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Consolidated Financial Report
For the Third Quarter of Fiscal 2020 Ending March 31, 2020 (Japanese GAAP)

February 10, 2020

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 Scheduled date of quarterly securities report filing: February 13, 2020
 Scheduled date of dividend payment commencement: —
 Preparation of quarterly supplementary explanatory materials: None
 Quarterly results briefing held: None

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

1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2020
(April 1, 2019 to December 31, 2019)

(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	
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%
Nine months ended December 31, 2019	32,817	0.2	1,538	(32.4)	1,662	(30.3)	1,057	(26.3)
Nine months ended December 31, 2018	32,758	(0.2)	2,273	22.4	2,384	23.3	1,434	11.8

Note: Comprehensive income Nine months ended December 31, 2019: ¥1,052 million (-24.5%)
 Nine months ended December 31, 2018: ¥1,393 million (7.7%)

	Net Income per Share	Net Income per Share (Diluted)
	(¥)	(¥)
Nine months ended December 31, 2019	36.58	36.11
Nine months ended December 31, 2018	49.73	49.03

(2) Consolidated Financial Position

	Total Assets	Net Assets	Shareholders' Equity Ratio	Net Assets per Share
	(¥ million)	(¥ million)	%	(¥)
December 31, 2019	56,210	21,701	38.3	742.63
March 31, 2019	46,864	21,124	44.7	725.35

Reference: Shareholders' equity December 31, 2019: ¥21,522 million
 March 31, 2019: ¥20,932 million

2. Dividends

	Annual Dividend per Shares				
	1Q-End	2Q-End	3Q-End	Period-End	Total
	(¥)	(¥)	(¥)	(¥)	(¥)
Fiscal 2019	—	0.00	—	18.00	18.00
Fiscal 2020	—	0.00	—		
Fiscal 2020 (Forecast)				23.00	23.00

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

3. Consolidated Financial Forecasts for Fiscal 2020 (April 1, 2019 to March 31, 2020)

(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		Net Income per Share
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥)
Full Fiscal Year	45,150	1.6	2,000	(36.1)	2,150	(34.6)	1,400	(32.2)	48.41

Note: Revisions to the most recently announced financial forecasts in the current quarter: Yes

* **Notes**

(1) Significant changes to subsidiaries during the period
 (Transfers of specific subsidiaries with changes 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 restatement of revisions

- 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 issued shares (common stock)

1) Number of issued shares (including treasury shares)	December 31, 2019	30,823,200 shares	March 31, 2019	30,823,200 shares
2) Number of treasury shares	December 31, 2019	1,842,445 shares	March 31, 2019	1,965,245 shares
3) Average number of shares during the period	Nine months ended December 31, 2019	28,901,235 shares	Nine months ended December 31, 2018	28,837,955 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 nine months ended December 31, 2019, the Japanese economy was considered to be on a moderate recovery trend despite continually soft exports.

In the housing sector, interest rates on housing loans continue to remain at low levels and the overall environment surrounding housing purchases remain favorable, but the customer mindset regarding housing purchases turned cautious, due to an increase in consumption tax that took effect last October and housing damage caused by flooding brought on by Typhoon Hagibis that affected a vast area of eastern Japan. On the other hand, competition between businesses has kept intensifying; for example, new housing starts continued to demonstrate year-on-year growth, buoyed between July and November of last year by new housing due to be completed after the increase in consumption tax took effect.

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 ended 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 strengthen organizational structures of subsidiaries, boost sales of strategic large housing lots, reinforce our product appeal, expand a business area to Saitama Prefecture and so on, as well as acquired shares in two business companies in Kawasaki City and made them subsidiaries for the purpose of expanding into Kanagawa Prefecture. In existing home sales, we continued the effort to build up product inventory toward expanding home sales.

However, there were other factors other than the increase in consumption tax. Due to the effect of the dampened consumer mindset brought on by Typhoon Hagibis, orders received in the current quarter have continued to be challenging, with results ending with net sales for the third quarter on a consolidated basis coming in at approximately the same level year-on-year (a slight increase). Also in terms of profit, in addition to weak sales of new homes in the current quarter, an increase in personnel expenses associated with investment in human resources toward expanding operations in the future, M&A expenses, the amortization of goodwill and other factors led to a decline in profit year-on-year.

