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, 2018. 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 as of May 31, 2018.

(1) Analysis of operating results

During the six months ended May 31, 2018, the Japanese economy continued a moderate recovery. This recovery trend is expected to continue mainly in the corporate sector as a result of growing exports and increased capital investment, despite concerns over downturns due to economic policies and rising interest rates in the U.S. and geopolitical risks in the Middle East, North Korea, etc.

In the real estate industry where Tosei Group operates, domestic commercial real estate transactions from January 2018 to March 2018 increased 14% year on year to ¥1.4 trillion. By area, transactions in the Tokyo metropolitan area accounted for approximately 70% of the total, thanks to an increase in office building transactions in the central Tokyo area where occupancy rates remain stable at a high level, resulting in transactions in the Tokyo metropolitan area ranking the first, ahead of London and New York, for the first time in 16 quarters since the period from January 2014 to March 2014. As the low-interest financing environment is forecast to continue going forward, domestic transactions for the full year 2018 are expected to increase 5% to 10% year on year, backed by active transactions by investors (according to a survey by a private research institute).

In the Tokyo metropolitan area condominium market, the number of units sold in the fiscal year ended March 31, 2018 rose for the first time in four years, increasing 1.1% year on year to 36,837. However, the contract rate for the first month, which indicates whether sales are regarded as favorable, fell below the 70% threshold for the second consecutive year to 68.8% due to soaring selling prices. In the Tokyo metropolitan area build-for-sale detached house market, the number of units sold in the fiscal year ended March 31, 2018 remained almost unchanged from the previous fiscal year at 61,215. Demand for detached houses, which are perceived as being more reasonably priced than condominiums, is expected to remain strong (according to survey’s by the Ministry of Land, Infrastructure, Transport and Tourism and private research institute).

In the office leasing market of Tokyo’s five business wards, the vacancy rate as of April 2018 declined 0.74% year on year to 2.65%, and the average asking rent rose for the 52nd consecutive month to ¥19,896 per tsubo (1 tsubo = 3.3m2), an increase of ¥1,122 year on year. The average asking rent is expected to continue to increase gradually going forward against a backdrop of expanding employment and the need for office expansion and relocation in light of continuing favorable corporate earnings, despite concerns over an upsurge in supply of large-scale office buildings in the central Tokyo area (according to a survey by a private research institute).

In the real estate securitization market, the total value of assets under management as of December 31, 2017 grew to ¥16.5 trillion in J-REITs (an increase of ¥1.0 trillion year on year). In addition, the total value of assets under management in major private placement funds expanded to ¥16.0 trillion (an increase of ¥0.4 trillion year on year), and the overall market scale reached ¥32.5 trillion (according to a survey by 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 and detached houses. In addition, other

than normal acquisition methods, the Group also utilized an acquisition method of M&A, proactively acquiring income-generating properties and land for development as future sources of income.

As a result, consolidated revenue for the six months ended May 31, 2018 totaled ¥32,520 million (up 23.4% year on year), operating profit was ¥6,887 million (up 10.3%), profit before tax was ¥6,511 million (up 11.2%), and profit for the period was ¥4,452 million (up 13.2%).

Performance by business segment is shown below.

Revitalization Business

During the six months ended May 31, 2018, the segment sold 24 properties it had renovated, including Nishidai Tosei Building (Itabashi-ku, Tokyo), Kichichoji Ito Building (Musashino-shi, Tokyo), Kunitachi 219 Building (Kunitachi-shi, Tokyo) and T-Rhythmic SOKA (Soka-shi, Saitama). In addition, the segment sold 15 units in the Restyling Business, including Hilltop Yokohama Negishi (Yokohama-shi, Kanagawa).

During the six months ended May 31, 2018, it also acquired a total of 32 income-generating office buildings and apartments and seven land lots for renovation and sales purposes.

As a result, revenue in this segment was ¥17,585 million (down 2.0% year on year) and the segment profit was ¥4,227 million (down 11.9%).

Development Business

During the six months ended May 31, 2018, the segment focused on the sale of condominium and detached houses. The segment sold 85 units in The Palms Yutenji master's Place (Setagayaku, Tokyo), 43 detached houses including THE Palms Court Kamakura Shiromeguri (Kamakura-shi, Kanagawa), THE Palms Court Kashiwa Hatsuishi (Kashiwa-shi, Chiba) and THE Palms Court Koshigaya Lake Town (Koshigaya-shi, Saitama) and two land lots.

During the six months ended May 31, 2018, it also acquired a land for condominium project, a land lot for hotel project, a land lot for logistics project and land lots for 35 detached housings.

