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Consolidated Financial Report
For the Second Quarter of Fiscal 2019 Ending March 31, 2019 (Japanese GAAP)

November 5, 2018

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 Scheduled date of quarterly securities report filing: November 8, 2018
 Scheduled date of dividend payment commencement: —
 Preparation of quarterly supplementary explanatory materials: Yes
 Quarterly results briefing held: Yes (For institutional investors and analysts)

(Figures are rounded down to the nearest million yen unless otherwise stated.)

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2019
(April 1, 2018 to September 30, 2018)

(1) Consolidated Operating Results

(Percentage figures show the year-on-year increase (decrease).)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of the Parent Company	
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%
Six months ended September 30, 2018	21,268	(4.6)	1,464	10.1	1,532	11.2	830	(10.6)
Six months ended September 30, 2017	22,289	(1.4)	1,330	(12.1)	1,378	(12.2)	928	(9.5)

Note: Comprehensive income Six months ended September 30, 2018: ¥824 million (-10.8%)
 Six months ended September 30, 2017: ¥924 million (-10.9%)

	Net Income per Share	Net Income per Share (Diluted)
	(¥)	(¥)
Six months ended September 30, 2018	28.79	28.33
Six months ended September 30, 2017	32.26	31.97

(2) Consolidated Financial Position

	Total Assets	Net Assets	Shareholders' Equity Ratio	Net Assets per Share
	(¥ million)	(¥ million)	%	(¥)
September 30, 2018	46,893	19,919	42.1	684.02
March 31, 2018	47,281	19,556	41.0	671.43

Reference: Shareholders' equity September 30, 2018: ¥19,725 million
 March 31, 2018: ¥19,362 million

2. Dividends

	Annual Dividend per Shares				
	1Q-End	2Q-End	3Q-End	Period-End	Total
Fiscal 2018	(¥) —	(¥) 0.00	(¥) —	(¥) 16.00	(¥) 16.00
Fiscal 2019	—	0.00			
Fiscal 2019 (Forecast)			—	16.00	16.00

Note: Revisions to the most recently announced forecast of cash dividends in the current quarter: None

3. Consolidated Financial Forecasts for Fiscal 2019 (April 1, 2018 to March 31, 2019)

(Percentage figures show the year-on-year increase (decrease) for each corresponding period.)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of the Parent Company		Net Income per Share
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥)
Full Fiscal Year	48,000	7.3	2,900	7.6	3,000	7.3	1,680	(8.1)	58.26

Note: Revisions to the most recently announced financial forecasts in the current quarter: None

* **Explanatory Notes**

(1) Changes of important subsidiaries during the period
(changes in specified subsidiaries resulting in a change in the scope of consolidation): None
Newly included: — Excluded: —

(2) Adoption of specific methods for preparation of the quarterly consolidated financial statements: None

(3) Changes in accounting policies, accounting estimates, and restatements

1) Changes in accounting policies in connection with revision to accounting standards, etc.: None

2) Changes in accounting policies other than 1): None

3) Changes in accounting estimates: None

4) Restatements: None

(4) Number of shares issued and outstanding (common stock)

1) Number of shares issued and outstanding as of the period-end (including treasury shares)	September 30, 2018	30,823,200 shares	March 31, 2018	30,823,200 shares
2) Number of treasury shares	September 30, 2018	1,985,245 shares	March 31, 2018	1,985,245 shares
3) Average number of shares issued and outstanding for the period	Six months ended September 30, 2018	28,837,955 shares	Six months ended September 30, 2017	28,776,955 shares

* **This consolidated quarterly financial report is not subject to auditing by a certified public accountant or an audit firm.**

* **Explanation concerning the appropriate use of forecasts and other special instructions**

Results forecasts and other forward-looking statements contained in this report are based on assumptions, beliefs, and uncertainties in light of information available to the Company's management as of the publication date. Actual results may differ materially from forecasts due to a variety of factors. Therefore, the Company does not guarantee the accuracy of forecasts and other forward-looking statements and its ability to achieve stated targets.

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1. QUALITATIVE INFORMATION ON FINANCIAL STATEMENTS

(1) Explanation regarding Operating Results

During the six months ended September 30, 2018, the Japanese economy was slowly recovering as positive growth was recorded for the second quarter of this year.

In the housing sector, new housing starts grew steadily due to the fixed interest rate on housing loans continuing to remain at low levels regardless of an upward trend being visible these days, as well as the continuation of various support measures to promote home acquisition and improvements in employment and income conditions, but competition between businesses has intensified.

