

Tosho (8920)

Unconsolidated FY (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)	ROE (%)	Equity Ratio (%)
FY03/09		10,901	2,238	1,954	1,087	65.8	10.0	304.2	26.2%	19.3%
FY03/10		10,597	2,335	2,087	1,106	65.4	10.0	369.5	21.9%	25.8%
FY03/11CoE		10,815	2,415	2,200	1,200	68.2	11.0	-	18.5%	-
FY03/10	YoY	(2.8%)	+4.3%	+6.8%	+1.7%	-	-	-	-	-
FY03/11CoE	YoY	+2.1%	+3.4%	+5.4%	+8.5%	-	-	-	-	-
Unconsolidated Half Year (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)	ROE (%)	Equity Ratio (%)
Q1 to Q2 FY03/10		5,273	1,104	954	539	-	-	-	-	-
Q3 to Q4 FY03/10		5,324	1,231	1,133	567	-	-	-	-	-
Q1 to Q2 FY03/11		5,346	1,218	1,126	584	33.2	-	397.7	-	27.2%
Q3 to Q4 FY03/11CoE		5,469	1,197	1,074	616	-	-	-	-	-
Q1 to Q2 FY03/11	YoY	+1.4%	+10.3%	+18.0%	+8.3%	-	-	-	-	-
Q3 to Q4 FY03/11CoE	YoY	+2.7%	(2.8%)	(5.2%)	+8.6%	-	-	-	-	-
Unconsolidated Quarters (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)	ROE (%)	Equity Ratio (%)
Q1 FY03/10		2,623	509	460	254	-	-	-	-	-
Q2 FY03/10		2,650	595	494	285	-	-	-	-	-
Q3 FY03/10		2,649	647	584	320	-	-	-	-	-
Q4 FY03/10		2,675	584	549	247	-	-	-	-	-
Q1 FY03/11		2,674	616	576	277	-	-	-	-	-
Q2 FY03/11		2,672	602	550	307	-	-	-	-	-
Q1 FY03/11	YoY	+1.9%	+20.8%	+25.2%	+9.4%	-	-	-	-	-
Q2 FY03/11	YoY	+0.8%	+1.2%	+11.3%	+7.7%	-	-	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (10 December 2010)



Cultivating New Demand

Tosho, mainly in charge of running “Holiday Sports Club” or health club, has been seeing steady earnings growth. In Q1 to Q2 FY03/2011 results, the Company (i.e., Tosho) saw recurring profit ¥1.1bn (up 18.0% YoY), and recurring profit margins, on which the Company places the biggest emphasis, were 21.1%. Since H2 FY03/2010, the Company has started to make decision to aggressively open new centers, and this is anticipated to materialize ongoing earnings growth with the Company. The strength of the Company is that it is heavily involved with operations as “A Service Provider with Capability of Engineering Works & Construction”, which is the Company’s key characteristics that can never been seen among peers. Originally, the Company started with engineering works & construction, and it has efficiently applied the resources in building own health club facilities, having resulted in far higher profit margins than any other peers. Meanwhile, the Company is a late comer in the market for health club, having had entered the market in 1996. The collective number of its health club centers stands at only 37 as of the end of Q2 FY03/2011. While the peers have a tendency to pursue efficiency in the middle of metropolitan areas, the Company holds a strategy to cultivate new demand (from those who have never been a member of any health club) mainly based in mid-sized cities across Japan. In such areas, peers have a tendency to keep away from opening new centers due mainly to the insufficient concentration of populations, while the Company has a capability to

set up own centers that cope with the extent of the concentration, together with its expertise for engineering works & construction, and this is expected to be implemented. According to its long-term target, the Company is to achieve operations with 74 centers as of the end of FY03/2015 and 100 centers as of the end of FY03/2018. The Company is also involved with Hotels and Apartments, but the Company may reduce its exposure to them when opportunities available so that it should make the best progress in its strategy to focus upon the operations of “Holiday Sports Club” where the Company is so competitive and cultivates new demand in the future. According to the Company’s long-term target, sales and recurring profit are expected to be, respectively, ¥17.5bn and ¥4.4bn (RPMs of 25.1%) in FY03/2015. When compared with sales of ¥10.6bn and recurring profit of ¥2.1bn (RPMs of 19.7%) in FY03/2010 results, the net increases are, respectively, ¥6.9bn and ¥2.3bn, both almost all attributable to increasing contribution from Health Club. Thus, the increases in recurring profit margins (19.7% to 25.1%) are also attributable to the prospective performance of Health Club. Through FY03/2011 to FY03/2012, it is assumed that pre-opening expenses associated with new openings of “Holiday Sports Club” (some ¥50m per center to be spent, prior to the opening of a center, on advertising for recruiting starting member etc., at the SG&A levels) will be a drag with profit margins, negatively affecting to recurring profit margins with the Company. However, the things will change in FY03/2013 and onward, in line with increasing contributions from new centers with higher profit margins based on “New Earnings Model”. Eventually, the Company is expected achieve recurring profit margins over 25% in FY03/2015.

2.0 Company Profile

Running “Holiday Sports Club”

Company Name	TOSHO CO., LTD. Company Information (English) (Japanese) IR Information (English) (Japanese) Share Price (English) (Japanese)	 株式会社 
Established	1 March 1979	
Listing	4 February 2004 (OSE JASDAQ : 8920)	
Capital	¥498m (As of the End of September 2010)	
No. of Shares	17,592,351 shares, including 1,786 treasury shares (As of the End of September 2010)	
Main Features	<ul style="list-style-type: none"> ● Running “Holiday Sports Club”. Focus on operations in mid-sized cities across Japan, while pursuing high profit margins ● No further investments in Hotels and Apartments 	
Businesses	I . Health Club II . Hotels III. Apartments	
Top Management	CEO Toshihiro Kutsuna	
Shareholders	Toshihiro Kutsuna 60.0%, Yuichiro Kutsuna 11.9% (As of the End of September 2010)	
Headquarters	Anjo, Aichi, JAPAN	
No. of Employees	Unconsolidated 163 (As of the End of September 2010)	

