II. Review of operations

1. Business and other risks

There were no business and other risks that newly arose during the nine months ended August 31, 2013. In addition, there were no significant changes in “Business and other risks” described in the annual securities report for the previous fiscal year.

2. Important operational contracts, etc.

No important operational contracts, etc. were determined or entered into during the third quarter of the current fiscal year.

3. Analysis of financial position, operating results and cash flows

Any forward-looking statements included in the following descriptions are based on the best estimates or judgment of the Tosei Group (the Company and its consolidated subsidiaries) as of August 31, 2013. All financial data are presented based on the IFRS.

(1) Analysis of operating results

During the first nine months ended August 31, 2013 (December 1, 2012 to August 31, 2013), the Japanese economy showed signs of steady recovery such as easing deflation following the good response to the BOJ’s bold monetary easing steps as well as the government’s economic measures.

In the real estate sector, where Tosei Group operates, J-REIT’s active acquisitions have further vitalized the real estate transactions, and the total amount of property acquisitions by all listed companies during the period from January to June 2013 has nearly doubled from the same period last year, amounting to ¥2.3 trillion. As for the condominium market in the greater Tokyo area, the strong demand continued on the back of the mortgage tax break as well as the anticipation of a rise in property price. Since 2010, the closing rate of sales contracts has mostly remained above 70%, which is viewed as a threshold of a favorable condition, and it recorded a high 81.6% in July 2013. (According to a survey by a private research institution)

In the office leasing market of Tokyo’s five business wards, the average vacancy rate remained on a recovery trend, recording 8.29% in July 2013, 1.01 percentage point lower than the same month last year. The average asking rent, however, has been on a slight decline despite of the increasing expectation of the market that the rental rate will bottom out. (According to a survey by a private research institution)

In the real estate securitization market, the total amount of property acquisitions during the period from January to June 2013 stood at ¥1.3 trillion, nearly tripled from the same period last year, as the acquisitions by J-REITs have largely increased. (According to a survey by a private research institution)

As at the end of June 2013, the combined balance of assets managed by all real estate funds hit a record ¥27.1 trillion, of which ¥10.4 trillion was accounted for by J-REITs and ¥16.7 trillion was by private placement funds. (According to a survey by a private research institution)

In such operating environment, Tosei Group successfully executed the sale of income-generating office and apartment buildings and launched the sale of Restyling properties, both of which are in the Revitalization Business. Also, in the Development Business, the Group concentrated on the sale of 8 detached house projects such as Palms Court Koishikawa 3-Chome and commenced the delivery of newly completed condominium, THE Palms Shibuya Tokiwamatsu in July 2013, which have been the contributors to the steady earnings growth. Further, the Group has been proactively conducting acquisitions of properties that will be the source of its future income.

As a result, consolidated revenue for the first nine months ended August 31, 2013 totaled ¥29,097 million (an increase of 97.1% compared with the same period in the previous fiscal year), operating profit was ¥3,610 million (an increase of 189.7%), profit before tax was ¥3,072 million (an increase of 295.5%), and profit for the period was ¥1,921 million (an increase of 328.7%).

Segment results were as follows:

Revitalization Business

During the nine months ended August 31, 2013, the Company sold 11 properties it had refurbished, including Nissei Building (Chiyoda-ku, Tokyo), Excel TY Building (Shibuya-ku, Tokyo), Meguro Ekimae Tosei Building (Shinagawa-ku, Tokyo), Harajuku Mansion (Shibuya -ku, Tokyo), Kanda Urban Building (Chiyoda-ku, Tokyo). In addition, the Company sold 64 units under its Restyling Business such as Hilltop Yokohama Negishi (Yokohama City, Kanagawa Prefecture), Hilltop Yokohama Higashi Terao (Yokohama City, Kanagawa Prefecture), and Estage Kaminoge (Setagaya-ku, Tokyo).

As a result, revenue in this segment reached ¥9,937 million, an increase of 119.4% from the same period last year, and the segment profit was ¥1,576 million, an increase of 473.8%.

Development Business

During the nine months ended August 31, 2013, the Company sold Kamata Tosei Building (Ota-ku, Tokyo), the land lot in Motoazabu 3-Chome (Minato-ku, Tokyo), as well as a total of 63 detached houses such as properties at Palms Court Hatsudai (Shibuya-ku, Tokyo), Palms Court Koishikawa 3-Chome (Bunkyo-ku, Tokyo) and Palms Court Setagaya Okamoto (Setagaya-ku, Tokyo), and 71 newly built condominium units in THE Palms Shibuya Tokiwamatsu (Shibuya-ku, Tokyo), THE Palms Sendagaya (Shibuya-ku, Tokyo), THE Palms Tsukishima Luna Garden (Chuo-ku, Tokyo) and THE Palms Takadanobaba (Shinjuku-ku, Tokyo).