Under these circumstances, the Grandy House Group continued to strive to expand and reinforce business under the basic policy in its second medium-term business plan (from the fiscal year ending March 2019 to the fiscal year ending March 2021) of "continuous growth through reinforcing the core operation (new homes)" and "expansion of business through enhancing the stock business."

With regard to new home sales, one of our core operations, we endeavored to boost sales of strategic large housing lots, reinforce our product appeal, and improve profits through cost reduction and other measures while purchasing housing lots for expanding into Saitama Prefecture among others. In existing home sales, we continued the effort from the previous fiscal year to build up product inventory toward expanding home sales.

Although through initiatives such as these, orders received for both new and existing homes for the second quarter of Fiscal 2019 increased on a year-on-year basis, the number of homes sold for the second quarter of Fiscal 2019 fell below the figures in the same period of the previous fiscal year due to some of the homes being scheduled to be delivered in the second half of Fiscal 2019. On the other hand, operating income improved year-on-year due to the fruits of the effort to improve profits and a year-on-year decrease in selling, general and administrative expenses.

As a result of these initiatives, the Grandy House Group's consolidated results for the second quarter of Fiscal 2019 were as follows. Net sales were ¥21,268 million, down 4.6% year-on-year; operating income rose to ¥1,464 million, an increase of 10.1% year-on-year; ordinary income was ¥1,532 million, an increase of 11.2% year-on-year. However, net income attributable to owners of the parent company declined to ¥830 million, a decrease of 10.6% year-on-year due primarily to the booking of the payment of directors retirement benefits accompanying the stepping down of our company founder as a director.

Results by business segment are presented as follows.

a. Real Estate Sales

In the new home sales, we started sales of the other two blocks among the total of four blocks in *Yotsuba no Mori* housing lots (211 lots in Tsukuba in Ibaraki Prefecture) and opened a new model house and, at the same time, boosted sales activities for large housing lots by holding various experience events at the new model house at GRAND BEAT PARK Kaminokawa (141 lots, Kaminokawamachi in Tochigi Prefecture). In terms of products, we continued to differentiate our products from those of our competitors by pursuing our "Townscape creation" policy that gave a theme to each housing lot and harmonized the distinctive appearance of homes and the uniform image of the housing lot, as well as to make new proposals such as building homes that were equipped with IoT. As for expanding our sales area to include Saitama Prefecture, we made progress in purchasing housing lots and preparing opening of new sites with the aim of contributing to the results for the next fiscal year. Note that the cumulative number of new homes sold of the Grandy House Group reached 15,000 homes in July this year.

Through initiatives such as these, orders received for new homes for the second quarter of Fiscal 2019 were 356 homes, which is almost according to the initial plan, and those for the first half of Fiscal 2019 even reached a record high of 685 homes (an increase of 12 homes year-on-year), but the number of homes sold during the six months ended September 30, 2018 was 637 homes (a decrease of 29 homes year-on-year) due to some of the homes being scheduled to be delivered in the second half of Fiscal 2019. On the other hand, profit was improved because the initiative for cost reduction had started bearing fruit.

In existing home sales, we continued making efforts to expand existing home sales, etc. by enhancing product inventory as we did in the previous fiscal year. Amid competition intensifying due to auctions related to purchasing, orders received for the second quarter of Fiscal 2019 grew almost steadily as a result of reinforcing procurement by setting up a goal of keeping 70 completed homes in inventory at any time, but the number of homes sold during the six months ended September 30, 2018 was 72 homes (a decrease of 2 homes year-on-year). On the other hand, in respect of profit, our profit increased because we were able to sell profitable properties.

As a result of these initiatives, sales in the real estate sales segment decreased 5.8% year-on-year to ¥19,545 million. Segment profit rose to ¥1,362 million, up 12.1% from the same period of the previous fiscal year.

b. Construction Material Sales

In the construction material sales, new housing starts for wooden houses including custom-made houses have stayed below those in the same period of the previous fiscal year since July of last year. Meanwhile, domestic wood material prices are predicted to trend lower until the end of the year as the prices of North American logs have been displaying a downward trend since May. Under such circumstances, the Grandy House Group expanded sales of materials to small- and medium-size builders while continuing to make efforts, such as boosting sales of building materials/housing equipment other than pre-cut materials. As a result of these factors, sales in the construction materials sales segment increased by 12.5% year-on-year to ¥1,595 million. Segment profit rose to ¥100 million, up 33.9% from a year earlier.

c. Real Estate Leasing

In the real estate leasing, while more stores were opened in or relocated to the city center in the office building market in and around Utsunomiya, which is our main market, vacancies of offices increased due to the resumption of offering for lease in some offices where offering for lease had been suspended for a long period of time. In the parking lot market, competition remained intense between parking lots in the vicinity. In this context, while we made efforts to improve the operation rate of existing assets and reduce management costs, the impact of the rise of vacancy rates, which started toward the end of last year, persisted. Consequently, sales in the real estate leasing segment were ¥127 million, a decrease of 3.9% year-on-year, and segment profit was ¥84 million, a decrease of 6.4% year-on-year.

