intends to strengthen hiring of university graduates, who will be given experience in a wide range of tasks in order to become the Group’s future workforce.

(4) Other Important Management Matters

None

Consolidated Financial Statements, Etc.

(1) Consolidated Balance Sheets

(Thousands of yen, rounded down to the nearest thousand)

	As of May 31, 2007		As of May 31, 2006		Year-on-year change	As of November 30, 2006	
ASSETS							
I Current assets							
1. Cash	6,005,730		8,307,829			6,644,037	
2. Notes and accounts receivable	296,316		210,954			266,028	
3. Marketable securities	10,000		10,000			10,000	
4. Real estate for sale	35,661,138		11,288,610			20,777,754	
5. Real estate for sale in progress	21,051,334		17,268,740			19,263,618	
6. Purchased receivables	761,709		1,655,050			1,985,231	
7. Supplies	2,275		1,401			993	
8. Other	3,293,370		2,036,197			2,448,426	
Allowance for doubtful accounts	(11,286)		(7,207)			(11,989)	
Total current assets	67,070,589	88.6	40,771,578	84.5	26,299,011	51,384,100	85.4
II Fixed assets							
1. Tangible fixed assets							
(1) Buildings and structures	2,112,684		1,696,115			2,128,761	
(2) Tools and furniture	71,434		36,383			55,925	
(3) Land	5,905,971		4,906,089			5,905,971	
(4) Construction in progress	6,136		—			—	
Total tangible fixed assets	8,096,227	10.7	6,638,588	13.8	1,457,639	8,090,658	13.5
2. Intangible fixed assets							
(1) Software	73,198		43,365			61,173	
(2) Telephone rights	1,889		2,275			1,889	
Total intangible fixed assets	75,087	0.1	45,640	0.1	29,446	63,062	0.1
3. Investments and other assets							
(1) Investment in securities	114,143		488,749			261,905	
(2) Other	376,190		293,218			336,740	
Allowance for doubtful accounts	(14)		(798)			(15)	
Total investments and other assets	490,319	0.6	781,168	1.6	(290,848)	598,630	1.0
Total fixed assets	8,661,635	11.4	7,465,397	15.5	1,196,237	8,752,351	14.6
III Deferred assets							
1. Bond issue cost	—		3,257			—	
Total deferred assets	—	—	3,257	0.0	(3,257)	—	—
Total assets	75,732,224	100.0	48,240,233	100.0	27,491,991	60,136,451	100.0

(Thousands of yen, rounded down to the nearest thousand)

	As of May 31, 2007		As of May 31, 2006		Year-on year change	As of November 30, 2006	
LIABILITIES							
I Current liabilities							
1. Notes and accounts payable	3,149,779		984,914			1,181,405	
2. Short-term borrowings	1,455,000		1,199,170			910,000	
3. Bonds due within one year	24,000		194,000			24,000	
4. Long-term debt due within one year	27,573,956		8,493,638			12,975,196	
5. Advance received	28,070		754,872			624,617	
6. Accrued bonuses to employees	23,501		34,484			10,390	
7. Other	2,871,606		2,897,234			2,906,482	
Total current liabilities	35,125,913	46.4	14,558,315	30.2	20,567,598	18,632,091	31.0
II Long-term liabilities							
1. Bonds	286,000		310,000			298,000	
2. Long-term debt	21,403,561		17,393,397			24,340,039	
3. Accrued severance costs	39,962		32,055			34,727	
4. Accrued retirement benefits to officers	207,458		172,696			190,778	
5. Consolidation adjustment	—		4,913			4,299	
6. Goodwill	10,393		—			—	
7. Other	2,469,334		1,012,002			1,406,794	
Total long-term liabilities	24,416,709	32.2	18,925,063	39.2	5,491,645	26,274,639	43.7
Total liabilities	59,542,623	78.6	33,483,379	69.4	26,059,244	44,906,730	74.7
NET ASSETS							
I Shareholders' equity							
1. Common stock	4,148,020	5.5	4,147,926	8.6	93	4,148,011	6.9
2. Additional paid-in capital	4,231,495	5.6	4,231,402	8.8	93	4,231,487	7.0
3. Retained earnings	7,796,239	10.3	6,369,014	13.2	1,427,225	6,841,289	11.4
Total shareholders' equity	16,175,755	21.4	14,748,343	30.6	1,427,412	15,220,788	25.3
II Valuation, foreign currency and other adjustments							
1. Unrealized gain on securities	13,846	0.0	8,511	0.0	5,334	8,932	0.0
Total valuation, foreign currency and other adjustments	13,846	0.0	8,511	0.0	5,334	8,932	0.0
Total net assets	16,189,601	21.4	14,756,854	30.6	1,432,746	15,229,720	25.3
Total liabilities and total net assets	75,732,224	100.0	48,240,233	100.0	27,491,991	60,136,451	100.0