As a result, revenue in this segment came to ¥13,431 million (up by 190.8% year-on-year), and segment profit reached ¥1,217 million (up by 121.6% year-on-year).

Rental Business

During the nine months ended August 31, 2013, the Company focused on leasing activities for its non-current assets and inventories, and the income-generating apartment and office buildings the Company acquired for sales purposes contributed to the earnings.

As a result, revenue in this segment was ¥1,866 million, an increase of 5.8% compared with the same period last year, and the segment profit was ¥1,104 million, an increase of 16.2%.

Fund and Consulting Business

During the nine months ended August 31, 2013, the Company enjoyed a stable asset management fee income. In addition, brokerage fees and other income relating to large-scale transactions were booked. As a result, revenue in this segment was ¥1,215 million (up by 100.1% year-on-year), while segment profit was ¥652 million (up by 311.8% year-on-year).

As of August 31, 2013, the balance of assets under management (Note) totaled ¥259,411 million.

Note: The balance of assets under management includes the balance of assets which were subject to consulting contracts, etc.

Property Management Business

During the nine months ended August 31, 2013, the number of properties managed by the Company including office buildings, parking lots and schools was 328 properties, an increase of 20 compared with the same period last year; while the number of condominiums and apartments decreased by 28 to 204 properties, the total number of properties under management came to 532, a decrease of 8 from the same period last year.

As a result, revenue in this segment was ¥2,352 million, a decrease of 7.8% compared with the same period last year, and the segment profit was ¥86 million, a decrease of 27.3%.

Alternative Investment Business

During the nine months ended August 31, 2013, the segment focused on the sale of properties acquired through M&A, collection of debt, and leasing of the properties which the Company acquired as in-kind repayments. The segment recognized gain on the sale of properties and loans receivable, interest income, as well as rental income from properties acquired as in-kind repayments.

As a result, revenue in this segment came to ¥293 million, a decrease of 57.6% compared with the same period last year, and the segment profit was ¥42 million, a down by 38.4%.

(2) Analysis of financial position

As of August 31, 2013, total assets increased by ¥3,162 million to ¥68,525 million compared with November 30, 2012, while total liabilities decreased by ¥314 million to ¥38,504 million.

These were primarily due to the proceeds from sales of properties exceeding the purchase of properties in the Revitalization and Development Businesses, and an increase in cash and cash equivalents resulted from the issuance of new shares in Singapore.

Total equity increased by ¥3,477 million to ¥30,021 million compared with November 30, 2012, mainly due to the aforementioned issuance of new shares in Singapore and an increase in retained earnings.

During the third quarter of the current fiscal year, the Company had utilised a portion of the net proceeds from the issuance of new shares on the Singapore Exchange as follows:

1. Use of Placement Proceeds (¥ thousand)

Total amount raised in July 2013	1,933,438
Total amount utilised from the proceeds (As of Aug. 31, 2013)	321,884
Balance proceeds	1,611,554

2. Details of Use of Proceeds (¥ thousand)

Revitalization Business			
Acquisition cost of residential property in Sendagi (partial)	Bunkyo-ku, Tokyo	Apartment	95,500
		Subtotal	95,500
Development Business			
Construction cost of THE Palms Nishigahara (partial)	Kita-ku, Tokyo	Condominium	153,700
Construction cost of Palms Court Minamiasagaya (partial)	Suginami-ku, Tokyo	Detached house	22,684
		Subtotal	176,384
Fund and Consulting Business			
Co-equity investment in preferred equity of Tokumei Kumiai (silent partnership) of a private fund			50,000
		Subtotal	50,000
Total amount utilised for the period up until August 31, 2013			**321,884**

(3) Analysis of cash flows

Cash and cash equivalents (hereinafter "cash") as of August 31, 2013 increased by ¥6,427 million from November 30, 2012 to ¥15,837 million because of the quarterly profit before tax of ¥3,072 million, a decrease in inventories led by steady sales of properties in the Revitalization and Development Businesses, as well as an increase in total equity resulted from the issuance of new shares in Singapore, etc.

The respective cash flow positions and the factors thereof for the nine months ended August 31, 2013 are as follows:

Cash Flows from Operating Activities

Net cash provided by operating activities totaled ¥4,932 million (net cash used in operating activities totaled ¥3,156 million in the same period of the previous year). This is mainly attributed to the quarterly profit before tax of ¥3,072 million and a decrease of ¥1,595 million in inventories resulting from sales of properties in the Revitalization and Development Businesses.

