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, 2019. In addition, there were no significant changes in "Business and other risks" described in the annual securities report for the previous fiscal year.

2. Management analysis of financial position, operating results and cash flows

Forward-looking statements included in this section are based on information available to the Group's management as of February 28, 2019.

(1) Operating results

During the three months ended February 28, 2019, the Japanese economy is recovering moderately, supported by personal consumption and capital investment, despite signs of weakness in exports due to a slowing Chinese economy. A moderate recovery is expected to continue going forward, backed by continuing improvements in the employment and income environments.

In the real estate industry where Tosei Group operates, commercial real estate transactions for the full year 2018 decreased 3% year on year to ¥4.0 trillion. Weakness was evident in parts of the investment market, with limited growth in real estate prices and a decline in the number of placements of large-size properties on the market, as well as an increasingly cautious attitude from financial institutions towards real estate lending, in the context of fraudulent loan issues. Demand among investors remains firm however, particularly for properties in the metropolitan area, and transactions for the full year 2019 are forecast to increase by between 0% and 5% year on year (according to a survey by a private research institute).

In the Tokyo metropolitan area condominium market, the number of newly supplied units in the full year 2018 increased 3.4% year on year to 37,000 units. There continues to be firm demand for properties, particularly in the central Tokyo area and near stations. Against a background of persistently high prices however, the average contract rate for the first month was only 62.1%, trailing the 70% threshold from which market conditions are viewed as favorable for the third consecutive year. In the build-for-sale detached house market, housing starts for the full year 2018 numbered 62,000 units, roughly unchanged year on year. Favorable demand continues for detached houses, which remain undervalued relative to condominiums (according to surveys by a private research institute and the Ministry of Land, Infrastructure, Transport and Tourism).

The office leasing market of Tokyo's five business wards has been performing favorably. The average vacancy rate as of January 2019 was 1.8% (a decrease of 1.3% year on year), and the average rent was ¥21,010 (an increase of ¥1,672 year on year). This strength in the leasing market is expected to continue, backed by corporate office expansion requirements and increased demand for coworking space (according to a survey by a private research institute).

In the real estate securitization market, the total value of assets under management as of January 2019 grew to ¥18.0 trillion in J-REITs (an increase of ¥1.4 trillion year on year). Despite the continuing scarcity of large-size premium properties, property acquisitions continue to progress through means such as sponsored property supply, and the market scale expanded to ¥34.9 trillion, including ¥16.9 trillion of value under management in private placement funds (as of June 30, 2018) (according to a survey by a private research institute).

The Tokyo business hotel market maintained its favorable trend, with monthly guest room occupancy rates in 2018 generally exceeding the 80% threshold from which market conditions are viewed as favorable. The number of foreign visitors to Japan for the full year 2018 totaled 31.19 million (an increase of 8.7% year on year), exceeding 30 million for the first time. It is anticipated that more than 35 million foreign visitors will visit during the full year 2019, and further increases in the number of hotel guests are expected going forward (according to surveys by the Ministry of Land, Infrastructure, Transport and Tourism, the Japan National Tourism Organization, and a private research institute).

Amid this operating environment, in the Revitalization Business, the Group made steady progress in selling assets such as income-generating office buildings and apartments, while in the Development Business, the Group pushed ahead with sales of condominiums, detached houses and commercial facilities. In addition, the Group also proceeded with the proactive acquisition of income-generating properties and land for development as future sources of income.

As a result, consolidated revenue for the three months ended February 28, 2019 totaled ¥17,059 million (down 6.8% year on year), operating profit was ¥3,125 million (down 28.0%), profit before tax was ¥2,987 million (down 28.0%), and profit for the period was ¥2,035 million (down 28.5%).

Performance by business segment is shown below.
Reportable segment classifications have been changed effective from the first quarter of the fiscal year ending November 30, 2019, and in the following quarterly comparisons figures for the same period of the previous fiscal year have been recalculated according to the segment after such change.

Revitalization Business

During the three months ended February 28, 2019, the segment sold 15 properties it had renovated, including Ryogoku Tosei Building I,II (Sumida-ku, Tokyo), T's garden Mukogaokayuen (Kawasaki-shi, Kanagawa), T's Link Harajuku (Sibuya-ku, Tokyo). In addition, the segment sold four units in the Restyling Business from Hilltop Yokohama Negishi (Yokohama-shi, Kanagawa).
During the three months ended February 28, 2019, it also acquired a total of 11 income-generating office buildings and apartments and one land lot for renovation and sales purposes.
As a result, revenue in this segment was ¥6,623 million (down 54.1% year on year) and the segment profit was ¥1,424 million (down 62.5%).

Development Business

During the three months ended February 28, 2019, the segment focused on the sale of condominium and detached houses. The segment sold 121 units at THE Palms Chofu Manorgarden (Chofu-shi, Tokyo) and sold 17 detached houses at such properties as THE Palms Court Funabashi Hoten (Funabashi-shi, Chiba), THE Palms Court Higashi Nakano (Nakano-ku, Tokyo). In addition, the segment sold one commercial facility and three land lots.
During the three months ended February 28, 2019, it also acquired two lots for hotel projects, one land lot for logistics facility project, one land lot for commercial facility project and land lots for 41 detached houses.
As a result, revenue in this segment was ¥7,045million (up 819.5% year on year) and the segment profit was ¥1,045 million (in comparison with segment loss of ¥145 million in the same period of the previous fiscal year).