(2) Consolidated Statements of Operations

(Thousands of yen, rounded down to the nearest thousand)

	Six months ended May 31, 2007		Six months ended May 31, 2006		Year-on-year change	Year ended November 30, 2006	
I. Revenues	22,205,294	100.0	17,744,746	100.0	4,460,547	24,741,635	100.0
II. Cost of revenues	17,784,846	80.1	12,170,173	68.6	5,614,672	16,584,152	67.0
Gross profit	4,420,447	19.9	5,574,572	31.4	(1,154,124)	8,157,483	33.0
Selling, general and administrative expenses	1,401,354	6.3	982,752	5.5	418,602	2,256,495	9.1
Operating income	3,019,093	13.6	4,591,820	25.9	(1,572,727)	5,900,987	23.9
IV. Non-operating income							
1. Interest income	4,206		130			814	
2. Dividend income	1,398		160			605	
3. Amortization of consolidation adjustment	—		614			1,228	
4. Amortization of negative goodwill	1,359		—			—	
5. Refund of earnest money at cancellation	—		55,000			100,000	
6. Refund of consumption tax	13,600		—			—	
7. Gain on adjustment of debts	9,593		—			—	
8. Miscellaneous income	11,655		4,569			7,241	
Total non-operating income	41,813	0.2	60,475	0.3	(18,661)	109,890	0.4
V. Non-operating expenses							
1. Interest expense	448,074		263,338			590,213	
2. Interest on bonds	2,250		2,657			4,893	
3. New share issuance expense	—		32,984			—	
4. Share transfer expense	—		—			33,858	
5. Amortization of bond issuance expense	—		3,257			6,514	
6. Commissions paid	—		35,728			35,728	
7. Miscellaneous expenses	14,704		1,220			15,797	
Total non-operating expenses	465,029	2.1	339,186	1.9	125,842	687,005	2.8
Ordinary income	2,595,878	11.7	4,313,109	24.3	(1,717,231)	5,323,872	21.5
VI. Extraordinary gains							
1. Gain on reversal of allowance for doubtful	—		63			31	
2. Gain on sale of investment securities	11,040		—			1,561	
3. Refund at contract cancellation	4,814		—			—	
Total extraordinary gains	15,854	0.0	63	0.0	15,790	1,593	0.0
VII. Extraordinary losses							
1. Loss on retirement of fixed assets	1,831		—			25,483	
2. Loss on sale of equity investments	3,630		—			—	
3. Other	—		—			2,730	
Total extraordinary losses	5,461	0.0	—	—	5,461	28,213	0.1
Income before income taxes and *Tokumei Kumiai* investment expense	2,606,270	11.7	4,313,172	24.3	(1,706,902)	5,297,252	21.4
Tokumei Kumiai investment expense	345	0.0	(58)	(0.0)	403	(107)	(0.0)
Income before income taxes	2,605,924	11.7	4,313,230	24.3	(1,707,305)	5,297,360	21.4
Income taxes	1,297,771		2,143,675			2,657,701	
Deferred income taxes	(173,946)		(95,280)			(97,452)	
Total income taxes	1,123,824	5.0	2,048,394	11.5	(924,569)	2,560,248	10.3
Net income	1,482,099	6.7	2,264,836	12.8	(782,736)	2,737,111	11.1

(3) Consolidated Statements of Retained Earnings and Consolidated Statements of Changes in Shareholders' Equity, etc.