As a result of these initiatives, the Grandy House Group's consolidated results for the third quarter (cumulative) of Fiscal 2020 were as follows. Net sales were ¥32,817 million, an increase of 0.2% year-on-year; operating income decreased to ¥1,538 million, a decrease of 32.4% year-on-year; ordinary income was ¥1,662 million, a decrease of 30.3% year-on-year; and net income attributable to owners of the parent totaled ¥1,057 million, a decrease of 26.3% year-on-year.

Results by business segment are presented as follows.

a. Real Estate Sales

In new home sales, we reviewed the structure of officers of subsidiaries last April for the purpose of activating subsidiaries that were not able to achieve the sales plan in the previous period, and made efforts to reinforce the organization and structure, as well as endeavoring to increase orders received. Furthermore, toward expanding sales, we continued to strengthen sales promotion activities with a focus on efforts toward early sales of strategic large housing lots such as *Yotsuba no Mori* housing lots (211 lots in Tsukuba in Ibaraki Prefecture) and 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, and through products with superior design, functionality, energy saving and safety, we initiated a new undertaking in Saitama Prefecture by adopting a plan with standardized air-conditioning system for the entire house.

As for expanding our sales area, homes were put up for sale in Saitama Prefecture in the order they were completed, and advertising was intensified in an effort to close at an early stage sales of completed homes by the end of the current quarter. In addition, the company focused on PMI (Post Merger Integration) for Plaza House Inc. (Kawasaki in Kanagawa Prefecture) and Welcome House Inc. (Kawasaki in Kanagawa Prefecture) in the real-estate sales and mediation business, which the company subsidized last July with the aim of advancing into the Kanagawa Prefecture market and expand business within the prefecture.

However, despite an increase in the number of closed housing in the areas which the company expanded into, orders received during the current quarter remained challenging due to the increase in consumption tax that took effect last October and the dampened mindset of consumers in an extensive area of flooding damage brought on

by Typhoon Hagibis, especially around Tochigi Prefecture. Consequently, the total number of new housing units sold came in at 962 units (down 24 units year-on-year).

In existing home sales, we continued making efforts to expand existing home sales, and so on by enhancing product inventory. Amid competition intensifying related to purchasing, the number of homes in inventory was almost above the target as a result of our efforts to reinforce procurement and shorten the period for commercialization of product by setting up a goal of keeping 80 completed homes in inventory at any time. Consequently, despite the impact of the consumption tax increase that took effect once in the current quarter, increase in orders received during the first half contributed, and the total number of existing homes sold came in at 117 units (up 6 units year-on-year).

As a result of these initiatives, sales in the real estate sales segment increased 1.2% year-on-year to ¥30,527 million. Segment profit decreased to ¥1,450 million, down 32.1% year-on-year.

b. Construction Material Sales

In the construction material sales, a downward trend in new housing starts for wooden houses has been remarkable in the second quarter year-on-year due to a decrease in built-for-rent housing starts and a decrease in owner-occupied housing starts before a rise in the consumption tax. Meanwhile, wood material prices have been declining toward the summer season, but prices have shown some signs of increasing after the current quarter due to a production adjustment by lumber producers and others.

Under such circumstances, the Grandy House Group has been making efforts to improve the gross margin of pre-cut materials, which are the group's main products, and to increase orders received for building and construction materials for housing. Net sales declined because the selection of customers and other measures were conducted in an effort to ensure profitability, among the intensified competition due to the decreased number of wooden housing starts. Meanwhile, profit decreased due to an increase in personnel expenses associated with addition of manpower starting from the end of the previous period and occurrence of uncollectible accounts receivable despite the gross margin rate improved.

As a result, sales in the construction material sales segment decreased 12.3% year-on-year to ¥2,096 million. Segment profit declined to ¥102 million, down 24.3% year-on-year.

c. Real Estate Leasing

In the real estate leasing, 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, and vacancy rates were improving continuously. In the parking lot market, competition remained intense between parking lots in the vicinity.