Rental Business

During the three months ended February 28, 2019, while the segment sold 11 buildings of its inventory assets held for leasing purposes, it newly acquired six properties including income-generating office buildings 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 ¥1,470 million (up 8.8% year on year) and the segment profit was ¥606 million (up 2.1%).

Fund and Consulting Business

During the three months ended February 28, 2019, while ¥11,808 million was added to the balance of assets under management (Note), due to new asset management contracts, ¥14,433 million was subtracted from to the balance of Assets under management ¥663,359 million for the end of the previous fiscal year, due mainly to property dispositions by funds. The balance of assets under management as of November 30, 2019, was ¥660,733 million.
As a result, revenue in this segment was ¥603 million (down 10.5% year on year) and the segment profit was ¥297 million (down 21.3%).

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

Property Management Business

During the three months ended February 28, 2019, the segment made efforts to win new contracts and maintain existing contracts. Consequently, the total number of properties under management was 626 as of February 28, 2019, a decrease of 34 from February 28, 2018, with the total comprising 392 office

buildings, hotels, schools and other such properties, and 234 condominiums and apartments.

As a result, although the total number of properties under management decreased, revenue in this segment was ¥1,063 million (up 9.1% year on year) and segment profit was ¥120 million (up 10.8%).

Hotel Business

During the three months ended February 28, 2019, the Group worked towards increasing the average daily rate and occupancy rate for TOSEI HOTEL COCONE Kanda, opened in December 2017, as well as newly opening TOSEI HOTEL COCONE Ueno in December 2018 contributed to revenue.

As a result, revenue in this segment was ¥252 million (up 113.3% year on year) and segment profit was ¥48 million (up 14.6%).

(2) Analysis of financial position

As of February 28, 2019, total assets were ¥143,035 million, an increase of ¥4,266 million compared with November 30, 2018, while total liabilities were ¥90,569 million, an increase of ¥3,822 million.

Total assets were due to an increase in inventories. Total liabilities were due to an increase in trade and other payables and an increase in borrowing.

Total equity increased by ¥444 million to ¥52,466 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 February 28, 2019 totaled ¥23,904 million, down ¥2,616 million compared with November 30, 2018.

The cash flows for the three months ended February 28, 2019 and factors contributing to those amounts are as follows:

Cash Flows from Operating Activities

Net cash used in operating activities totaled ¥6,395 million (in comparison with segment net cash provided by operating activities of ¥4,485 million in the same period of the previous fiscal year). This is mainly due to an increase in inventories of ¥5,748 million and income taxes paid of ¥2,820 million.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥201 million (down 86.4% year on year). This is primarily due to payments of loans receivable of ¥126 million.

Cash Flows from Financing Activities

Net cash provided by financing activities totaled ¥3,980 million (in comparison with segment net cash used in financing activities of ¥1,852 million in the same period of the previous fiscal year). This mainly reflects¥17,236 million in proceeds from non-current borrowings., despite ¥11,390 million in the repayments of non-current borrowings and ¥1,409 million in cash dividends paid.

(4) Operational and financial issues to be addressed

During the three months ended February 28, 2019, 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 group covers with its comprehensive capability the diverse business fields and peripheral 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 those businesses with knowledge and experience specializing in real estate and finance, etc., (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

The Group established its three-year medium-term management plan aiming to further increase the Group's corporate value and is pushing ahead with business under the plan.

The Group is promoting its medium-term management plan "Seamless Growth 2020" (December 2017 to November 2020) with the fiscal year ended November 30, 2018 as its first year. The major policy of the plan is "to continue growth as a Group to build a firm position as an original comprehensive real estate company." In the fiscal year ending November 30, 2019, the Company will continue implementing its growth strategy based on this plan.

The Revitalization Business will revitalize and create added value for existing properties and aim to expand operations through initiatives such as product line expansion and diversification of sales methods. With regard to the acquisition of properties, the Company will actively increase the number of small- to medium-size and high liquid property in the metropolitan area and acquire over ¥2.0 billion of medium- to large-size and profitable property, while paying attention to the portfolio. The Development Business will promote the development and sales of detached houses and condominiums that are in steady demand, as well as active development of properties such as logistics facility and hotels after assessing good location. On the other hand, the Stock and Fee Business, the Company's stable source of income, aims to expand all segments. The Rental Business will strive to expand Company-held fixed assets; the Fund and Consulting Business will accumulate assets under management; and the Property Management Business will increase properties under management.

Moreover, as an initiative to establish new income-generating businesses, the Hotel Business segment is newly established from the fiscal year ending November 30, 2019. In addition to the operation and rental of the existing properties, the Company is currently advancing the development of own brand hotel at three locations following TOSEI HOTEL COCONE Kanda, opened in December 2017, and

TOSEI HOTEL COCONE Ueno, opened in December 2018, and will continue to work toward the growth of hotel business and enhancement of Tosei brand.

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

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 in an acquisition, etc. of shares, etc. 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 offeror's ownership ratio, and that of the persons having a special relationship with the offeror, of 20% or more; or any actions similar to (A) or (B) above) by those trying to acquire (hereinafter, the "Acquirer").

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 68th 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

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 in line with the basic policy, do not undermine the common interests of the Company's shareholders and are 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, does not undermine the common interests of the Company's shareholders, and is 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.

3. Important operational contracts, etc.

No important operational contracts, etc. were determined or entered into during the first quarter of the fiscal year under review.