

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 second quarter of the fiscal year ending November 30, 2014 (from March 1, 2014 to May 31, 2014) and for the first six months of the fiscal year ending November 30, 2014 (from December 1, 2013 to May 31, 2014) 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, 2013	As of May 31, 2014
Assets			
Current assets			
Cash and cash equivalents		14,711,997	14,589,166
Trade and other receivables		902,131	1,043,080
Inventories		38,040,625	49,942,653
Other current assets		24,781	24,557
Total current assets		53,679,536	65,599,457
Non-current assets			
Property, plant and equipment		3,304,792	3,292,176
Investment properties		12,703,600	13,231,983
Intangible assets		31,598	31,052
Available-for-sale financial assets		810,105	1,485,613
Trade and other receivables		188,884	531,022
Deferred tax assets		560,541	434,338
Other non-current assets		4,014	4,014
Total non-current assets		17,603,536	19,010,201
Total assets		71,283,073	84,609,659
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables		2,323,705	1,663,331
Borrowings		7,587,433	8,148,647
Current income tax liabilities		865,256	696,987
Provisions		209,124	187,122
Total current liabilities		10,985,520	10,696,088
Non-current liabilities			
Trade and other payables		2,107,809	3,212,866
Borrowings		27,449,160	39,046,532
Retirement benefits obligations		624,154	637,914
Provisions		24,003	21,097
Total non-current liabilities		30,205,126	42,918,410
Total Liabilities		41,190,647	53,614,498
Equity			
Share capital		6,421,392	6,421,392
Capital reserves		6,375,317	6,375,317
Retained earnings		17,294,366	18,196,410
Other components of equity		1,348	2,039
Total equity		30,092,426	30,995,160
Total liabilities and equity		71,283,073	84,609,659

(2) Condensed Consolidated Statement of Comprehensive Income

Six months ended May 31, 2014

		(¥ thousand)	
	Notes	Six months ended May 31, 2013 (Dec. 1, 2012 – May 31, 2013)	Six months ended May 31, 2014 (Dec. 1, 2013 – May 31, 2014)
Revenue	5	23,090,689	20,458,238
Cost of revenue		17,665,271	15,903,261
Gross profit		5,425,418	4,554,976
Selling, general and administrative expenses		2,676,337	2,114,733
Other income		17,103	35,715
Other expenses		11,691	2,259
Operating profit	5	2,754,493	2,473,698
Finance income		1,783	1,645
Finance costs		369,010	374,754
Profit before tax		2,387,266	2,100,589
Income tax expense		924,491	812,274
Profit for the period		1,462,775	1,288,315
Other comprehensive income			
Items that may be transferred to net profit or loss			
Exchange differences on translation of foreign operations		3,719	(63)
Net change in fair values of available-for-sale financial assets		1,197	(372)
Net change in fair values of cash flow hedges		712	1,126
Subtotal		5,629	690
Other comprehensive income for the period, net of tax		5,629	690
Total comprehensive income for the period		1,468,404	1,289,006
Profit attributable to:			
Owners of the parent		1,462,775	1,288,315
Total comprehensive income attributable to:			
Owners of the parent		1,468,404	1,289,006
Earnings per share attributable to owners of the parent			
Basic earnings per share (yen)	7	32.02	26.68
Diluted earnings per share (yen)	7	—	—

Second quarter ended May 31, 2014

(¥ thousand)

	Notes	Second quarter ended May 31, 2013 (Mar. 1, 2013 – May 31, 2013)	Second quarter ended May 31, 2014 (Mar. 1, 2014 – May 31, 2014)
Revenue	5	7,589,330	9,118,272
Cost of revenue		5,030,941	7,270,946
Gross profit		2,558,389	1,847,325
Selling, general and administrative expenses		1,422,574	997,705
Other income		12,243	26,007
Other expenses		10,445	2,174
Operating profit	5	1,137,611	873,452
Finance income		367	225
Finance costs		159,393	200,760
Profit before tax		978,585	672,917
Income tax expense		382,885	257,068
Profit for the period		595,700	415,848
Other comprehensive income			
Items that may be transferred to net profit or loss			
Exchange differences on translation of foreign operations		1,570	106
Net change in fair values of available-for-sale financial assets		(1,579)	—
Net change in fair values of cash flow hedges		784	539
Subtotal		776	646
Other comprehensive income for the period, net of tax		776	646
Total comprehensive income for the period		596,476	416,495
Profit attributable to:			
Owners of the parent		595,700	415,848
Total comprehensive income attributable to:			
Owners of the parent		596,476	416,495
Earnings per share attributable to owners of the parent			
Basic earnings per share (yen)	7	13.04	8.61
Diluted earnings per share (yen)	7	—	—

