II. Review of operations

1. Business and other risks

There were no business and other risks that newly arose during the six months ended May 31, 2015. 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 second 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 May 31, 2015.

(1) Analysis of operating results

During the six months ended May 31, 2015, the Japanese economy experienced a modest recovery reflecting the effects of various governmental measures and a fall in crude oil prices. As capital investment followed a path of modest increases due to an improvement in corporate earnings, personal consumption also remained firm amid continued steady improvement in the employment and income environments, and investment in housing is expected to experience an upturn from now.

In the real estate industry where Tosei Group operates, new property acquisitions by J-REITs, which drive real estate transactions in Japan, stayed roughly level with those of the same period of the previous fiscal year. Nevertheless, foreign companies, foreign investment funds and others actively acquired real estate due to expectations of higher real estate prices and a perception that they are undervalued for money resulting from yen depreciation. As a result, the total acquisition amount of properties acquired by listed companies and others in the 2014 fiscal year for most companies in Japan (April 2014 to March 2015) was approximately ¥5.3 trillion, an increase of 15% compared with the previous fiscal year (according to a survey by a private research institution).

In the Tokyo metropolitan area condominium market, the number of newly-built condominium units sold in April 2015, the latest data available, fell 7.6% year on year to 2,286 units, the fourth straight month of decline, partly reflecting supply adjustments by developers. On the other hand, looking at the contract rate, which indicates the trend of sales, the rate in April 2015 rose 0.8 percentage point year on year to 75.5%. This rise occurred despite sluggish sales of properties in suburbs of the Tokyo metropolitan area, which are susceptible to the impact of rising building costs, and was driven by sales in central Tokyo, where highly priced condominiums sold well. With the rate maintained at 70% or more, which is viewed as indicating favorable sales, conditions were firm (according to a survey by a private research institution).

In the Tokyo metropolitan area build-for-sale detached house market, partly due to softening of the impact from the consumption tax hike, housing starts in March 2015, the latest data available, returned into positive figures and totaled 4,602 units, which was up 0.3% year on year (according to the Ministry of Land, Infrastructure, Transport and Tourism data). Although it is necessary to continue monitoring the trend in supply and demand, further recovery is expected on the back of market revitalization policies such as expansion in reduced tax rates on home loans and improved consumer sentiment due to improvement in the income environment.

In the office leasing market of Tokyo’s five business wards, demand for office relocation by corporates continued to be firm, and the vacancy rate in April 2015 was 5.3%, down 1.3 percentage points compared with the same month of the previous fiscal year. The average asking rent rose for the 16th consecutive month to ¥17,257/tsubo, up 4.9% compared with the same month of the previous fiscal year (according to a survey by a private research institution).

In the real estate securitization market, as of the end of December 2014, the balance of assets under management at private placement funds was ¥15.1 trillion, down 6.2% from the previous year, while the balance of assets under management at J-REITs was ¥12.6 trillion, up 12.9%. As a result, the total balance in this market expanded to ¥27.7 trillion. Total market capitalization of J-REITs exceeded ¥10 trillion, bringing the market to a level where it ranks second in scale to the US REIT market. Nevertheless, the

pace of new property acquisitions by J-REITs slowed down due to an intensification in competition for acquisitions, and the total acquisition amount of properties during 2014 was ¥1.6 trillion, down 30.2% compared with the previous fiscal year. The pace continued to be slightly weak from January through March 2015 (according to a survey by a private research institution).

Amid this operating environment, in the Revitalization Business, the Tosei Group made steady progress on the sale of assets centered on properties aimed at the investment market, such as income-generating office buildings and apartments, and also the Group pushed ahead with sales, mainly of detached houses, in the Development Business. In addition, we proactively acquired income-generating properties and land for development as future sources of income.

As a result, consolidated revenue for the six months ended May 31, 2015 totaled ¥22,343 million (up 9.2% year on year), operating profit was ¥4,550 million (up 84.0%), profit before tax was ¥4,170 million (up 98.6%), and profit for the period was ¥2,653 million (up 106.0%).

Performance by business segment is shown below:

Revitalization Business

During the six months ended May 31, 2015, the segment sold 18 properties it had renovated, including Toyocho Tosei Building (Koto-ku, Tokyo), Shinjuku 6-chome Building (Shinjuku-ku, Tokyo), Ogawamachi Tosei Building (Chiyoda-ku, Tokyo), Shibuya 4-chome Building (Shibuya-ku, Tokyo) and Kannai Tosei Building (Yokohama-shi, Kanagawa). In addition, the segment sold 34 units in the Restyling Business, including Hilltop Yokohama Negishi (Yokohama-shi, Kanagawa), Hilltop Yokohama Higashi Terao (Yokohama-shi, Kanagawa) and Renai Kamakura Ueki (Kamakura-shi, Kanagawa). In the six months ended May 31, 2015, it also acquired a total of 11 income-generating office buildings, commercial facilities and apartments and four land lots for renovation and sales purposes. In addition, consolidated subsidiary TOSEI SINGAPORE PTE. LTD. started acquiring properties in Malaysia with the acquisition of three units of private portions of income-generating office buildings and apartments in Kuala Lumpur.

As a result, revenue in this segment was ¥13,759 million (up 7.2% year on year) and the segment profit was ¥3,300 million (up 160.1%).

Development Business

During the six months ended May 31, 2015, the segment focused on the sale of detached houses, for which there was firm demand. The segment sold 57 detached houses at such properties as THE Palms Court Kashiwa Hatsuishi (Kashiwa-shi, Chiba), THE Palms Court Mitsuike Kouen (Yokohama-shi, Kanagawa), THE Palms Court Bunkyo Honkomagome (Bunkyo-ku, Tokyo) and THE Palms Court Kawasaki Daishi (Kawasaki-shi, Kanagawa). In addition, the segment sold Palms Nishidai, which is a newly-built apartment, and four land lots. In the six months ended May 31, 2015, it also acquired one land lot for a detached housing project.