In this context, in addition to efforts made to improve the operational rate of existing assets and reduce management costs, there was a slight increase in the value of rental assets. Consequently, sales in the real estate leasing segment during the third quarter (cumulative) of Fiscal 2020 were ¥193 million, an increase of 2.9% year-on-year, and segment profit was ¥127 million, an increase of 9.1% year-on-year.

(2) Explanation regarding Financial Position

As of the end of the third quarter of Fiscal 2020, total consolidated assets increased to ¥56,210 million, an increase of ¥9,345 million compared to the end of the previous consolidated fiscal year. This was mainly due to an increase in assets as two companies became subsidiaries of the Grandy House Group, in addition to an increase in current assets following an acquisition of large-scale housing lots as part of an effort to expand the real estate sales segment, and an increase in fixed assets due to good will accompanying the acquisition of shares of the two companies which became the group's subsidiaries.

Liabilities increased to ¥34,508 million, up ¥8,768 million compared to the end of the previous consolidated fiscal year, due mainly to incorporation of liabilities of the two companies which became subsidiaries of the Grandy House Group, coupled with loans to fund the acquisition of the aforementioned housing lots and shares of the two companies which became the group's subsidiaries. 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 ¥21,701 million as of December 31, 2019. This represents an increase of ¥577 million from the balance recorded as of March 31, 2019. This is largely due to the acquisition of net income attributable to owners of the parent despite the payment of dividends.

(3) Explanation regarding Future Prospects including Consolidated Financial Forecasts

In regard to the consolidated financial forecast for Fiscal 2020, taking recent business performance into consideration, the Grandy House Group has revised the consolidated financial forecast for Fiscal 2020, originally announced on May 7, 2019. Please refer to the "Notice of Adjustment of the Financial Forecast" (Japanese language only) which was announced today (February 10, 2020) for additional details.

2. QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

(1) Quarterly Consolidated Balance Sheets

(Thousands of Yen)

	FY2019 (As of March 31, 2019)	Third Quarter of FY2020 (As of December 31, 2019)
Assets		
Current assets		
Cash and deposits	10,001,725	9,209,938
Notes and accounts receivable – trade	547,282	605,340
Real estate for sale	17,322,784	17,880,284
Costs on uncompleted construction contracts	7,244	6,986
Real estate for sale in process	7,062,704	14,555,469
Merchandise and finished goods	244,048	244,326
Raw materials and supplies	128,188	122,997
Other	816,802	828,461
Allowance for doubtful accounts	(3,305)	(5,462)
Total current assets	36,127,474	43,448,341
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	3,201,619	3,450,797
Machinery, equipment and vehicles, net	4,171	38,040
Tools, furniture and fixtures, net	68,523	58,851
Land	5,576,884	5,779,413
Leased assets, net	80,456	97,552
Construction in progress	1,011	11,708
Total property, plant and equipment	8,932,666	9,436,362
Intangible assets		
Goodwill	–	1,342,049
Other	80,077	89,511
Total intangible assets	80,077	1,431,560
Investments and other assets		
Investment securities	363,031	353,802
Long-term loans receivable	13,701	39,189
Deferred tax assets	413,834	465,374
Other	897,508	1,006,432
Allowance for doubtful accounts	(1,030)	(9,152)
Total investments and other assets	1,687,045	1,855,647
Total non-current assets	10,699,789	12,723,570
Deferred assets		
Bond issuance costs	37,512	38,443
Total deferred assets	37,512	38,443
Total assets	46,864,776	56,210,356

(Thousands of Yen)

