II. Review of operations

1. Business and other risks

There were no business and other risks that newly arose during the three months ended February 28, 2014. 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 first quarter of the fiscal year under review.

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 as of February 28, 2014.

(1) Analysis of operating results

During the three months ended February 28, 2014, the Japanese economy experienced a modest recovery, as corporate earnings improved on the back of bold monetary easing and various economic stimulus measures implemented by the government, and there were signs of an end to deflation, including an increase in individual consumption.

In the real estate industry where Tosei Group operates, supported by companies’ capacity to invest and the improvement in the financing environment, real estate acquisitions by business entities during 2013 totaled ¥636.1 billion, the highest level since 2000, and a significant increase of 2.9 times versus the previous fiscal year. In addition, commercial real estate investment in Japan during 2013 rose to approximately ¥4 trillion, double that of the previous fiscal year. The real estate market recovery trend is becoming increasingly strong, driven by robust real estate transactions by J-REITs and privately placed funds, etc. (According to a survey by a private research institution)

In the Tokyo metropolitan area condominium market, demand remained firm due to the surge in demand ahead of the consumption tax rate hike as well as other factors. The closing rate of sales contracts stayed mainly above the 70% line, which is viewed as favorable conditions, and in January 2014 the closing rate of sales contracts rose 9.4 percentage points compared to the previous fiscal year, to 78.6%. In fiscal 2013, the number of condominiums supplied to the market in the Tokyo metropolitan area increased 23.8% versus the previous fiscal year, to 56,000, marking a significant increase. (According to a survey by a private research institution)

In the office leasing market of Tokyo’s five business wards, the upward trend of occupancy rate continues, and the rate of vacancy as of January 2014 became 7.18%, down 1.38 percentage points from the same month last year. The average asking rent rose in October 2013 for the first time in 16 months, and is expected to increase going forward. In January 2014, the average asking rent increased 0.22% compared to the previous month, to ¥16,242/*tsubo*, which was 1.88% lower than the same month of the previous fiscal year. (According to a survey by a private research institution)

In the real estate securitization market, investment real estate transaction activity was brisk, due to the continued favorable financing environment and the view that real estate prices would be moving higher. Real estate acquisitions by J-REITs have increased significantly, and the total amount of properties acquired during 2013 amounted to ¥2.2 trillion, up 2.1 times compared to 2012. (According to a survey by a private research institution) Domestic private placement REITs have steadily increased their assets since they began investments in 2010, and as of the end of December 2013, the 6 investment corporations had a combined balance of assets in excess of ¥500 billion. Private placement REITs tend to be selected by pension funds, and the market size is expected to grow further. (According to a survey by a private research institution)

Amid this operating environment, in the Revitalization Business, Tosei Group made steady progress on the sale of assets such as income-generating office buildings and apartment buildings. In the Development Business, the Group sold detached houses, condominiums, and other products to end users. The Group also proactively acquired income-generating real estate and development sites, which will be the source of the Group’s future income.

As a result, consolidated revenue for the three months ended February 28, 2014 totaled ¥11,339 million (down 26.8% year-on-year), operating profit was ¥1,600 million (down 1.0%), profit before tax was ¥1,427 million (up 1.3%), and profit for the period was ¥872 million (up 0.6%).

Revitalization Business

During the three months ended February 28, 2014, the segment sold seven properties it had renovated, including Akihabara Tosei Building (Chiyoda-ku, Tokyo), Ueno Takeuchi Building (Taito-ku, Tokyo), and FLEG Nishiazabu (Minato-ku, Tokyo), and land lots. In addition, the Company sold 19 units under its Restyling Business such as Hilltop Yokohama Negishi (Yokohama-shi, Kanagawa), Hilltop Higashi Terao (Yokohama-shi, Kanagawa), and Estage Kaminoge (Setagaya-ku, Tokyo). Also, it acquired for renovation and sales purposes a total 11 properties of income-generating office buildings and apartment buildings as well as one land lot.

As a result, revenue in this segment was ¥6,891 million (down 3.0% year-on-year), and the segment profit was ¥864 million (down 35.1%).