As a result, revenue in this segment was ¥4,162 million (up 32.0% year on year) and the segment profit was ¥593 million (up 105.0%).

Rental Business

During the six months ended May 31, 2015, while the segment sold nine buildings of its inventory assets held for leasing purposes, it newly acquired a total of seven properties including income-generating office buildings, commercial facilities and apartments. In addition, the segment made efforts to lease vacancies out following acquisitions and also focused on leasing activities for its existing non-current assets and inventory assets.

As a result, revenue in this segment was ¥1,801 million (down 1.8% year on year) and the segment profit was ¥806 million (down 30.0%).

Fund and Consulting Business

During the six months ended May 31, 2015, while the balance of assets under management decreased by ¥53,790 million, due mainly to property dispositions by funds, the balance increased by ¥247,052 million, due mainly to new asset management contracts of large projects the segment obtained. The acquisition of such large project contracts increased asset management fees and contributed to revenue.

As a result, revenue in this segment was ¥757 million (up 61.4% year on year) and the segment profit

was ¥327 million (up 201.5%).

As of May 31, 2015, the balance of assets under management (Note) totaled ¥493,869 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 May 31, 2015, the number of properties managed by the segment including office buildings, parking lots and schools was 354, an increase of four from May 31, 2014, while the number of condominium and apartment buildings under management decreased by 12 to 189, making the total number of properties under management 543, a decrease of eight from May 31, 2014.

As a result, revenue in this segment was ¥1,442 million (down 4.1% year on year) and segment profit was ¥88 million (down 39.5%).

Alternative Investment Business

During the six months ended May 31, 2015, membership fees from running a sports club contributed to income in this segment. In addition, the segment also focused on leasing activities for properties acquired by a substitute performance.

As a result, revenue in this segment was ¥418 million (down 36.7% year on year) and the segment profit was ¥92 million (down 21.1%).

(2) Analysis of financial position

As of May 31, 2015, total assets were ¥90,243 million, an increase of ¥9,385 million compared with November 30, 2014, while total liabilities were ¥55,312 million, an increase of ¥7,181 million.

This was 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 ¥2,203 million to ¥34,931 million, mainly due to an increase in retained earnings and payment of cash dividends.

(3) Analysis of cash flows

Cash and cash equivalents (hereinafter “cash”) as of May 31, 2015 totaled ¥16,809 million, up ¥708 million compared with November 30, 2014.

The cash flows for the six months ended May 31, 2015 and factors contributing to those amounts are as follows:

Cash Flows from Operating Activities

Net cash used in operating activities totaled ¥5,365 million (down 43.8% year on year). This is mainly due to profit for the period before tax of ¥4,170 million, as well as an increase in inventories of ¥7,998 million, which was a result of property acquisitions in the Revitalization Business and Development Business, and income taxes paid of ¥1,370 million.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥161 million (down 91.0% year on year). This is primarily due to purchases of investment properties totaling ¥687 million and proceeds from sales of available-for-sale financial assets totaling ¥444 million.

Cash Flows from Financing Activities

Net cash provided by financing activities totaled ¥6,235 million (down 44.3% year on year). This mainly reflects ¥12,277 million in the repayments of non-current borrowings and ¥577 million in cash dividends paid, despite ¥19,713 million in proceeds from non-current borrowings.

(4) Operational and financial issues to be addressed

During the six months ended May 31, 2015, 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 that would involve a change of control of the Company. 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 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.

It is particularly necessary and essential for the persons who make decisions on the Company's financial and business policies 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 acquisition by such persons.

b. Overview of special measures to realize the basic policy

Under the new medium-term management plan called "Advancing Together 2017" (the targeted period of the plan is three years from December 2014 to November 2017), the Company group aims to further strengthen the business infrastructure by expanding and developing of the existing six business areas and considering its advance to peripheral areas of business, to build optimum corporate governance for expansion of the Company group and increase of the employees which are entailed in expansion of the business, and to establish efficient organization management structure. Further, the Company group will emphasize the cultivation of the most valuable asset of the Company group, i.e. the human resources to increase satisfaction of the employees of the Company group. As the Basic Policy in the new medium-term management plan for the further growth of the Company group, the Company group is determined to establish the original and distinctive "Tosei brand" by providing products ensuring high customer satisfaction and high-quality services. Based on these policies, the Company group is dedicated to redefine existing ideas with the spirit of challenge and advance as the risk-taking group of companies, to

aim “creation of new values and sensation as the truly globally-minded and promising professionals”.

The Company group has previously appointed multiple outside directors (two members), invited all Audit & Supervisory Board Members (five members) from outside the company, and has notified all of the above seven outside directors and Audit & Supervisory Board Members as “independent directors and/or Audit & Supervisory Board Members” in accordance with the “Principles of Corporate Governance for Listed Companies” of the Tokyo Stock Exchange. Also, the Company group has reinforced the business execution function by the introduction of the executive officer system, and the establishment of the corporate governance board, and will continue to endeavor to further strengthen corporate governance. 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 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 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 (ii) it threatens to cause obvious harm to the corporate value of the Company, and, in turn, to the common interests of shareholders, (iii) and it is reasonable 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 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 convened 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 65th 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

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 not detrimental to the common interests of the Company's shareholders, not for the purpose of maintaining the positions of the Company's corporate officers, and in accordance with the basic policy based on the following reasoning: approval from the general meeting of shareholders must be 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.