

TO SEI CORPORATION



# GROW STRATEGICALLY AS SEASONED PROFESSIONALS

ANNUAL REVIEW 2006

For the year ended November 30, 2006

# PROFILE

Based on its new corporate philosophy, Tosei Corporation (“Tosei” or the “Company”) has embarked on a fresh start as a company that pursues unlimited growth and opportunities by maintaining its core real estate operations while expanding into new fields.

As a group of seasoned professionals, the Tosei Group constantly focuses on quality as it works to contribute to society and increase its corporate value by restoring the value of real estate and other assets with a view 10 to 20 years in the future.

## CONTENTS

Financial Highlights .....	1
To Our Stakeholders.....	2
<b>Grow Strategically as Seasoned Professionals .....</b>	<b>5</b>
Expand the Scale of Business .....	6
Build the Corporate Brand .....	8
Review of Operations .....	10
Revitalization Business .....	11
Development Business .....	12
Rental Business .....	13
Fund Business .....	13
Property Management Business.....	14
Alternative Investment Business.....	14
Corporate Social Responsibility (CSR) .....	15
Enhancing Corporate Governance .....	16
Management’s Discussion and Analysis of Operations and Finances.....	18
Consolidated Balance Sheets.....	22
Consolidated Statements of Operations.....	24
Consolidated Statement of Shareholders’ Equity.....	25
Consolidated Statement of Additional Paid-in Capital and Retained Earnings .....	25
Consolidated Statements of Cash Flow .....	26
Notes to Consolidated Financial Statements.....	27
Corporate Data .....	32
Investor Information.....	33

## THE TOSEI GROUP’S CORPORATE PHILOSOPHY

### Mission

To create new value and inspiration in all aspects of real estate as a global-minded group of seasoned professionals.

### Management Principles

Continue developing seasoned, true professionals based on people-centered management.

Face risks with a venturesome spirit and break free of convention in order to continuously innovate.

Optimize investments through portfolio management that integrates real estate and finance.

Insist on quality construction, seek value with a global perspective, and continue to expand the scope of collaborative creation.

Maintain fair business practices while pursuing world-class management quality.

### Action Principles

Ceaselessly sharpen professional attitudes, knowledge and skills.

Conceptualize linkages to create an organization that learns.

Fulfill promises, make clear decisions and act speedily.

Create an enjoyable, positive corporate culture through mutual respect and teamwork.

#### Forward-looking Statements

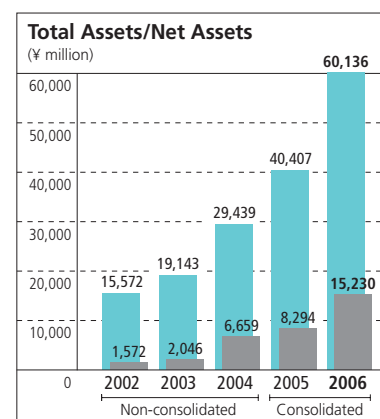
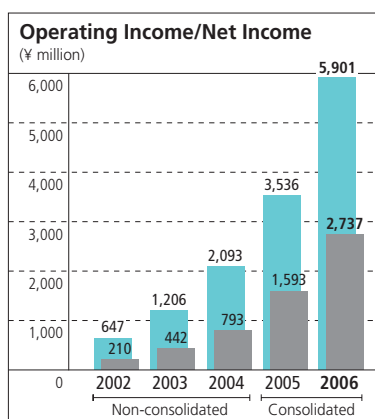
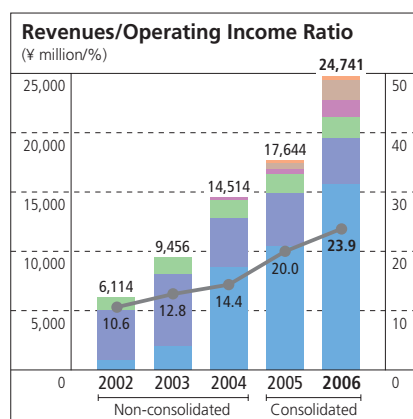
This annual report contains forward-looking statements regarding the Company’s plans, outlook, strategies and results for the future. All forward-looking statements are based on judgments derived from the information available to the Company at the time of publication. Certain risks and uncertainties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

	Millions of yen		Change (%)	Thousands of U.S. dollars (Note)
	2006	2005	2006/2005	2006
<b>Operating Results (For the year):</b>				
Revenues.....	¥ 24,741	¥ 17,644	40.2%	\$214,115
Operating income.....	5,901	3,536	66.9	51,069
Net income .....	2,737	1,593	71.8	23,687
<b>Per Share Data</b> (In yen and U.S. dollars):				
Retained earnings:				
Net income per share .....	¥ 7,412.80	¥ 4,664.46	58.9%	\$ 64.15
Cash dividends .....	1,400	450	211.1	12.11
Book value per share .....	40,414.50	24,018.05	68.3	349.76
<b>Financial Position (At year-end):</b>				
Total assets .....	¥ 60,136	¥ 40,407	48.8%	\$520,433
Net assets.....	15,230	8,294	83.6	131,805
Number of employees .....	134	107		
<b>Financial Indicators:</b>				
Operating income ratio (%).....	23.9%	20.0%		
Return on total assets (ROA) (%).....	5.4%	3.9%		
Return on equity (ROE) (%).....	23.3%	19.2%		

Note: U.S. dollar amounts have been translated from yen, solely for the convenience of the reader, at the rate prevailing on November 30, 2006 of ¥115.55 to US\$1.



- Revitalization Business
- Development Business
- Rental Business
- Fund Business
- Property Management Business
- Alternative Investment Business
- ◆ Operating Income Ratio (Right scale)

- Operating Income
- Net Income

- Total Assets
- Net Assets

Note: The Tosei Group began consolidated financial reporting in the fiscal year ended November 30, 2005.

## TO OUR STAKEHOLDERS

The Tosei Group has taken the first step in its next stage based on a new corporate philosophy aimed at further growth.

The Tosei Group is implementing GROWING UP 2008, a medium-term management plan for the period from December 1, 2005 to November 30, 2008 that revolves around doubling the scale of business and establishing the corporate brand. In the fiscal year ended November 30, 2006, the Group significantly exceeded the income targets for the initial year of the plan.

On October 1, 2006, the Company changed its name from Tosei Fudosan Co., Ltd. to Tosei Corporation and adopted a new corporate philosophy. On November 22, 2006, Tosei Corporation was listed on the second section of the Tokyo Stock Exchange (TSE), establishing a presence on two exchanges. The TSE listing is Tosei's most significant milestone since its JASDAQ listing in February 2004. I would like to extend my sincerest thanks to shareholders and others whose kind support has made this possible.

The Tosei Group is committed to broadening its scope of business beyond core real estate operations to further increase corporate value while strengthening the overall corporate brand. The new corporate philosophy reflects the Group's fundamental values, and is an important guide for better meeting stakeholder expectations and maintaining trust.

By creating new value and inspiration in all aspects of real estate as a global-minded group of seasoned professionals, we aim to establish a familiar and indispensable presence in daily living and work venues, and in doing so, achieve further growth.



President and CEO  
Seiichiro Yamaguchi

## Overview of Results for the Fiscal Year Ended November 30, 2006

The upswing in the Japanese economy surpassed the Izanagi boom as the longest postwar period of continuous economic expansion, with real GDP marking four years of continuous growth. In the real estate industry, land prices exhibited a notable recovery trend, with the nationwide average assessed value of land in Japan rising for the first time in 14 years. Factors driving the current rise in real estate prices include increased demand for inner-city office space resulting from the economic recovery, revisions to the Law on Securitization of Specified Assets by Special Purpose Companies (SPC Law) and development of the REIT market. Unlike in a bubble period, rational pricing based on profitability is spreading; therefore, even as differences among property prices widen, the market is expected to continue expanding.

In this environment, the Tosei Group worked to increase its overall corporate value by increasing synergy among its six businesses to restore the value of real estate, with a focus on the 23 wards of Tokyo. These include the four businesses of Tosei Corporation – the revitalization and fund businesses, which are the Company's growth areas, the development business, in which it 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 these efforts, in the year ended November 30, 2006, consolidated revenues were ¥24,741 million, an increase of 40.2 percent compared with the previous fiscal year, operating income was ¥5,901 million, an increase of 66.9 percent, and net income was ¥2,737 million, an increase of 71.8 percent.

## Progress of the Medium-term Management Plan GROWING UP 2008

The Tosei Group has formulated a medium-term management plan, GROWING UP 2008, and is working to meet its targets. Under a fundamental policy that enhancing corporate value requires both increased earnings and improvements in management quality, this plan sets forth two cornerstones for strengthening the Group's business base and building a foundation for further growth: doubling the scale of business and building the corporate brand.

### (1) Initiatives to Double the Scale of Business

The real estate market is picking up, with intensifying competition to acquire prime commercial space, used office buildings, rental condominiums and other properties in the 23 wards of Tokyo, the Tosei Group's business area. Under these conditions, we strengthened purchasing, our growth driver, with the November 2006 start-up of the VIP Map System, an investment property information system that enhances our traditional purchasing network.

	FY ended Nov. 2005 (Actual)	FY ended Nov. 2006 (Actual)	FY ending Nov. 2007 (Targets)	FY ending Nov. 2008 (Targets)
Revenues	¥17.6 billion	¥28.4 billion →¥24.7 billion	— →¥51.5 billion	¥40.5 billion →¥54.0 billion
Ordinary income	¥2.9 billion	¥4.0 billion →¥5.3 billion	— →¥6.7 billion	¥6.0 billion →¥7.7 billion
Net worth ratio	20.6%	— →25.3%	— →23.3%	30.0% →26.3%
Return on equity (ROE)	19.2%	— →23.3%	— →21.2%	18.3% →21.2%
Return on total assets (ROA)	3.9%	— →5.4%	— →5.1%	5.5% →5.3%
Fund asset balance	¥20.2 billion	¥41.3 billion →¥41.2 billion	¥85.0 billion →¥115.8 billion <sup>3</sup>	¥130.0 billion →¥165.8 billion <sup>3</sup>

Notes: 1. Upper figure: original target; lower figure: actual/new target

2. The targets of GROWING UP 2008 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 or various other factors.

3. Fund asset balance includes portion expected from J-REIT (¥39,800 million as of November 30, 2007; ¥59,800 million as of November 30, 2008)

In the revitalization business, we have been supplying properties using our enhanced “value-up” capabilities, including improving design and profitability. Examples include the sale of units of Palms Gotanda, a condominium complex constructed in 1981 that the Company restored to newly built condition. In the development business, completion of the Toranomom Tosei Building in July 2006 expanded our lineup to offer more diverse properties, including condominiums, single-family dwellings, and office and retail buildings. We are also developing distinctive, high-value-added products such as a 108-unit, environment-conscious condominium complex in Sakura, Setagaya Ward.

In the fund business, the Tosei Group is working to increase opportunities for real estate transactions, including development, revitalization, holdings management, asset management and property management, by expanding both on-balance real estate investment on its own account and off-balance investment in funds. Aiming to bolster our financial structure by increasing the future scale of fund assets, we worked to stabilize our finances by issuing new shares to European institutional investors in February 2006, generating ¥4,347 million in equity financing.

## (2) Initiatives to Build the Corporate Brand

We aim to build an overall corporate brand for the Tosei Group in tandem with doubling the scale of business. By building a corporate brand that combines “innovation and challenge” with “security and reliability,” we will deepen our relationship of trust with our stakeholders, which is a vital condition for continuous growth. To achieve this, enhancing corporate governance is key. We are focusing our efforts in the core areas of instilling awareness of compliance, strengthening risk management and practicing timely disclosure. In addition to complying with the Company Law, the Securities and Exchange Law and other laws, we are responding to public concerns by working to further enhance our internal control system.

Brand-building initiatives are also progressing. The Group redefined its mission, management principles and action principles, broadcast its values and management orientation and developed a communication style that meshes with the new Company name, logo and philosophy. Furthermore, we are focusing efforts on securing and training capable personnel to increase the scale of business. In line with this, Tosei has raised its target workforce size for the year ending November 30, 2008 from 170 to 211.