Source: Company Data

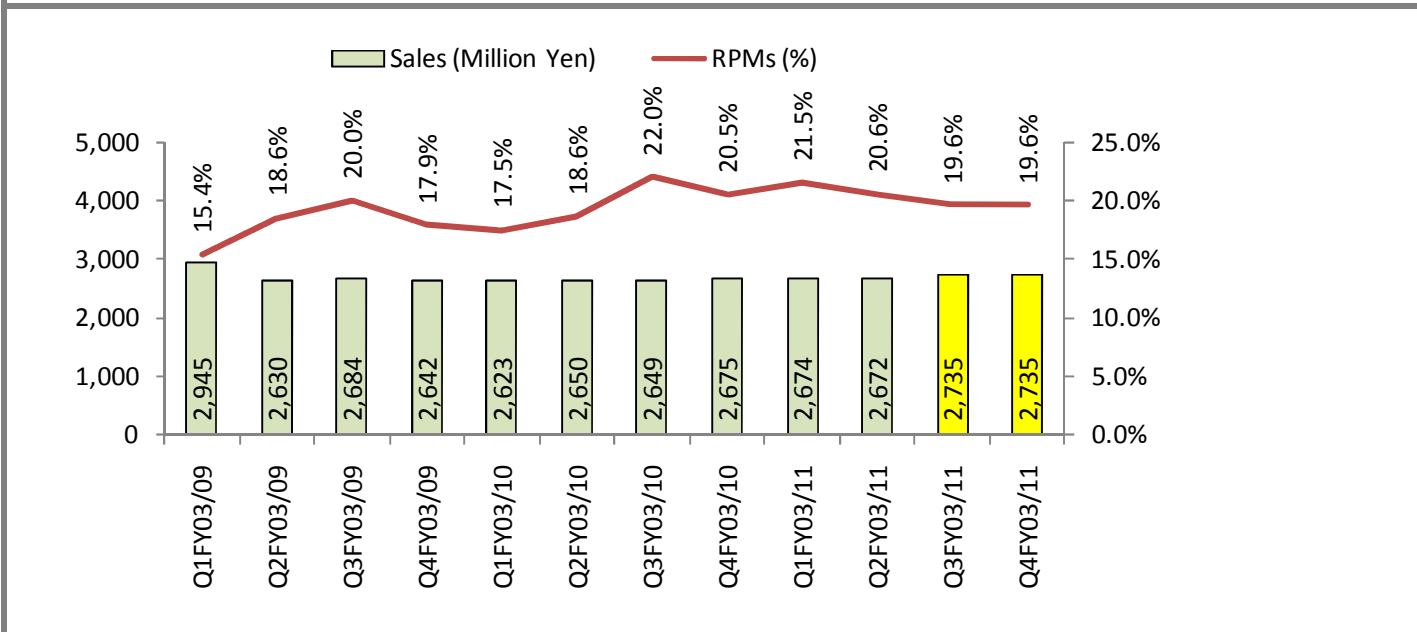
3.0 Recent Trading & Prospects

Q1 to Q2 FY03/2011 Results

In Q1 to Q2 FY03/2011, sales came in at ¥5.3bn (up 1.4% YoY), operating profit ¥1.2bn (up 10.3%), recurring profit ¥1.1bn (up 18.0%) and net profit ¥0.6bn (up 8.3%). Both operating profit and recurring profit marginally fell short of Company forecasts, while net profit by 11% due mainly to larger-than-expected extraordinary losses. It appears that the losses associated with “Impacts Associated with the Adoption of New Accounting Rule to Write-off Future Liabilities Based on the Current State of Assets” were larger than expected. The number of members with “Holiday Sports Club” declined 2.4% YoY (on a comparable basis, collectively 35 centers) as of the end of September 2010. When compared with a 1.4% YoY decline as of the end of June, the rates of decline look a touch accelerating. Through Q1 to Q2, the Company suffered from a sequential deterioration of recurring profit margins from 21.5% to 20.6%, and this may have something to do with such trends. Then, when compared with assumptions of full-year Company forecasts calling for a 1.5% YoY decline, recent trends are a touch worse. The Company spots that the recent trends of consumer spending in Japan may have been worse than assumed in Company forecasts. Still, the Company succeeded in seeing improved profit margins, albeit not much, with its existing centers due to cost reductions etc. On top of this, two new centers, opened in FY03/2010, brought some add-ons, and Health Club saw increases in both sales and earnings, having accounted for 76% of total gross profit with the Company. Meanwhile, in Hotels, the Company sees sharper-than-expected recovery with its utilization rates, having reported increases in sales and earnings. Now, Apartments, where the Company is mainly in charge of leasing apartments with fixed income contracts, there were decreases in sales and earnings due to a one-off factor. On an earnings front as a whole, these are the main points with the Company, while the Company saw a meaningful improvement on a financial front. The Company well succeeded in keeping net inflow in terms of free cash flow, having raised funds to pay back more debts, and eventually bringing its net-debt-equity ratio below 200% as of the end of Q2 FY03/2011.

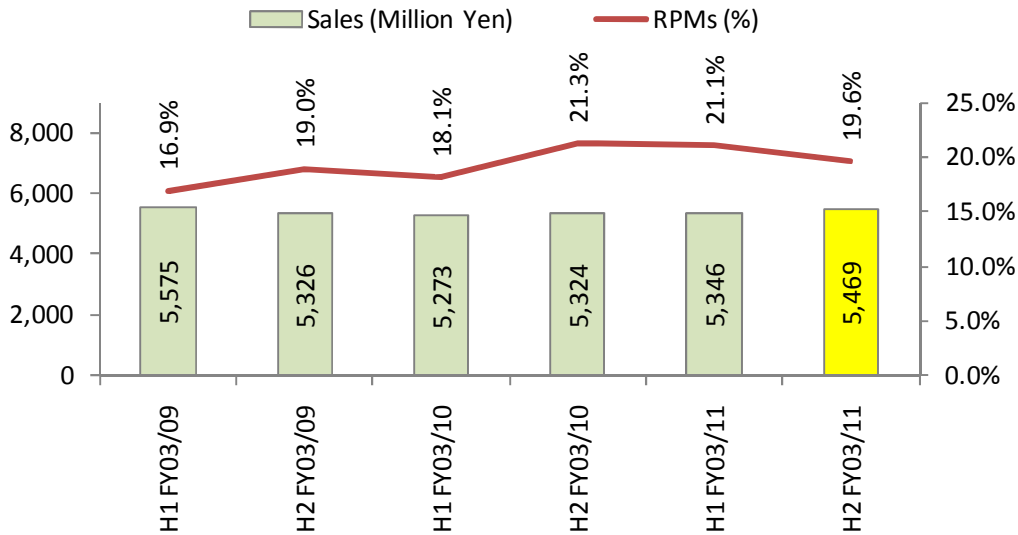
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Quarterly Sales & Recurring Profit Margins



Source: Company Data, WRJ Calculation

Half Year Sales & Recurring Profit Margins



Source: Company Data, WRJ Calculation

FY03/2011 Company Forecasts

In FY03/2011, the Company is going for prospective sales ¥10.8bn (up 2.1% YoY), operating profit ¥2.4bn (up 3.4%), recurring profit ¥2.2bn (up 5.4%) and net profit ¥1.2bn (up 8.5%). Meanwhile, the Company is trying to return more profits with the shareholders by increasing cash dividends by ¥1.0 from the levels in FY03/2010 to ¥11.0 per share. On Hotels and Apartments, Company forecasts do not assume major changes in earnings when compared with the levels in FY03/2010, Health Club is expected to be the key driver for overall earnings with the Company. Now, given marginally worse-than-expected trends of the number of members on a comparable basis so far, it will be the case that the Company tries to compensate for the shortfall by the performance in H2 for full-year Company forecasts to be met. Meanwhile, it could be spotted that larger-than-expected loss at the extraordinary levels in H1 results may remain as a negative factor for the Company to achieve its full-year Company forecasts at the net levels, as there are no factors expected to compensate for this. Meanwhile, the Company is supposed to see lowered profit margins in H2 compared with H1, given the fact that the Company is going to open five new centers for its “Holiday Sports Club” operations versus nothing in H1. Pre-opening expenses per center are some ¥50m, and this implies the net increases in costs in H2 over H1 are some ¥250m, stemming from this issue. Nevertheless, the Company mentions that it has already reported such costs associated with the openings of new centers in H2, collectively ¥74m in H1 results. Thus, the next increases in costs, stemming from this issue, would be some ¥102m in H2 over H1. Now, the Company is implementing frontloaded openings of new centers out of the plans in H2, and thus the Company has a potential to see larger-than-expected sales due to add-ons by operating new centers for longer-than-expected periods in H2. This could be the key driver for the Company to catch up with assumptions in full-year Company forecasts, compensating for marginal shortfall in the number of members in existing centers in H1 etc.