Six months ended May 31, 2006 (Thousands of yen, rounded down to the nearest thousand)

	Shareholders' equity				Valuation, foreign currency and other adjustments		Total net assets
	Common stock	Additional paid-in capital	Retained earnings	Total shareholders' equity	Unrealized gain on securities	Total valuation, foreign currency and other adjustments	
Balance at November 30, 2005	1,966,096	2,049,572	4,270,144	8,285,813	7,783	7,783	8,293,597
Changes during the six months ended May 31, 2006							
Issuance of new shares	2,181,830	2,181,830		4,363,660			4,363,660
Dividends from retained earnings			(155,186)	(155,186)			(155,186)
Bonuses to officers from retained earnings			(10,780)	(10,780)			(10,780)
Net income			2,264,836	2,264,836			2,264,836
Change in items other than shareholders' equity during the six months ended May 31, 2006 (net)					727	727	727
Total changes during the six months ended May 31, 2006	2,181,830	2,181,830	2,098,870	6,462,530	727	727	6,463,257
Balance at May 31, 2006	4,147,926	4,231,402	6,369,014	14,748,343	8,511	8,511	14,756,854

Six months ended May 31, 2007 (Thousands of yen, rounded down to the nearest thousand)

	Shareholders' equity				Valuation, foreign currency and other adjustments		Total net assets
	Common stock	Additional paid-in capital	Retained earnings	Total shareholders' equity	Unrealized gain on securities	Total valuation, foreign currency and other adjustments	
Balance at November 30, 2006	4,148,011	4,231,487	6,841,289	15,220,788	8,932	8,932	15,229,720
Changes during the six months ended May 31, 2007							
Issuance of new shares	8	8		17			17
Dividends from retained earnings			(527,573)	(527,573)			(527,573)
Increase due to decrease in consolidated subsidiaries			423	423			423
Net income			1,482,099	1,482,099			1,482,099
Change in items other than shareholders' equity during the six months ended May 31, 2007 (net)					4,913	4,913	4,913
Total changes during the six months ended May 31, 2007	8	8	954,949	954,966	4,913	4,913	959,880
Balance at May 31, 2007	4,148,020	4,231,495	7,796,239	16,175,755	13,846	13,846	16,189,601

Year ended November 30, 2006 (Thousands of yen, rounded down to the nearest thousand)

	Shareholders' equity				Valuation, foreign currency and other adjustments		Total net assets
	Common stock	Additional paid-in capital	Retained earnings	Total shareholders' equity	Unrealized gain on securities	Total valuation, foreign currency and other adjustments	
Balance at November 30, 2005	1,966,096	2,049,572	4,270,144	8,285,813	7,783	7,783	8,293,597
Changes during the year							
Issuance of new shares	2,181,915	2,181,915		4,363,830			4,363,830
Dividends from retained earnings			(155,186)	(155,186)			(155,186)
Bonuses to officers from retained earnings			(10,780)	(10,780)			(10,780)
Net income			2,737,111	2,737,111			2,737,111
Change in items other than shareholders' equity during the year (net)					1,148	1,148	1,148
Total changes during the year	2,181,915	2,181,915	2,571,145	6,934,975	1,148	1,148	6,936,123
Balance at November 30, 2006	4,148,011	4,231,487	6,841,289	15,220,788	8,932	8,932	15,229,720

(4) Consolidated Statements of Cash Flow

(Thousands of yen, rounded down to the nearest thousand)