Cash Flows from Investing Activities

Net cash provided by investing activities totaled ¥7 million (a decrease of 89.3% year-on-year). This is primarily due to collection of available-for-sale financial assets in the amount of ¥216 million, and purchase of investment properties of ¥178 million.

Cash Flows from Financing Activities

Net cash provided in financing activities totaled ¥1, 475 million (an increase of 18.5% year-on-year). This mainly reflected ¥15,127 million in repayment of long-term borrowings and ¥273 million in dividend payments, despite proceeds from long-term borrowings of ¥15,969 million as well as proceeds from issuance of new shares of ¥1,825 million.

(4) Operational and financial issues to be addressed

During the nine months ended August 31, 2013, there was no significant change in issues to be addressed by the Tosei Group.

The Company has set the basic policy as to how the persons who control the decision-making of the financial and business policies of the Company should be. The contents of basic policy (matters set forth in Article 118, item 3 of the Ordinance for Enforcement of the Companies Act) are as follows:

a. Contents of basic policy

The Company believes it is necessary for the persons who control decision-making regarding the Company's financial and business policies to have a sufficient understanding of the financial and business affairs of the Company and the source of its corporate value, and to be capable of continuously and sustainably ensuring and enhancing the Company's corporate value and, in turn, the common interests of its shareholders.

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

Nevertheless, among them are not a few forms of large-scale acquisition of shares that benefit neither the corporate value of the target company nor the common interests of its shareholders. Such acquisitions include those with a purpose that would apparently harm the corporate value of the target company and the common interests of its shareholders, those with the potential to practically coerce shareholders into selling their shares, those that do not provide sufficient time or information for the target company's board of directors and shareholders to consider the details of the large-scale acquisition offer, or for the target company's board of directors to make an alternative proposal, and those that require the target company to discuss or negotiate with the acquirer in order to procure more favorable terms than those presented by the acquirer.

In particular, it is critical to have a thorough understanding with respect to (i) the system under which the Company covers the six business fields in-house, that allows the “integration of real estate and finance,” and maximizes the potential of the Tosei Group, (ii) the employees who support such system with professional knowledge and experiences in real estate and finance, and (iii) the credibility which the Company has gained in the real estate industry over a long period of time, based on its capability supporting various value creation skills as well as on a fully developed information network. Unless the offerer of the large-scale acquisition of the shares of the Company understands not only the details of the financial and business affairs of the Company, but also the source of the corporate value of the Company, and would ensure and enhance these elements over the medium-to-long term, the corporate value of the Company and, in turn, the common interests of its shareholders will be harmed.

The Company believes that a person who undertakes a large-scale acquisition of the shares in the Company in a manner that does not contribute to the corporate value of the Company or the common interests of its shareholders will not be the right person to control decisions on the Company’s financial and business policies. The Company believes that it is essential to take necessary and reasonable countermeasures against such large-scale acquisition offers in order to secure the corporate value of the Company and, in turn, the common interests of its shareholders.

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

Because the Tosei Group is fully aware that the Company, being listed on the First Section of the Tokyo Stock Exchange, will be required to meet an even higher standard of behavior and integrity from external parties, it has developed a new medium-term management plan called “Next Stage 2014” (3 year plan for the period from December 2011 to November 2014), aiming to reach one step higher position (Next Stage). The efforts under this plan have been commenced since the previous fiscal year. Even though the surrounding environment has been dramatically changing due to the financial crisis and the Great East Japan Earthquake, the Company, pursuing a continuing innovation in its attempt to achieve a further leap, is determined to further strengthen each existing business segments, including the expansion of the businesses catering towards end-users in domestic market, to make a first step into the overseas business establishment by broadening its global view, and to crease new values and inspirations in every aspects of real estate in a wider range of field through innovating the management infrastructures.