(2) Explanation regarding Financial Position

a. Balance Sheet

As of the end of the second quarter of Fiscal 2019, total consolidated assets fell to ¥46,893 million, a decrease of ¥387 million compared to the end of the previous consolidated fiscal year. This was due to our selective and restrictive approach to purchasing, based on the situation of inventory following sales of large housing lots for the current fiscal year, in terms of new home sales. Liabilities decreased to ¥26,974 million, down ¥750 million compared to the end of the previous consolidated fiscal year due mainly to a decrease in inventories, also ending up limiting new loans. Furthermore, we are making efforts that are continued from the previous fiscal year to switch our fund procurement method to financing by bonds for part of our loans in order to reduce the burden of interest payments and to flexibly use funds.

Total net assets stood at ¥19,919 million as of September 30, 2018. This represents an increase of ¥363 million from the balance recorded as of March 31, 2018. This is largely due to the acquisition of net income attributable to owners of the parent company despite the payment of dividends.

b. Cash Flows

Cash and cash equivalents (hereinafter, "cash flows") as of the end of the second consolidated quarter decreased by ¥366 million compared to the end of the previous consolidated fiscal year to ¥9,447 million as a result of increased cash flows from operating activities and decreased cash flows from investing activities and financial activities.

Factors contributing to movements in the Company's cash flows during the six months ended September 30, 2018, are as follows.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to ¥708 million (increase of ¥1,378 million for the six months ended September 30, 2017). This was largely due to an increase in net income before income taxes and, as mentioned above, to a decrease in inventory as a result of our selective and restrictive approach to purchasing despite the payment of income taxes.

(Cash Flows from Investment Activities)

Net cash used in investment activities amounted to ¥252 million (a decrease of ¥65 million for the six months ended September 30, 2017). This was mainly due to payments for the purchase of property, plant, and equipment,

etc., such as employee parking lots, and additional deposits made as a security deposit to warrant against housing defects.

(Cash Flows from Financing Activities)

Net cash used in financing activities amounted to ¥822 million (decrease of ¥142 million for the six months ended September 30, 2017). This was due to payments of dividends and a decrease in short-term loans payable due to a reduction in inventory. As mentioned above, we switched our fund procurement method to financing by bonds for a part of our loans.

(3) Explanation regarding Future Prospects including Consolidated Financial Forecasts

There is no change to financial forecasts announced on May 7, 2018.

2. QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

(1) Quarterly Consolidated Balance Sheets

(Thousands of Yen)

	FY2018 (As of March 31, 2018)	Second Quarter of FY2019 (As of September 30, 2018)
Assets		
Current assets		
Cash and deposits	9,813,941	9,447,642
Notes and accounts receivable – trade	672,527	686,433
Real estate for sale	16,588,298	17,636,205
Costs on uncompleted construction contracts	2,414	15,173
Real estate for sale in process	8,936,229	7,506,633
Merchandise and finished goods	211,897	248,790
Raw materials and supplies	166,467	138,498
Other	413,250	602,724
Allowance for doubtful accounts	(4,348)	(4,198)
Total current assets	36,800,680	36,277,904
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	3,256,709	3,217,316
Machinery, equipment and vehicles, net	6,175	4,028
Tools, furniture and fixtures, net	62,563	66,613
Land	5,319,659	5,454,271
Lease assets, net	69,002	76,925
Construction in progress	–	23,002
Total property, plant and equipment	8,714,109	8,842,156
Intangible assets	66,862	58,936
Investments and other assets		
Investment securities	428,336	419,184
Long-term loans receivable	14,859	14,284
Deferred tax assets	381,203	369,057
Other	846,788	874,963
Allowance for doubtful accounts	(4,901)	(4,775)
Total investments and other assets	1,666,286	1,672,713
Total non-current assets	10,447,258	10,573,807
Deferred assets		
Bond issuance costs	33,388	42,281
Total deferred assets	33,388	42,281
Total assets	47,281,326	46,893,992