Changes in Company Forecasts

Unconsolidated FY (Million Yen)	Date	Event	Sales	OP	RP	NP
FY03/11CoE	6-May-10	Q4 Results	11,500	2,630	2,300	1,200
FY03/11CoE	29-Oct-10	Q2 Results	11,500	2,630	2,300	1,200
	Amount of Gap		0	0	0	0
	Rate of Gap		0.0%	0.0%	0.0%	0.0%
Unconsolidated Half Year (Million Yen)	Date	Event	Sales	OP	RP	NP
Q1 to Q2 CoE	6-May-10	Q4 Results	5,301	1,257	1,155	653
Q1 to Q2 Act	29-Oct-10	Q2 Results	5,346	1,218	1,126	584
	Amount of Gap		45	(39)	(29)	(69)
	Rate of Gap		0.8%	(3.1%)	(2.5%)	(10.6%)
Unconsolidated Half Year (Million Yen)	Date	Event	Sales	OP	RP	NP
Q3 to Q4 CoE	6-May-10	Q4 Results	6,199	1,373	1,145	547
Q3 to Q4 CoE	29-Oct-10	Q2 Results	6,154	1,412	1,174	616
	Amount of Gap		(45)	39	29	69
	Rate of Gap		(0.7%)	2.8%	2.5%	12.6%

Source: Company Data, WRJ Calculation

Sales and Gross Profit by Business (Quarterly, Cumulative)

Sales and Gross Profit by Business (Million Yen)	Par.Act Q1 03/2010	Par.Act Q1 to Q2 03/2010	Par.Act Q1 to Q3 03/2010	Par.Act Q1 to Q4 03/2010	Par.Act Q1 03/2011	Par.Act Q1 to Q2 03/2011	YoY Net Chg.
Health Club	2,069	4,095	6,183	8,301	2,134	4,238	+143
Hotels	182	364	553	736	192	420	+56
Apartments	372	813	1,185	1,560	346	688	(125)
Sales	2,623	5,273	7,922	10,597	2,674	5,346	+73
Health Club	610	1,202	1,832	2,437	650	1,266	+64
Hotels	7	28	64	90	28	89	+61
Apartments	130	331	518	700	156	317	(14)
Gross Profit	747	1,562	2,415	3,227	835	1,673	+111
Health Club	29.5%	29.4%	29.6%	29.4%	30.5%	29.9%	-
Hotels	3.8%	7.7%	11.6%	12.2%	14.6%	21.2%	-
Apartments	34.9%	40.7%	43.7%	44.9%	45.1%	46.1%	-
Gross Profit Margins	28.5%	29.6%	30.5%	30.5%	31.2%	31.3%	-
Health Club	82%	77%	76%	76%	78%	76%	-
Hotels	1%	2%	3%	3%	3%	5%	-
Apartments	17%	21%	21%	22%	19%	19%	-
Gross Profit	100%	100%	100%	100%	100%	100%	-

Source: Company Data, WRJ Calculation

Cash Flow Statement (Quarterly, Cumulative)

Cash Flow Statement (Million Yen)	Par.Act	Par.Act	Par.Act	Par.Act	Par.Act	Par.Act	YoY
	Q1 03/2010	Q1 to Q2 03/2010	Q1 to Q3 03/2010	Q1 to Q4 03/2010	Q1 03/2011	Q1 to Q2 03/2011	Net Chg.
Operating Cash Flow	124	672	1,091	2,370	404	1,302	+630
Investment Cash Flow	(21)	(27)	(147)	(217)	(257)	(642)	(615)
Operating CF + Investment CF	103	645	944	2,153	147	660	+15
Financing Cash Flow	(605)	(1,708)	(1,018)	(2,244)	(308)	(428)	+1,280
Pretax Profit	458	954	1,537	1,999	464	1,015	+61
Depreciation	320	642	976	1,319	306	614	(29)
Working Capital Changes	(1)	(417)	(415)	(32)	(6)	(6)	+411
Tax Charges	(463)	(462)	(867)	(867)	(495)	(142)	+319
Capital Expenditure	(170)	(354)	(464)	(512)	(150)	(502)	(147)
Free Cash Flow	144	365	768	1,907	120	980	+615

Source: Company Data, WRJ Calculation

Income Statement (Quarterly, Cumulative)

Income Statement (Million Yen)	Par.Act	Par.Act	Par.Act	Par.Act	Par.Act	Par.Act	YoY
	Q1 03/2010	Q1 to Q2 03/2010	Q1 to Q3 03/2010	Q1 to Q4 03/2010	Q1 03/2011	Q1 to Q2 03/2011	Net Chg.
Sales	2,624	5,273	7,923	10,597	2,674	5,347	+74
CoGS	1,877	3,711	5,508	7,370	1,839	3,673	(38)
Gross Profit	747	1,562	2,415	3,227	835	1,674	+112
SG&A	237	458	664	892	219	455	(3)
Operating Profit	510	1,104	1,751	2,336	616	1,219	+115
Non Operating Balance	(50)	(149)	(213)	(248)	(40)	(92)	-
Recurring Profit	460	955	1,538	2,087	576	1,126	+172
Extraordinary Balance	(3)	(1)	(1)	(89)	(113)	(112)	-
Pretax Profit	458	954	1,537	1,999	464	1,015	+61
Tax Charges etc.	204	414	678	893	186	431	-
Net Profit	254	540	860	1,106	278	584	+44
Sales YoY	-	-	-	-	+1.9%	+1.4%	-
Operating Profit YoY	-	-	-	-	+20.8%	+10.4%	-
Recurring Profit YoY	-	-	-	-	+25.2%	+18.0%	-
Net Profit YoY	-	-	-	-	+9.4%	+8.2%	-
Gross Profit Margins	28.5%	29.6%	30.5%	30.5%	31.2%	31.3%	-
(SG&A/Sales)	9.0%	8.7%	8.4%	8.4%	8.2%	8.5%	-
Operating Profit Margins	19.4%	20.9%	22.1%	22.0%	23.0%	22.8%	-
Recurring Profit Margins	17.5%	18.1%	19.4%	19.7%	21.5%	21.1%	-
Net Profit Margins	9.7%	10.2%	10.8%	10.4%	10.4%	10.9%	-
Tax Charges etc. / Pretax Profit	44.5%	43.4%	44.1%	44.7%	40.0%	42.4%	-

Source: Company Data, WRJ Calculation

Balance Sheet (Quarterly)

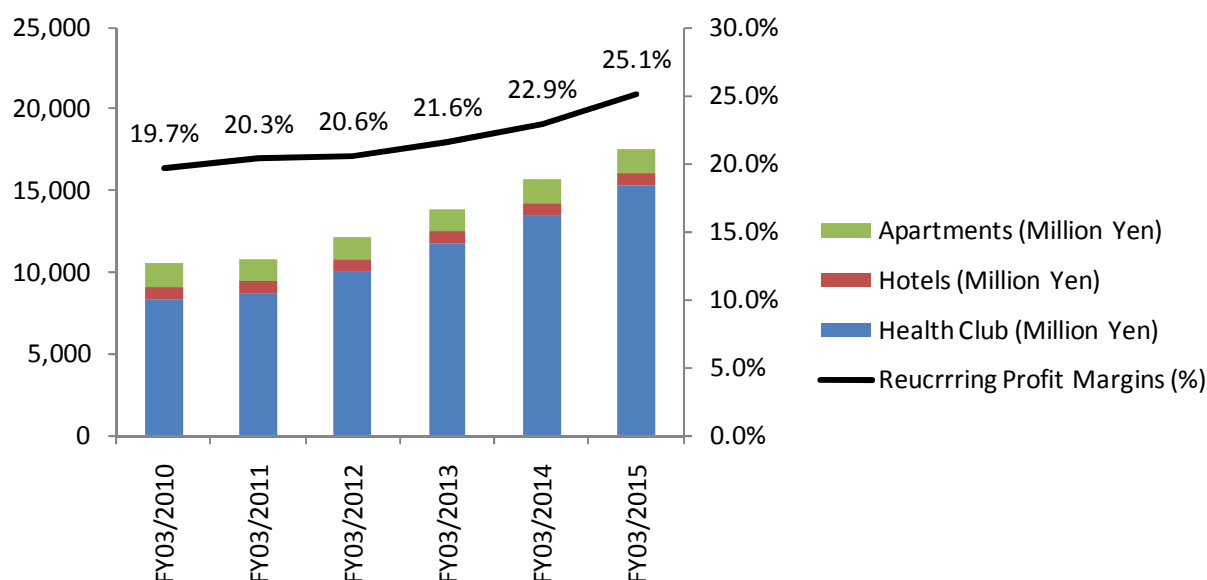
Balance Sheet (Quarterly)	Par.Act	Par.Act	Par.Act	Par.Act	Par.Act	Par.Act	YoY
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Net Chg.
	03/2010	03/2010	03/2010	03/2010	03/2011	03/2011	
Cash & Deposit	1,319	660	1,653	1,639	1,511	1,922	+1,262
Accounts Receivables	14	18	14	20	17	23	+5
Inventories	0	0	0	0	0	0	+0
Other	336	754	732	363	334	382	(372)
Current Assets	1,668	1,433	2,399	2,022	1,862	2,327	+894
Tangible Assets	21,476	21,318	21,107	20,963	20,910	21,025	(293)
Intangible Assets	31	32	32	31	30	29	(4)
LT Investment Securities etc.	2,096	2,091	2,172	2,170	2,246	2,269	+179
Fixed Assets	23,603	23,441	23,310	23,164	23,186	23,323	(118)
Deferred Assets	34	32	36	34	32	29	(3)
Total Assets	25,305	24,906	25,746	25,220	25,080	25,679	+773
Accounts Payable	4	3	9	6	7	22	+18
Short Term Debt	6,760	6,673	6,804	5,230	5,198	4,804	(1,868)
Other	864	1,132	915	1,210	965	1,426	+294
Current Liabilities	7,628	7,808	7,728	6,447	6,170	6,252	(1,556)
Long Term Debt	11,341	10,377	10,548	10,926	10,755	10,840	+462
Other	1,117	1,216	1,216	1,346	1,464	1,591	+375
Fixed Liabilities	12,458	11,593	11,764	12,272	12,219	12,431	+838
Total Liabilities	20,086	19,401	19,492	18,719	18,389	18,683	(718)
Shareholders' Equity	5,218	5,504	6,253	6,500	6,690	6,996	+1,492
Other	1	1	1	1	1	1	(0)
Net Assets	5,219	5,505	6,254	6,501	6,691	6,997	+1,492
Total Liabilities & Net Assets	25,305	24,906	25,746	25,220	25,080	25,679	+773
Interest Bearing Debt	18,101	17,050	17,352	16,156	15,953	15,644	(1,406)
Net Debt	16,782	16,389	15,700	14,517	14,443	13,722	(2,668)
Tangible Assets / Total Assets	84.9%	85.6%	82.0%	83.1%	83.4%	81.9%	-
Quick Ratio	17.5%	8.7%	21.6%	25.7%	24.8%	31.1%	-
Current Ratio	21.9%	18.4%	31.0%	31.4%	30.2%	37.2%	-
Equity Ratio	20.6%	22.1%	24.3%	25.8%	26.7%	27.2%	-
Net-Debt-Equity Ratio	321.6%	297.8%	251.1%	223.4%	215.9%	196.1%	-

