

*** Notes**

- (1) Significant changes to subsidiaries during the period
(Changes in significant subsidiaries resulting in 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 restatements
- | | |
|--|------|
| 1) Changes in accounting policies due to 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)	September 30, 2023	30,823,200 shares	March 31, 2023	30,823,200 shares
2) Number of treasury shares	September 30, 2023	2,747,945 shares	March 31, 2023	1,402,345 shares
3) Average number of shares during the period	Six months ended September 30, 2023	29,080,112 shares	Six months ended September 30, 2022	29,010,726 shares

Note: The number of treasury shares at the end of the fiscal year includes shares in the Company held by "Grandy House Employee Stock Holding Partnership Exclusive Trust Account" (794,300 shares on September 30, 2023, 959,300 shares on March 31, 2023). The shares of the Company held by "Grandy House Employee Stock Holding Partnership Exclusive Trust Account" are included in treasury shares and deducted from the calculation of the average number of shares during the period (882,500 shares for the six months ended September 30, 2023, 1,118,914 shares for the six months ended September 30, 2022).

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

*** Explanation concerning the appropriate use of financial 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

In the cumulative first six months of the consolidated fiscal year under review, the Japanese economy continued a moderate recovery with the economic activity returning to normal as a result of the downgrading of COVID-19 to a Class 5 disease. On the other hand, the situation remained uncertain primarily due to the rising possibility that the global trend of monetary tightening and the downside risk of overseas economies would influence the Japanese economy.

In the housing sector, the number of construction starts for detached houses remained below those of the same month of the previous year for 11 consecutive months from November 2022 as consumer appetite for purchasing continued to be low due to housing prices running high, also widening the range of the decline. Furthermore, in the wake of the deterioration in Statistics on Building Construction Started, the government downgraded the economic outlook for the housing construction field twice in August and September.

Under those circumstances, the Grandy House Group has upheld the basic policies of "Strengthen our business foundations and expand business areas for sustainable growth in the new home sales business," "Expand the scale of the housing stock business and maximize synergies with the new home sales business" and "Strengthen our response to sustainability (ESG) issues" in the third medium-term business plan (from the fiscal year ended March 31, 2022 to the fiscal year ending March 31, 2024). Accordingly, the Group has made efforts to further improve its corporate value.

In new home sales, our core business, we reinforced property purchase and our sales system in the Tokyo metropolitan area and pushed the effort to enhance our product appeal through measures including the expansion of ZEH houses in all business areas. On the other hand, sales struggled to grow particularly in the Northern Kanto area as order backlogs were low as of the beginning of the fiscal year and the supply of finished properties was delayed in some areas. As a result, the number of homes sold dipped compared to the same period of the previous year when there was special demand related to the pandemic.

As a result, the Grandy House Group's consolidated cumulative operating results for the second quarter of fiscal 2024 under review were as follows: net sales were ¥24,726 million, a decrease of 10.5% year-on-year; operating income was ¥583 million, a decrease of 69.0% year-on-year; ordinary income was ¥470 million, a decrease of 73.6% year-on-year; and net income attributable to owners of the parent totaled ¥251 million, a decrease of 79.8% year-on-year.

Operating results by business segment are presented as follows.

a. Real Estate Sales

In new home sales, the "Sora Town" series, a housing project where all houses for sale are equipped with a zero-net energy house system (ZEH), started the sale of "Sora Town Tsukuba Matsushiro II (a total of 103 lots in the city of Tsukuba)" following the successful ongoing sales of "Sora Town Kashiwanoha Campus Liwie (a total of 40 lots in the city of Kashiwa)," which had been put on the market in the first quarter. Additionally, "Mizunoiro Mio no sora, Nagareyama-Unga (a total of 28 lots in the city of Nagareyama)" in which all houses are certified as long-life quality housing was put up for sale. In terms of products, in addition to expanding supplies of ZEH houses and long-life quality housing, we promoted the installation of "Ohisama EcoCute," which made better use of excess electricity from solar power generation, and expanded the offerings that addressed the need for saving on utility bills.

Through these efforts, we strove to expand business areas in the Tokyo metropolitan area (Tokyo, Saitama, Chiba and Kanagawa), reinforce our sales system and cultivate demand in the Northern Kanto area (Tochigi, Ibaraki and Gunma). However, both sales and profit decreased as the number of new homes sold in the cumulative six months of the consolidated fiscal year under review decreased by 112 year-on-year to 606 mainly due to consumer appetite for purchasing homes dampened by the continued high level of property prices and product shortages caused by supply delays in some areas.