(Thousands of Yen)

	FY2018 (As of March 31, 2018)	Second Quarter of FY2019 (As of September 30, 2018)
Liabilities		
Current liabilities		
Accounts payable for construction contracts	3,408,906	3,170,191
Short-term loans payable	19,177,700	18,596,500
Current portion of long-term loans payable	494,513	562,560
Current portion of bonds	21,000	21,000
Lease obligations	24,403	27,316
Income taxes payable	495,419	313,888
Provision for warranties for completed construction	58,686	57,247
Other	755,677	747,054
Total current liabilities	24,436,306	23,495,758
Non-current liabilities		
Bonds payable	1,066,000	1,555,500
Long-term loans payable	1,384,806	1,060,255
Lease obligations	50,099	56,177
Provision for directors' retirement benefits	166,279	153,304
Net defined benefit liability	571,584	604,392
Asset retirement obligations	4,296	4,320
Other	45,483	44,667
Total non-current liabilities	3,288,549	3,478,618
Total liabilities	27,724,855	26,974,377
Net assets		
Shareholders' equity		
Capital stock	2,077,500	2,077,500
Capital surplus	2,223,038	2,223,038
Retained earnings	15,407,196	15,775,904
Treasury shares	(341,339)	(341,339)
Total shareholders' equity	19,366,395	19,735,103
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(3,824)	(9,387)
Total accumulated other comprehensive income	(3,824)	(9,387)
Subscription rights to shares	193,900	193,900
Total net assets	19,556,471	19,919,615
Total liabilities and net assets	47,281,326	46,893,992

(2) Quarterly Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
(Quarterly Consolidated Statements of Income)
(Consolidated cumulative second quarter)

(Thousands of Yen)

	Six months ended September 30, 2017 (From April 1, 2017 to September 30, 2017)	Six months ended September 30, 2018 (From April 1, 2018 to September 30, 2018)
Net sales	22,289,476	21,268,322
Cost of sales	18,440,325	17,351,210
Gross profit	3,849,151	3,917,111
Selling, general and administrative expenses	2,518,951	2,452,308
Operating income	1,330,199	1,464,803
Non-operating income		
Interest income	711	452
Dividends income	3,453	2,953
Operations consignment fee	117,300	113,897
Office work fee	76,719	75,838
Other	31,823	16,332
Total non-operating income	230,007	209,473
Non-operating expenses		
Interest expenses	172,383	133,404
Commission for syndicate loan	4,405	3,333
Other	4,531	4,766
Total non-operating expenses	181,319	141,504
Ordinary income	1,378,887	1,532,772
Extraordinary loss		
Loss on retirement of non-current assets	8,644	7,269
Loss on cancellation of lease contracts	–	2,179
Directors' retirement benefits	–	300,000
Total extraordinary loss	8,644	309,449
Net income before income taxes	1,370,242	1,223,323
Income taxes – current	464,432	378,625
Income taxes – deferred	(22,431)	14,583
Total income taxes	442,000	393,208
Net income	928,242	830,114
Net income attributable to non-controlling interests	–	–
Net income attributable to owners of the parent company	928,242	830,114

(Quarterly Consolidated Statements of Comprehensive Income)
(Consolidated cumulative second quarter)

(Thousands of Yen)

	Six months ended September 30, 2017 (From April 1, 2017 to September 30, 2017)	Six months ended September 30, 2018 (From April 1, 2018 to September 30, 2018)
Net income	928,242	830,114
Other comprehensive income		
Valuation difference on available-for-sale securities	(3,477)	(5,563)
Total other comprehensive income	(3,477)	(5,563)
Comprehensive income	924,765	824,551
Comprehensive income attributable to:		
Comprehensive income attributable to owners of the parent company	924,765	824,551
Comprehensive income attributable to non-controlling interests	—	—

(3) Quarterly Consolidated Statements of Cash Flows

(Thousands of Yen)