Source: Company Data, WRJ Calculation

Long-Term Prospects

The Company calls for prospective sales ¥17.5bn, recurring profit ¥4.4bn (RPMs of 25.1%) in FY03/2015, with its long-term target. Meanwhile, the Company saw sales ¥10.6bn, recurring profit ¥2.1bn (RPMs of 19.7%) in FY03/2010. The key factor for the robust growth in sales and recurring profit towards FY03/2015 is that the Company is planning to increase the number of centers for “Holiday Sports Club” operations during the same period, to as many as 74 (versus 37 as of the end of FY03/2010), and then eventually to 100 as of the end of FY03/2018. The target could look unrealistic at a glance, but it is reasonable in a respect that the Company is to create new demand in mid-sized cities, across Japan, where peers hesitate to open new centers due to concerns that the concentration of populations is not good enough, by introducing new centers with reduced capacity. Thus, the Company will be hardly exposed to any competition with the peers.

Company Target Sales and Recurring Profit Margins



Source: Company Data, WRJ Calculation

Developments for “Holiday Sports Club” Centers

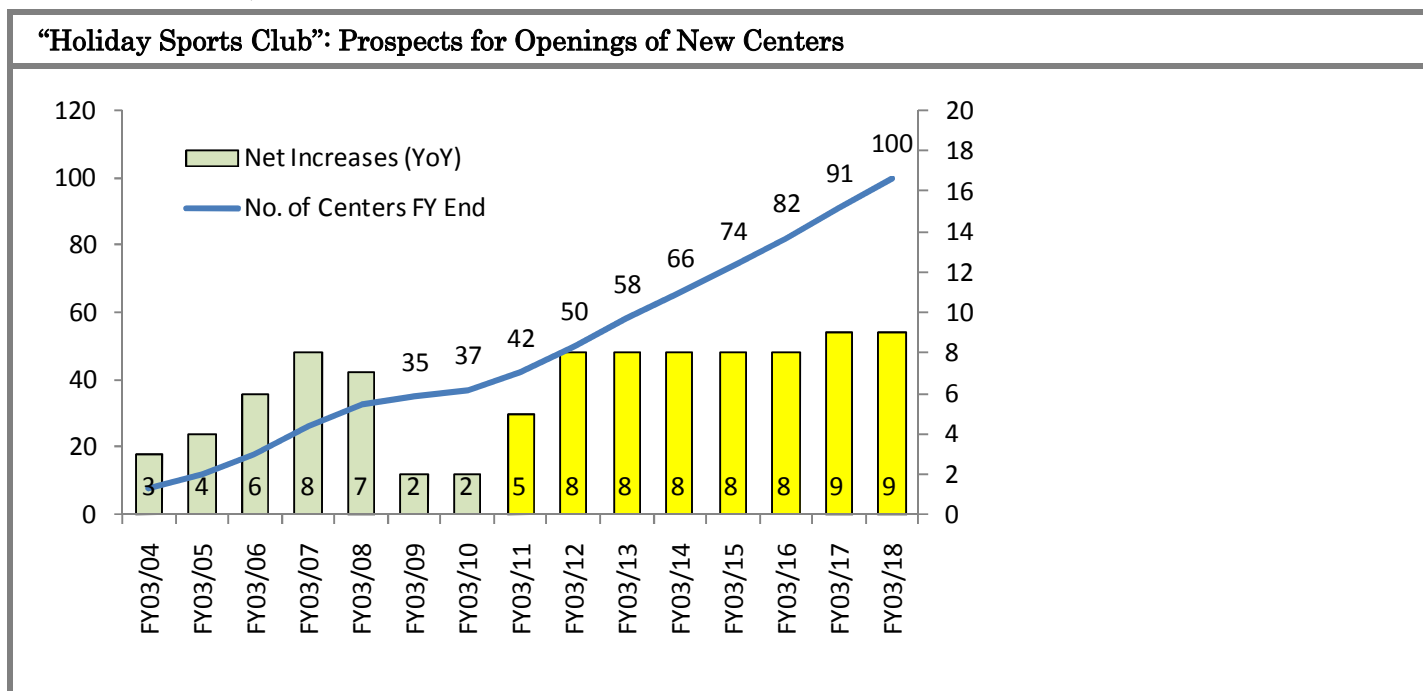
It was May 1996 when the Company opened “Holiday Sports Club, Mikawa-Anjo”, the first center with the Company, and entered the market for health club. The number of new openings per year once peaked at 8 centers in FY03/2007, having come down to 7 centers in FY03/2008, to three centers in FY03/2009 and to two centers in FY03/2010, comprising Nagano Center, opened in October 2009 and Asahikawa Center in February 2010. Effectively, the Company has never closed down any centers. The only exceptional issue with the Company here is that it suspended its operations over the Yamaguchi Center in FY03/2009 in line with the termination of a consigned operation contract. This reduced the number of the centers by one, and thus the Company opened three new centers in FY03/2009 although the net increases were two. The Company used to have a strategy to reduce the number of new openings, but the Company is now planning to open new centers as many as five in FY03/2011. On top of this, the Company is opening new centers earlier than the original agenda.

	Agenda (As of 14 October 2010)	Agenda (Original)
October 2010	-	-
November 2010	Kiyota-Sapporo (Opened on 1 Nov.)	-
December 2011	Akita (Opened on 1 Dec.)	Akita
January 2011	Naruo-Nagoya	Kiyota-Sapporo
February 2011	Nagaoka	Naruo-Nagoya, Nagaoka
March 2011	Ohta (Gunma Pref.)	Ohta (Gunma Pref.)