(3) Condensed Consolidated Statement of Changes in Equity

Six months ended May 31, 2013 (December. 1, 2012 – May 31, 2013)

					(¥ thousand)	
	Notes	Share capital	Capital reserves	Retained earnings	Other components of equity	Total equity
Balance at December 1, 2012		5,454,673	5,516,499	15,562,315	(3,295)	26,530,193
Profit for the period		—	—	1,462,775	—	1,462,775
Other comprehensive income		—	—	—	5,629	5,629
Total comprehensive income for the period		—	—	1,462,775	5,629	1,468,404
Dividends from surplus	6	—	—	(274,104)	—	(274,104)
Retained earnings from newly consolidated subsidiaries		—	—	(981)	—	(981)
Balance at May 31, 2013		5,454,673	5,516,499	16,750,006	2,333	27,723,512

Six months ended May 31, 2014 (December. 1, 2013 – May 31, 2014)

					(¥ thousand)	
	Notes	Share capital	Capital reserves	Retained earnings	Other components of equity	Total equity
Balance at December 1, 2013		6,421,392	6,375,317	17,294,366	1,348	30,092,426
Profit for the period		—	—	1,288,315	—	1,288,315
Other comprehensive income		—	—	—	690	690
Total comprehensive income for the period		—	—	1,288,315	690	1,289,006
Dividends of surplus	6	—	—	(386,272)	—	(386,272)
Balance at May 31, 2014		6,421,392	6,375,317	18,196,410	2,039	30,995,160

(4) Condensed Consolidated Statement of Cash Flows

(¥ thousand)

Notes	Six months ended May 31 2013 (Dec. 1, 2012 – May 31, 2013)	Six months ended May 31 2014 (Dec. 1, 2013 – May 31, 2014)
Cash flows from operating activities		
Profit before tax	2,387,266	2,100,589
Depreciation expense	86,331	90,650
Increase (decrease) in provisions and retirement benefits obligations	69,902	(22,992)
Interest and dividends income	(1,783)	(1,645)
Interest expenses	369,010	374,754
Net gain on disposal of available-for-sale financial assets	(7,323)	(531)
Loss on retirement of property, plant and equipment	183	1,588
Decrease (increase) in trade and other receivables	597,623	(329,437)
Decrease (increase) in inventories	3,747,571	(11,344,539)
Increase (decrease) in trade and other payables	(1,365,027)	436,842
Other, net	1,622	(3,467)
Subtotal	5,885,377	(8,698,186)
Interest and dividends income received	1,914	1,637
Income taxes paid	(68,069)	(849,090)
Net cash from (used in) operating activities	5,819,222	(9,545,640)
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,440)	(8,608)
Purchase of investment properties	(152,635)	(1,094,520)
Purchase of intangible assets	(330)	(5,302)
Purchase of available-for-sale financial assets	(2,000)	(726,630)
Collection of available-for-sale financial assets	216,700	53,600
Proceeds from sales of available-for-sale financial assets	30,782	1,156
Collection of loans receivable	43	28
Other, net	(911)	174
Net cash from (used in) investing activities	90,209	(1,780,102)
Cash flows from financing activities		
Net increase (decrease) in current borrowings	(384,400)	744,000
Proceeds from non-current borrowings	10,485,000	20,087,000
Repayments of non-current borrowings	(11,828,303)	(8,671,528)
Cash dividends paid	(273,142)	(383,870)
Interest expenses paid	(361,484)	(571,748)
Other, net	(885)	(885)
Net cash from (used in) financing activities	(2,363,215)	11,202,966
Net increase (decrease) in cash and cash equivalents	3,546,215	(122,776)
Cash and cash equivalents at beginning of period	9,410,622	14,711,997
Effect of exchange rate change on cash and cash equivalents	3,721	(54)
Increase in cash and cash equivalents from newly consolidated subsidiaries	9,036	—
Cash and cash equivalents at end of period	12,969,596	14,589,166

(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 second quarter (March 1, 2014 to May 31, 2014) and first six months (December 1, 2013 to May 31, 2014) 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 six business operations: Revitalization Business, Development Business, Rental Business, Fund and Consulting Business, Property Management Business and Alternative Investment 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 “specified company” as provided in Article 1-2 of the “Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements” (Ordinance of the Ministry of Finance No. 28 of 1976), 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 July 8, 2014.