Development Business

During the three months ended February 28, 2014, the segment focused on the sale of newly-built condominiums and detached houses in firm demand. It sold 32 newly-built condominium units in THE Palms Nihonbashi Kodenmacho Visage (Chuo-ku, Tokyo), as well as a total of 17 detached houses such as properties at Palms Court Okusawa 1-Chome (Setagaya-ku, Tokyo), Palms Court Minamiasagaya (Suginami-ku, Tokyo), and Palms Court Setagaya Okamoto (Setagaya-ku, Tokyo). Also, it acquired 2 land lots for detached house projects.

As a result, revenue in this segment was ¥2,522 million (down 61.6% year-on-year), and the segment profit reached ¥338 million (up 200.8%).

Rental Business

During the three months ended February 28, 2014, while the segment sold 7 buildings of its inventory assets the Company holds for leasing purposes, it acquired a total of 11 of income-generating office buildings and apartment buildings, and made an effort to lease them. It also focused on leasing activities for its pre-existing non-current assets and inventories.

As a result, revenue in this segment was ¥771 million (up 45.1% year-on-year), and the segment profit was ¥471 million (up 73.7%).

Fund and Consulting Business

During the three months ended February 28, 2014, while the segment obtained a new asset management contract in the amount of ¥3,430 million, the balance of assets under management decreased by ¥30,242 million, due mainly to the property dispositions by funds. Consequently, the fee income relating to acquisitions and dispositions of properties for funds largely contributed to the revenue.

As a result, revenue in this segment was ¥291 million (down 29.0% year-on-year), and the segment profit was ¥116 million (down 35.3%).

As of February 28, 2014, the balance of assets under management (Note) totaled ¥221,216 million.

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

Property Management Business

As of February 28, 2014, the number of properties managed by the Company including office buildings, parking lots and schools was 348, an increase of 35 from February 28, 2013; while the number of condominium and apartment buildings decreased by 10 to 205 from February 28, 2013, making the total number of properties under management 553, an increase of 25 from February 28, 2013.

As a result, revenue in this segment was ¥787 million (down 0.3% year-on-year), and the segment profit was ¥97 million (up 128.7%).

Alternative Investment Business

During the three months ended February 28, 2014, the segment focused on leasing of the properties which it had acquired by accepting a substitute performance.

As a result, revenue in this segment was ¥74 million (down 17.3% year-on-year), and the segment profit was ¥42 million (up 90.3%).

(2) Analysis of financial position

As of February 28, 2014, total assets increased by ¥4,560 million to ¥75,843 million compared with November 30, 2013, while total liabilities increased by ¥4,073 million to ¥45,264 million.

These were primarily due to an increase in inventories resulting from purchase of properties exceeding sales of properties in the Revitalization Business and Development Business, and an increase in borrowings from financial institutions.

Total equity increased by ¥486 million to ¥30,578 million compared with November 30, 2013, mainly due to an increase in retained earnings and payment of cash dividends.

The details of the use of net proceeds from issuance of new shares on the Singapore Exchange in July 2013, as of February 28, 2014, are as follows:

1. Use of Placement Proceeds (¥ thousand)

Total amount raised in July 2013	1,933,438
Total amount utilized from the proceeds (As of February 28, 2014)	1,933,438
Balance proceeds	–

2. Details of Use of Proceeds (¥ thousand)

Revitalization Business			
Acquisition cost of residential building in Sendagi (partial)	Bunkyo-ku, Tokyo	Apartment	95,500
Acquisition cost of residential building in Shonan (partial)	Fujisawa-shi, Kanagawa	Apartment	29,864
Acquisition cost of residential building in Kokubunji (partial)	Kokubunji-shi, Tokyo	Apartment	234,785
Acquisition cost of office building in Chiba (partial)	Chiba-shi, Chiba	Income-generating office building	401,226
		Subtotal	761,375
Development Business			
Construction cost of THE Palms Nishigahara (partial)	Kita-ku, Tokyo	Condominium	384,250
Construction cost of Palms Court Minamiasagaya (partial)	Suginami-ku, Tokyo	Detached house	22,684
Construction cost of THE Palms Nihonbashi Kodenmacho Visage (partial)	Chuo-ku, Tokyo	Condominium	354,441
		Subtotal	761,375
Fund and Consulting Business			
Investment in a private fund through Tokumei Kumiai (silent partnership)			50,000
Co-equity investment in a private fund (partial)			360,687
		Subtotal	410,687
Total amount utilized from the proceeds (As of February 28, 2014)			**1,933,438**

(3) Analysis of cash flows

Cash and cash equivalents (hereinafter “cash”) as of February 28, 2014 increased by ¥50 million from November 30, 2013 to ¥14,762 million because of the profit for the period before tax of ¥1,427 million, the steady progress in property acquisitions in the Revitalization Business and Development Business and an increase in borrowings from financial institutions accompanying such property acquisitions.

