

IV. Accounting

1. Preparation policy of the condensed quarterly consolidated financial statements

The condensed quarterly consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard (IAS) 34 “Interim Financial Reporting” under the provision of Article 93 of the “Ordinance on Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements” (Cabinet Office Ordinance No. 64 of 2007).

2. Audit attestation

The condensed quarterly consolidated financial statements for the third quarter of the fiscal year ending November 30, 2018 (from June 1, 2018 to August 31, 2018) and for the first nine months of the fiscal year ending November 30, 2018 (from December 1, 2017 to August 31, 2018) were reviewed by Shinsoh Audit Corporation pursuant to Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act.

1. Condensed Quarterly Consolidated Financial Statements

(1) Condensed Consolidated Statement of Financial Position

(¥ thousand)

	Notes	As of November 30, 2017	As of August 31, 2018
Assets			
Current assets			
Cash and cash equivalents	8	23,750,239	27,197,189
Trade and other receivables	8	2,148,608	2,491,554
Inventories		59,718,614	71,625,561
Other current assets		26,376	28,946
Total current assets		85,643,839	101,343,252
Non-current assets			
Property, plant and equipment		5,305,652	5,279,258
Investment properties		28,359,547	24,633,589
Intangible assets		83,544	86,260
Available-for-sale financial assets	8	1,751,463	1,802,941
Trade and other receivables	8	859,731	1,117,880
Deferred tax assets		517,587	706,504
Other non-current assets		28,914	28,914
Total non-current assets		36,906,441	33,655,350
Total assets		122,550,281	134,998,602
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	8	4,278,612	4,063,896
Borrowings	8	6,449,040	6,414,339
Current income tax liabilities		732,961	2,373,264
Provisions		484,671	276,915
Total current liabilities		11,945,287	13,128,416
Non-current liabilities			
Trade and other payables	8	3,280,020	3,778,028
Borrowings	8	60,674,335	65,404,452
Retirement benefits obligations		472,574	464,808
Provisions		19,197	6,779
Deferred tax liabilities		—	378,888
Total non-current liabilities		64,446,127	70,032,957
Total Liabilities		76,391,414	83,161,374
Equity			
Share capital		6,421,392	6,549,049
Capital reserves		6,464,240	6,542,045
Retained earnings		33,209,210	38,647,319
Treasury shares		—	(61)
Other components of equity		64,024	98,874
Total equity attributable to owners of parent		46,158,867	51,837,227
Total equity		46,158,867	51,837,227
Total liabilities and equity		122,550,281	134,998,602

(2) Condensed Consolidated Statement of Comprehensive Income

Nine months ended August 31, 2018

(¥ thousand)

	Notes	Nine months ended August 31, 2017	Nine months ended August 31, 2018
Revenue	5	41,978,288	45,308,339
Cost of revenue		27,884,108	29,312,301
Gross profit		14,094,180	15,996,038
Selling, general and administrative expenses		5,195,378	5,683,847
Other income		203,037	136,145
Other expenses		20,980	90,523
Operating profit	5	9,080,858	10,357,812
Finance income		76,767	84,503
Finance costs		635,981	599,155
Profit before tax		8,521,644	9,843,160
Income tax expense		2,766,154	3,197,951
Profit for the period		5,755,489	6,645,209
Other comprehensive income			
Items that may be transferred to net profit or loss			
Exchange differences on translation of foreign operations		6,826	(5,552)
Net change in fair values of available-for-sale financial assets		(6,083)	37,883
Net change in fair values of cash flow hedges		13,324	2,519
Subtotal		14,067	34,850
Other comprehensive income for the period, net of tax		14,067	34,850
Total comprehensive income for the period		5,769,556	6,680,059
Profit attributable to:			
Owners of the parent		5,755,489	6,645,209
Total comprehensive income attributable to:			
Owners of the parent		5,769,556	6,680,059
Earnings per share attributable to owners of the parent			
Basic earnings per share (yen)	7	119.20	137.15
Diluted earnings per share (yen)	7	—	136.88

Third quarter ended August 31, 2018

(¥ thousand)