As a result of these efforts, in the first year of the medium-term management plan results were better than expected compared with initial targets. Accordingly, the target for consolidated revenues for the year ending November 30, 2008 has been revised upward from ¥40,500 million to ¥54,078 million, an increase of 33.5 percent, and the target for consolidated ordinary income has been increased 28.3 percent from ¥6,000 million to ¥7,700 million.


## Further Increasing Stakeholder Trust

The Tosei Group is committed to achieving the above-mentioned strategic targets through the implementation of its philosophy, “To create new value and inspiration in all aspects of real estate as a global-minded group of seasoned professionals.” By doing so, we can take advantage of diversifying needs in real estate and fully capitalize on overall Group strengths and synergy to achieve continuous earnings growth.

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, progress in its business plan and balancing distributions of earnings and the need for internal capital resources to take advantage of highly profitable business opportunities that will generate long-term growth in corporate value. Based on this, the Company is aiming for a payout ratio of 20 percent of non-consolidated net income.

We look forward to your continuing support.

February 24, 2007



Seiichiro Yamaguchi  
President and CEO



# GROW STRATEGICALLY AS SEASONED PROFESSIONALS

Under a fundamental policy that enhancing corporate value requires both increased earnings and improvements in management quality, our medium-term management plan GROWING UP 2008 sets forth two cornerstones for strengthening the Group's business base and building a foundation for further growth: doubling the scale of business and establishing the corporate brand. The Tosei Group aims to make significant strides as a reliable corporate brand that meets stakeholder expectations. To achieve this, it is working to broaden the scope of operations and upgrade its business model through full-scale integration of real estate and finance.

## EXPAND THE SCALE OF BUSINESS

Aim to double scale of business in terms of revenues and ordinary income

Promote brand strategy while working to enhance lineup of sellers and buyers

Business growth and finances

Customers and transactions

## BUILD THE CORPORATE BRAND

Secure capable personnel to double the scale of business, and promote improvement of personnel skills

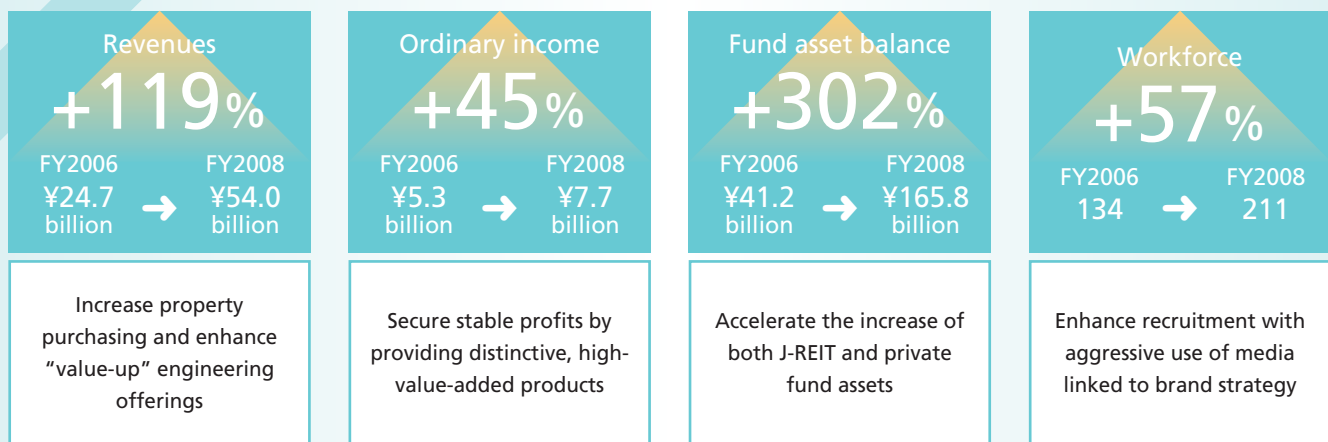
Strengthen corporate governance and compliance, and make business processes more efficient

Quality and quantity of human resources

Business processes and organizational operations

### Medium-term Management Plan GROWING UP 2008

Targets vs. Results in the Fiscal Year Ended November 2006 (Target Year: FY ending November 2008)



# EXPAND THE SCALE OF BUSINESS

Having significantly surpassed its plans for the first year of its medium-term management plan, Tosei revised targets upward to achieve further growth. The Tosei Group will maximize use of “value-up” engineering, one of its strengths, to achieve these new targets and double the scale of business.

## ► Revision of Targets

In addition to the impact of a booming real estate market, factors supporting the Tosei Group’s excellent results in the fiscal year ended November 30, 2006 included successful purchasing amid intensifying competition and stronger development capabilities and “value-up” capabilities such as improving design and profitability. Although the real estate boom is expected to gradually stabilize, the Tosei Group revised targets upward because it sees opportunities for further growth given the solid advantages of the Tosei Group’s know-how and purchasing network for the small and medium-scale properties it handles in the 23 wards of Tokyo. Revised targets for revenues and ordinary income in the final year of the plan are 33.3 percent and 28.3 percent higher, respectively, than initial targets.

(Millions of yen)

	Year ended November 30, 2006			Year ending November 30, 2007 (Projected)			Year ending November 30, 2008 (Targets)		
	Revenues	Operating Income	Operating Income Ratio	Revenues	Operating Income	Operating Income Ratio	Revenues	Operating Income	Operating Income Ratio
Revitalization Business	15,650	4,040	25.8%	30,834	5,030	16.3%	30,831	5,579	18.1%
Development Business	3,843	514	13.4%	13,756	1,462	10.6%	14,123	1,812	12.8%
Rental Business	1,839	985	53.6%	2,554	1,438	56.3%	2,787	1,599	57.4%
Fund Business	1,419	1,117	78.7%	1,305	864	66.2%	1,923	1,433	74.5%
Property Management Business	1,904	122	6.4%	2,249	137	6.1%	2,834	148	5.2%
Alternative Investment Business	336	278	82.7%	1,044	544	52.1%	1,786	592	33.1%
Eliminations or Corporate	(250)	(1,155)	—	(216)	(1,661)	—	(206)	(1,953)	—
<b>Total</b>	<b>24,741</b>	<b>5,901</b>	<b>23.9%</b>	<b>51,527</b>	<b>7,817</b>	<b>15.2%</b>	<b>54,078</b>	<b>9,210</b>	<b>17.0%</b>

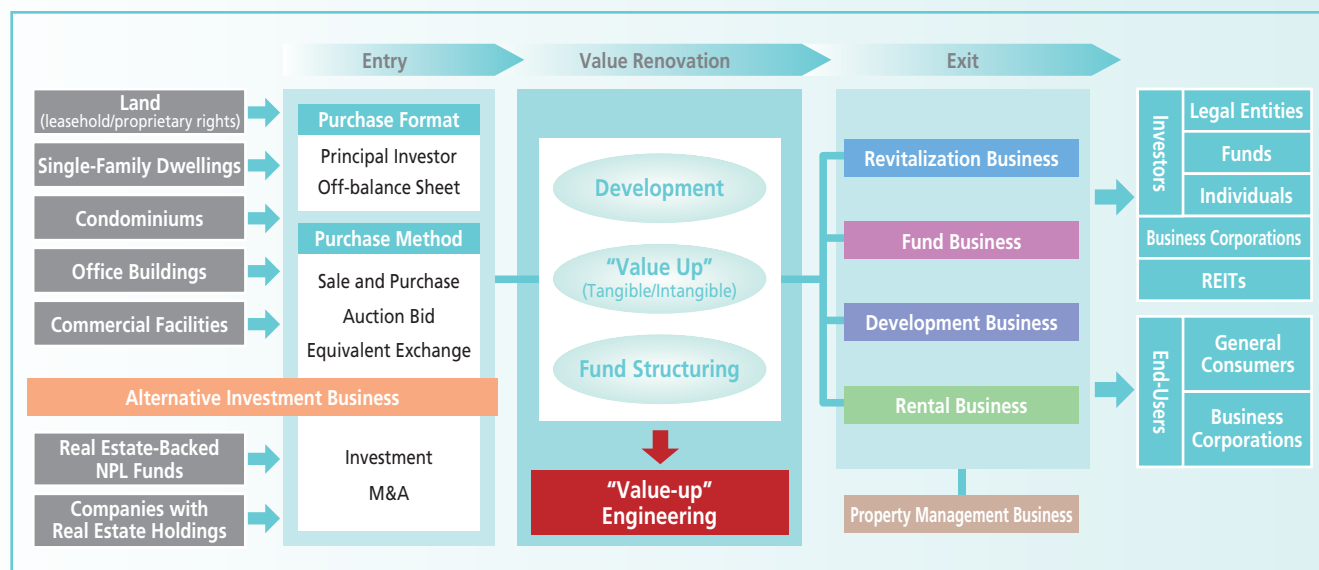
Note: Includes intersegment revenues.

## ► Framework and Advantages of the Tosei Group

The Tosei Group enters the market by purchasing newly constructed and used condominiums, single-family dwellings and office buildings, land and real estate-backed non-performing loans, stocks of companies with real estate holdings and other assets. It then restores value through “value-up” activities and fund structuring and exits through sales to investors, corporations, end-users, J-REITs and others. The ability to make investment decisions at the entry stage, to choose the most appropriate exit option at the time of property purchase, is important because it translates into reliable purchasing that secures profit. “Value-up” engineering is one of the value drivers of the Tosei Group. Aiming for further growth, we will fully leverage this advantage in order to double the scale of business.



### The Tosei Group's Business Organization and Strengths



#### ► Leveraging a Tosei Group Advantage: "Value-up" Engineering

To set the groundwork for fully leveraging "value-up" engineering, the Tosei Group aims to secure plentiful entry options by strengthening property purchasing and stabilizing capital procurement.

To strengthen property purchasing, Tosei will increase purchasing flexibility and accuracy by expanding the scope of use of the VIP Map System, an investment property information system. At the same time, we will expand and cultivate the current list of 200 companies and 500 players that form the core of our traditional purchasing network in order to build a stronger, more cohesive purchasing information network.

To stabilize capital procurement, Tosei is working to reduce the average cost of capital procurement while aggressively but stably using interest-bearing debt. Specifically, we are broadening the use of fixed interest rates and employing commitment line contracts.

The ability to provide products that meet needs is also vital for raising the level of "value-up" engineering. In order to provide distinctive, high-value-added products, Tosei restructured on December 1, 2006 to create an organization that can accurately determine optimal use and investment efficiency for each property. Moreover, in addition to establishing the Value-Up Laboratory in its head office to strengthen product planning, the Company installed a permanent model residence. The Value-Up Laboratory serves as a venue for conveying "value-up" know-how and conducting research and product planning, while helping to strengthen understanding of needs through seminars and workshops.




Enhancing exit opportunities requires expanding off-balance sheet transactions in addition to on-balance sheet business conducted on the Company's own account. Because the real estate fund market in Japan shows more growth potential than those in Europe and the United States, the Tosei Group plans to increase its asset balance by listing a J-REIT in the year ended November 30, 2007 through an investment company it sponsors. Furthermore, the Group plans to expand its business in areas that integrate real estate and finance by accelerating the growth of the asset balance of the fund business and the alternative investment business. Through these initiatives, Tosei is aiming to achieve a fund asset balance of ¥165,800 million, including a J-REIT, as of November 30, 2008.

# BUILD THE CORPORATE BRAND

The Tosei Group is committed to achieving social significance by building a corporate brand that combines “innovation and challenge” with “security and reliability.” To do this, the entire Group from top management to employees will unite to promote initiatives such as inculcating the corporate philosophy, enhancing corporate governance and expanding and training the workforce.

## ► Inculcating the Corporate Philosophy and Building the Brand Strategy

### THE TOSEI GROUP LOGO

-  symbolizes unlimited (∞) growth and opportunities
-  represents the integration of real estate and finance, and a global business scope
-  expresses flexibility

To build the corporate brand, in October 2006 the Tosei Group formulated a new corporate philosophy that establishes a shared sense of purpose and clarifies its common direction. At the same time, the Company changed its name from Tosei Fudosan Co., Ltd. to Tosei Corporation and established a new logo. Behind these changes is our aim to maintain our core real estate operations while broadening the scope of business to further increase corporate value and strengthen the Tosei brand.