The respective cash flow positions and the factors thereof for the three months ended February 28, 2014 are as follows:

Cash flows from operating activities

Net cash used in operating activities totaled ¥3,164 million (net cash provided by operating activities totaled ¥7,529 million in the same period of the previous fiscal year). This is mainly attributed to the profit for the period before tax of ¥1,427 million and an increase of ¥3,625 million in inventories resulting from property acquisitions in the Revitalization Business and Development Business.

Cash flows from investing activities

Net cash used in investing activities totaled ¥1,137 million (net cash used in investing activities totaled ¥14 million in the same period of the previous fiscal year). This is primarily due to purchase of investment property of ¥1,088 million.

Cash flows from financing activities

Net cash provided by financing activities totaled ¥4,352 million (net cash used in financing activities totaled ¥6,012 million in the same period of the previous fiscal year). This mainly reflected ¥5,370 million in repayments of non-current borrowings and ¥349 million in cash dividends paid, despite proceeds from non-current borrowings of ¥10,286 million.

(4) Operational and financial issues to be addressed

During the three months ended February 28, 2014, there was no significant change in issues to be addressed by the Tosei Group.

The Company has set the basic policy regarding the persons who control the decision-making on the financial and business policies of the Company. 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 that the persons who control decisions on the Company's financial and business policies need to be persons who fully understand the details of the Company's financial and business affairs and the source of the Company's corporate value and who will make it possible to continually and persistently ensure and enhance the Company's corporate value and, in turn, the common interests of its shareholders.

The Company believes that ultimately its shareholders as a whole must make the decision on any proposed acquisition of the Company that would involve a change of control thereof. Also, the Company will not reject a large-scale acquisition of the shares in the Company if it will contribute to the corporate value of the Company and, in turn, the common interests of its shareholders.

Nonetheless, there are some forms of large-scale acquisition of shares that benefit neither the corporate value of the target company nor the common interests of its shareholders including those with a purpose that would obviously harm the corporate value of the target company and the common interests of its shareholders, those with the potential to substantially 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 share acquisition, 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 for shareholders than those presented by the acquirer.

Particularly, it is necessary and essential for the Company to (i) maintain the system under which the Company internally covers the six business fields that allow the "integration of real estate and finance," which leads to maximization of the potential of the Company group, (ii) maintain employees who support that system with knowledge and experience specializing in real estate and finance, (iii) maintain the Company's trust in the real estate industry that has been built up over a long period of time based on the establishment of the ability and information networks supporting various value creation technologies, and (iv) master knowhow that enables comprehensive business. Unless the acquirer of a proposed large-scale acquisition of the shares in the Company understands the source of the corporate value of the Company as well as the details of financial and business affairs 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 would be harmed.

The Company believes that persons who would make 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 would be inappropriate as persons that control decisions on the Company's financial and business policies. The Company believes that it is necessary to ensure the corporate value of the Company and, in turn, the common interests of its shareholders by taking necessary and reasonable countermeasures against a large-scale share acquisition by such persons.

b. Overview of special measures to realize the basic policy

Because the Tosei Group was fully aware of the fact that as a listed company on the First Section of the Tokyo Stock Exchange, it would be required to demonstrate even higher standards of behavior, dignity and the like from external parties in the future, the Group, aiming to move to the next stage, established a new medium-term management plan called "Next Stage 2014" (the targeted period of the plan is three years from December 2011 to November 2014) and commenced its efforts under the plan from the fiscal year ended November 30, 2012. Under this new medium-term management plan, although the Group faces an external environment that is dramatically changing due to the financial crisis and the Great East Japan Earthquake, in order to realize further progress as a company intending to make continuous innovation, the Group will create new value and inspiration in all aspects of real estate in a wider business field than in the past by (i) further strengthening each segment currently owned by the Company group including expansion of the business for end users in Japan, (ii) making new steps toward starting business abroad with broader global perspectives and (iii) reforming its management infrastructure.