	Notes	Third quarter ended August 31, 2017	Third quarter ended August 31, 2018
Revenue	5	15,618,203	12,787,644
Cost of revenue		11,025,534	7,563,214
Gross profit		4,592,668	5,224,429
Selling, general and administrative expenses		1,793,131	1,760,981
Other income		42,891	12,633
Other expenses		3,375	5,286
Operating profit	5	2,839,052	3,470,794
Finance income		43,811	43,687
Finance costs		218,651	183,239
Profit before tax		2,664,212	3,331,243
Income tax expense		840,588	1,138,368
Profit for the period		1,823,623	2,192,874
Other comprehensive income			
Items that may be transferred to net profit or loss			
Exchange differences on translation of foreign operations		6,524	30
Net change in fair values of available-for-sale financial assets		(57)	63
Net change in fair values of cash flow hedges		1,428	796
Subtotal		7,895	891
Other comprehensive income for the period, net of tax		7,895	891
Total comprehensive income for the period		1,831,519	2,193,765
Profit attributable to:			
Owners of the parent		1,823,623	2,192,874
Total comprehensive income attributable to:			
Owners of the parent		1,831,519	2,193,765
Earnings per share attributable to owners of the parent			
Basic earnings per share (yen)	7	37.77	45.18
Diluted earnings per share (yen)	7	—	45.13

(3) Condensed Consolidated Statement of Changes in Equity

Nine months ended August 31, 2017 (December 1, 2016 – August 31, 2017)

(¥ thousand)

Notes	Share capital	Capital reserves	Retained earnings	Treasury shares	Other components of equity	Total equity attributable to owners of parent	Total equity
Balance at December 1, 2016	6,421,392	6,418,823	28,120,304	—	49,562	41,010,083	41,010,083
Profit for the period	—	—	5,755,489	—	—	5,755,489	5,755,489
Other comprehensive income	—	—	—	—	14,067	14,067	14,067
Total comprehensive income for the period	—	—	5,755,489	—	14,067	5,769,556	5,769,556
Amount of transactions with owners							
Issuance of new shares	—	—	—	—	—	—	—
Purchase of treasury shares	—	—	—	—	—	—	—
Dividends of surplus	6	—	(1,062,248)	—	—	(1,062,248)	(1,062,248)
Share-based payment	—	33,601	—	—	—	33,601	33,601
Balance at August 31, 2017	6,421,392	6,452,424	32,813,546	—	63,629	45,750,993	45,750,993

Nine months ended August 31, 2018 (December 1, 2017 – August 31, 2018)

(¥ thousand)

Notes	Share capital	Capital reserves	Retained earnings	Treasury shares	Other components of equity	Total equity attributable to owners of parent	Total equity
Balance at December 1, 2017	6,421,392	6,464,240	33,209,210	—	64,024	46,158,867	46,158,867
Profit for the period	—	—	6,645,209	—	—	6,645,209	6,645,209
Other comprehensive income	—	—	—	—	34,850	34,850	34,850
Total comprehensive income for the period	—	—	6,645,209	—	34,850	6,680,059	6,680,059
Amount of transactions with owners							
Issuance of new shares	127,657	72,869	—	—	—	200,526	200,526
Purchase of treasury shares	—	—	—	(61)	—	(61)	(61)
Dividends of surplus	6	—	(1,207,100)	—	—	(1,207,100)	(1,207,100)
Share-based payment	—	4,935	—	—	—	4,935	4,935
Balance at August 31, 2018	6,549,049	6,542,045	38,647,319	(61)	98,874	51,837,227	51,837,227

(2) Condensed Consolidated Statement of Cash Flows

(¥ thousand)

	Notes	Nine months ended August 31, 2017	Nine months ended August 31, 2018
Cash flows from operating activities			
Profit before tax		8,521,644	9,843,160
Depreciation expense		289,665	437,355
Increase (decrease) in provisions and retirement benefits obligations		(149,574)	(216,943)
Interest and dividends income		(76,767)	(84,503)
Interest expenses		635,981	599,155
Gain on sales of stocks of subsidiaries and affiliates		(123,505)	—
Loss on retirement of property, plant and equipment		—	608
Decrease (increase) in trade and other receivables		(358,925)	(318,168)
Decrease (increase) in inventories		(68,938)	(5,939,084)
Increase (decrease) in trade and other payables		123,134	(54,944)
Other, net		48,835	(75,924)
Subtotal		8,841,551	4,190,710
Interest and dividends income received		76,767	84,503
Income taxes paid		(3,554,759)	(2,041,238)
Net cash from (used in) operating activities		5,363,558	2,233,975
Cash flows from investing activities			
Proceeds from withdrawal of time deposits		95,000	—
Purchase of property, plant and equipment		(13,062)	(54,035)
Purchase of investment properties		(1,272,601)	(185,580)
Purchase of intangible assets		(6,963)	(25,368)
Purchase of available-for-sale financial assets		(50,166)	(280)
Collection of available-for-sale financial assets		7,619	655
Proceeds from sales of available-for-sale financial assets		84,071	3,329
Payments of loans receivable		(1,085,000)	—
Collection of loans receivable		2,760,056	57
Purchase of investments in subsidiaries resulting in change in scope of consolidation		(159,328)	(1,502,160)
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation		39,328	—
Other, net		12,032	3,715
Net cash from (used in) investing activities		410,983	(1,759,666)
Cash flows from financing activities			
Net increase (decrease) in current borrowings		(1,575,800)	169,500
Proceeds from non-current borrowings		21,150,850	26,401,950
Repayments of non-current borrowings		(21,903,138)	(21,873,293)
Proceeds from issuance of new shares		—	200,140
Cash dividends paid		(1,061,250)	(1,206,624)
Interest expenses paid		(681,691)	(715,660)
Other, net		(2,461)	(2,802)
Net cash from (used in) financing activities		(4,073,491)	2,973,209
Net increase (decrease) in cash and cash equivalents		1,701,051	3,447,518
Cash and cash equivalents at beginning of period		21,640,866	23,750,239
Effect of exchange rate change on cash and cash equivalents		676	(568)
Cash and cash equivalents at end of period		23,342,594	27,197,189