	Six months ended May 31, 2007	Six months ended May 31, 2006	Year-on-year change	Year ended Nov. 30, 2006
I Cash flow from operating activities				
Income before income taxes	2,605,924	4,313,230		5,297,360
Depreciation	173,486	95,307		207,170
Amortization of consolidation adjustment	—	(614)		(1,228)
Amortization of negative goodwill	(1,359)	—		—
Increase in allowances	14,309	49,472		70,585
Interest and dividend income	(5,605)	(291)		(1,419)
Interest expenses and interest on bonds	450,324	265,995		595,106
Tokumei Kumiai (private equity) investments	11,664	(34,122)		(87,131)
Increase in notes and accounts receivable	(30,288)	(63,740)		(118,815)
Increase in purchased receivables	1,223,522	67,902		(262,278)
Increase in inventories	(15,688,423)	(2,021,986)		(14,980,728)
Increase in advance payment	839,904	(621,330)		(474,530)
Increase (decrease) in notes and accounts payable	1,968,374	613,123		809,614
Increase (decrease) in advance received	(596,547)	371,530		241,275
Increase in deposits received	1,063,678	(177,965)		216,586
Other	(1,363,159)	328,714		(17,943)
Sub-total	(9,334,193)	3,185,227	(12,519,420)	(8,506,375)
Receipts of interest and dividends	35,441	6,219		23,236
Payments of interest	(444,618)	(260,470)		(618,383)
Payments of income taxes	(1,799,414)	(1,037,791)		(1,755,790)
Net cash used in operating activities	(11,542,784)	1,893,184	(13,435,968)	(10,857,313)
II Cash flow from investing activities				
Decrease in time deposits	127,762	(19,400)		(19,408)
Purchases of property and equipment	(60,270)	(14,218)		(89,566)
Purchases of intangible assets	(17,311)	(17,117)		(39,053)
Investments in securities	(51,000)	(3,000)		(6,000)
Sales of investments in securities	21,240	—		4,962
Collection of investments in securities	161,347	447,517		711,941
Acquisition of equity in subsidiaries	(471,229)	—		—
Other	(38,742)	(50,151)		(90,939)
Net cash provided by (used in) investing activities	(328,204)	343,629	(671,833)	471,935
III Cash flow from financing activities				
Net increase (decrease) in short-term borrowings	496,646	(3,190,830)		(3,480,000)
Proceeds from long-term debt	25,781,200	10,720,000		25,482,000
Repayments of long-term debt	(14,375,622)	(8,311,668)		(11,645,468)
Redemption of bonds	(12,000)	(12,000)		(194,000)
Proceeds from new stock issue	17	4,330,675		4,329,971
Cash dividends paid	(523,917)	(155,186)		(153,121)
Net cash provided by financing activities	11,366,323	3,380,991	7,985,331	14,339,382
IV Net increase in cash and cash equivalents	(504,665)	5,617,804	(6,122,470)	3,954,004
V Cash and cash equivalents at beginning of the year	6,484,856	2,530,851	3,954,004	2,530,851
VI Cash and cash equivalents of subsidiaries removed from consolidation	(5,878)	—	(5,878)	—
VII Cash and cash equivalents at end of year	5,974,312	8,148,656	(2,174,344)	6,484,856

Segment Information

1. Business Segment Information

(December 1, 2005 – May 31, 2006)

(¥ thousand)

	Revitalization Business	Development Business	Rental Business	Fund Business	Property Management Business	Alternative Investment Business	Total	Eliminations and Corporate	Consolidated
Revenues									
(1) Revenue from outside customers	11,834,042	3,295,276	804,503	784,280	709,640	317,003	17,744,746	—	17,744,746
(2) Intersegment sales and transfers	—	—	—	—	92,363	—	92,363	(92,363)	—
Total	11,834,042	3,295,276	804,503	784,280	802,003	317,003	17,837,110	(92,363)	17,744,746
Operating expenses	8,792,117	2,710,234	351,736	121,204	745,597	17,827	12,738,718	414,206	13,152,925
Operating income	3,041,924	585,041	452,767	663,075	56,406	299,175	5,098,391	(506,570)	4,591,820

Notes:
1. Method of Business Classification
   Businesses are based on the classifications used by internal management.
2. Principal Businesses of Each Segment

Segment	Principal Business
Revitalization Business	Supply of revitalized real estate to corporations, real estate funds and individuals for the purpose of investment or asset management
Development Business	Construction and supply of condominiums and detached housing to real estate funds and individuals through scrap and build activities
Rental Business	Rental of offices and condominiums to end users
Fund Business	Structuring and management of original funds, consulting and property mediation
Property Management Business	Maintenance management and operational management of office buildings, condominiums, etc.
Alternative Investment Business	Investment in real estate-backed non-performing loan funds and real estate-owning companies, and structuring of and consulting for these funds

3. Unallocatable operating expenses included in Eliminations and Corporate were ¥505,354 thousand, and mainly consisted of expenses related to the general and administrative divisions of the reporting companies.

