

* **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.: Yes
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)	December 31, 2015	30,823,200 shares	March 31, 2015	30,823,200 shares
2) Number of treasury shares	December 31, 2015	2,046,245 shares	March 31, 2015	2,046,198 shares
3) Average number of shares issued and outstanding for the period	Nine months ended December 31, 2015	28,776,955 shares	Nine months ended December 31, 2014	28,777,002 shares

* **Disclosure concerning the implementation status of quarterly review procedures**

This Quarterly Consolidated Financial Report is exempt from the quarterly review procedures required by the Financial Instruments and Exchange Act of Japan. At the time of this report's disclosure, the quarterly review process for quarterly consolidated financial statements under the Financial Instruments and Exchange Act has not been completed.

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

The forecast data presented in this report are based on currently available information and contain a significant number of uncertainties. Actual results may differ from forecast data due to changes in business conditions.

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1. QUALITATIVE INFORMATION ON FINANCIAL STATEMENTS

(1) Explanation regarding Operating Results

During the nine months ended December 31, 2015, the Japanese economy was expected to sustain its recovery owing to improvements in corporate earnings and the employment and income environment. However, with the economic slowdown in China and emerging countries becoming obvious, overseas economies remained uncertain, as manifested by an interest rate rise in the United States and a collapse in oil prices.

In the housing sector, the favorable environment continued due to the continuation of measures to stimulate housing demand including income tax credit for housing loans, mortgage rates remaining at a low level, and further improvements in the employment and income environment. Nevertheless, new housing starts were weak, showing a year-on-year decrease for a second consecutive quarter.

Under these circumstances, the Grandy House Group implemented efforts aimed at "continuous growth through reinforcement of the core operation (new homes)" and "expansion of business through enhancement of the stock business" in accordance with its medium-term business plan (announced in November 2015). In new home sales, at our "Grandy Plaza" showrooms, we provided information on a new subdivision in housing lots (at a "Town Opening" event) and held a number of sales promotion events to introduce our houses to customers in a way that enabled them to experience the features of the houses, with a view to boosting our efforts to provide customers with information about the merits of our offerings and our efforts to cultivate existing markets more extensively. We also opened our new Mito Showroom in December 2015 to strengthen the aforementioned efforts outside Tochigi Prefecture. In addition, in terms of expanding our long-standing markets, we made efforts to cover the whole of the key area stretching from southern Ibaraki Prefecture to Kashiwa City in Chiba Prefecture. Meanwhile, in existing home sales, we worked on building up inventory in order to expand our sales.

As a result of these factors, the Grandy House Group's consolidated results for the third quarter (cumulative) of Fiscal 2016 were as follows. Net sales were ¥30,785 million, up 13.8% from the same period of the previous fiscal year; operating income rose to ¥2,086 million, an increase of 29.3%; ordinary income was ¥2,162 million, an increase of 28.3%; and net income attributable to owners of the parent company totaled ¥1,365 million, an increase of 32.1%.

Results by business segment are presented as follows.

Real Estate Sales

In the new home sales business, since there were concerns at the beginning of this quarter about the effect on home buyers' sentiment of the flood disaster resulting from the torrential rain in the Kanto and Tohoku regions in September 2015, we focused on eliminating the anxieties of customers by promoting the safety and assurance, such as in terms of the locations of our offerings, that is supported by our group services that span the entire process from site development to construction of housing lots and after-sales maintenance. Furthermore, we worked on cultivating existing markets more extensively by holding a number of events that families could enjoy, such as "Town Openings" of new subdivisions in housing lots and "Whole Townscape Viewing Tour" events, with our "Grandy Plaza," a showroom where customers can experience the features of our houses, being used as a base for the provision of information. Following the opening in May 2015 of the Inter Park Branch (in Utsunomiya City, Tochigi Prefecture), which also houses a "Grandy Plaza," we opened the Mito Showroom (in Mito City, Ibaraki Prefecture) in December 2015, making a total of four bases for the provision of information. In addition, in terms of expanding our long-standing markets, we positioned the area stretching from southern Ibaraki Prefecture to Kashiwa City in Chiba Prefecture as the key area for expanding our business, and advanced efforts to cover the wide areas stretching along the Joban Line and Tsukuba Express Line, incorporating the Moriya Branch (Moriya City, Ibaraki Prefecture) established in April 2015. As a result of these efforts, new home orders increased steadily in almost all our areas.