In the year ending November 30, 2007, Tosei believes it must embody its philosophy and brand strategy in its business activities. Accordingly, the Company plans to encourage employee participation in internal research activities and attendance at external workshops. At the same time, the Tosei Group will disseminate its expertise and research results by holding workshops and open seminars by lecturers invited from outside the Company, using its Value-Up Laboratory as a communication space. As a measure to spread the Tosei brand, the Group has formulated a corporate message, “Putting Heart into the City,” which evokes the appeal of urban centers and Tosei’s aim to help build new ones that respect the spirit of city dwellers and the environment. Moving forward, we plan to conduct aggressive promotions that incorporate this message.

### MEANING OF THE TOSEI CORPORATE MESSAGE

## “Putting Heart into the City”

As a company that participates in city-building, Tosei aims to increase the appeal of urban centers by bringing new value and inspiration to all aspects of real estate. To build an appealing city does not mean tearing it all down and starting from scratch. Rather, a flexible approach is needed that matches the individuality of each property. To create new value and inspiration, we put our heart into building the city. Hence our message: “Putting Heart into the City.”



The renovated Value-Up Laboratory, which serves as a venue for conveying Tosei Corporation’s commitment to quality and “value-up” expertise, opened on the ninth floor of the Company’s head office in January 2007.



Tosei is working to develop product planning and respond more precisely to customer needs through initiatives such as adding a 100m<sup>2</sup> model residence to the Value-Up Laboratory.



The approximately 200 samples on display include flooring, tile and natural marble and granite. The laboratory also functions as a venue for conveying information through seminars and other activities.

### ► Expanding and Training the Workforce

Securing capable personnel and improving job skills are vital for doubling the scale of business, one of the goals of GROWING UP 2008. Human resources drive the Tosei Group's growth and development. As such, the Company plans to expand the organization by bolstering the workforce and further strengthening training of each employee.

In the fiscal year ended November 30, 2006, Tosei began recruiting university graduates every year, rather than every other year as in the past. Looking forward, the Company will enhance aggressive use of the media and further expand the number of new graduates and mid-career professionals it hires.

In the area of training, the Tosei Group will clearly define its personnel needs, develop curriculums for each level and expand hierarchical training. As well as introducing a self-development support program, the Group will work to enhance the employee benefit system.

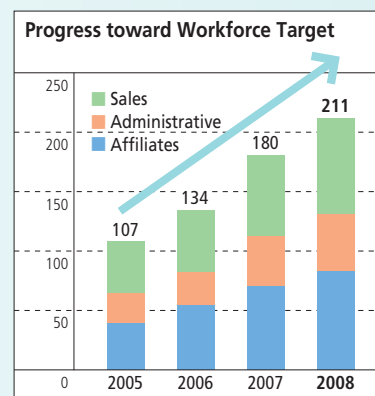
Through these initiatives, the Tosei Group plans to increase its workforce from 134 on November 30, 2006 to 211 as of November 30, 2008.

### ► Upgrading Corporate Governance and Internal Control Systems

The Tosei Group is aware that building and spreading the corporate brand must be done with full disclosure of its position to its stakeholders in all of its business activities.

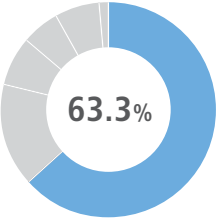
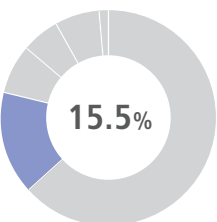
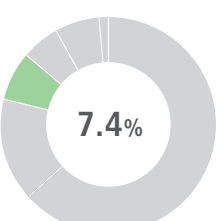
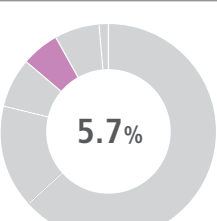
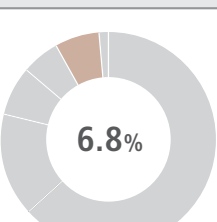
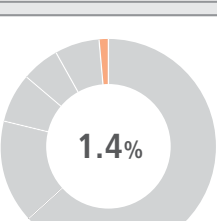
We have positioned enhancing corporate governance and implementing an internal control system as our most important tasks in establishing the corporate brand.

To increase management transparency, our policy will be to enhance the activities and power of the Corporate Governance Meeting, consisting of directors and full-time corporate auditors, in order to actively comply with the J-SOX Act (the Japanese version of the Sarbanes-Oxley Act). In particular, we consider it essential and will place primary focus on enhancing our committee system and developing original in-house initiatives to instill awareness of compliance, strengthen risk management and practice timely disclosure.



Tosei is working to promote better portfolio management skills while improving employee satisfaction.

# REVIEW OF OPERATIONS

Business Segment	Percentage of Revenues	Description of Activities
<p>Revitalization Business</p>	 <p>63.3%</p>	<ul style="list-style-type: none"> <li>→ Conducts “value-up” activities to increase asset value of properties matched to local characteristics and needs and sells them as revitalized real estate</li> <li>→ Specializes in small and medium-sized properties, primarily in inner Tokyo</li> <li>→ Uses planning and design capabilities of its first-class architectural office to offer superior revitalization activities rooted in quality</li> </ul>
<p>Development Business</p>	 <p>15.5%</p>	<ul style="list-style-type: none"> <li>→ Formulates development plans for purchased land, develops and sells office buildings, commercial facilities and residential dwellings for investors, end-users and others</li> <li>→ Develops business largely in the 23 wards of Tokyo, with a priority on convenience</li> <li>→ Offers “THE Palms Series” condominiums and “Palms Court Series” single-family dwellings</li> </ul>
<p>Rental Business</p>	 <p>7.4%</p>	<ul style="list-style-type: none"> <li>→ Positioned as a steady source of income in the Tosei Group’s growth strategy</li> <li>→ As a lessor, further enhances revitalization plans by quickly and accurately gathering information on tenant needs</li> </ul>
<p>Fund Business</p>	 <p>5.7%</p>	<ul style="list-style-type: none"> <li>→ Receives acquisition, asset management, disposition and incentive fees for managing real estate funds</li> <li>→ Increases the value of properties purchased by funds and manages their assets</li> <li>→ Positioned as an additional stable source of income</li> </ul>
<p>Property Management Business</p>	 <p>6.8%</p>	<ul style="list-style-type: none"> <li>→ Conducted by Tosei Community Co., Ltd., which was made a subsidiary in April 2005</li> <li>→ Provides comprehensive property management, including security and contracting for renovation and repair, for condominiums, office buildings and other properties</li> </ul>
<p>Alternative Investment Business</p>	 <p>1.4%</p>	<ul style="list-style-type: none"> <li>→ Conducted by Tosei Revival Investment Co., Ltd., a wholly owned subsidiary established in March 2005</li> <li>→ Invests in real estate-backed NPL funds and companies with real estate holdings, structures funds for those investments, and offers advisory and asset management services for each</li> </ul>

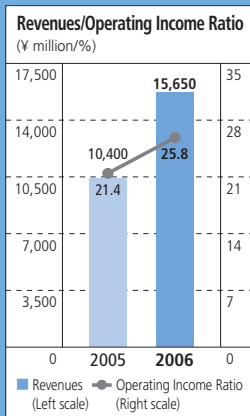
Note: Excludes intersegment revenues.



# Revitalization Business



Ebisu Building, Shibuya Ward



- ▶ The Tosei Group's restoration plans achieve comprehensive improvement of real estate value, not mere renewal
- ▶ Active market due to new J-REIT listings and aggressive property purchasing by private funds
- ▶ High margins on properties sold for owner use due to tight market for office space

## Results for the Fiscal Year Ended November 30, 2006

The revitalization business entails temporarily acquiring real estate holdings whose asset value has declined, formulating restoration plans that match local characteristics and needs, and reselling those properties mainly to investors once those plans have been implemented. It is the core business of the Tosei Group, accounting for more than 60 percent of revenues.

Value restoration plans include physical and intangible aspects such as profitability and design improvements that increase the satisfaction of owners and end-users. Tosei implements restoration plans that focus on cost performance, based on consideration from many perspectives. The most distinctive feature of the Tosei Group's restoration plans is that they achieve comprehensive improvement of real estate value, not merely renewal.

Physical restoration plans feature a flexible approach to properties that takes their inherent diversity into account. This ensures that the most appropriate plan is adopted, enabling Tosei to transform properties into appealing products.

Intangible restoration plans maximize property performance by leasing vacant space and implementing comprehensive management. The Group also provides solutions to restore buildings on leasehold and other properties with complicated rights arrangements, a large number of which still exist in inner-city areas, and create real estate with new value.

The real estate trading market remains brisk with not only private funds but investment corporations aggressively purchasing properties in conjunction with new J-REIT listings.

Working aggressively in this environment, the revitalization business sold 27 properties in the 23 wards of Tokyo during the fiscal year ended November 30, 2006, primarily in the 5 inner-city wards. This included 11 office and commercial buildings, 7 vacant office buildings, 4 condominium complexes and 5 others. Vacant office buildings, which

comprised 25 percent of all properties sold, yielded high margins (31.2 percent gross profit), reflecting demand for properties for head offices and other owner use caused by the tight market for office space.

## Current Initiatives

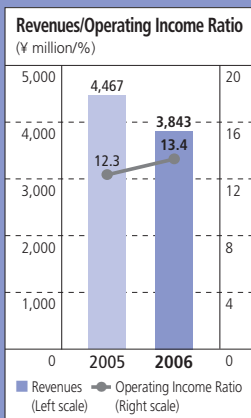
A variety of projects are underway, including the Ginza Wall Building, which Tosei is scheduled to acquire as part of the turnaround assistance for Tokyo Onsen Co., Ltd., restoration of a photo studio in Takaido, and the provision of consulting services for an office building development in Higashi-Ueno.

The revitalization business will continue working to increase the value of real estate from the point of view of the end-user by creating unique, distinctive restored properties with even higher quality.



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

# Development Business



- ▶ Develops highly convenient and comfortable properties primarily in the inner-city and 23 wards of Tokyo
- ▶ Favorable sales of properties to both investors and end-users
- ▶ Will continue to actively develop office and commercial buildings



Toranomon Tosei Building, Minato Ward

## Results for the Fiscal Year Ended November 30, 2006

This business develops “THE Palms Series” condominiums, “Palms Court Series” single-family dwellings, rental condominium complexes, office buildings and commercial facilities. In addition to having a first-class architectural office in house, Tosei Corporation provides customers with maximum value and inspiration by enforcing a commitment to quality construction with the Palms Quality Check (PQC) System, the Company’s own original quality standard.

Realizing that the first and foremost need of recent condominium purchasers is convenience, the development business limits its selection of land for condominium development to inner-city Tokyo and works to develop high-value-added products that combine convenience and comfort while providing a refined, high-quality living environment by incorporating natural materials throughout. For single-family dwellings, by maintaining the independence of detached homes while offering diverse plans to suit particular locations, the business works to develop products with a primary focus on occupant lifestyle. In addition, the Tosei Group has begun developing rental condominium complexes, office buildings and commercial facilities for sale to real estate funds and investment companies in order to meet their needs during the recent fund-driven boom in property purchasing.

In 2006, the closing rate for the first month of listing was strong in the metropolitan Tokyo condominium market. Housing starts were also at a high level. Anticipating rising prices, however, developers increasingly opted to slow the pace of sales. As a result, annual sales fell short of 80,000 units for the first time in 8 years.

In this environment, the Company sold the Shinjuku 4-chome Building, its first commercial facility development project, to an individual investor after securing a good tenant by capitalizing on the property’s excellent location one minute on foot from the south exit of Shinjuku Station. It also sold the 36-unit THE Palms Toritsu Daigaku rental condominium complex to a real estate fund. End-user sales

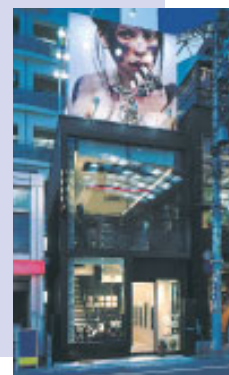
included 26 single family dwellings of THE Premium Court Ota Chuo, the largest subdivision developed in Ota Ward since 1983 (source: Real Estate Economic Institute Co., Ltd.), in addition to the 17 already sold. Other sales included 16 of the 25 units offered for sale at THE Palms Yoga designer’s condominium complex in Nakamachi, Setagaya Ward.