(December 1, 2006 – May 31, 2007)

(¥ thousand)

	Revitalization Business	Development Business	Rental Business	Fund Business	Property Management Business	Alternative Investment Business	Total	Eliminations and Corporate	Consolidated
Revenues (1) Revenue from outside customers	10,996,662	8,184,907	1,280,371	510,752	1,024,963	207,635	22,205,294	—	22,205,294
(2) Intersegment sales and transfers	—	—	16,766	11,662	204,657	—	233,086	(233,086)	—
Total	10,996,662	8,184,907	1,297,138	522,415	1,229,621	207,635	22,438,380	(233,086)	22,205,294
Operating expenses	9,163,135	7,283,463	770,505	198,675	1,185,351	65,538	18,666,670	519,530	19,186,200
Operating income	1,833,527	901,443	526,632	323,739	44,269	142,097	3,771,710	(752,617)	3,019,093

Notes: 1. Method of Business Classification

Businesses are based on the classifications used by internal management.

2. Principal Businesses of Each Segment

Segment	Principal Business
Revitalization Business	Supply of revitalized real estate to corporations, real estate funds and individuals for the purpose of investment or asset management
Development Business	Construction and supply of condominiums and detached housing to real estate funds and individuals through scrap and build activities
Rental Business	Rental of offices and condominiums to end users
Fund Business	Structuring and management of original funds, consulting and property mediation
Property Management Business	Maintenance management and operational management of office buildings, condominiums, etc.
Alternative Investment Business	Investment in real estate-backed non-performing loan funds and real estate-owning companies, and structuring of and consulting for these funds

3. Unallocatable operating expenses included in Eliminations and Corporate were ¥750,480 thousand, and mainly consisted of expenses related to the general and administrative divisions of the reporting companies.

(December 1, 2005 – November 30, 2006)

(¥ thousand)

	Revitalization Business	Development Business	Rental Business	Fund Business	Property Management Business	Alternative Investment Business	Total	Eliminations and Corporate	Consolidated
Revenues (1) Revenue from outside customers	15,650,405	3,842,792	1,836,056	1,405,173	1,671,416	335,792	24,741,635	—	24,741,635
(2) Intersegment sales and transfers	—	—	2,718	14,299	233,191	—	250,209	(250,209)	—
Total	15,650,405	3,842,792	1,838,774	1,419,473	1,904,607	335,792	24,991,845	(250,209)	24,741,635
Operating expenses	11,609,857	3,329,179	853,579	302,025	1,782,540	57,972	17,935,154	905,493	18,840,647
Operating income	4,040,548	513,612	985,194	1,117,447	122,067	277,820	7,056,690	(1,155,702)	5,900,987

Notes:
1. Method of Business Classification
   Businesses are based on the classifications used by internal management.
2. Principal Businesses of Each Segment

Segment	Principal Business
Revitalization Business	Supply of revitalized real estate to corporations, real estate funds and individuals for the purpose of investment or asset management
Development Business	Construction and supply of condominiums and detached housing to real estate funds and individuals through scrap and build activities
Rental Business	Rental of offices and condominiums to end users
Fund Business	Structuring and management of original funds, consulting and property mediation
Property Management Business	Maintenance management and operational management of office buildings, condominiums, etc.
Alternative Investment Business	Investment in real estate-backed non-performing loan funds and real estate-owning companies, and structuring of and consulting for these funds

3. Unallocatable operating expenses included in Eliminations and Corporate were ¥1,157,323 thousand, and mainly consisted of expenses related to the general and administrative divisions of the reporting companies.