The Company group has previously taken measures to strengthen corporate governance, such as the appointment of outside directors (two members), the invitation of all audit & supervisory board members (four members) from outside the Company, the notification to the Tokyo Stock Exchange of two outside directors and four outside audit & supervisory board members (six members in total) as “independent directors/auditors” in accordance with the “Principles of Corporate Governance for Listed Companies” of the Tokyo Stock Exchange, the reinforcement of the business execution function by the introduction of the executive officer system, and the establishment of the corporate governance board, and will in the future 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 into practice actions based on a high-level awareness of compliance through raising awareness from the level of “role model” to that of “ideal” in accordance with the Compliance Principles of the Company, thorough implementation of risk management by correctly understanding and analyzing risks involved in corporate activities, continuous performance of accountability to various stakeholders including investors by promptly publicly disclosing correct corporate information under the spirit of fair disclosure, and other efforts for strengthening corporate governance.

c. Overview of measures to prevent decisions on the Company’s financial and business policies from being controlled by persons deemed inappropriate according to the basic policy

The plan is a measure to prevent decisions on the Company’s financial and business policies from being controlled by persons deemed inappropriate under the above basic policy, 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 that must be followed in any cases of purchase, etc. of share certificates, etc. of the Company ((i) a purchase or other acquisition that would result in the holding ratio of share certificates, etc. *(kabuken tou hoyuu wariai)* of a holder *(hoyuusha)* totaling at least 20% of the share certificates, etc. issued by the Company; or (ii) a purchase or other acquisition that falls under a tender offer *(koukai kaitsuke)* that would result in the party conducting the tender offer’s ownership ratio of share certificates, etc. and the ownership ratio of share certificates, etc. of a person having a special relationship therewith totaling at least 20% of the share certificates, etc. issued by the Company; or (iii) any similar action to (i) or (ii) above).

In practical terms, the acquirer must provide the Company a statement of undertaking (acquirer’s statement) and an acquisition document that includes essential information, etc. before making the acquisition, etc.

Upon receiving these documents, the independent committee, while obtaining independent expert advice, will conduct its consideration 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; consideration of any alternative plan presented by the Company’s board of directors, and the like; and discussion and negotiation with the acquirer. The Company will disclose information in a timely manner.

When (i) the acquisition is not in compliance with the procedures prescribed in the plan or it is an acquisition that may obviously cause harm to ensuring and enhancing the corporate value of the Company and the common interests of shareholders, and also (ii) it is reasonable to implement the gratis allotment of stock acquisition rights, the independent committee will recommend the implementation of the gratis allotment of stock acquisition rights to the Company’s board of directors. In addition, when a meeting of shareholders is held to confirm the intent of the Company’s shareholders, the Company’s board of directors will respond to 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 may acquire the stock acquisition rights in exchange for shares in the Company from persons other than the acquirer. The Company’s board of directors, in exercising its role under the Companies Act, will pass a resolution relating to the implementation or non-implementation of the gratis allotment of stock acquisition rights, respecting the recommendation of the independent committee to the maximum extent. In addition, when a meeting of shareholders is held to confirm the intent of the Company's shareholders, the Company's board of directors will respond to the shareholders' intent. If the procedures for the plan have commenced, the acquirer must not effect an acquisition until and unless the Company's board of directors resolves not to trigger the plan. The effective period of the plan expires at the conclusion of the ordinary general meeting of shareholders for the last fiscal year ending within three years after 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. Decisions by the Company's board of directors regarding specific measures and reasons therefor

The Company's board of directors deems that the new medium-term management plan and other measures such as the efforts to enhance the corporate value and the strengthening of corporate governance were established as specific measures 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 accordance 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.

In addition, the Company's board of directors deems that the plan is in accordance 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 reasoning: approval from the general meeting of shareholders was obtained for its renewal; its effective period is stipulated as a maximum of 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 composed of members who are independent from the management of the Company, has been established; in the event that the plan's countermeasures are triggered, the Company must obtain a resolution by the independent committee when making a decision for triggering the countermeasures in the plan, 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.