## Current Initiatives

The development business plans to sell a total of five properties during the fiscal year ending November 30, 2007. Those scheduled for sale to end-users include THE Palms Setagaya Sakura, a 108-unit environment-conscious condominium complex in Sakura, Setagaya Ward and the 35-unit THE Palms Honkomagome in Honkomagome, Bunkyo Ward. Properties slated for sale to investors include the 30-unit THE Palms Denenchofu. Construction of the 6-story Kanda-Higashimatsushitacho Building Project has been completed, and work is proceeding smoothly on the 9-story Kanda-Ogawamachi 3-chome Building Project. The Company will continue to aggressively develop office and commercial buildings such as a commercial building project currently underway in the vicinity of Kichijoji Station.

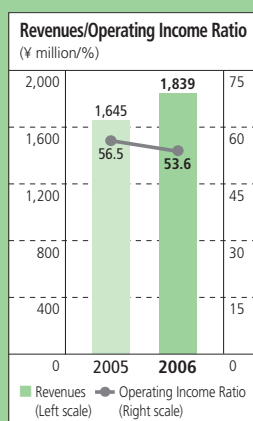


Tosei develops a broad range of properties, from single-family dwellings and condominiums to office and commercial buildings. (Left: THE Palms Yoga, Setagaya Ward; Right: The Shinjuku Shogyo Building, Shinjuku Ward)





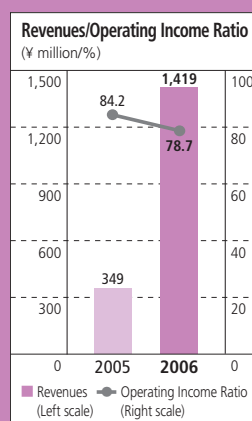
## Rental Business



- ▶ Positioned as a steady source of income in the Group's long-term strategy
- ▶ Doubled holdings of current assets with expansion of the revitalization business
- ▶ Rent from subleases at the Ginza Wall Building, scheduled for acquisition in March 2007, contributed to earnings

Note: Revenues for the fiscal year ended November 30, 2006 include ¥2 million from intersegment transactions.

## Fund Business



- ▶ High growth rate since its start in 2003, backed by Tosei's original "value-up" capabilities
- ▶ Brokerage fees from sales of fund properties contributed significantly to results
- ▶ Revised fund asset balance target for the year ending November 30, 2008 from ¥130,000 million to ¥165,800 million due to steady increase in asset balance

Note: Revenues for the fiscal year ended November 30, 2006 include ¥14 million from intersegment transactions.

### Results for the Fiscal Year Ended November 30, 2006

This business rents its office buildings, condominiums and other holdings, mainly in the 23 wards of Tokyo, to end-users. It provides high-quality space using a half-century of experience, purchasing highly profitable small and medium-sized properties with a discerning eye cultivated through investment in office buildings. As a result, the business is able to maintain higher occupancy rates than neighboring properties, providing a stable stream of rental income revenues.

The average vacancy rate of rental office buildings in Tokyo's five inner-city wards is dropping and the trend toward higher rents for large office buildings continued, reflecting a lessor's market. In this environment, rental income from 57 properties included 36 current asset properties (an increase of 8 properties from the previous fiscal year) and 21 quality fixed asset properties being held as a steady source of income (an increase of 3 properties). Additional rental income came from subleases at the Ginza Wall Building, which Tosei is scheduled to acquire in March 2007.

### Current Initiatives

Tosei continues to develop the rental business as a steady source of income while giving due consideration to the balance of fixed and current assets.



Ginza Wall Building, Chuo Ward

### Results for the Fiscal Year Ended November 30, 2006

The fund business manages funds mainly by soliciting third-party capital for *Tokumei Kumiai* (private equity) investments and purchasing revenue-producing properties. Tosei restores the physical and intangible value of properties purchased by funds and receives acquisition, asset management, disposition and incentive fees for managing their assets.

As of November 30, 2006, the asset balance of the Tosei Group's fund business was ¥41,251 million. Including property holdings of consolidated subsidiary Pegasus Capital, Ltd., which was sold to a private fund in December 2006, the actual total was ¥48,063 million. Due to significant contribution from brokerage fees from sales of fund properties, segment revenues rose 307.8 percent compared with the previous fiscal year.

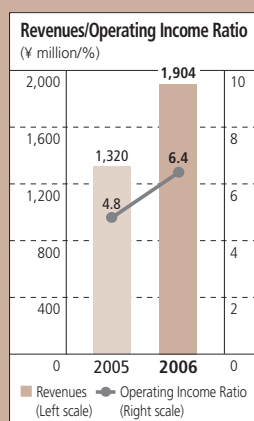
### Current Initiatives

The Tosei Group will work toward full-scale development of the fund business by revising the fund asset balance target for the fiscal year ending November 30, 2008 and through the listing of a J-REIT by Tosei's wholly owned subsidiary Tosei REIT Advisors, Inc.

### Revision of Fund Asset Balance Targets

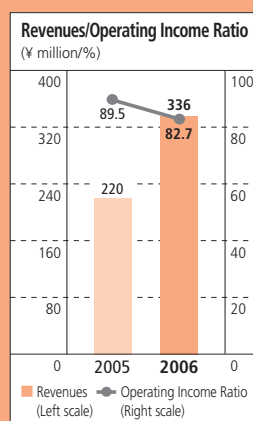
	FY ended Nov. 30, 2006	FY ending Nov. 30, 2007 (Target)	FY ending Nov. 30, 2008 (Target)
Initial plan	¥41,300 million	¥85,000 million	¥130,000 million
Revised plan	¥48,063 million (Actual)	¥115,800 million (¥39,800 million)	¥165,800 million (¥59,800 million)

Figures in ( ) are balance of assets under management in a J-REIT included in revised plan totals.



- ▶ Provides comprehensive property management services for office buildings, condominiums and other properties
- ▶ Over 80 percent of management contracts are for non-Group holdings
- ▶ Implementing management reforms under the medium-term management plan

Notes: 1. 2005 figures are the sum of the first-half results of Tosei Community Co., Ltd. and the second-half results of the property management business. Actual results of the property management business were: Revenues ¥658 million, Operating income ¥40 million.  
2. Revenues for the fiscal years ended November 30, 2005 and 2006 include ¥95 million and ¥233 million, respectively, from intersegment transactions.



- ▶ Offers diversified entry options in real estate purchasing
- ▶ Fee income from closings of real estate-backed non-performing loan (NPL) funds and dividends contributed significantly to results
- ▶ Aims to expand turnaround business beyond real estate

## Results for the Fiscal Year Ended November 30, 2006

Wholly owned subsidiary Tosei Community Co., Ltd. provides comprehensive property management services, including security and contracting for renovation and repair, for condominiums, office buildings and other properties. As a partner to building owners, the Tosei Group works from their perspective to provide services that maximize cash flow and raise asset value.

Although property purchasing by private funds and J-REITs is pressuring profits, the property management market in the 23 wards of Tokyo is large. Differentiation is progressing through corporate efforts in areas such as providing efficient operations and services, developing technical capabilities, diversifying into related areas and strengthening property management capabilities.

Tosei's efforts to acquire new management contracts, including one for a large-scale educational facility, increased the number of properties managed by 40 during the fiscal year to 419. This includes 128 condominium complexes and 291 office buildings, over 80 percent of which are non-Group holdings.

## Current Initiatives

Reforms to establish a new management system, as per the medium-term management plan, will include creating a framework for handling a large supply volume and improving the quality of services to increase customer satisfaction.



## Results for the Fiscal Year Ended November 30, 2006

Handled by wholly owned subsidiary Tosei Revival Investment Co., Ltd., the alternative investment business invests in real estate-backed NPL funds and companies with real estate holdings, structures funds for those investments, conducts mergers and acquisitions mainly associated with real estate, and offers advisory and asset management services in all these areas.

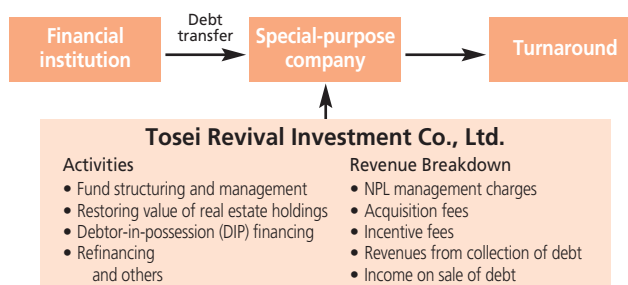
Significantly undervalued properties are hard to find since major financial institutions have disposed of their non-performing loans. However, the M&A and real estate-backed non-performing loan market is still brisk. The shift of the price of debt to an upward trend has made it important to possess expertise in adding value.

In this operating environment, segment revenues increased 52.7 percent over the previous fiscal year with significant contributions from asset management fees and incentive fees in conjunction with closings in the Orpheus Capital real estate-backed NPL fund, as well as dividends from Tokumei Kumiai (private equity) investments.

## Current Initiatives

The alternative investment business's strategy is to conduct M&As primarily to acquire real estate holdings. Looking ahead, it is working to broaden the scope of its activities to include corporate turnarounds.

### Alternative Investment Business Flow



# CORPORATE SOCIAL RESPONSIBILITY (CSR)

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. Based on this, it actively works to fulfill its corporate social responsibilities with a fundamental awareness that the most important duty is to contribute to society directly through the operations of each Group company.

## Rooftop Greening Initiative

The Tosei Group is fundamentally aware that its most important duty is to contribute to society directly through the operations of each Group company. Accordingly, it intends to implement practical measures for each project and property as part of its CSR efforts. As a first step, the Group promotes rooftop greening as a general rule for all properties it constructs, revitalizes or holds.

Rooftop greening refers to the planting of trees, flowers and other foliage on building rooftops. It helps lessen the heat island effect and is effective in cleansing the atmosphere and saving energy. Furthermore, its significant psychological benefits for occupants include improved scenery and a relaxing effect.

The first stage began in June 2006 with the rooftop greening of nine of the Company's fixed asset properties, which was completed by August. Greening projects for an



Takanawa Tosei Building, Minato Ward

additional 10 properties are currently underway for the period from October 2006 to February 2007. Tosei's general policy is to continue rooftop greening in the future for all the properties it handles, whether buildings are newly constructed or existing.

To date, the Company has worked to implement various environment-conscious plans, including aerial gardens and sky gardens for new condominium developments. THE Palms Setagaya Sakura, an environment-conscious condominium complex, is currently under construction. By designing the exterior of the complex to blend with the surroundings, and proactively planting foliage throughout the site and along roadways, Tosei is working to maintain the ecosystem and reduce energy loss. In the event of natural disasters, the property is also equipped with emergency toilets and a storeroom containing an electrical generator, food and drinking water to provide occupants with peace of mind.

The Toranomom Tosei Building, which functions as Tosei's head office and is the Company's first office building development, was designed with various environment- and energy-conscious features in addition to rooftop greenery, including insulated glass, which raises heating and cooling efficiency.

Under its slogan of "Putting Heart into the City," the Tosei Group will work to evoke the appeal of urban centers with the aim of building new ones that respect the human spirit and the environment.

## Intellectual Property Strategy

### ► The Palms Quality Check (PQC) System

In conjunction with acquiring ISO 9001 (quality management system) certification in 2004, Tosei's Architect Planning Department introduced the PQC System, an original 14-point quality standard for construction based on the ISO quality manual.

In addition to on-site inspections of the main steps in the construction process, such as building placement, foundation reinforcing bars, upper floor reinforcing bars and concrete work, the PQC System features a checklist based on its 14-point quality standard that is used by the Company's first-class architectural office to verify the inspection reports of the construction foreman at each step.

The PQC System does more than ensure rigorous quality control – it offers customers total peace of mind by providing photos and other materials showing the location of reinforcing bars and other construction processes that are difficult to confirm once a condominium complex is complete.



# ENHANCING CORPORATE GOVERNANCE

(As of January 12, 2007)

## Fundamental Position on Corporate Governance

The Tosei Group considers it an important management issue to earn the trust of its shareholders, employees, customers, business partners and all other stakeholders by responding promptly and accurately to changes in the operating environment and maintaining sound business activities that achieve growth. Accordingly, its fundamental position on corporate governance is to focus quickly on identifying and formulating preventative measures for a variety of operating risks, proactively and appropriately disclosing information beyond legal requirements, and promoting enhancement of internal oversight and highly transparent management, and to build and operate the necessary organizational framework and associated systems to facilitate these activities.