Source: Company Data, WRJ Calculation

The Company suspended making any decision to open new centers, during a period roughly through December 2008 to August 2009 (when assuming it takes some 16 months to actually open a new center after a decision making), given increased uncertainty stemming from “Lehman Shock”. However, just after this period, the Company carried out a series of decision-making to open new centers, probably in order to avoid suffering from opportunity loss, having resulted in the current plan to open new centers together with a meaning concentration in terms of timing. The driver for the decisions is that the number of sites suitable for the Company to open new centers increased while the rates of fixed-term leasing charges for the sites declined. As for new openings in FY03/2012, it has been disclosed that Sapporo-Higashi Center (May 2011),

Izumo Center (October 2011) and Tomakomai Center (November 2011) are to be opened. Izumo Center is the first one based on the Company's "2,000-Person Model", and Tomakomai Center is another one based on the same model. On top of these three centers, the Company is planning to open more centers, calling for collective eight centers to be opened in FY03/2012. Even on a longer-term, such levels for new openings are expected to continue. The introduction of "2,000-Person Model" makes it possible to open new centers in smaller cities than before, with net decreases in the expected number of the members by 500 from 2,500. So far, the Company has been in charge of picking up the best sites for opening new centers out of 298 cities, across Japan, with populations some 150,000 or more. On top of this, 123 cities, with populations some 100,000 or more, are added as new candidates for the Company to open new centers, in line with the introduction of "2,000-Person Model".

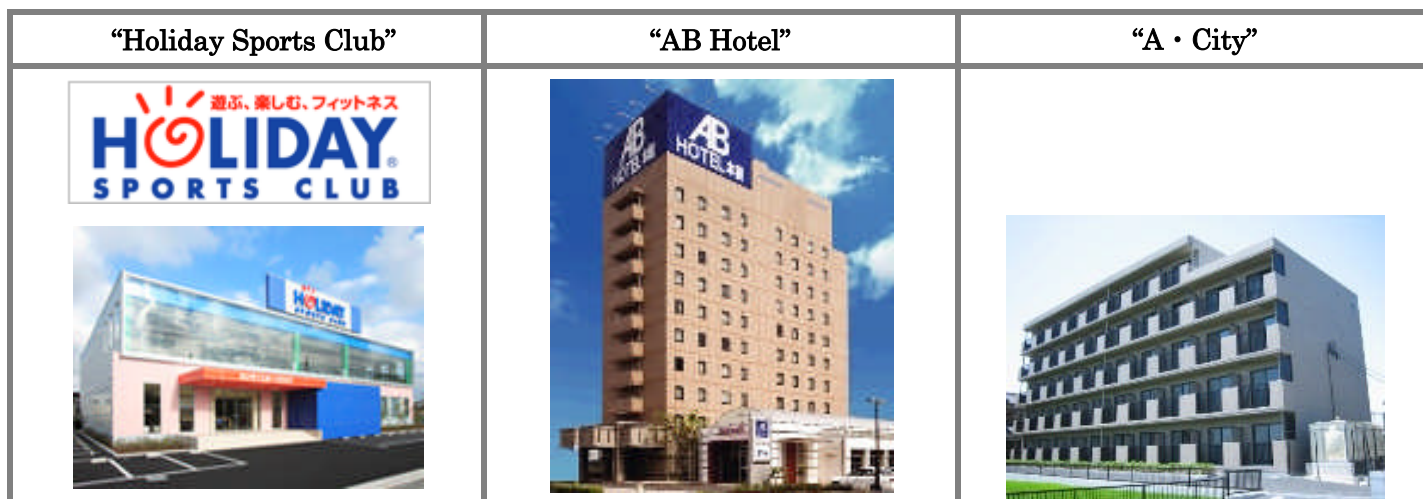


Source: Company Data

4.0 Business Model

Health Club, Hotels and Apartments

The Company's businesses comprise Health Club, Hotels and Apartments. Health Club relates to operations of "Holiday Sports Club" as well as those of "Holiday Golf Garden"; and the numbers of centers, respectively, stood at 37 and two as of the end of Q2 FY03/2011. In the operations of "Holiday Sports Club", the Company intends to cultivate new demand out of beginners mainly based in mid-sized cities, across Japan, as the key strategy. Hotels relates to the operations of five hotels (as of the end of Q2 FY03/2011) called "AB Hotel" and Apartments mainly to operations of "A · City" apartment houses 48 buildings or 1,988 rooms (ditto).



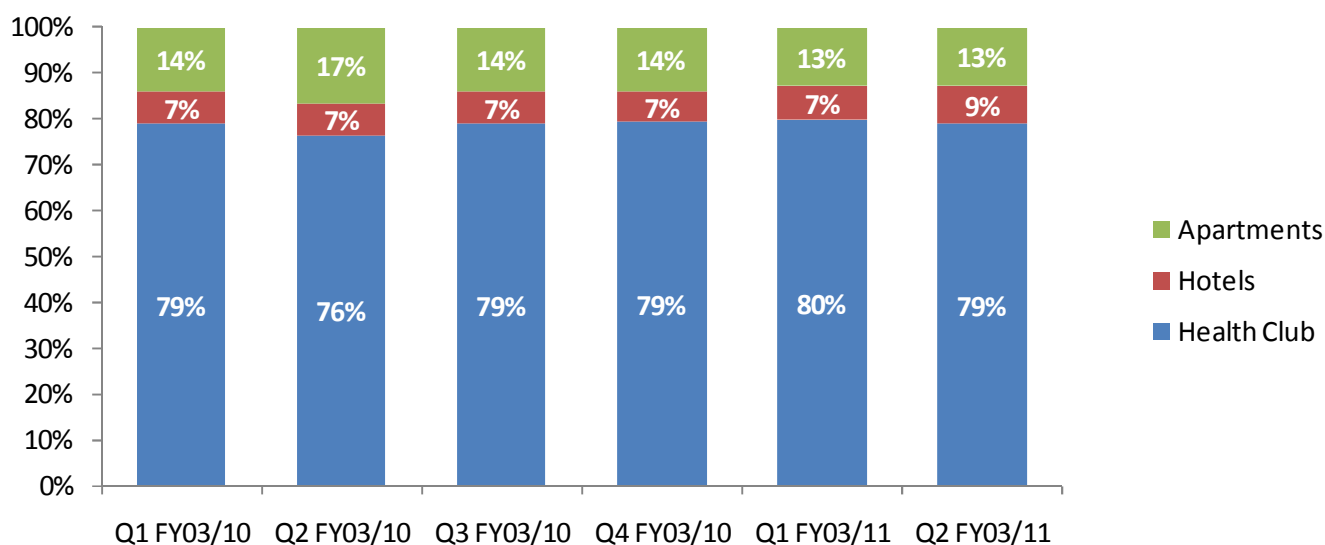
Source: Company Data

“A Service Provider with Capability of Engineering Works & Construction”

The basis for the Company’s business model is being “A Service Provider with Capability of Engineering Works & Construction”, having started as an operator of engineering works & construction. This issue relates to a case that the provider of the services incorporate capability to set up facilities etc. for the services and is actually in charge of setting them up, so that the provider should offer high quality services to customers at reasonable prices. This idea worked so well with the operations of “Holiday Sports Club”, the core of Health Club that accounted for 79% of sales and 74% of gross profit with the Company, in Q2 FY03/2011 results. Apartments includes the same old engineering works & construction and the operations of “A・City” apartments, while the Company has been gradually pulling out of the former due to its low profit margins etc. As a result, sales are rather coming down, while profit margins are rather going up. At present, Apartments mainly relates to the rest of the business, i.e., the operations of “A・City” apartments, in which some 60% is accounted for by decade-fixed-income contracts with real estate management company, and thus this makes income and earnings here almost stable. Now, Hotels used to suffer from extended period of low utilization rates due to low business trip demand, but the rates have started to pick up most recently.