	Six months ended September 30, 2017 (From April 1, 2017 to September 30, 2017)	Six months ended September 30, 2018 (From April 1, 2018 to September 30, 2018)
Cash flows from operating activities		
Net income before income taxes	1,370,242	1,223,323
Depreciation and amortization	142,126	119,506
Increase (decrease) in provision for directors' retirement benefits	16,625	(12,974)
Increase (decrease) in provision for warranties for completed construction	(27)	(1,438)
Increase (decrease) in allowance for doubtful accounts	(13,268)	(276)
Increase (decrease) in net defined benefit liability	36,704	32,808
Interest and dividends income	(4,164)	(3,405)
Interest expenses	172,383	133,404
Loss on retirement of non-current assets	8,644	7,269
Decrease (increase) in notes and accounts receivable-trade	(67,184)	(13,905)
Decrease (increase) in inventories	291,048	360,006
Increase (decrease) in notes and accounts payable-trade	100,197	(238,714)
Other	(34,008)	(137,399)
Subtotal	2,019,318	1,468,203
Interest and dividends income received	5,297	4,542
Interest expenses paid	(151,606)	(133,101)
Income taxes paid	(494,208)	(631,425)
Net cash provided by (used in) operating activities	1,378,799	708,219
Cash flows from investment activities		
Purchase of property, plant and equipment	(43,336)	(215,117)
Purchase of intangible assets	(3,418)	(2,725)
Collection of loans receivable	560	574
Payments for guarantee deposits	(18,000)	(29,190)
Other payments	(1,395)	(5,873)
Other proceeds	540	94
Net cash provided by (used in) investing activities	(65,050)	(252,237)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	232,800	(581,200)
Proceeds from long-term loans payable	418,300	—
Repayment of long-term loans payable	(356,884)	(256,504)
Proceeds from issuance of bonds	—	500,000
Redemption of bonds	(10,500)	(10,500)
Cash dividends paid	(401,790)	(459,942)
Repayments of lease obligations	(24,475)	(14,133)
Net cash provided by (used in) financing activities	(142,550)	(822,280)
Net increase (decrease) in cash and cash equivalents	1,171,199	(366,298)
Cash and cash equivalents at beginning of the period	8,475,518	9,813,941
Cash and cash equivalents at end of the period	9,646,718	9,447,642

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumptions)

Not applicable.

(Notes on Significant Changes in the Amount of Shareholders' Equity)

Not applicable.

(Supplemental Information)

(Adoption of "Partial Amendments to Accounting Standard for Tax Effect Accounting," etc.)

We adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Corporate Accounting Standards No. 28: February 16, 2018), etc. from the beginning of the first quarter of Fiscal 2019, and deferred tax assets are reported in Investment and other assets.

(Segment and Other Information)

Segment Information

I. The six months ended September 30, 2017 (April 1, 2017 to September 30, 2017)

1. Information relating to the amounts of net sales, profit and loss by reportable segment

(Thousands of Yen)

	Reportable Segment				Adjustments (Note 1)	Amount Recorded on Quarterly Consolidated Statements of Income (Note 2)
	Real Estate Sales	Construction Material Sales	Real Estate Leasing	Total		
Net sales						
Sales to outside customers	20,738,592	1,418,574	132,309	22,289,476	—	22,289,476
Inter-segment sales and transfers	—	1,643,079	39,720	1,682,799	(1,682,799)	—
Total	20,738,592	3,061,653	172,029	23,972,276	(1,682,799)	22,289,476
Segment profit	1,215,505	74,843	90,292	1,380,641	(1,754)	1,378,887

Notes: 1 Adjustments of segment profit (¥1,754 thousand) are eliminations of inter-segment transactions.

2 Segment profit has been adjusted to ordinary income described in quarterly consolidated statements of income.

2. Information concerning the impairment loss of non-current assets and goodwill by reportable segment

Not applicable.

II. The six months ended September 30, 2018 (April 1, 2018 to September 30, 2018)

1. Information relating to the amounts of net sales, profit and loss by reportable segment

(Thousands of Yen)

	Reportable Segment				Adjustments (Note 1)	Amount Recorded on Quarterly Consolidated Statements of Income (Note 2)
	Real Estate Sales	Construction Material Sales	Real Estate Leasing	Total		
Net sales						
Sales to outside customers	19,545,336	1,595,872	127,112	21,268,322	—	21,268,322
Inter-segment sales and transfers	—	1,565,154	41,611	1,606,766	(1,606,766)	—
Total	19,545,336	3,161,027	168,724	22,875,088	(1,606,766)	21,268,322
Segment profit	1,362,289	100,250	84,511	1,547,051	(14,279)	1,532,772

Notes: 1 Adjustments of segment profit (¥14,279 thousand) are eliminations of inter-segment transactions.

2 Segment profit has been adjusted to ordinary income described in quarterly consolidated statements of income.

2. Information concerning the impairment loss of non-current assets and goodwill by reportable segment

Not applicable.