## Corporate Governance Measures

### ► Board of Directors

Consisting of four directors, the Board of Directors of Tosei 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 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 effective auditing.

### ► Executive Officer System

Tosei 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 the four directors and two 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 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

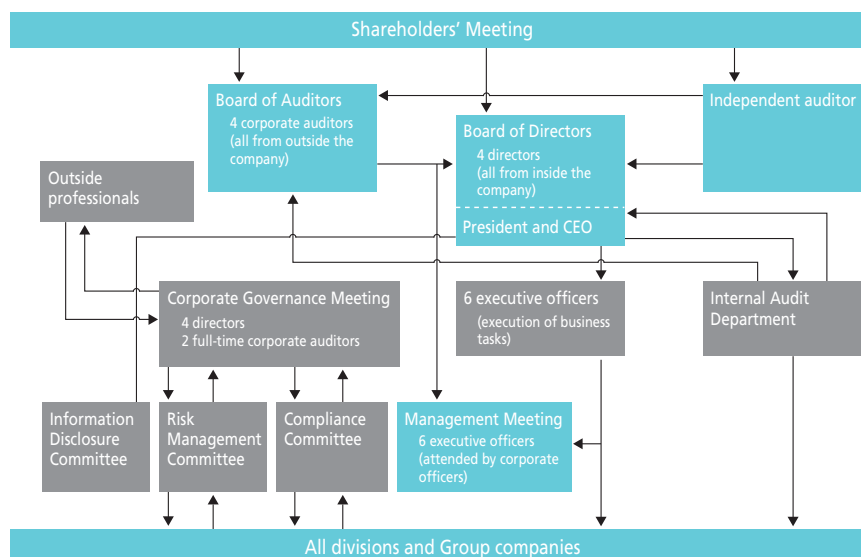
The Internal Audit Department, under the direct supervision of the President, conducts Group-wide audits based on fiscal year plans, and makes recommendations for improvement to divisions where inadequacies have been found. It implements highly effective audits by enhancing follow-up, such as discussing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

### ► Information Disclosure

In addition to preparing documents required pursuant to the Company Law, the Securities and Exchange Law and other laws and releasing information required pursuant to stock exchange regulations, Tosei Corporation discloses corporate information to shareholders, investors and other stakeholders in a timely and appropriate manner through IR activities, its website and other media.

### ► Accounting Audits

Pursuant to the Company Law and the Securities and Exchange Law, the independent auditing firm Ernst & Young ShinNihon conducts audits of Tosei's accounts under contract in accordance with an annual audit plan. In addition to audits at the end of the fiscal year and the interim period, Ernst & Young ShinNihon performs reviews at the end of the first and third quarters.







(From left) Ryohei Yasuda, Noboru Hirano, Seiichiro Yamaguchi, Katsuhito Kosuge, Syunichiro Naito, Minoru Inatsuka

## Management Team

President and CEO  
Seiichiro Yamaguchi

Director and COO  
Katsuhito Kosuge

Director and CFO;  
Manager of General Administration Department  
Noboru Hirano

Director and Executive Officer of Asset Solution  
Department 1, Asset Solution Department 2, Asset  
Solution Department 3, Asset Solution Department  
4 and Asset Solution Promotion Department;  
Manager of Asset Solution Promotion Department  
Syunichiro Naito

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

Executive Officer of Architect Planning Department  
Minoru Inatsuka

Officer and Manager of Corporate  
Planning Department  
Ryohei Yasuda

(As of November 30, 2006)

### ► Fundamental Position on Internal Control Systems

At a meeting of the Board of Directors held on May 25, 2006, Tosei Corporation adopted its "Fundamental Position on Internal Control Systems." The salient points are as follows.

(1) With regard to a "framework for ensuring that directors perform their duties in accordance with relevant laws and the articles of incorporation," Tosei will work to enhance directors' awareness through the Group Compliance Standards and the Corporate Governance Meeting. At the same time, directors will supervise each other's performance and regularly receive advice from outside professionals.

(2) With regard to a "framework for storage and management of information pertaining to the directors' performance of duties," Tosei will store information appropriately, reliably and in a readily searchable format to maintain accessibility, based on internal regulations.

(3) With regard to a "framework for regulations pertaining to the management of risk of loss," Tosei has enacted Risk Management Standards to clarify the risk management structure by specifying responsible divisions for each risk category, and will regularly check the status of risk management through internal audits. In the event that a risk materializes, Tosei will coordinate with an external advisory team to quickly put together a framework that limits the spread of damage.

(4) With regard to a "framework for ensuring that directors perform their duties efficiently," Tosei will work to achieve efficiency by clarifying business targets for each director pursuant to the medium-term management plan. The Board of Directors shall make important Company decisions at its regularly scheduled or extraordinary meetings; however, executive officers appointed by the Board of Directors shall make swift decisions on the performance of certain duties in accordance with Company regulations.

(5) With regard to a "framework for ensuring that employees perform their duties in accordance with relevant laws and the articles of incorporation," Tosei

will work to instill employee awareness of compliance by formulating a compliance manual and conducting compliance training while using the internal reporting system to enhance the framework for quickly identifying problems.

(6) With regard to a "framework for ensuring that the corporate group comprising the Company and its subsidiaries engages in fair business practices," Tosei will apply its standards to its subsidiaries, including the use of internal reporting desks and attendance at various meetings, and will offer guidance and advice based on internal audits performed by the Company's Internal Audit Department and management surveys performed by the Company's Office of Corporate Planning.

(7) With regard to a "framework pertaining to employees whose assistance has been requested by the corporate auditors," Tosei will swiftly establish a framework in response to such requests and assign the necessary personnel.

(8) With regard to "matters pertaining to the independence from directors of employees noted in 7, above," Tosei shall obtain the consent of the Board of Auditors before transferring, evaluating, rewarding or punishing such employees.

(9) With regard to a "framework for reports by directors and employees to the Board of Auditors" and a "framework for other reports to the Board of Auditors," serious losses, breaches of law, improprieties and other reportable acts that occur or threaten to occur shall be promptly reported to the corporate auditors as well as at meetings attended by the corporate auditors. In addition, matters submitted via the internal reporting desk shall be promptly conveyed to the corporate auditors.

(10) With regard to a "framework for ensuring that the Board of Auditors conducts audits effectively," Tosei will assist the corporate auditors in implementing fiscal year audit plans set by the Board of Auditors and will regularly explain the financial status of the Company and the entire Group. At the same time, Tosei will proactively implement improvements based on matters raised by corporate auditors.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCES

## Income and Expenses

### ► Revenues

The cycle of economic recovery continued as capital investment increased, employee wages gradually improved and consumer spending rose amid higher corporate profit levels among domestic corporations. In the real estate industry, where the Tosei Group operates, factors driving land prices upward included firm demand for office space and the flow of investment capital into the real estate market. The national average assessed value of roadside land announced on August 1, 2006 rose for the first time in 14 years, as the land price recovery trend in large urban centers began spreading to outlying areas.

Given this environment, during the year ended November 30, 2006, the Tosei Group focused its collective efforts on steadily implementing GROWING UP 2008 in its initial year. The objectives of this medium-term management plan are to increase corporate value by doubling the scale of business and building the corporate brand. As a result of these efforts, revenues totaled ¥24,741 million, an increase of 40.2 percent compared with the previous fiscal year.

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

In tandem with the increase in revenues, cost of revenues increased 29.7 percent compared with the previous fiscal year to ¥16,584 million. Gross profit rose 68.0 percent to ¥8,157 million, due in part to higher selling prices in a strong overall real estate market and the Group's emphasis on improving profit margins. However, selling, general and administrative (SGA) expenses were ¥2,256 million, an increase of 70.9 percent, owing to aggressive expansion of the workforce for further growth, which resulted in personnel expenses of ¥1,298 million, an increase of 63.8 percent, as well as ¥64 million in expenses from establishing the new Company name, moving the head office and other factors.

As a result, operating income totaled ¥5,901 million, an increase of 66.9 percent, and the operating margin was 23.9 percent, an increase of 3.9 percentage points.

## ► Segment Information

### Revitalization Business

Against the backdrop of a brisk real estate market, the Tosei Group made strong progress in aggressively developing the revitalization business through original "value-up" activities that increase the value of real estate. The Group sold 27 properties during the year ended November 30, 2006. As a result, segment revenues totaled ¥15,650 million, an increase of 50.5 percent compared with the previous fiscal year. Segment operating income was ¥4,040 million, an increase of 81.8 percent, due to a number of high-margin properties that improved profitability.

### Development Business

In the year ended November 30, 2006, the Tosei Group added new office and commercial buildings to its lineup, and sold two properties to investors and two to end-users. However, because the Group smoothly achieved its fiscal year targets due to favorable gross profit margins in the revitalization business and other segments, it has delayed selling the Toranomon Tosei Building and several other development properties until the next fiscal year or later. As a result, segment revenues totaled ¥3,843 million, a decrease of 14.0 percent compared with the previous fiscal year, and segment operating income was ¥514 million, a decrease of 6.2 percent.

### Rental Business

The occupancy rate improved at rental properties owned by the Tosei Group. In addition, inventory of rental properties for use in the revitalization business increased. As a result, rental properties totaled 57, segment revenues were ¥1,839 million, an increase of 11.8 percent compared with the previous fiscal year, and segment operating income was ¥985 million, an increase of 6.0 percent.

### Fund Business

Increased acquisitions of new properties resulted in expansion of assets under management. Acquisition fees and asset management fees also increased. In addition, incentive fees generated by strong asset management results and brokerage fees on sales of fund properties contributed significantly to results. As a result, segment revenues totaled ¥1,419 million, an increase of 306.6 percent compared with the previous

## Segment Revenues and Operating Income

(Millions of yen)

	2006		2005	
	Revenues	Operating Income	Revenues	Operating Income
Revitalization Business	15,650	4,040	10,400	2,222
Development Business	3,843	514	4,467	548
Rental Business	1,839	985	1,645	929
Fund Business	1,419	1,117	349	295
Property Management Business	1,904	122	658	40
Alternative Investment Business	336	278	220	197
Eliminations and Corporate	(250)	(1,155)	(96)	(695)
<b>Total</b>	<b>24,741</b>	<b>5,901</b>	<b>17,644</b>	<b>3,536</b>

Note: Revenue figures include intersegment transactions and total allocated operating expenses have not been deducted from operating income figures.



fiscal year, and segment operating income was ¥1,117 million, an increase of 278.6 percent. The balance of assets under management totaled ¥41,251 million as of November 30, 2006, an increase of 103.8 percent compared with ¥20,244 million a year earlier. Including properties being held by consolidated subsidiary Pegasus Capital, Ltd. for incorporation in a fund in December 2007, the actual balance of assets under management was ¥48,063 million.

### Property Management Business

The number of managed properties was 419, an increase of 10.6 percent, or 40 properties, compared with the previous fiscal year, as the Tosei Group worked to acquire new contracts, including one for a condominium complex, in order to offset contract cancellations caused by changes in office building ownership. As a result, segment revenues were ¥1,904 million, an increase of 189.4 percent, and segment operating income was ¥122 million, an increase of 205.0 percent. The property management business was included in the scope of consolidation from May 1, 2005. Accordingly, segment revenue and income figures for the previous fiscal year are for the six-month period ended November 30, 2005.

### Alternative Investment Business

Segment revenues were ¥336 million, an increase of 52.7 percent compared with the previous fiscal year, and operating income was ¥278 million, an increase of 41.1 percent, due to an increase in fees received from the closing of third-party real estate-backed non-performing loan funds managed by Tosei Corporation and dividend income from Tokumei Kumiai (private equity) investments.

### ► Other Income (Expenses) and Income before Income Taxes

Other expenses, net totaled ¥604 million, the major component of which was interest expense totaling ¥595 million. Other income included a refund of earnest money at cancellation totaling ¥100 million.

As a result of the above, income before income taxes was ¥5,297 million, an increase of 77.6 percent compared with the previous fiscal year. The ratio of income before income taxes to revenues was 21.4 percent. Income before income taxes per employee as of November 30, 2006 was ¥39.5 million.