(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

With the exception of the following items, 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.

Changes in accounting policies

The Group applied the following standards effective from the first quarter of the fiscal year ending November 30, 2014.

Standard	Name of standard	Overview of new establishment and amendment
IAS 19	Employee Benefits	Recognition of actuarial gains and losses and past service cost, and presentation and disclosure of post-employment benefits
IFRS 10	Consolidated Financial Statements	Clarification and application of the concept of control as a basis to determine which entities are to be consolidated
IFRS 11	Joint Arrangements	Principles for the financial reporting by parties to a joint arrangement, and supersedence of former IAS 31 and SIC 13
IFRS 12	Disclosure of Interests in Other Entities	Disclosure requirements on interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities
IFRS 13	Fair Value Measurement	Establishment of a framework when other standards require fair value measurement

The above standards have no material impact on the condensed quarterly consolidated financial statements.

Among the above standards, for IAS 19, the comparative data have been adjusted retroactively in accordance with transitional measures.

Changes in presentation

In the past, sales expenses such as advertising costs for real estate for sale were posted in “Cost of revenue”, but from the first quarter of the current fiscal period, such expenses are being posted in “Selling, general and administrative expenses.”

This change was made in order to more accurately present the actual situation, due to the fact that the aforementioned sales expenses more resemble sales costs than cost of goods sold these days.

To reflect this change in presentation, reclassification of accounts has been made for the condensed consolidated statement of comprehensive income for the six months ended May 31, 2013. As a result, ¥907,972 thousand included in “Cost of revenue” in the condensed consolidated statement of comprehensive income for the six months ended May 31, 2013 were reclassified to “Selling, general and administrative expenses”.

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 business segments and conducts business activities accordingly; "Revitalization Business", "Development Business", "Rental Business", "Fund and Consulting Business", "Property Management Business", and "Alternative Investment 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 apartments 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. In the Alternative Investment Business, the Group acquires real estate collateralized loans and sells the properties acquired through collection of debt and acceptance of substitute performance.

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

Six months ended May 31, 2013

(December 1, 2012 – May 31, 2013)

	Revitalization Business	Development Business	Rental Business	Fund and Consulting Business	Property Management Business	Alternative Investment Business	Adjustment	Total
Revenue								
Revenue from external customers	8,745,156	10,420,929	1,179,357	963,333	1,592,712	189,201	—	23,090,689
Intersegment revenue	—	—	27,925	2,373	164,412	—	(194,712)	—
Total	8,745,156	10,420,929	1,207,282	965,707	1,757,124	189,201	(194,712)	23,090,689
Segment profit	1,496,912	702,005	685,393	541,255	68,336	26,806	(766,215)	2,754,493
Finance income/costs, net								(367,226)
Profit before tax								2,387,266

Six months ended May 31, 2014
(December 1, 2013 – May 31, 2014)

	(¥ thousand)							
	Revitalization Business	Development Business	Rental Business	Fund and Consulting Business	Property Management Business	Alternative Investment Business	Adjustment	Total
Revenue								
Revenue from external customers	12,835,618	3,153,146	1,834,843	469,561	1,503,971	661,096	—	20,458,238
Intersegment revenue	—	—	28,546	5,795	241,580	—	(275,922)	—
Total	12,835,618	3,153,146	1,863,390	475,356	1,745,552	661,096	(275,922)	20,458,238
Segment profit	1,269,162	289,565	1,151,647	108,502	146,660	117,215	(609,055)	2,473,698
Finance income/costs, net								(373,109)
Profit before tax								2,100,589

Second quarter ended May 31, 2013
(March 1, 2013 – May 31, 2013)