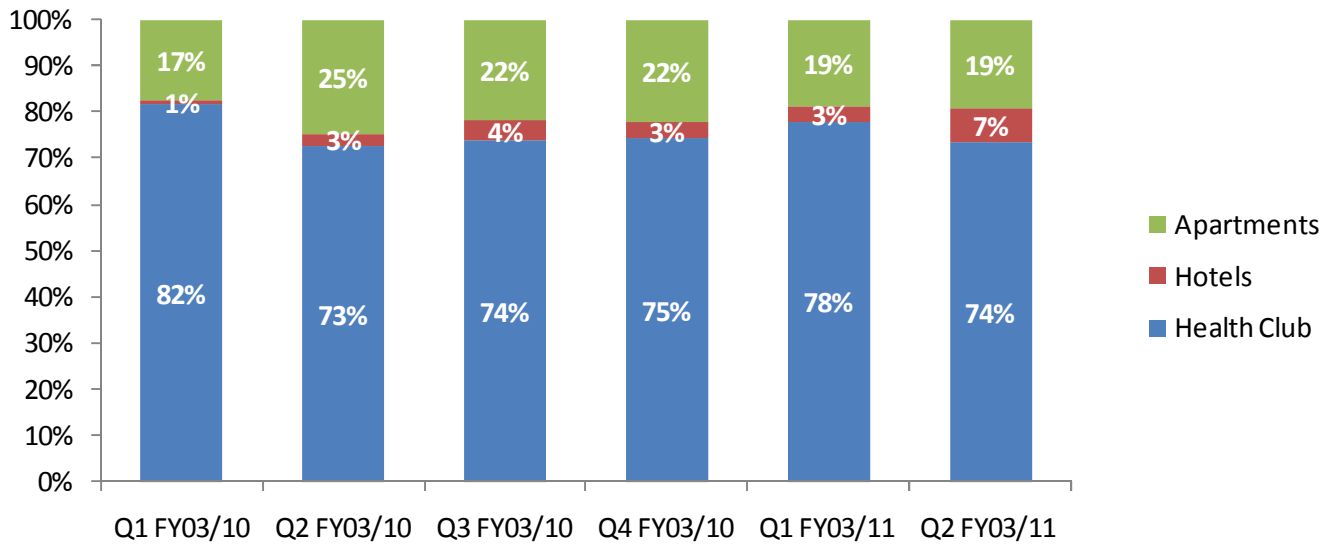
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Sales Breakdown by Business



Source: Company Data, WRJ Calculation

Gross Profit by Business



Source: Company Data, WRJ Calculation

“New Earnings Model”

It is indicated, in the “New Earnings Model” for “Holiday Sports Club” claimed by the Company, that this business should see recurring profit margins of 30% to 35% in a center (not including pre-opening expenses of some ¥50m per center). It has been disclosed that recurring profit margins for Health Club were 25.4% in FY03/2010, and thus the introduction of “New Earnings Model” is expected to lead to increases of recurring profit margins with the Company. In the 2,500-Person Model, investments per center are ¥400m, the number of members 2,500 persons, the average monthly fees per member ¥7,000, the annual costs ¥137m and recurring profit margins 35%. Compared with existing models, the key difference relates to lower rates for fixed-term land leasing charges. The rates used to be ¥3.0m to ¥4.0m per month versus ¥1.5m to ¥2.5m most recently. At the same time, the Company currently has abundant accesses to lots of deals in reality, as for the sites more suitable for the business than before. On top of this, it could be presumed that the Company has accumulated its “know-how” for building facilities etc. for “Holiday Sports Club” after the experiences over the past years, and thus it should build facilities etc. for new centers even more efficiently than before. In the 2,000-Person Model, investments per center are ¥350m, the number of members 2,000 persons, the average monthly fees per member ¥7,000, the annual costs ¥118m and recurring profit margins 30%. In terms of comparison with the 2,500-Person Model, both lot area and floor space are smaller, and thus it seems smaller investment efficiency is expected, resulting in lower profit margins. Nevertheless, the levels of profit margins are relatively higher than the actual number, i.e., recurring profit margins 25.4% in FY03/2010. Now, it is taken for granted for the Company to meet the assumptions for sales (assuming costs are in line) in order to meet the profit margins, assumed in the models. In case of 2,500-Person Model, it is required to achieve 2,500 members (100% capacity utilization) as well as the monthly fees per member ¥7,000. Looking to the state of the overall picture with the Company at the moment, such assumptions may sound a touch too optimistic in a respect that the capacity utilization rates are currently below 100% while the monthly fees per member appear to be lower than ¥7,000 on average.

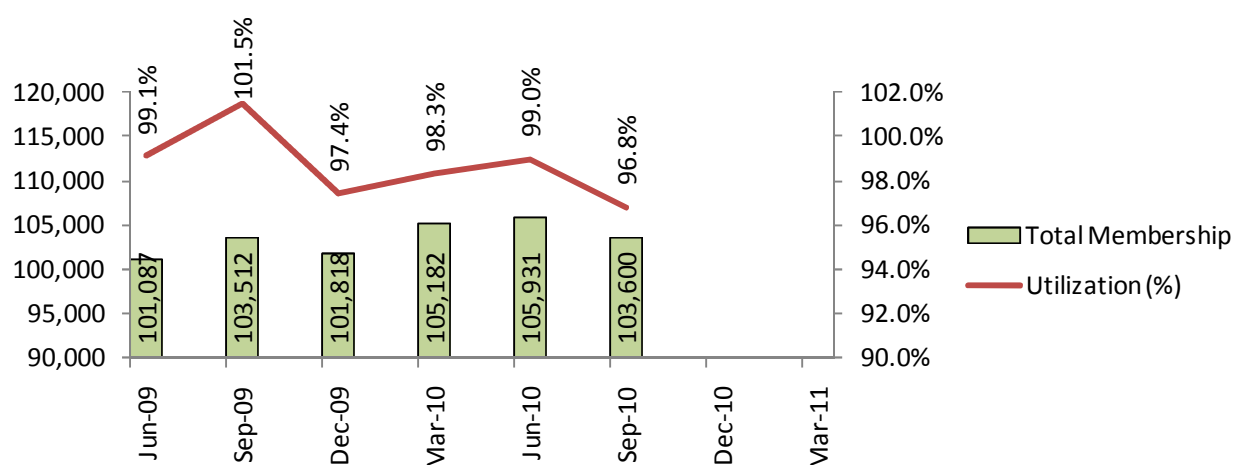
"Holiday Sports Club": 2,500-Person Model: 2,000-Person Model		2,500	2,000
Investments	(Million Yen)	400	350
Lot Area	(m ²)	6,600	5,000
Floor Space	(m ²)	2,000	1,700
Number of Members	(Persons)	2,500	2,000
Monthly Fees per Member	(Yen)	7,000	7,000
Monthly Turnover	(Million Yen)	17.5	14.0
Annual Turnover	(Million Yen)	210.0	168.0
Collective Annual Expenses	(Million Yen)	136.5	117.6
Annual Recurring Profit	(Million Yen)	73.5	50.4
Recurring Profit Margins	(%)	35.0%	30.0%

Source: Company Data, WRJ Calculation

Total Membership 103,600

Total membership for "Holiday Sports Club" stood at 103,600 persons as of the end of September 2010. Compared with the weighted-average capacity per center of 2,892 persons, the results were 2,800 persons, and thus the rates of utilization could be estimated at 96.8%. The basis for the weighted-average capacity 2,892 persons per center equates to weighted average for capacity of collective 37 centers comprising 8 centers with capacity of 2,500 persons and 29 centers with capacity of 3,000 persons (as of the end of September 2010). Originally, the Company started with 2,500-Person Model when it introduced "Holiday Sports Club" for the first time, but the number of members in reality well exceeded the capacity in those days, having made the Company to make a switch to 3,000-Person Model for its new centers. More recently, however, it was found out that 3,000-Person Model could have some excess capacity, having made the Company to switch back to 2,500-Person Model for the openings of new centers. To add to this, the Company is also planning to further reduce capacity and to introduce 2,000-Person Model.