The Company group has so far taken measures to strengthen corporate governance, such as appointing outside directors (two members), inviting all statutory auditors from outside (four members), registering two outside directors and four outside statutory auditors (six members in total) as “independent directors and/or statutory auditors” in accordance with the “Principles of Corporate Governance for Listed Companies” of the Tokyo Stock Exchange, as well as reinforcing the business execution functions by implementing the executive officer system, and establishing the corporate governance board. Going forward, the Company will endeavor to further strengthen corporate governance as a listed company on the First Section of the Tokyo Stock Exchange. Specifically, the Company group will focus on putting the followings into practice: the actions based on a higher-level awareness of compliance, through raising awareness from a “model action” level, to an “ideal action” level in accordance with the Compliance Principles of the Company; a thorough implementation of risk management by correctly understanding and analyzing risks involved in corporate activities; and continuing to satisfy accountability requirements to various stakeholders including investors by promptly disclosing accurate corporate information under the spirit of fair disclosure.

c. Overview of the measures to prevent persons deemed as inappropriate, in view of the basic policy, from controlling the decisions on the Company's financial and business policies

This plan is a measure to prevent persons deemed as inappropriate, in view of the aforementioned basic policy, from controlling the decisions on the Company's financial and business policies, and its objective is to ensure and enhance the Company's corporate value and, in turn, the common interests of its shareholders.

The plan stipulates procedures to be followed by the person trying to conduct an acquisition, etc. of shares, etc. (hereinafter, the "Acquirer") of the Company ((A) a purchase and/or other acquisition of the shares and the like issued by the Company that would result in the holding ratio of share certificates, etc. (kabuken tou hoyuu wariai) of a holder (hoyuusha) of 20% or more; or (B)a tender offer (koukai kaitsuke) with respect to the shares, etc. issued by the Company that would result in the sum of the Acquirer's ownership ratio, and that of the persons having a special relationship with the Acquirer, of 20% or more; or any actions similar to (A) or (B) above).

Specifically, the Acquirer must provide the Company a statement of undertaking and an acquisition document that includes necessary information, prior to making an acquisition.

Upon receiving these documents, an independent committee will conduct the review of the acquisition terms, collection of information on materials such as the management plans and business plans of the Acquirer and the Company's board of directors and comparison thereof, the review of alternative plans, etc. presented by the Company's board of directors, and discussions and negotiations with the Acquirer, while obtaining advice from independent experts. In the meantime, the Company will disclose information in a timely manner.

When the acquisition is not in compliance with the procedures stipulated in the plan, and/or there is possibility of such offer to apparently cause harm to the corporate value of the Company and, in turn, to the common interests of shareholders, and it is appropriate for the Company to implement the gratis allotment of stock acquisition rights, the independent committee will recommend the implementation the gratis allotment of stock acquisition rights to the Company's board of directors. In addition, when a meeting of shareholders is convened to confirm the intent of the Company's shareholders, the Company's board of directors will comply with the shareholders' intent. These stock acquisition rights will be allotted with an exercise condition that does not allow, as a general rule, the Acquirer to exercise the rights and an acquisition provision to the effect that the Company will acquire the stock acquisition rights in exchange for shares of the Company from persons other than the Acquirer. The Company's board of directors will resolve as an agency stipulated by the Companies Act, as to the implementation or non-implementation of the gratis allotment of stock acquisition rights, fully respecting the recommendation of the Independent Committee. In addition, when a meeting of shareholders is convened to confirm the intent of the Company's shareholders, the Company's board of directors will follow the shareholders' intent. If the procedures under this plan have commenced, the Acquirer must refrain from making any acquisition until the Company's board of directors resolves not to trigger the plan. The plan will remain in effect until the conclusion of the ordinary general meeting of shareholders for the last fiscal year ending within three years of the conclusion of the 62nd Ordinary General Meeting of Shareholders. However, if, before the expiration of the effective period, the Company's board of directors resolves to abolish the plan, the plan will be abolished at that time.

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

The Company's board of directors is of the view that the various measures to enhance the corporate value, including the new medium-term management plan and other measures to strengthen corporate governance have been established as specific actions to continuously and sustainably enhance the corporate value of the Company and, in turn, the common interests of its shareholders, and that these are truly in line with the basic policy, are not detrimental to the common interests of the Company's shareholders and not for the purpose of maintaining the positions of the Company's corporate officers.

In addition, the Company's board of directors is of the view that the plan is in line with the basic policy, not detrimental to the common interests of the Company's shareholders, and not for the purpose of maintaining the positions of the Company's corporate officers, based on the following reasons: an approval at the general meeting of shareholders has been obtained for its renewal; its maximum effective period is stipulated to be three years and it can be abolished at any time by the resolution of the Company's board of directors; an independent committee, which is comprised of the members that are independent of the management of the Company, has been established and the countermeasures stipulated in the plan requires the decision by the independent committee for actual executions; and the plan fully satisfies the three principles set out in the "Guidelines Regarding Takeover Defense for the Purposes of Protection and Enhancement of Corporate Value and Shareholders' Common Interests" released by the Ministry of Economy, Trade and Industry and the Ministry of Justice on May 27, 2005.

(5) Research and development activities

No item to report.