	FY2019 (As of March 31, 2019)	Third Quarter of FY2020 (As of December 31, 2019)
Liabilities		
Current liabilities		
Accounts payable for construction contracts	3,132,890	3,280,180
Short-term loans payable	17,324,800	23,136,750
Current portion of long-term loans payable	503,345	634,399
Current portion of bonds	21,000	21,000
Lease obligations	28,366	35,041
Income taxes payable	544,514	144,740
Provision for warranties for completed construction	85,853	75,220
Other	758,230	693,136
Total current liabilities	22,398,999	28,020,468
Non-current liabilities		
Bonds payable	1,545,000	1,824,000
Long-term loans payable	881,461	3,623,436
Lease obligations	58,582	72,140
Provision for directors' retirement benefits	168,654	194,616
Net defined benefit liability	629,972	709,139
Asset retirement obligations	12,227	12,279
Other	45,730	52,625
Total non-current liabilities	3,341,627	6,488,237
Total liabilities	25,740,627	34,508,705
Net assets		
Shareholders' equity		
Capital stock	2,077,500	2,077,500
Capital surplus	2,228,898	2,264,878
Retained earnings	17,011,385	17,549,280
Treasury shares	(337,899)	(316,777)
Total shareholders' equity	20,979,883	21,574,880
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(47,634)	(52,850)
Total accumulated other comprehensive income	(47,634)	(52,850)
Subscription rights to shares	191,900	179,620
Total net assets	21,124,148	21,701,650
Total liabilities and net assets	46,864,776	56,210,356

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

(Thousands of Yen)

	Nine months ended December 31, 2018 (From April 1, 2018 to December 31, 2018)	Nine months ended December 31, 2019 (From April 1, 2019 to December 31, 2019)
Net sales	32,758,766	32,817,966
Cost of sales	26,819,809	27,204,678
Gross profit	5,938,957	5,613,288
Selling, general and administrative expenses	3,665,157	4,075,129
Operating income	2,273,799	1,538,159
Non-operating income		
Interest income	656	964
Dividends income	5,703	5,722
Operations consignment fee	170,569	172,870
Office work fee	118,092	115,121
Other	21,074	52,062
Total non-operating income	316,096	346,741
Non-operating expenses		
Interest expenses	193,649	186,775
Commission for syndicate loan	4,999	5,977
Other	7,150	30,036
Total non-operating expenses	205,800	222,789
Ordinary income	2,384,095	1,662,110
Extraordinary loss		
Loss on sales of non-current assets	75	1,143
Loss on retirement of non-current assets	13,267	9,028
Loss on cancellation of lease contracts	2,528	9,460
Directors' retirement benefits	300,000	–
Loss on disaster	–	27,767
Total extraordinary loss	315,871	47,398
Net income before income taxes	2,068,223	1,614,711
Income taxes – current	614,708	563,831
Income taxes – deferred	19,401	(6,457)
Total income taxes	634,110	557,373
Net income	1,434,113	1,057,338
Net income attributable to owners of the parent	1,434,113	1,057,338

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

(Thousands of Yen)

	Nine months ended December 31, 2018 (From April 1, 2018 to December 31, 2018)	Nine months ended December 31, 2019 (From April 1, 2019 to December 31, 2019)
Net income	1,434,113	1,057,338
Other comprehensive income		
Valuation difference on available-for-sale securities	(40,680)	(5,215)
Total other comprehensive income	(40,680)	(5,215)
Comprehensive income	1,393,432	1,052,122
Comprehensive income attributable to:		
Comprehensive income attributable to owners of the parent	1,393,432	1,052,122
Comprehensive income attributable to non-controlling interests	—	—

(3) 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.

(Segment Information)

I. The nine months ended December 31, 2018 (April 1, 2018 to December 31, 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	30,178,831	2,391,703	188,230	32,758,766	–	32,758,766
Inter-segment sales and transfers	–	2,343,984	62,652	2,406,637	(2,406,637)	–
Total	30,178,831	4,735,688	250,883	35,165,403	(2,406,637)	32,758,766
Segment profit	2,136,865	135,485	117,091	2,389,441	(5,345)	2,384,095

Notes: 1 Adjustments of segment profit (–¥5,345 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 nine months ended December 31, 2019 (April 1, 2019 to December 31, 2019)

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	30,527,748	2,096,557	193,660	32,817,966	–	32,817,966
Inter-segment sales and transfers	–	2,357,952	63,900	2,421,852	(2,421,852)	–
Total	30,527,748	4,454,509	257,560	35,239,819	(2,421,852)	32,817,966
Segment profit	1,450,210	102,621	127,710	1,680,542	(18,431)	1,662,110

Notes: 1 Adjustments of segment profit (–¥18,431 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.