The selling prices of existing home sales kept rising as well as their purchase prices were pushed up by a surge in the selling prices of new homes and a rise in costs for renovation due to a spike in material prices, which dampened potential customers' appetite for purchasing. Additionally, stiff competition for winning orders continued partly because we faced the challenge of new low-cost homes supplied by major home builders. Under these circumstances, the number of homes sold in the cumulative six months of the consolidated fiscal year fell to 57, a decrease of 9 year-on-year.

As a result, sales in the real estate sales segment in the consolidated cumulative second quarter of fiscal 2024 under review decreased by 9.7% year-on-year to ¥22,964 million. We had a segment profit of ¥182 million, a decrease of 87.6% year-on-year.

b. Construction Material Sales

In construction material sales, the conditions for receiving orders for pre-cut wood remained tough amid the number of new housing starts for wooden houses below the level of a year earlier for the 18 straight months to the end of the quarter under review. Construction wood prices remained on a downward trend after the peak of the summer of the previous year, reflecting the stagnation of housing demand.

Under these circumstances, we focused on ramping up the activity to find new business and tighten relations with existing customers for the purpose of expanding sales in the Saitama area. Nonetheless, our sales struggled to grow due to a stagnation in demand and intensifying competition for capturing orders.

As a result, sales of the construction material sales segment in the consolidated cumulative second quarter of fiscal 2024 under review decreased by 25.0% year-on-year to ¥1,540 million, with a segment profit of ¥176 million, a decrease of 24.0% year-on-year.

c. Real Estate Leasing

Real estate leasing saw an expansion of the earnings of businesses including office leasing as the vacancy ratio of offices for leasing generally remained below 5%, keeping the operational ratio high, despite large-scale renovation implemented to part of leasing assets, and in house leasing, Sun Village Shonan (a total of 173 lots in the city of Kashiwa, Chiba Prefecture), which we had acquired in the fourth quarter of the previous fiscal year, contributed to overall financial results. The parking business exceeded the year-on-year level because 63 pay-by-the hour parking lots (in front of the railway station of Koganei, Tochigi Prefecture), which we had acquired in June this year, started operation in addition to an upward trend in the operational ratio of pay-by-the hour parking lots resulting from the normalization of social and economic activities.

As a result, sales in the real estate leasing segment in the consolidated cumulative second quarter of fiscal 2024 under review increased by 50.9% year-on-year to ¥221 million. We had a segment profit of ¥103 million, an increase of 13.8% year-on-year.

(2) Explanation regarding Financial Position

a. Balance Sheet

As of the end of the second quarter of consolidated fiscal 2024 under review, consolidated total assets rose to ¥73,724 million, an increase of ¥1,079 million compared to the end of the previous consolidated fiscal year. This was primarily due to an increase in inventories, resulting from various factors, such as the acquisition of housing lots associated with an expansion of the area and others for the real estate sales business and a slowdown in the pace of sales of detached houses.

Liabilities stood at ¥48,991 million, an increase of ¥2,542 million compared to the end of the previous consolidated fiscal year. This was mainly due to an increase in loans payable resulting from a rise in inventories.

Total net assets stood at ¥24,732 million, down ¥1,463 million compared to the end of the previous consolidated fiscal year. This was due to decreases resulting from the payment of dividends and the repurchase of the Company's own stock despite the acquisition of net income attributable to owners of parent.

b. Cash Flows

Cash and cash equivalent (hereinafter referred to as "cash") as the end of the second quarter of consolidated fiscal year under review was ¥8,165 million, a decrease of ¥2,660 million from the end of the previous fiscal year, as a result of decreases in cash flows from operating activities and investing activities and an increase in cash flows from financing activities.

The Company's cash flows during the six months ended September 30, 2023, are as follows:

(Cash Flows from Operating Activities)

Net cash used in operating activities amounted to ¥3,425 million (net cash used in operating activities for the six months ended September 30, 2022 was ¥1,697 million). This was mainly due to an increase in inventories resulting from the acquisition of housing lots despite earning net income before income taxes.