### ► Net Income

As a result of the above, net income for the year ended November 30, 2006 was ¥2,737 million, an increase of 71.8 percent. Net income per share was ¥7,412.80.

### 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 by taking advantage of highly profitable business opportunities. The target payout ratio for the medium-term management plan, which began on December 1, 2005, is 20 percent of non-

consolidated net income. Accordingly, cash dividends per share for the fiscal year ended November 30, 2006 totaled ¥1,400, up from ¥450 per share for the previous fiscal year.

## Liquidity and Financial Position

### ► Revenues

The Tosei Group aims to secure sufficient capital for its business activities, maintain liquidity and achieve a sound financial position. In particular, because the revitalization, development and alternative investment businesses require large amounts of capital for real estate, real-estate-backed NPL and other purchases, the Group must use interest-bearing debt aggressively but stably, and endeavors to obtain timely financing by shifting to fixed interest rates, using commitment contracts and other means that meet particular capital needs. The Group has loan commitment contracts with financial institutions totaling ¥8,750 million, but did not use them to secure any loans during the fiscal year ended November 30, 2006.

### ► Cash Flow

#### Cash Flow Summary

(Millions of yen)

	Fiscal Year ended November 30, 2006	Fiscal Year ended November 30, 2005
Cash flow from operating activities	(10,857)	(8,839)
Cash flow from investing activities	472	(607)
Cash flow from financing activities	14,339	9,361
Net increase (decrease) in cash and cash equivalents	3,954	(85)

#### Cash Flow from Operating Activities

Net cash used in operating activities was ¥10,857 million, compared with ¥8,839 million in the previous fiscal year, primarily due to a ¥14,981 million increase in inventories resulting from the acquisition of new properties by the revitalization and development businesses, which offset income before income taxes of ¥5,297 million.

#### Cash Flow from Investing Activities

Net cash provided by investing activities was ¥472 million, compared with ¥607 million used in the previous fiscal year, primarily due to the collection of investments in securities by the Alternative Investment Business and real estate funds totaling ¥712 million. Tosei did not generate free cash flow during the fiscal year ended November 30, 2006. The sum of net cash used in operating activities and net cash provided by investing activities was net cash of ¥10,385 million used compared with net cash of ¥9,446 million used in the previous fiscal year.

#### Cash Flow from Financing Activities

Net cash provided by financing activities was ¥14,339 million, compared with ¥9,361 million in the previous fiscal year, primarily due to proceeds from a new stock issue overseas totaling ¥4,329 million and from increased borrowings to acquire new properties including ¥25,482

million in proceeds from long-term debt, while the Company's repayment of debt in conjunction with the sale of properties included ¥11,645 million in repayments of long-term debt and a net decrease in short-term borrowings.

As a result of the above, cash and cash equivalents as of November 30, 2006 were ¥6,485 million, a net increase of ¥3,954 million from the beginning of the fiscal year.

## ► Financial Position

### Assets

Total assets as of November 30, 2006 were ¥60,136 million, an increase of 48.8 percent from a year earlier, and return on average total assets (ROA) was 5.4 percent, an increase of 1.5 percentage points.

Current assets totaled ¥51,384 million, an increase of 57.8 percent compared with the end of the previous fiscal year. The principal components of current assets were ¥6,644 million in cash, an increase of 148.7 percent, as well as ¥20,778 million in real estate for sale, an increase of 64.8 percent, and ¥19,263 million in real estate for sale in progress, an increase of 37.8 percent, both due to acquisition of properties through expansion of the revitalization business and other businesses.

Property and equipment totaled ¥8,091 million, an increase of 21.4 percent from the end of the previous fiscal year due to the addition of two buildings transferred from current assets. Investments and other assets totaled ¥661 million, a decrease of 43.7 percent.

### Liabilities

Current liabilities totaled ¥18,631 million, an increase of 24.7 percent compared with the previous fiscal year. Long-term debt due within one year increased 62.0 percent to ¥12,975 million while short-term borrowings decreased 79.3 percent to ¥910 million. The sum of short-term borrowings and long-term debt due within one year was ¥13,885 million, an increase of 12.0 percent.

Long-term liabilities totaled ¥26,275 million, an increase of 53.0 percent compared with the previous fiscal year, and consisted mainly of long-term debt used to acquire properties. Total interest-bearing debt was ¥38,547 million, an increase of 35.8 percent.

### Net Assets

Total net assets as of November 30, 2006 were ¥15,230 million, an increase of 83.6 percent compared with the previous fiscal year. The increase included an additional ¥4,364 million in shareholders' equity, consisting of additional paid-in capital from a new stock issue overseas of 30,000 shares and the issuance of 1,980 new shares on exercise of stock options, as well as net income of ¥2,737 million. The net worth ratio was 25.3 percent, an increase of 4.8 percentage points from the end of the previous fiscal year, and return on equity (ROE) was 23.3 percent, an increase of 4.1 percentage points.

## 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. For further details, please refer to the Summary of Consolidated Financial Statements for the Fiscal Year Ended November 30, 2006.

## 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.

#### (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

Even though real estate funds are strictly investment products predicated on the responsibility of investors, and Tosei makes no warranty and accepts no liability regarding 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 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, 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. Moreover, delays in selling projects or lower-than-anticipated selling prices have the potential to affect the Tosei Group's cash flow.

## 3. Accounting Standards and Tax System

### (i) Changes in Accounting Standards and the Real Estate Tax System

Changes regarding accounting standards and the real estate tax system could cause increases in the cost of holding, acquiring and selling assets, and therefore have the potential to affect the operating results and financial position of the Tosei Group. In particular, as a result of the "Application Guidelines for Fixed Asset Impairment Accounting," announced by the Accounting Standards Board of Japan on October 31, 2003, asset impairment accounting is applied for fiscal years beginning on or after April 1, 2005. Consequently, there is a possibility that the Tosei Group could incur asset impairment losses.

### (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.

## 4. Defect Liability and After-sale Service

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." 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.

## 5. Human Resources

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.

## 6. Medium-term Management Plan

The medium-term management 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.

## 7. Structural Design Data Falsification Scandal

The Tosei Group has performed surveys on all properties it developed since May 1999 to determine possible involvement of the Aneha Architectural Design Office in the structural design data, and has 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. Any strengthening of related laws and regulations in response to the structural data falsification scandal, or the lengthening of construction schedules, could potentially increase costs, and therefore has the potential to affect the operating results and financial position of the Tosei Group.

## 8. Other

When purchasing a second-hand property, the Tosei Group surveys the building's structure, use of asbestos, soil pollution and other elements. However, business execution may be temporarily suspended or prolonged if 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.

# CONSOLIDATED BALANCE SHEETS

Tosei Corporation and Consolidated Subsidiaries  
As of November 30, 2006 and 2005

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
<b>Current assets:</b>			
Cash (Note 3).....	¥ 6,644	¥ 2,671	\$ 57,499
Notes and accounts receivable.....	266	147	2,302
Marketable securities .....	10	10	87
Real estate for sale (Notes 2(c), 3) .....	20,778	12,607	179,818
Real estate for sale in progress (Notes 2(c), 3) .....	19,263	13,977	166,707
Purchased receivables (Note 3) .....	1,985	1,723	17,179
Supplies .....	1	1	9
Deferred tax assets (Note 7).....	213	130	1,843
Other .....	2,236	1,307	19,351
Less: allowance for doubtful accounts .....	(12)	(4)	(104)
Total current assets .....	51,384	32,569	444,691
<b>Property and equipment (Note 2(c)):</b>			
Buildings and structures (Note 3) .....	2,129	1,725	18,425
Tools and furniture.....	56	33	485
Land .....	5,906	4,906	51,112
Total property and equipment.....	8,091	6,664	70,022
<b>Investments and other assets:</b>			
Investments in securities.....	262	904	2,267
Loans receivable.....	3	4	26
Deferred tax assets (Note 7).....	82	68	710
Bond issue cost.....	—	7	—
Software .....	61	30	528
Telephone rights.....	2	2	17
Other .....	251	160	2,172
Less: allowance for doubtful accounts .....	(0)	(1)	(0)
Total investments and other assets .....	661	1,174	5,720
Total assets.....	¥60,136	¥40,407	\$520,433

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
<b>Current liabilities:</b>			
Notes and accounts payable .....	¥ 1,181	¥ 372	\$ 10,221
Short-term borrowings (Note 3) .....	910	4,390	7,875
Bonds due within one year (Note 3) .....	24	194	208
Long-term debt due within one year (Note 3) .....	12,975	8,008	112,289
Income taxes payable .....	1,985	1,081	17,179
Advance received .....	625	383	5,409
Accrued bonuses to employees .....	10	10	87
Accrued bonuses to officers .....	20	—	173
Other .....	901	504	7,797
Total current liabilities .....	18,631	14,942	161,238
<b>Long-term liabilities:</b>			
Bonds (Note 3) .....	298	322	2,579
Long-term debt (Note 3) .....	24,340	15,471	210,645
Deferred tax liabilities (Note 7) .....	23	22	199
Accrued severance costs .....	35	31	303
Accrued retirement benefits to officers .....	191	152	1,653
Consolidation adjustment .....	4	6	35
Other .....	1,384	1,167	11,977
Total long-term liabilities .....	26,275	17,171	227,391
Total liabilities .....	44,906	32,113	388,629
<b>Net Assets:</b>			
Shareholders' equity (Note 6):			
Common stock:			
Authorized: 1,379,000 shares			
Issued: 376,838 shares in 2006 and 344,858 shares in 2005 .....	4,148	1,966	35,898
Additional paid-in capital .....	4,232	2,050	36,625
Retained earnings .....	6,841	4,270	59,204
Total shareholders' equity .....	15,221	8,286	131,727
Valuation, foreign currency and other adjustments:			
Unrealized gain on securities .....	9	8	77
Total valuation, foreign currency and other adjustments .....	9	8	77
Total net assets .....	15,230	8,294	131,804
Total liabilities and net assets .....	¥60,136	¥40,407	\$520,433

# CONSOLIDATED STATEMENTS OF OPERATIONS

Tosei Corporation and Consolidated Subsidiaries  
Years ended November 30, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Revenues .....	¥24,741	¥17,644	\$214,115
Cost of revenues .....	16,584	12,788	143,522
Gross profit .....	8,157	4,856	70,593
Selling, general and administrative expenses .....	2,256	1,320	19,524
Operating income .....	5,901	3,536	51,069
<b>Other income (expenses):</b>			
Interest and dividend income .....	1	1	9
Refund of property tax.....	—	9	—
Refund of earnest money at cancellation .....	100	7	865
Interest expense .....	(595)	(534)	(5,149)
Share transfer expense .....	(34)	—	(294)
Penalty at contract cancellation .....	—	(17)	—
Commissions paid .....	(36)	—	(312)
Other, net.....	(40)	(20)	(346)
	(604)	(554)	(5,227)
Income before income taxes .....	5,297	2,982	45,842
<b>Income taxes (Note 7):</b>			
Current .....	2,657	1,434	22,994
Deferred .....	(97)	(45)	(839)
	2,560	1,389	22,155
Net income .....	¥ 2,737	¥ 1,593	\$ 23,687
<b>Per share of common stock:</b>			
Net income: Basic .....	¥7,412.80	¥4,664.46	\$64.15
Diluted .....	7,405.87	4,571.59	64.09
Cash dividends applicable to the year .....	1,400.00	450.00	12.12

The accompanying notes are an integral part of these statements.



# CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Tosei Corporation and Consolidated Subsidiaries  
Year ended November 30, 2006

	Millions of yen						
	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	
<b>Balance at November 30, 2005</b> .....	¥1,966	¥2,050	¥4,270	¥ 8,286	¥8	¥8	¥ 8,294
Issuance of new shares.....	2,182	2,182		4,364			4,364
Dividends from retained earnings ...			(155)	(155)			(155)
Bonuses to officers from retained earnings.....			(11)	(11)			(11)
Net income .....			2,737	2,737			2,737
Change in items other than shareholders' equity during the year (net).....					1	1	1
<b>Balance at November 30, 2006</b> .....	<b>¥4,148</b>	<b>¥4,232</b>	<b>¥6,841</b>	<b>¥15,221</b>	<b>¥9</b>	<b>¥9</b>	<b>¥15,230</b>

	Thousands of U.S. dollars						
	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	
<b>Balance at November 30, 2005</b> .....	\$17,014	\$17,741	\$36,954	\$ 71,709	\$69	\$69	\$ 71,778
Issuance of new shares.....	18,884	18,884		37,767			37,767
Dividends from retained earnings ...			(1,341)	(1,341)			(1,341)
Bonuses to officers from retained earnings.....			(95)	(95)			(95)
Net income .....			23,687	23,687			23,687
Change in items other than shareholders' equity during the year (net).....					9	9	9
<b>Balance at November 30, 2006</b> .....	<b>\$35,898</b>	<b>\$36,625</b>	<b>\$59,204</b>	<b>\$131,727</b>	<b>\$78</b>	<b>\$78</b>	<b>\$131,805</b>

# CONSOLIDATED STATEMENT OF ADDITIONAL PAID-IN CAPITAL AND RETAINED EARNINGS

Tosei Corporation and Consolidated Subsidiaries  
Year ended November 30, 2005

	Millions of yen
	2005
<b>Additional paid-in capital:</b>	
Additional paid-in capital, beginning of year.....	¥2,011
Increase in additional paid-in capital:	
Issuance of new shares on exercise of stock options.....	39
Additional paid-in capital, end of year .....	2,050
<b>Retained earnings:</b>	
Retained earnings, beginning of year .....	2,719
Increase in retained earnings:	
Net income.....	1,593
Decrease in retained earnings:	
Cash dividends paid.....	41
Decrease from increase in consolidated subsidiaries .....	1
Retained earnings, end of year .....	¥4,270

# CONSOLIDATED STATEMENTS OF CASH FLOW

Tosei Corporation and Consolidated Subsidiaries  
Years ended November 30, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
<b>Cash flow from operating activities:</b>			
Income before income taxes .....	¥ 5,297	¥ 2,982	\$ 45,842
Depreciation .....	207	181	1,791
Amortization of consolidation adjustment.....	(1)	(1)	(9)
Increase in allowances .....	71	38	614
Interest and dividend income .....	(1)	(1)	(9)
Interest expenses.....	595	534	5,149
Valuation gain on investments in <i>Tokumei Kumiai</i> (private equity).....	(87)	(24)	(753)
Increase in notes and accounts receivable .....	(119)	(31)	(1,030)
Increase in purchased receivables.....	(262)	(1,723)	(2,267)
Increase in inventories.....	(14,981)	(7,062)	(129,650)
Increase in advance payment .....	(475)	(1,095)	(4,111)
Increase (decrease) in notes and accounts payable .....	810	(1,082)	7,010
Increase (decrease) in advance received.....	241	(453)	2,086
Increase in deposits received.....	217	26	1,878
Other.....	(18)	262	(156)
Sub-total.....	(8,506)	(7,450)	(73,615)
Receipts of interest and dividends.....	23	57	199
Payments of interest .....	(618)	(542)	(5,348)
Payments of income taxes.....	(1,756)	(905)	(15,197)
<b>Net cash used in operating activities.....</b>	<b>(10,857)</b>	<b>(8,839)</b>	<b>(93,959)</b>
<b>Cash flow from investing activities:</b>			
Increase (decrease) in time deposits .....	(19)	45	(164)
Purchases of property and equipment .....	(90)	(144)	(779)
Purchases of intangible assets.....	(39)	(31)	(338)
Investments in securities.....	(6)	(3,865)	(52)
Sales of investments in securities.....	5	3,320	43
Collection of investments in securities .....	712	77	6,162
Acquisition of equity in newly consolidated subsidiary .....	—	(7)	—
Purchases of investments.....	(5)	(12)	(43)
Other.....	(86)	10	(744)
<b>Net cash provided by (used in) investing activities.....</b>	<b>472</b>	<b>(607)</b>	<b>4,085</b>
<b>Cash flow from financing activities:</b>			
Net increase (decrease) in short-term borrowings.....	(3,480)	1,041	(30,117)
Proceeds from long-term debt.....	25,482	14,570	220,528
Repayments of long-term debt.....	(11,645)	(6,262)	(100,779)
Redemption of bonds .....	(194)	(24)	(1,679)
Proceeds from new stock issue.....	4,329	76	37,464
Cash dividends paid .....	(153)	(40)	(1,324)
<b>Net cash provided by financing activities .....</b>	<b>14,339</b>	<b>9,361</b>	<b>124,093</b>
<b>Net increase (decrease) in cash and cash equivalents .....</b>	<b>3,954</b>	<b>(85)</b>	<b>34,219</b>
<b>Cash and cash equivalents of newly consolidated subsidiaries at beginning of the year.....</b>	<b>—</b>	<b>15</b>	<b>—</b>
<b>Cash and cash equivalents at beginning of the year.....</b>	<b>2,531</b>	<b>2,601</b>	<b>21,904</b>
<b>Cash and cash equivalents at end of the year.....</b>	<b>¥ 6,485</b>	<b>¥ 2,531</b>	<b>\$ 56,123</b>

The accompanying notes are an integral part of these statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Tosei Corporation and Consolidated Subsidiaries  
Years ended November 30, 2006 and 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 ¥115.55 to \$1, the approximate rate of exchange at November 30, 2006. 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, 2006 include the accounts of the Company and its 13 (11 in 2005) 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, 2006 and 2005 are reconciled with cash in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash.....	¥6,644	¥2,671	\$57,499
Time deposits with maturities of more than three months.....	(159)	(140)	(1,376)
Cash and cash equivalents.....	¥6,485	¥2,531	\$56,123

### 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.

Rental property owned as real estate for sale (buildings: ¥540 million (US\$4,673 thousand); land: ¥1,103 million (US\$9,546 thousand)) has been transferred to property and equipment, and rental property owned as property and equipment (buildings: ¥128 million (US\$1,108 thousand); land: ¥103 million (US\$891 thousand)) has been transferred to real estate for sale, due to a change in the Company's business policy.

### 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 net assets. 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.

#### j. Impairment of Property and Equipment

Effective from the fiscal year ended November 30, 2006, the Company applies Accounting Standards for Impairment of Fixed Assets. This change has no effect on the Company's profit and loss.

#### k. Accounting Standards for Presentation of Net Assets on the Balance Sheets

Effective from the fiscal year ended November 30, 2006, the Company applies Accounting Standards for Presentation of Net Assets on the Balance Sheet and Application Guidelines for Accounting Standards for Presentation of Net Assets on the Balance Sheet issued by the Accounting Standards Board of Japan on December 9, 2005.

Following the revision of the rules for consolidated financial statements, the consolidated balance sheets of the Company for the year ended November 30, 2006 are prepared in accordance with those revised rules. The balance sheets for the year ended November 30, 2005 are restated in conformity with the revision for comparison.

### 3. Short-term Borrowings and Long-term Debt

Short-term borrowings, amounting to ¥910 million (US\$7,875 thousand) as of November 30, 2006, were loans from banks with an average interest rate of 2.14% per year.

Bonds as of November 30, 2006 and 2005 consisted of the following:

	Issued	Due	Interest (%)	Millions of yen		Thousands of U.S. dollars
				2006	2005	2006
Unsecured bonds	3/31/04	3/31/09	0.19	¥ 250	¥ 250	\$ 2,164
Unsecured bonds	6/10/04	6/10/09	0.31	72	96	623
Unsecured bonds	8/10/04	8/10/06	0.46	—	170	—
				322	516	2,787
Less: current portion of bonds.....				(24)	(194)	(208)
Total .....				¥ 298	¥ 322	\$ 2,579

Annual maturities of bonds as of November 30, 2006 within five years were as follows:

Years ending November 30	Millions of yen	Thousands of U.S. dollars
2007	¥ 24	\$ 208
2008	24	208
2009	274	2,371
2010	—	—

Long-term debt, amounting to ¥37,315 million (US\$322,934 thousand) as of November 30, 2006, consisted of loans from banks with an average interest rate of 1.70% per year. Annual maturities of bonds as of November 30, 2006 (except for current portion of ¥12,975 million (US\$122,289 thousand)) within five years were as follows:

Years ending November 30	Millions of yen	Thousands of U.S. dollars
2008	¥19,518	\$168,913
2009	1,200	10,385
2010	345	2,985
2011	345	2,985

The book values of assets pledged as collateral for debt as of November 30, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash.....	¥ 20	¥ 170	\$ 173
Real estate for sale.....	18,946	11,487	163,964
Real estate for sale in progress.....	16,575	13,235	143,444
Purchased receivables.....	1,985	1,092	17,179
Other.....	900	900	7,789
Buildings and structures ..	1,902	1,397	16,460
Land .....	5,265	4,020	45,565
Total .....	¥45,593	¥32,300	\$394,574

Debt related to the above pledged assets as of November 30, 2006 and 2005 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Short-term borrowings .....	¥ 910	¥ 4,370	\$ 7,875
Long-term debt due within one year .....	12,975	7,900	112,289
Long-term debt .....	24,340	15,039	210,645
Total .....	¥38,225	¥27,309	\$330,809

#### 4. Contingent Liabilities

As of November 30, 2006 the Company was contingently liable for guarantees on six customers' housing loans from Arca

Corporation, amounting to ¥13 million (US\$113 thousand).

#### 5. Loan Commitment Agreements

The Company enters into loan commitment agreements with banks to procure funds efficiently when purchasing properties. The unexecuted balance of borrowings based on these agreements as of November 30, 2006 was as follows:

	Millions of yen
Total loan commitments .....	¥8,750
Less amount currently executed.....	—
Unexecuted balance.....	¥8,750

#### 6. 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

Two stock option plans, for (1) four directors of the Company, 72 employees of the Company and two directors of subsidiaries of the Company and (2) nine employees of the Company,

respectively, were resolved by the shareholders' meeting held on February 27, 2007. Details of the stock options are as follows:

	Stock Option Plan (1)	Stock Option Plan (2)
Type of share:	Common stock	Common stock
Number of shares:	Equal to or less than 3,690 shares in total	Equal to or less than 460 shares in total
Grant price:	¥164,685	¥143,564
Effective period:	March 1, 2008 to February 28, 2011	May 1, 2008 to February 28, 2011

#### 7. 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 years ended November 30, 2006 and 2005.



Major components of deferred tax assets as of November 30, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Deferred tax assets (current):</b>			
Unpaid enterprise taxes.....	¥133	¥ 72	\$1,151
Excess depreciation .....	49	40	424
Other .....	33	17	285
Valuation allowance .....	(2)	—	(17)
	213	130	1,843
<b>Deferred tax assets (non-current):</b>			
Excess accrued severance costs .....	14	13	121
Excess accrued retirement benefits to officers .....	78	62	675
Loss carried forward of consolidated subsidiaries ...	54	9	467
Other .....	4	3	35
Valuation allowance .....	(62)	(12)	(536)
	88	73	762
Total deferred tax assets	301	203	2,605
<b>Deferred tax liabilities (non-current):</b>			
Valuation difference on assets and liabilities of subsidiaries.....	(23)	(23)	(199)
Unrealized gain on securities.....	(6)	(5)	(52)
Total deferred tax liabilities .....	(29)	(28)	(251)
Net deferred tax assets .....	¥272	¥175	\$2,354

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

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Current assets.....	¥213	¥130	\$1,843
Non-current assets .....	82	68	710
Non-current liabilities.....	(23)	(22)	(199)
Total.....	¥272	¥176	\$2,354

Reconciliation between the normal effective statutory tax rate for the years ended November 30, 2006 and 2005 and the actual effective tax rate reflected in the accompanying consolidated statement of income was as follows:

	2006	2005
Normal effective statutory tax rate .....	40.7%	40.7%
Expenses not deductible for income tax purposes .....	0.2	0.2
Tax on undistributed income .....	6.4	5.2
Other - net.....	1.0	0.5
Actual effective tax rate.....	48.3%	46.6%

## 8. Segment Information

Information about industry segments of the Companies for the years ended November 30, 2006 and 2005 is as follows:

	Millions of yen							Eliminations or corporate	Consolidated
	Revitalization Business	Development Business	Rental Business	Fund Business	Property Management Business	Alternative Investment Business	Total		
<b>2006</b>									
<b>Sales and operating income:</b>									
Revenue from operations:									
Outside customers	¥15,650	¥ 3,843	¥1,836	¥1,405	¥1,671	¥ 336	¥24,741	¥ —	¥24,741
Intersegment	—	—	3	14	233	—	250	(250)	—
Total revenues	15,650	3,843	1,839	1,419	1,904	336	24,991	(250)	24,741
Operating expenses	11,610	3,329	854	302	1,782	58	17,935	905	18,840
Operating income	¥ 4,040	¥ 514	¥ 985	¥1,117	¥ 122	¥ 278	¥ 7,056	¥(1,155)	¥ 5,901
<b>Assets, depreciation and capital expenditures:</b>									
Assets	¥24,202	¥17,600	¥8,655	¥ 532	¥ 658	¥2,839	¥54,485	¥ 5,651	¥60,136
Depreciation	—	—	168	1	—	0	169	39	207
Capital expenditures	—	—	122	3	21	3	149	18	167

2005	Millions of yen								
	Revitalization Business	Development Business	Rental Business	Fund Business	Property Management Business	Alternative Investment Business	Total	Eliminations or corporate	Consolidated
<b>Sales and operating income:</b>									
Revenue from operations:									
Outside customers	¥10,400	¥ 4,467	¥1,645	¥349	¥562	¥ 220	¥17,644	¥ —	¥17,644
Intersegment	—	—	—	—	96	—	96	(96)	—
Total revenues	10,400	4,467	1,645	349	658	220	17,740	(96)	17,644
Operating expenses	8,179	3,919	716	55	618	23	13,509	599	14,108
Operating income	¥ 2,222	¥ 548	¥ 929	¥295	¥ 40	¥ 197	¥ 4,231	¥ (695)	¥ 3,536
<b>Assets, depreciation and capital expenditures:</b>									
Assets	¥15,656	¥12,300	¥5,227	¥905	¥323	¥2,017	¥36,428	¥3,978	¥40,407
Depreciation	1	1	150	0	0	—	152	28	181
Capital expenditures	13	8	65	4	—	—	90	89	178

2006	Thousands of U.S. dollars								
	Revitalization Business	Development Business	Rental Business	Fund Business	Property Management Business	Alternative Investment Business	Total	Eliminations or corporate	Consolidated
<b>Sales and operating income:</b>									
Revenue from operations:									
Outside customers	\$135,439	\$ 33,258	\$15,889	\$12,159	\$14,461	\$ 2,908	\$214,115	\$ —	\$214,115
Intersegment	—	—	26	121	2,016	—	2,164	(2,164)	—
Total revenues	135,439	33,258	15,915	12,280	16,477	2,908	216,279	(2,164)	214,115
Operating expenses	100,476	28,810	7,391	2,614	15,421	502	155,214	7,832	163,046
Operating income	\$ 34,963	\$ 4,448	\$ 8,524	\$ 9,666	\$ 1,056	\$ 2,406	\$ 61,065	\$ (9,996)	\$ 51,069
<b>Assets, depreciation and capital expenditures:</b>									
Assets	\$209,450	\$152,315	\$74,903	\$ 4,604	\$ 5,695	\$24,569	\$471,527	\$48,905	\$520,433
Depreciation	—	—	1,454	9	—	0	1,463	338	1,791
Capital expenditures	—	—	1,056	25	182	25	1,289	156	1,445

## 9. Subsequent Event

### Resolutions of Shareholders' Meeting

At the general shareholders' meeting held on February 27, 2007, the Company's shareholders approved the following appropriation of retained earnings for the year ended November 30, 2006.

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥1,400 (\$12.16) per share .....	¥528	\$4,569
Officers' bonuses .....	240	2,077

# CORPORATE DATA

(As of November 30, 2006)

<b>Company name</b>	Tosei Corporation	<b>History</b>	
<b>President and CEO</b>	Seiichiro Yamaguchi	<b>1950 February</b>	Established as Yukari Kogyo Co., Ltd. (Head Office: Oita City, Oita Prefecture)
<b>Date of establishment</b>	February 2, 1950	<b>1952 April</b>	Moved Head Office to Kameido, Koto Ward, Tokyo
<b>Address</b>	Toranomon Tosei Building, 4-2-3 Toranomon, Minato-ku, Tokyo	<b>1964 June</b>	Initiated real estate sales, brokerage, rental and property management businesses
<b>Capital</b>	¥4,148,011,500	<b>1968 May</b>	Moved Head Office to Soto-Kanda, Chiyoda Ward, Tokyo
<b>Employees</b>	83 (Non-consolidated) 134 (Consolidated)	<b>1969 July</b>	Company name changed to Yukari Co., Ltd.
<b>Fields of business</b>	Revitalization; Development; Rental; Property management; Funds; Alternative investment	<b>1983 March</b>	Company name changed to Tosei Building Co., Ltd.
<b>Licenses, permits and registrations</b>	Specified Construction Business License, Real Estate Specific Joint Enterprise Permit, Real Estate Business License, First-class Architect's Office License, General Real Estate Investment Advisory Business Registration, Securities Investment Advisory Business Registration, Registered Dealer of Investment Trust Beneficiary Rights	<b>1994 June</b>	Seiichiro Yamaguchi appointed as President and CEO
<b>Consolidated subsidiaries</b>	Tosei Community Co., Ltd. Tosei Revival Investment Co., Ltd. Tosei REIT Advisors, Inc. (and 10 others)	<b>October</b>	Initiated residential condominium development (THE Palms Series)
<b>Management Team</b>		<b>1995 September</b>	Kanda Awaji-cho Building Co., Ltd. established
<b>President and CEO</b> Seiichiro Yamaguchi		<b>1996 March</b>	Company name changed to Tosei Fudosan Co., Ltd.
<b>Director and COO</b> Katsuhito Kosuge		<b>December</b>	Moved Head Office to Kanda, Awaji-cho, Chiyoda Ward, Tokyo
<b>Director and CFO;</b> <b>Manager of General Administration Department</b> Noboru Hirano		<b>1997 December</b>	Initiated construction contractor operations, including repair and renovation, as part of the property management business
<b>Director and Executive Officer of Asset Solution Department 1,</b> <b>Asset Solution Department 2, Asset Solution Department 3, Asset</b> <b>Solution Department 4 and Asset Solution Promotion Department;</b> <b>Manager of Asset Solution Promotion Department</b> Syunichiro Naito		<b>1999 July</b>	Initiated single-family dwelling home development with Palms Court Series
<b>Corporate Auditors</b> Yasuhiro Honda (full-time) Kimio Harada (full-time) Shigeru Yamagishi (part-time) Eiji Sakamoto (part-time)		<b>2001 February</b>	Initiated asset management business
<b>Executive Officer of Architect Planning Department</b> Minoru Inatsuka		<b>March</b>	Acquired and merged three companies through leveraged buyouts
<b>Officer and Manager of Corporate Planning Department</b> Ryohei Yasuda		<b>April</b>	Acquired First-class Architect's Office License (License No. Tokyo Governor's Registration (46219))
		<b>November</b>	Building Management Division spun off to Tosei Community Co., Ltd.
		<b>December</b>	Formed Securitization Division aiming to enter real estate securitization business
		<b>2002 August</b>	Structured first private real estate investment trust fund, the Argo Fund, targeting rental condominiums (commencement of real estate securitization business)
		<b>December</b>	Acquired and merged Kanda Awaji-cho Building Co., Ltd.
		<b>2004 February</b>	Listed on the JSDA Over-the-Counter Trading Securities Market
		<b>December</b>	Listed on JASDAQ following closure of the JSDA Over-the-Counter Trading Securities Market
		<b>2005 March</b>	Established the subsidiary Tosei Revival Investment to conduct corporate and business turnarounds
		<b>April</b>	Made Tosei Community a consolidated subsidiary
		<b>September</b>	Established the subsidiary Tosei REIT Advisors, Inc.
		<b>2006 October</b>	Company name changed to Tosei Corporation; moved Head Office to Toranomon, Minato Ward, Tokyo
		<b>November</b>	Listed on Second Section of Tokyo Stock Exchange

# INVESTOR INFORMATION

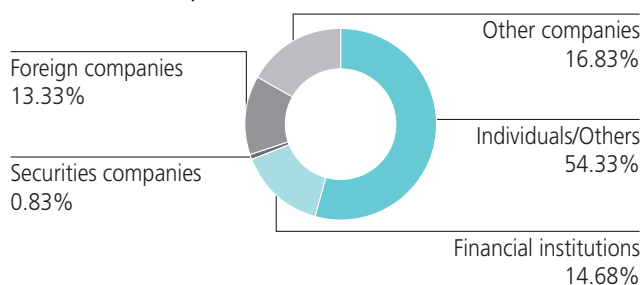
(As of November 30, 2006)

Authorized number of shares 1,379,000

Issued number of shares 376,838

Number of shareholders 7,233

## Shareholder composition



Ticker code 8923

Stock listing Tokyo Stock Exchange,  
Second Section  
JASDAQ Securities Exchange

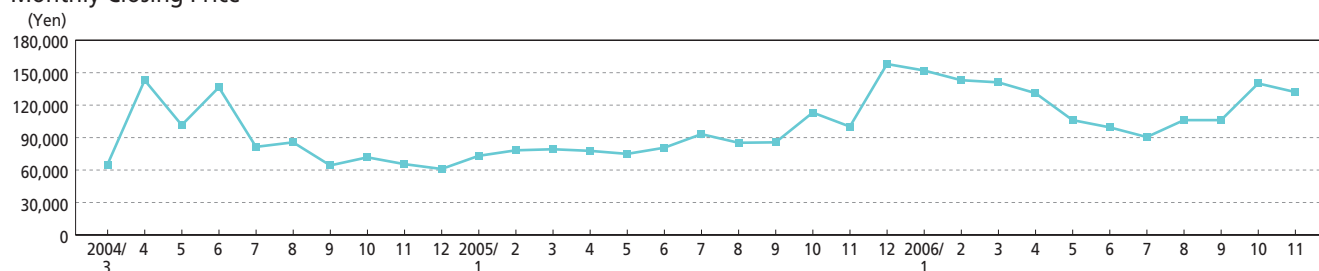
Closing of accounts November

General shareholders' meeting Every February

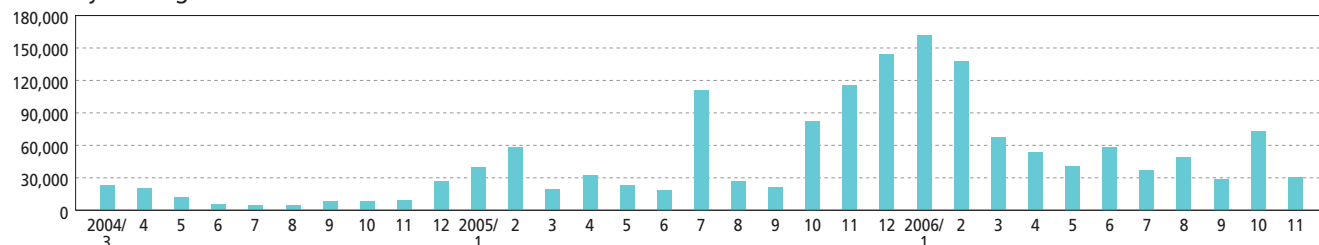
## Major Shareholders

Shareholders	Number of shares held	Shareholding ratio (%)
Seiichiro Yamaguchi	138,855	36.84
Zeus Capital Limited	60,000	15.92
The Master Trust Bank of Japan, Ltd. (Trust Account)	31,720	8.41
Morgan Stanley and Company International Limited	11,507	3.05
Japan Trustee Service Bank, Ltd. (Trust Account)	7,453	1.97
Nomura Trust and Banking Co., Ltd. (Trust Account)	6,549	1.73
BNP Paribas Securities Service Luxembourg JASDAQ Securities	6,100	1.61
Bank of New York JCM Client Accounts EISG	5,599	1.48
Sumitomo Life Insurance Company (Special Account)	2,985	0.79
Morgan Stanley and Company Inc.	2,378	0.63

## Monthly Closing Price



## Monthly Trading Volume



Note: Monthly trading volume for November 2006 is the total for both JASDAQ and the Tokyo Stock Exchange following listing on the Second Section of the Tokyo Stock exchange on November 22, 2006.

# T O S E I

<http://www.toseicorp.co.jp/english/>

## T O S E I CORPORATION

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