"Holiday Sports Club" : Total Membership, Rates of Capacity Utilization

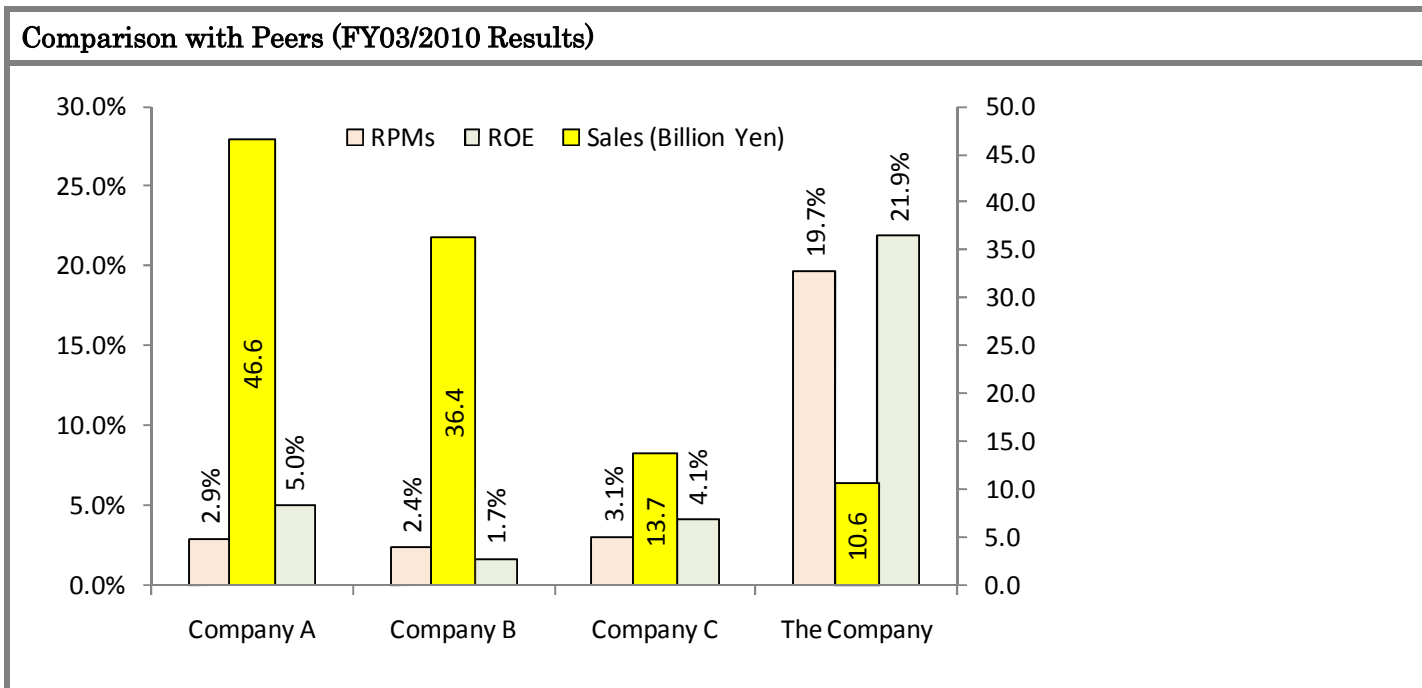


Source: Company Data, WRJ Calculation

Comparison with Peers

Among the peers mainly in charge of running health club centers, the Company's annual turnover is small, mainly because of the fact that the Company is the late comer in the market. However, the Company has overwhelmingly higher profitability than the peers pursuing earnings simply as "A Service Provider". Meanwhile, does the Company do so, under its insistent cost reduction measures, as "A Service Provider with Capability of Engineering Works & Construction". No peers are pursuing earnings with the same

manner while there are effective no moves among the operators of engineering works & construction to enter the market for health club. Moreover, the Company will be aggressively opening new centers based on “New Earnings Model”, and thus the profitability with the Company is set to get even more enhanced. There are substantial gaps between the Company and peers in terms of profitability at present, and the gaps should even expand in the future. In terms of results in FY03/2010, the Company saw recurring profit margins and ROE, respectively, 19.7% and 21.9% versus, respectively, 3.1% and 5.0% for the highest levels among the peers listed.



Source: Each company, WRJ Calculation

5.0 Financial Statements

Income Statement

Income Statement	Par.Act	Par.Act	Par.Act	Par.Act	Par.Act	Par.CoE	YoY
(Million Yen)	FY	FY	FY	FY	FY	FY	Net Chg.
	03/2006	03/2007	03/2008	03/2009	03/2010	03/2011	
Sales	6,767	9,177	10,808	10,901	10,597	10,815	+218
CoGS	4,439	6,293	7,737	7,678	7,370	7,383	+13
Gross Profit	2,328	2,884	3,071	3,224	3,227	3,432	+205
SG&A	1,131	1,155	1,177	985	892	1,017	+125
Operating Profit	1,196	1,729	1,894	2,239	2,336	2,415	+79
Non Operating Balance	(284)	(306)	(290)	(284)	(248)	(215)	-
Recurring Profit	913	1,424	1,604	1,955	2,087	2,200	+113
Extraordinary Balance	(4)	3	1	(77)	(89)	0	-
Pretax Profit	909	1,427	1,605	1,878	1,999	2,200	+201
Tax Charges etc.	389	624	719	790	893	1,000	-
Net Profit	520	803	886	1,088	1,106	1,200	+94
Sales YoY	+34.9%	+35.6%	+17.8%	+0.9%	(2.8%)	+2.1%	-
Operating Profit YoY	+50.5%	+44.5%	+9.5%	+18.2%	+4.3%	+3.4%	-
Recurring Profit YoY	+35.4%	+56.0%	+12.7%	+21.9%	+6.8%	+5.4%	-
Net Profit YoY	+32.7%	+54.6%	+10.3%	+22.8%	+1.7%	+8.5%	-
Gross Profit Margins	34.4%	31.4%	28.4%	29.6%	30.5%	31.7%	-
(SG&A/Sales)	16.7%	12.6%	10.9%	9.0%	8.4%	9.4%	-
Operating Profit Margins	17.7%	18.8%	17.5%	20.5%	22.0%	22.3%	-
Recurring Profit Margins	13.5%	15.5%	14.8%	17.9%	19.7%	20.3%	-
Net Profit Margins	7.7%	8.8%	8.2%	10.0%	10.4%	11.1%	-
Tax Charges etc. / Pretax Profit	42.8%	43.7%	44.8%	42.1%	44.7%	45.5%	-

Source: Company Data, WRJ Calculation

Sales and Gross Profit by Business

Sales and GP by Business	Par.Act	Par.Act	Par.Act	Par.Act	Par.Act	Par.CoE	YoY
(Million Yen)	FY	FY	FY	FY	FY	FY	Net Chg.
	03/2006	03/2007	03/2008	03/2009	03/2010	03/2011	
Health Club	4,369	6,341	7,552	8,154	8,301	8,715	+414
Hotels	488	486	604	976	736	700	(36)
Apartments	1,910	2,350	2,652	1,771	1,560	1,400	(160)
Sales	6,767	9,177	10,808	10,901	10,597	10,815	+218
Health Club	1,721	2,007	2,068	2,287	2,437	2,636	+199
Hotels	151	213	140	275	90	113	+23
Apartments	456	664	863	661	700	683	(17)
Gross Profit	2,328	2,884	3,071	3,224	3,227	3,432	+205
Health Club	39.4%	31.7%	27.4%	28.1%	29.4%	30.2%	-
Hotels	31.0%	43.8%	23.1%	28.2%	12.2%	16.1%	-
Apartments	23.9%	28.3%	32.6%	37.3%	44.9%	48.8%	-
Gross Profit Margins	34.4%	31.4%	28.4%	29.6%	30.5%	31.7%	-
Health Club	74%	70%	67%	71%	76%	77%	-
Hotels	6%	7%	5%	9%	3%	3%	-
Apartments	20%	23%	28%	21%	22%	20%	-
Gross Profit	100%	100%	100%	100%	100%	100%	-