(Cash Flows from Investing Activities)

Net cash used in investing activities amounted to ¥208 million (net cash used in investing activities for the six months ended September 30, 2022 was ¥154 million). This was mainly due to the acquisition of property, plant and equipment such as leasing parking lots.

(Cash Flows from Financing Activities)

Net cash provided by financing activities amounted to ¥972 million (net cash provided by financing activities for the six months ended September 30, 2022 was ¥935 million). This was mainly due to income from an increase in loans payable despite the payment of dividends and the payment for repurchasing the Company's own stock.

(3) Explanation regarding Future Prospects including Consolidated Financial Forecasts

In regard to the consolidated and non-consolidated financial forecasts for fiscal year ending March 2024, taking into consideration performance for the cumulative six months of the consolidated fiscal year under review and the future outlook, we adjusted both forecasts, which had been announced on May 12, 2023. For additional details, please refer to Notice of Adjustment of Financial Full-Year Forecast (available in Japanese only), which was announced today (November 13, 2023).

2. QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

(1) Quarterly Consolidated Balance Sheets

(Thousands of Yen)

	Fiscal 2023 (As of March 31, 2023)	Second Quarter of Fiscal 2024 (As of September 30, 2023)
Assets		
Current assets		
Cash and deposits	10,839,975	8,179,897
Notes and accounts receivable – trade and contract assets	574,709	503,050
Real estate for sale	11,352,157	13,716,214
Costs on uncompleted construction contracts	17,584	24,950
Real estate for sale in process	33,998,068	35,267,058
Merchandise and finished goods	376,807	335,465
Raw materials and supplies	176,128	155,780
Other	989,203	1,130,824
Allowance for doubtful accounts	(1)	(3,447)
Total current assets	58,324,634	59,309,793
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	3,818,539	3,723,923
Machinery, equipment and vehicles, net	18,980	16,260
Tools, furniture and fixtures, net	52,580	51,845
Land	7,261,402	7,430,460
Leased assets, net	77,202	60,465
Construction in progress	20,000	20,320
Total property, plant and equipment	11,248,706	11,303,274
Intangible assets		
Goodwill	891,319	822,756
Other	65,246	59,184
Total intangible assets	956,566	881,940
Investments and other assets		
Investment securities	177,000	221,850
Long-term loans receivable	9,217	11,013
Deferred tax assets	618,717	651,985
Other	1,227,394	1,218,177
Total investments and other assets	2,032,329	2,103,026
Total non-current assets	14,237,601	14,288,242
Deferred assets		
Bond issuance costs	83,078	126,826
Total deferred assets	83,078	126,826
Total assets	72,645,313	73,724,862

(Thousands of Yen)

	Fiscal 2023 (As of March 31, 2023)	Second Quarter of Fiscal 2024 (As of September 30, 2023)
Liabilities		
Current liabilities		
Accounts payable for construction contracts	3,668,472	3,520,986
Short-term loans payable	15,262,600	17,247,000
Current portion of bonds	500,000	300,000
Current portion of long-term loans payable	3,103,044	3,520,959
Lease obligations	34,124	29,623
Income taxes payable	367,833	280,105
Provision for warranties for completed construction	189,175	177,039
Other	1,039,922	1,015,738
Total current liabilities	24,165,172	26,091,453
Non-current liabilities		
Bonds payable	4,600,000	6,300,000
Long-term loans payable	16,232,236	15,077,068
Lease obligations	50,805	37,178
Provision for directors' retirement benefits	257,787	254,362
Retirement benefit liability	1,014,424	1,080,206
Other	128,876	151,634
Total non-current liabilities	22,284,129	22,900,449
Total liabilities	46,449,301	48,991,903
Net assets		
Shareholders' equity		
Capital stock	2,077,500	2,077,500
Capital surplus	2,674,902	2,683,041
Retained earnings	21,983,746	21,263,207
Treasury shares	(629,596)	(1,416,159)
Total shareholders' equity	26,106,551	24,607,589
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	52,000	96,850
Total accumulated other comprehensive income	52,000	96,850
Subscription rights to shares	37,460	28,520
Total net assets	26,196,011	24,732,959
Total liabilities and net assets	72,645,313	73,724,862

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

(Quarterly Consolidated Statements of Income)

(Consolidated cumulative second quarter)

(Thousands of Yen)