(5) Notes to Condensed Quarterly Consolidated Financial Statements

1. Reporting entity

Tosei Corporation (hereinafter, the “Company”) is a share company located in Japan whose shares are listed on the First Section of Tokyo Stock Exchange and the Mainboard of Singapore Exchange. The Company’s condensed quarterly consolidated financial statements for the third quarter (June 1, 2018 to August 31, 2018) and first nine months (December 1, 2017 to August 31, 2018) of the current fiscal year have been prepared in respect of the Company and its subsidiaries (hereinafter collectively, the “Group”). The Group engages in the following five business operations: Revitalization Business, Development Business, Rental Business, Fund and Consulting Business and Property Management Business. The operations of each business segment are presented in “5. Segment information” in the notes.

2. Basis of preparation

(1) Compliance with IFRS

Since the Company qualifies as a “Designated International Financial Reporting Standards specified company” as provided in Article 1-2 of the “Ordinance on Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements” (Cabinet Office Ordinance No. 64 of 2007), its condensed quarterly consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 “Interim Financial Reporting” under the provision of Article 93 of the “Ordinance on Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements” (Cabinet Office Ordinance No. 64 of 2007).

These condensed quarterly consolidated financial statements were approved by Seiichiro Yamaguchi, the Company’s President and CEO, and Noboru Hirano, Director and CFO, on October 5, 2018.

(2) Basis of measurement

The condensed quarterly consolidated financial statements have been prepared on the historical cost basis except for assets and liabilities measured at fair value.

(3) Presentation currency and unit

The condensed quarterly consolidated financial statements in this report are presented in Japanese yen, the Company’s functional currency. All financial information presented in Japanese yen is rounded down to the nearest thousand yen.

3. Significant accounting policies

Significant accounting policies that the Group applies in condensed quarterly consolidated financial statements are the same as the accounting policies used in the consolidated financial statements for the previous fiscal year.

4. Significant accounting estimates and judgments requiring estimates

The preparation of the condensed quarterly consolidated financial statements in compliance with IFRS requires the management of the Group to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, revenue and expenses. However, actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period in which the estimates are changed and in future periods in which the change will affect.

5. Segment information

The Group's reportable segments are components of the Group about which separate financial information is available that the Board of Directors regularly conducts deliberations to determine the allocation of management resources and to assess the performance. The Group draws up comprehensive strategies for each of the following five business segments and conducts business activities accordingly; "Revitalization Business", "Development Business", "Rental Business", "Fund and Consulting Business", and "Property Management Business". In the Revitalization Business, the Group acquires the properties whose asset values have declined, renovates, and resells them. In the Development Business, the Group sells condominium units and detached houses to individual customers as well as apartment and office buildings to investors. In the Rental Business, the Group rents office buildings and apartments. The Fund and Consulting Business mainly provides asset management services for the properties placed in real estate funds. The Property Management Business provides comprehensive property management services.

The Group's revenue and profit/loss by reportable segment are as follows:

Nine months ended August 31, 2017
(December 1, 2016 – August 31, 2017)

(¥ thousand)

	Reportable Segments					Other	Adjustment	Total
	Revitalization Business	Development Business	Rental Business	Fund and Consulting Business	Property Management Business			
Revenue								
Revenue from external customers	29,286,776	3,498,952	4,600,566	2,129,893	2,462,098	—	—	41,978,288
Intersegment revenue	—	—	32,371	30,205	899,991	—	(962,569)	—
Total	29,286,776	3,498,952	4,632,938	2,160,099	3,362,090	—	(962,569)	41,978,288
Segment profit or loss	7,309,731	(310,914)	1,935,014	1,070,596	212,825	147	(1,136,541)	9,080,858
Finance income/costs, net								(559,214)
Profit before tax								8,521,644