Source: Company Data, WRJ Calculation

Per Share Data

Per Share Data (Before Adjustments for Split) (Yen)	Par.Act	Par.Act	Par.Act	Par.Act	Par.Act	Par.CoE	
	FY	FY	FY	FY	FY	FY	YoY
	03/2006	03/2007	03/2008	03/2009	03/2010	03/2011	Net Chg.
No. of Shares (Thousand) FY End	10,388	13,713	16,592	16,592	17,592	-	-
Net Profit / EPS (Thousand)	10,922	13,711	16,537	16,528	16,919	17,593	-
Treasury Stocks (Thousand) FY	2	4	127	1	2	-	-
Earnings Per Share	47.6	58.6	53.6	65.8	65.4	68.2	-
Earnings Per Share (Fully)	47.6	58.6	-	-	-	-	-
Book Value Per Share	269.1	254.8	252.6	304.2	369.5	-	-
Dividend Per Share	10.0	10.0	12.0	10.0	10.0	11.0	-
Payout Ratio	21.0%	17.1%	22.4%	15.2%	15.3%	16.1%	-

Per Share Data (After Adjustments for Split) (Yen)	Par.Act	Par.Act	Par.Act	Par.Act	Par.Act	Par.CoE	
	FY	FY	FY	FY	FY	FY	YoY
	03/2006	03/2007	03/2008	03/2009	03/2010	03/2011	Net Chg.
Stock Split Factor	1.92	1.33	1.10	1.00	1.00	-	-
Earnings Per Share	24.8	44.0	48.7	65.8	65.4	-	-
Book Value Per Share	140.4	191.4	229.6	304.2	369.5	-	-
Dividend Per Share	5.2	7.5	10.9	10.0	10.0	-	-

Source: Company Data, WRJ Calculation

Cash Flow Statement

Cash Flow Statement (Million Yen)	Par.Act	Par.Act	Par.Act	Par.Act	Par.Act	Par.CoE	
	FY	FY	FY	FY	FY	FY	YoY
	03/2006	03/2007	03/2008	03/2009	03/2010	03/2011	Net Chg.
Operating Cash Flow	1,535	1,568	2,116	2,659	2,370	-	-
Investment Cash Flow	(5,783)	(4,718)	(5,240)	(1,956)	(217)	-	-
Operating CF + Investment CF	(4,248)	(3,150)	(3,123)	703	2,153	-	-
Financing Cash Flow	4,493	3,230	2,535	101	(2,244)	-	-
Pretax Profit	909	1,427	1,605	1,878	1,999	-	-
Depreciation	519	842	1,136	1,322	1,319	1,270	-
Working Capital Changes	63	(417)	35	114	(32)	-	-
Tax Charges	(340)	(483)	(814)	(710)	(867)	-	-
Capital Expenditure	(5,753)	(4,231)	(4,962)	(1,892)	(512)	(1,500)	-
Free Cash Flow	(4,602)	(2,862)	(3,000)	713	1,907	-	-

Source: Company Data, WRJ Calculation

Balance Sheet

Balance Sheet (Million Yen)	Par.Act	Par.Act	Par.Act	Par.Act	Par.Act	Par.CoE	
	FY 03/2006	FY 03/2007	FY 03/2008	FY 03/2009	FY 03/2010	FY 03/2011	YoY Net Chg.
Cash & Deposit	1,443	1,535	958	1,817	1,639	-	-
Accounts Receivables	77	80	86	22	20	-	-
Inventories	199	606	511	0	0	-	-
Other	405	384	471	388	363	-	-
Current Assets	2,123	2,604	2,025	2,227	2,022	-	-
Tangible Assets	13,562	17,133	20,744	21,796	20,963	-	-
Intangible Assets	13	13	16	32	31	-	-
LT Investment Securities etc.	1,379	1,905	2,117	2,101	2,170	-	-
Fixed Assets	14,954	19,051	22,876	23,929	23,164	-	-
Deferred Assets	0	0	0	35	34	-	-
Total Assets	17,077	21,656	24,901	26,192	25,220	-	-
Accounts Payable	53	57	67	3	6	-	-
Short Term Debt	3,395	5,755	7,914	6,564	5,230	-	-
Other	1,456	1,924	1,616	1,473	1,210	-	-
Current Liabilities	4,904	7,735	9,596	8,041	6,447	-	-
Long Term Debt	7,722	9,098	10,050	12,001	10,926	-	-
Other	1,630	1,330	1,095	1,102	1,346	-	-
Fixed Liabilities	9,352	10,428	11,145	13,103	12,272	-	-
Total Liabilities	14,256	18,163	20,742	21,144	18,719	-	-
Shareholders' Equity	2,821	3,492	4,159	5,047	6,500	-	-
Other	0	0	1	1	1	-	-
Net Assets	2,821	3,492	4,159	5,048	6,501	-	-
Total Liabilities & Net Assets	17,077	21,655	24,901	26,192	25,220	-	-
Interest Bearing Debt	11,117	14,852	17,964	18,565	16,156	-	-
Net Debt	9,674	13,317	17,006	16,748	14,517	-	-
ROA (Net Profit / Total Assets)	4.5%	4.7%	4.1%	4.4%	4.2%	4.8%	-
ROE (Net Profit / Equity)	22.0%	28.5%	25.4%	26.2%	21.9%	18.5%	-
Tangible Assets / Total Assets	79.4%	79.1%	83.3%	83.2%	83.1%	-	-
Total Assets Turnover	0.40	0.42	0.43	0.42	0.42	-	-
Quick Ratio	31.0%	20.9%	10.9%	22.9%	25.7%	-	-
Current Ratio	43.3%	33.7%	21.1%	27.7%	31.4%	-	-
Equity Ratio	16.5%	16.1%	16.7%	19.3%	25.8%	-	-
Net-Debt-Equity Ratio	342.9%	381.3%	408.9%	331.8%	223.4%	-	-

Source: Company Data, WRJ Calculation

6.0 Other

Founded in 1979

In 1979, the current CEO of the Company, Mr. Toshihiro Kutsuna (born in 1951) established Towa Construction Co., Ltd. with an attempt to be in charge of engineering works & construction, and this is the former entity of the Company. He is still the overwhelming top shareholder with a 60.0% ownership with the Company as of the end of September 2010. He started his career as an employee with a landscape gardening company run by his father. After a while, he found it was not easy to remain positive for its future prospects, and thus he founded his own company. He started with engineering works & construction and then, developments of apartment houses, running golf driving ranges etc., eventually having had opened the first

center for “Holiday Sports Club” in Anjo, Aichi, in 1996, while company name changed to “Tosho Co. Ltd.” in April 1999. The Company was listed on JASDAQ market in February 2004, being classified as a company in “Real Estate” sector. Since then, the Company has had massively increased its exposure to health club operations, having had resulted in a changeover to “Service” sector in October 2006. Nevertheless, the Company has a limited exposure to operations just as “A Service Provider” while mainly to those as “A Service Provider with Capability of Engineering Works & Construction” for the sake of relentless pursuit for high profit margins.

Company History

Date	Events
March 1979	Towa Construction Co., Ltd., established with an attempt to be in charge of engineering works & construction.
December 1986	Shofuku Real Estate Co., Ltd., established with an attempt to be in charge of condominium business as well as leasing of apartments (former operation for “A・City”).
August 1989	Started with management of apartments business.
December 1989	Started with operations of gold driving ranges, with an opening of no. one “Holiday Golf Garden” center.
March 1995	Consigned construction for leasing apartment house, started.
May 1996	Health Club operations, started with the first center of “Holiday Sports Club” in Mikawa-Anjo.
May 1997	2×4 order house business, started (pulled out in March 2002).
April 1999	Corporate identification, changed to “Tosho Co., Ltd”. Completed “Tosho Building” in the site adjacent to Mikawa-Anjo Station, and headquartered there in the building.
November 1999	Started running hotels, together with the first hotel “AB Hotel Mikawa-Anjo The Main”.
January 2003	Planned and sold the first aseismatic high rise apartment in the Mikawa region.
February 2004	Listed on JASDAQ market.
April 2004	Started full-fledged developments for “A・City” apartment houses.
October 2006	Classified as a company belonging to “Service” sector versus “Real Estate” prior to this changeover.

Disclaimer

Based on “IR Information” of the Company, Walden Research Japan worked on an analysis of the Company from a neutral and professional standing point, and the results are described here in this analyst report. “IR Information” of the Company comprises a) contents of our interview, b) contents of presentations for institutional investors, c) contents of timely disclosed information and d) contents of the homepage.

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