	Six months ended September 30, 2022 (From April 1, 2022 to September 30, 2022)	Six months ended September 30, 2023 (From April 1, 2023 to September 30, 2023)
Net Sales	27,632,926	24,726,700
Cost of sales	22,512,810	20,882,003
Gross profit	5,120,116	3,844,696
Selling, general and administrative expenses	3,237,617	3,260,762
Operating income	1,882,498	583,934
Non-operating income		
Interest income	84	65
Dividends income	2,861	2,861
Commission	16,035	14,600
Insurance claim income	914	24,808
Reversal of provision for warranties for completed construction	–	12,136
Other	25,221	31,102
Total non-operating income	45,118	85,574
Non-operating expenses		
Interest expenses	124,005	177,834
Commission for syndicate loan	8,420	3,714
Other	9,995	17,040
Total non-operating expenses	142,421	198,589
Ordinary income	1,785,194	470,919
Extraordinary income		
Gain on sales of non-current assets	84,432	–
Gain on reversal of share acquisition rights	2,220	–
Total extraordinary income	86,652	–
Extraordinary loss		
Loss on retirement of non-current assets	5,287	7,874
Total extraordinary loss	5,287	7,874
Net income before income taxes	1,866,560	463,044
Income taxes – current	553,577	244,686
Income taxes – deferred	67,462	(33,268)
Total income taxes	621,040	211,418
Net income	1,245,519	251,626
Net income attributable to owners of the parent	1,245,519	251,626

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

(Thousands of Yen)

	Six months ended September 30, 2022 (From April 1, 2022 to September 30, 2022)	Six months ended September 30, 2023 (From April 1, 2023 to September 30, 2023)
Net income	1,245,519	251,626
Other comprehensive income		
Valuation difference on available-for-sale securities	13,000	44,850
Total other comprehensive income	13,000	44,850
Comprehensive income	1,258,519	296,476
Comprehensive income attributable to:		
Comprehensive income attributable to owners of the parent	1,258,519	296,476
Comprehensive income attributable to non-controlling interests	—	—

(3) Quarterly Consolidated Statements of Cash Flows

(Thousands of Yen)

	Six months ended September 30, 2022 (From April 1, 2022 to September 30, 2022)	Six months ended September 30, 2023 (From April 1, 2023 to September 30, 2023)
Cash flows from operating activities		
Net income before income taxes	1,866,560	463,044
Depreciation and amortization	139,046	150,972
Amortization of goodwill	68,563	68,563
Increase (decrease) in provision for directors' retirement benefits	(8,433)	(3,424)
Increase (decrease) in provision for warranties for completed construction	(3,566)	(12,136)
Increase (decrease) in allowance for doubtful accounts	(4,341)	3,446
Increase (decrease) in retirement benefit liability	48,822	65,782
Interest and dividends income	(2,946)	(2,926)
Interest expenses	124,005	177,834
Gain on reversal of share acquisition rights	(2,220)	–
Loss (gain) on sales of non-current assets	(84,432)	–
Loss on retirement of non-current assets	5,287	7,874
Decrease (increase) in notes and accounts receivable – trade	(24,787)	71,659
Decrease (increase) in inventories	(2,192,205)	(3,578,721)
Increase (decrease) in notes and accounts payable – trade	(164,333)	(147,485)
Other	(274,676)	(106,595)
Subtotal	(509,657)	(2,842,112)
Interest and dividends income received	2,949	3,159
Interest expenses paid	(124,206)	(160,392)
Income taxes paid	(1,066,320)	(425,688)
Net cash provided by (used in) operating activities	(1,697,235)	(3,425,033)
Cash flows from investing activities		
Purchase of property, plant and equipment	(337,314)	(207,741)
Proceeds from sales of property, plant and equipment	203,845	–
Purchase of intangible assets	(22,323)	(1,407)
Loan advances	–	(2,300)
Collection of loans receivable	1,763	504
Other	(109)	2,943
Net cash provided by (used in) investing activities	(154,137)	(208,001)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(311,900)	1,984,400
Proceeds from long-term loans payable	4,400,000	3,290,000
Repayment of long-term loans payable	(2,654,144)	(4,027,253)
Proceeds from issuance of bonds	300,000	2,000,000
Redemption of bonds	–	(500,000)
Proceeds from disposition of treasury shares due to exercise of subscription rights to shares	26,280	35,574
Proceeds from sale of treasury shares	93,474	95,205
Purchase of treasury shares	–	(915,200)
Cash dividends paid	(900,508)	(971,641)
Repayments of lease obligations	(17,368)	(18,127)
Net cash provided by (used in) financing activities	935,832	972,956
Net increase (decrease) in cash and cash equivalents	(915,540)	(2,660,077)
Cash and cash equivalents at beginning of the period	11,083,535	10,825,466
Cash and cash equivalents at end of the period	10,167,994	8,165,388

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumptions)

Not applicable.