Nine months ended August 31, 2018
(December 1, 2017 – August 31, 2018)

(¥ thousand)

	Reportable Segments					Other	Adjustment	Total
	Revitalization Business	Development Business	Rental Business	Fund and Consulting Business	Property Management Business			
Revenue								
Revenue from external customers	24,312,328	11,339,368	4,488,630	1,893,143	3,015,936	258,933	—	45,308,339
Intersegment revenue	—	—	32,986	45,306	900,434	950	(979,677)	—
Total	24,312,328	11,339,368	4,521,616	1,938,449	3,916,371	259,883	(979,677)	45,308,339
Segment profit	6,890,049	1,503,758	1,926,737	920,446	397,357	72,582	(1,353,119)	10,357,812
Finance income/costs, net								(514,652)
Profit before tax								9,843,160

Third quarter ended August 31, 2017
(June 1, 2017– August 31, 2017)

(¥ thousand)

	Reportable Segments					Other	Adjustment	Total
	Revitalization Business	Development Business	Rental Business	Fund and Consulting Business	Property Management Business			
Revenue								
Revenue from external customers	11,338,076	1,354,413	1,612,078	488,481	825,153	—	—	15,618,203
Intersegment revenue	—	—	10,810	10,132	324,650	—	(345,592)	—
Total	11,338,076	1,354,413	1,622,888	498,614	1,149,804	—	(345,592)	15,618,203
Segment profit or loss	2,509,480	(91,636)	631,930	155,563	78,215	(882)	(443,618)	2,839,052
Finance income/costs, net								(174,840)
Profit before tax								2,664,212

Third quarter ended August 31, 2018
(June 1, 2018– August 31, 2018)

(¥ thousand)

	Reportable Segments					Other	Adjustment	Total
	Revitalization Business	Development Business	Rental Business	Fund and Consulting Business	Property Management Business			
Revenue								
Revenue from external customers	6,727,289	2,725,821	1,595,622	568,485	1,077,546	92,878	—	12,787,644
Intersegment revenue	—	—	11,056	23,763	363,783	450	(399,054)	—
Total	6,727,289	2,725,821	1,606,679	592,249	1,441,330	93,328	(399,054)	12,787,644
Segment profit	2,662,313	95,618	680,422	212,775	192,910	19,312	(392,559)	3,470,794
Finance income/costs, net								(139,551)
Profit before tax								3,331,243

6. Dividends

Dividends paid in the nine months ended August 31, 2017 and August 31, 2018 are as follows:

Nine months ended August 31, 2017				
Resolution	Dividends per share (¥)	Total dividends (¥ thousand)	Record date	Effective date
Ordinary General Meeting of Shareholders held on February 24, 2017	22	1,062,248	November 30, 2016	February 27, 2017

Nine months ended August 31, 2018				
Resolution	Dividends per share (¥)	Total dividends (¥ thousand)	Record date	Effective date
Ordinary General Meeting of Shareholders held on February 27, 2018	25	1,207,100	November 30, 2017	February 28, 2018

7. Earnings per share

	Nine months ended August 31, 2017	Nine months ended August 31, 2018
Profit attributable to owners of the parent (¥ thousand)	5,755,489	6,645,209
Net income used to figure diluted net income per share (¥ thousand)	—	6,645,209
Weighted average number of outstanding ordinary shares (shares)	48,284,000	48,450,511
The number of increased ordinary shares used to figure diluted earnings per share (shares)	—	98,062
The weighted-average number of ordinary shares used to figure diluted earnings per share (shares)	—	48,548,573
Basic earnings per share (¥)	119.20	137.15
Diluted net income per share (¥)	—	136.88

	Third quarter ended August 31, 2017	Third quarter ended August 31, 2018
Profit attributable to owners of the parent (¥ thousand)	1,823,623	2,192,874
Net income used to figure diluted net income per share (¥ thousand)	—	2,192,874
Weighted average number of outstanding ordinary shares (shares)	48,284,000	48,531,664
The number of increased ordinary shares used to figure diluted earnings per share (shares)	—	59,484
The weighted-average number of ordinary shares used to figure diluted earnings per share (shares)	—	48,591,148
Basic earnings per share (¥)	37.77	45.18
Diluted net income per share (¥)	—	45.13

- Notes: 1. Basic earnings per share is calculated by dividing profit attributable to owners of the parent, by the weighted average number of outstanding ordinary shares during the reporting period.
2. Diluted earnings for consolidated results for the nine months ended August 31, 2017 per share is not presented because there were no potential shares that have dilutive effects.