	(¥ thousand)							
	Revitalization Business	Development Business	Rental Business	Fund and Consulting Business	Property Management Business	Alternative Investment Business	Adjustment	Total
Revenue								
Revenue from external customers	1,637,452	3,850,213	647,511	552,792	802,854	98,505	—	7,589,330
Intersegment revenue	—	—	14,188	1,083	86,540	—	(101,812)	—
Total	1,637,452	3,850,213	661,699	553,876	889,395	98,505	(101,812)	7,589,330
Segment profit	166,053	589,482	413,990	360,513	25,824	4,507	(422,760)	1,137,611
Finance income/costs, net								(159,025)
Profit before tax								978,585

Second quarter ended May 31, 2014
(March 1, 2014 – May 31, 2014)

	(¥ thousand)							
	Revitalization Business	Development Business	Rental Business	Fund and Consulting Business	Property Management Business	Alternative Investment Business	Adjustment	Total
Revenue								
Revenue from external customers	5,944,006	630,344	1,062,985	178,070	716,755	586,109	—	9,118,272
Intersegment revenue	—	—	14,247	2,823	117,970	—	(135,041)	—
Total	5,944,006	630,344	1,077,233	180,893	834,726	586,109	(135,041)	9,118,272
Segment profit (loss)	404,824	(48,900)	680,280	(8,419)	49,447	74,777	(278,557)	873,452
Finance income/costs, net								(200,535)
Profit before tax								672,917

6. Dividends

Dividends paid in the six months ended May 31, 2013 and May 31, 2014 are as follows:

Six months ended May 31, 2013				
Resolution	Dividends per share (¥)	Total dividends (¥ thousand)	Record date	Effective date
Ordinary General Meeting of Shareholders held on February 26, 2013	600	274,104	November 30, 2012	February 27, 2013

Six months ended May 31, 2014				
Resolution	Dividends per share (¥)	Total dividends (¥ thousand)	Record date	Effective date
Ordinary General Meeting of Shareholders held on February 27, 2014	8	386,272	November 30, 2013	February 28, 2014

The Company split its shares by 100 for 1, effective July 1, 2013. The dividend per share the record date for which falls on or before June 30, 2013 was presented using the pre-share split figures.

7. Earnings per share

	Six months ended May 31, 2013 (Dec. 1, 2012 – May 31, 2013)	Six months ended May 31, 2014 (Dec. 1, 2013 – May 31, 2014)
Profit for the period attributable to owners of the parent (¥ thousand)	1,462,775	1,288,315
Weighted average number of outstanding ordinary shares (shares)	45,684,000	48,284,000
Basic earnings per share (¥)	32.02	26.68

	Second quarter ended May 31, 2013 (Mar. 1, 2013 – May 31, 2013)	Second quarter ended May 31, 2014 (Mar. 1, 2014 – May 31, 2014)
Profit for the period attributable to owners of the parent (¥ thousand)	595,700	415,848
Weighted average number of outstanding ordinary shares (shares)	45,684,000	48,284,000
Basic earnings per share (¥)	13.04	8.61

- Notes:
1. Basic earnings per share is calculated by dividing profit attributable to owners of the parent, by the weighted average number of ordinary shares outstanding during the reporting period.
 2. Information on diluted earnings per share is omitted due to an absence of potential shares.
 3. The Company split its shares by 100 for 1, effective July 1, 2013. Therefore, the basic earnings per share were calculated on the assumption that the share split was implemented at the beginning of the previous fiscal year ended November 30, 2012.

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, 2013		As of May 31, 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	14,711,997	14,711,997	14,589,166	14,589,166
Available-for-sale financial assets	810,105	810,105	1,485,613	1,485,613
Trade and other receivables	1,091,016	1,091,016	1,574,102	1,574,102
Trade and other payables	4,431,515	4,431,515	4,876,197	4,876,197
Borrowings	35,036,593	35,050,814	47,195,179	47,207,710

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, 2013			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	1,204	38	808,862	810,105
Financial liabilities measured at fair value with the change in fair value recognized through profit or loss (derivative)	—	4,182	—	4,182

(¥ thousand)

	As of May 31, 2014			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	—	38	1,485,575	1,485,613
Financial liabilities measured at fair value with the change in fair value recognized through profit or loss (derivative)	—	3,055	—	3,055

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)

	Six months ended May 31, 2014
Balance at beginning of period	808,862
Acquisition	726,630
Comprehensive income	
Profit (loss)	3,682
Disposal	(53,600)
Balance at end of period	1,485,575

9. Significant subsequent events

No item to report.

2. Other

No item to report.