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

The Company repurchased its own stock of 1,600,000 shares on the basis of the resolution made at the meeting of its Board of Directors held on August 17, 2023. As a result of this repurchase, treasury shares increased by ¥786,562 thousand during the cumulative six months of the consolidated fiscal year under review to ¥1,416,159 thousand at the end of the cumulative six months of the consolidated fiscal year under review.

(Additional Information)

(Transactions for Distributing the Company's Own Stock to Employees, etc. through Trusts)

The Company has adopted the "trust-type employee stock holding incentive plan (E-Ship[®])" (hereinafter referred to as "the Plan") for the purpose of providing its employees with incentives to enhance the corporate value of the Company on a medium-to long-term basis in the fiscal year ended March 31, 2022.

(1) Overview of transactions

The Plan is an incentive plan for all employees who are members of "the Grandy House Employee Stock Holding Partnership" (hereinafter referred to as "the Stock Partnership"). The Company has established the "Grandy House Employee Stock Holding Partnership Exclusive Trust" (hereinafter referred to as "the Trust") in a trust bank. The Trust will acquire in advance after its establishment the number of Grandy House shares to be expected to be acquired by the Stock Partnership over a six-year period. At a later date, the Trust will sell its holdings of Grandy House shares to the Stock Partnership on a continual basis. If an amount equivalent to the gains from sale of shares is accumulated at the end of the term of the Trust, the relevant amount equivalent to the gains from the sale of shares will be distributed as residue assets to those who satisfy the criteria of beneficiaries. The Company warrants the repayment of loans payable for the Trust to acquire shares of the Company. Therefore, if an amount equivalent to the loss from sale of shares accumulates due to a decline in the price of shares of the Company, causing a debt equivalent to a loss from sale of the relevant shares remains in the Trust at the end of the term of the Trust, the Company will assume the repayment of the relevant remaining borrowing.

(2) Grandy House's own company stock remaining in the Trust

Grandy House's own company stock remaining in the Trust is recorded as treasury shares in net assets in accordance with the book value (excluding the amount of incidental expenses) in the Trust. The book value and the number of the relevant treasury shares are ¥553,516 thousand and 959,300 shares for the previous consolidated fiscal year, and ¥458,311 thousand and 794,300 shares for the consolidated second quarter of fiscal 2024 under review.

(3) The book value of loans payable recorded by the application of the gross method

The previous consolidated fiscal year: ¥534,370 thousand

The consolidated second quarter of fiscal 2024 under review: ¥410,240 thousand

(Segment Information)

I. The cumulative six months ended September 30, 2022 (April 1, 2022 to September 30, 2022)

1. Information concerning the amounts of net sales and profit or 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 external customers	25,431,837	2,054,241	146,848	27,632,926	—	27,632,926
Inter-segment sales or transfers	26,760	2,421,847	40,880	2,489,488	(2,489,488)	—
Total	25,458,597	4,476,088	187,729	30,122,415	(2,489,488)	27,632,926
Segment profit	1,480,451	232,649	90,769	1,803,870	(18,675)	1,785,194

Notes: 1 Adjustments of segment profit (¥-18,675 thousand) are eliminations of inter-segment transactions.

2 Segment profit has been adjusted with 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 cumulative six months ended September 30, 2023 (April 1, 2023 to September 30, 2023)

1. Information relating to the amounts of net sales and profit or 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 external customers	22,964,387	1,540,780	221,532	24,726,700	—	24,726,700
Inter-segment sales or transfers	26,340	2,016,461	41,893	2,084,694	(2,084,694)	—
Total	22,990,727	3,557,242	263,425	26,811,395	(2,084,694)	24,726,700
Segment profit	182,968	176,815	103,316	463,100	7,818	470,919

Notes: 1 Adjustments of segment profit (¥7,818 thousand) are eliminations of inter-segment transactions.

2 Segment profit has been adjusted with 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.