8. Financial instruments

i) Fair values and carrying amounts

Fair values of financial assets and liabilities and their carrying amounts presented in the condensed consolidated statement of financial position are as follows:

(¥ thousand)

	As of November 30, 2017		As of August 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	23,750,239	23,750,239	27,197,189	27,197,189
Available-for-sale financial assets	1,751,463	1,751,463	1,802,941	1,802,941
Trade and other receivables	3,008,339	3,008,339	3,609,435	3,609,435
Trade and other payables	7,558,632	7,558,632	7,841,925	7,841,925
Borrowings	67,123,376	67,133,900	71,818,791	71,829,428

Method for measuring fair value of financial instruments

Cash and cash equivalents, trade and other receivables, trade and other payables, and current borrowings

The book values of these financial instruments that are settled in a short period of time approximate the fair values.

However, the fair values of interest rate swaps are based on market values presented by financial institutions.

Available-for-sale financial assets

The fair values of listed securities are measured based on quoted market prices. For financial assets for which there is no active market and unlisted securities, the Group estimates fair values using certain valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially at the same price, and the discounted cash flow method. Securities that do not have a quoted market price in an active market and of which the fair value cannot be reliably estimated are measured based on the acquisition cost.

Non-current borrowings

The fair values of non-current borrowings with floating interest rate approximate the book values, as interest rates reflect market interest rates in short-term intervals. The fair values of those with fixed interest rate are measured based on the present value of the total amount of principal and interest discounted by the interest rate that would be charged for a new similar borrowing.

ii) Fair value hierarchy

The following shows the analysis of financial instruments measured at fair value after the initial recognition. Fair values of financial instruments are classified into level 1 to level 3.

Level 1: Fair values measured at a price quoted in an active market

Level 2: Fair values calculated directly or indirectly using an observable price except for level 1

Level 3: Fair values calculated through valuation techniques, including inputs that are not based on observable market data

(¥ thousand)

	As of November 30, 2017			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	1,276,317	—	475,145	1,751,463
Financial liabilities measured at fair value with the change in fair value recognized through other comprehensive income (derivative)	—	13,770	—	13,770

(¥ thousand)

	As of August 31, 2018			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	1,327,562	—	475,379	1,802,941
Financial liabilities measured at fair value with the change in fair value recognized through other comprehensive income (derivative)	—	10,042	—	10,042

Reconciliation of financial assets classified in level 3 at the beginning of the period with those at the end of the period is as follows:

(¥ thousand)

	Nine months ended August 31, 2018
Balance at beginning of period	475,145
Acquisition	290
Comprehensive income	
Profit (loss)	598
Disposal	(655)
Balance at end of period	475,379

9. Business combinations

In the nine months ended August 31, 2018, the Group engaged in the following business combinations.
(Acquisition of Masuda Kenzai-ten Co., Ltd)

On December 26, 2017, the Company acquired 100% of the shares in Masuda Kenzai-ten Co., Ltd, company owning income-generating properties mainly in Toda-shi, Saitama and Fuchu-shi Tokyo, and engaging in the rental business.

The Group is stepping up its activities to acquire future sources of income. This M&A activity was performed as part of the acquisition methods therefor.

The fair values of consideration paid, assets acquired and liabilities assumed as of the acquisition date were as follows:

	Amount (Thousands of yen)
Fair value of consideration paid (Note)	2,017,155
Fair values of assets acquired and liabilities assumed	
Current assets	2,737,726
[Of which, cash and cash equivalents]	[682,039]
Non-current assets	15,251
Current liabilities	(181,895)
Non-current liabilities	(484,252)
Net assets	2,086,829
Gain on negative goodwill	(69,674)
Total	2,017,155

Note: Consideration paid was in cash.

As stated above, gain on negative goodwill ¥69,674 thousand is attributable to the net asset (subtracting “the fair values of liabilities assumed” from “fair values of assets acquired”) exceeded “the fair value of consideration paid”. It is recorded as “other income” in the Condensed Consolidated Statement of Comprehensive Income.

The fair values of assets acquired and liabilities assumed were calculated by taking into overall consideration financial and asset conditions examined through third-party due diligence.

Acquisition costs related to these business combinations, of ¥60,720 thousand, were recorded as “other expenses.” in Condensed Consolidated Statement of Comprehensive Income.

Profit and loss information and pro forma profit and loss information for these business combinations after the acquisition date are not stated, as its amount of impact on the condensed quarterly consolidated financial statements is immaterial.

10. Significant subsequent events

No item to report.

2. Other

No item to report.