As a result, revenue in this segment was ¥8,613 million (up 301.7% year on year) and the segment profit was ¥1,408 million (in comparison with segment loss of ¥219 million in the same period of the previous fiscal year).

Rental Business

During the six months ended May 31, 2018, while the segment sold 17 buildings of its inventory assets held for leasing purposes, it newly acquired 24 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 ¥2,893 million (down 3.2% year on year) and the segment profit was ¥1,246 million (down 4.4%).

Fund and Consulting Business

During the six months ended May 31, 2018, while ¥8,520 million was subtracted from the balance of assets under management (Note), due mainly to property dispositions by funds, ¥91,590 million was added to the balance of Assets under management ¥552,208 for the end of the previous fiscal year, due mainly to new asset management contracts of large projects the segment obtained. The balance of assets under management as of May 31, 2018, was ¥635,278 million. The acquisition of such large project contracts increased asset management fees and contributed to revenue.

As a result, revenue in this segment was ¥1,324 million (down 19.3% year on year) and the segment profit was ¥707 million (down 22.7%).

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

Property Management Business

During the six months ended May 31, 2018, the segment worked to win new contracts and maintain

existing contracts. Consequently, the total number of properties under management was 667 as of May 31, 2018, an increase of 33 properties from May 31, 2017, with that total comprising 391 office buildings, hotels, schools and other such properties, and 276 condominiums and apartments.

As a result, revenue in this segment was ¥1,938 million (up 18.4% year on year) and segment profit was ¥204 million (up 51.9%).

Other

For the six months ended May 31, 2018, revenue in this segment was ¥166 million (there was no revenue in this segment in the same period of the previous fiscal year) and the segment profit was ¥53 million (in comparison with segment profit of ¥1 million in the same period of the previous fiscal year).

(2) Analysis of financial position

As of May 31, 2018, total assets were ¥134,935 million, an increase of ¥12,385 million compared with November 30, 2017, while total liabilities were ¥85,299 million, an increase of ¥8,908 million.

Increase in total assets were primarily due to increase in inventories. Increase in liabilities were due to increase in current income tax liabilities and a borrowings from financial institutions.

Total equity increased by ¥3,476 million to ¥49,635 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, 2018 totaled ¥25,827 million, increased by ¥2,076 million compared with November 30, 2017.

The cash flows for the six months ended May 31, 2018 and factors contributing to those amounts are as follows:

Cash Flows from Operating Activities

Net cash used in operating activities totaled ¥400 million (¥2,497 million provided by the same period of the previous fiscal year). This is mainly due to profit before tax of ¥6,511 million, as well as an increase in inventories of ¥7,344 million, which was a result of property acquisitions in the Revitalization Business and Development Business, and income taxes paid of ¥1,037 million.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥1,723 million (¥535 million provided by the same period of the previous fiscal year). This is primarily due to purchase of investments in subsidiaries resulting in change in scope of consolidation of ¥1,471 million.

Cash Flows from Financing Activities

Net cash provided by financing activities totaled ¥4,201 million (¥1,739 million used in the same period of the previous fiscal year). This mainly reflects ¥17,407 million in the repayments of non-current borrowings and ¥1,205 million in cash dividends paid, despite ¥22,280 million in proceeds from non-current borrowings.

(4) Operational and financial issues to be addressed

During the six months ended May 31, 2018, 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 five 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 Company group newly formulated a medium-term management plan called "Seamless Growth 2020" (the targeted period of the plan is three years from December 2017 to November 2020), kicking off in the fiscal year ending November 30, 2018. 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," under which we aim to establish new income-generating business, while targeting further growth of the five existing businesses and increases in their operating profit. In addition, we will endeavor to increase profits from the Rental, Fund and Consulting and Property Management Businesses, which are positioned as the stable businesses, to enable a structural balance between profits from the Revitalization and Development Businesses so as to reinforce our resilience to changes in the business environment. On the financial front, we will enhance funding capabilities, through methods such as the extension of borrowing periods to maintain a sound financial structure as the infrastructure that supports the expansion of business scale, while aiming at effective investments. In addition, as the composition of the Company group's trade diversifies in line with the expanding business scale, we will further enhance the quality of internal control, namely, compliance, risk management, and disclosure, to establish an optimum corporate governance structure.

Furthermore, we recognize that human resources that are the most important assets of the Company, and to leverage these assets, we will drive ahead with the development of next-generation executives, all officers and employees and the fostering of human resources for the improvement of productivity, while increasing the satisfaction of employees of the entire Group. At the same time, we will strive to establish a corporate brand befitting the firm position as a group of original comprehensive real estate companies and reinforce the attractiveness of our product brand that will be trusted by the market.

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 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.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 establishedas 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.