In existing home sales, we promoted the broadening of our marketing area by adding metropolitan areas to the areas subject to the procurement of properties, which had previously consisted of the North Kanto area only, and worked on increasing the proportion of existing apartment buildings in the composition of properties. As a result, the inventory level increased to the target level of 100 homes that was planned at the beginning of this fiscal year. In sales of existing homes, while circumstances continued to be tough as an increase in the number of new entrants to the market and price competition with low-cost new homes were seen, we also worked on improving profitability, focusing on maximizing added value at the property acquisition and renovation stages.

As a result of the above efforts, for the nine months ended December 31, 2015, new home sales came to 939 homes, up 99 from the same period of the previous year, and existing home sales came to 87 homes, up five from the same period of the previous year.

As a result of these factors, revenues in the real estate sales segment increased 13.8% year-on-year to ¥28,394 million. Segment profit rose to ¥1,924 million, up 28.8% from the same period of the previous fiscal year.

Construction Material Sales

In the construction material sales segment, demand for pre-cut materials remained strong owing to the steady volume of orders for wooden houses, even though new housing starts hovered at weak volumes. On the other hand, wood prices remained on an upward trend as the balance between supply and demand tightened as a result of production curtailment and inventory adjustment. Under such circumstances, we continued to work on strengthening production capacity, capturing demand for pre-cut materials for non-residential buildings, and securing orders for building materials other than pre-cut materials. As a result, both sales and profit increased in the nine months ended December 31, 2015 compared to the same period of the previous year.

As a result of these initiatives, revenues in the construction materials sales segment increased 16.2% year-on-year to ¥2,194 million. Segment profit rose to ¥140 million, up 9.9% from a year earlier.

Real Estate Leasing

In the real estate leasing segment, while there were no material changes in the office market in and around Utsunomiya City, Tochigi Prefecture, which is our primary market, circumstances surrounding the parking market continued to be tough due to the increased number of pay-by-the-hour parking lots. Under such circumstances, we worked on increasing the occupancy ratio of existing real estate for leasing. However, both sales and profit decreased in the nine months ended December 31, 2015 from a year earlier. This was because during the quarter under review we changed the use of some assets so that they changed from being assets for leasing to assets for business use and because during the previous year we sold other assets (one rental apartment building and one pay-by-the-hour parking lot).

As a result, revenues in the real estate leasing segment totaled ¥196 million, down 7.6% from a year earlier, while segment profit totaled ¥129 million, down 1.4% from a year earlier.

(2) Explanation regarding Financial Position

Total assets stood at ¥38,815 million as of December 31, 2015, up ¥2,968 million compared with the end of the previous fiscal year. This was largely due to an increase in current assets, which resulted from an increase in cash and deposits, as well as an increase in real estate for sale brought about by the efforts in expanding our marketing area for new home sales and in building up inventory aiming for the expansion of existing-home sales.

Total liabilities grew ¥1,769 million compared with the end of the previous fiscal year to ¥22,532 million. This was mainly due to an increase in current liabilities, which was brought about by an increase in short-term loans payable since funds to acquire real estate for sale were financed mainly by loans.

Total net assets stood at ¥16,283 million as of December 31, 2015. This represents an increase of ¥1,199 million from the balance recorded as of March 31, 2015. After accounting for the payment of dividends, this increase was largely due to the acquisition of net income attributable to owners of the parent company.

(3) Explanation regarding Future Prospects including Consolidated Financial Forecasts

There is no change to financial forecasts announced on May 11, 2015.

2. MATTERS CONCERNING SUMMARY INFORMATION (Notes)

(1) Changes of Important Subsidiaries during the Period

Not applicable.

(2) Adoption of Specific Methods for Preparation of the Quarterly Consolidated Financial Statements

Not applicable.

(3) Changes in Accounting Policies, Accounting Estimates, and Restatements

(Changes in accounting policies)

(Application of accounting standards for business combinations, etc.)

We started to apply the "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013) and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013) in the three month period ended June 30, 2015, which have resulted in changes in the way we present the net income, etc. for the quarter. To better reflect such changes, we also changed the way we present the consolidated financial statements for the nine month period ended December 31, 2014.

3. QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

(1) Quarterly Consolidated Balance Sheets

(Thousands of Yen)

	FY2015 (As of March 31, 2015)	Third Quarter of FY2016 (As of December 31, 2015)
Assets		
Current assets		
Cash and deposits	6,621,018	7,224,977
Notes and accounts receivable – trade	734,021	642,796
Real estate for sale	10,704,928	10,467,577
Costs on uncompleted construction contracts	6,251	5,076
Real estate for sale in process	6,688,779	8,931,565
Merchandise and finished goods	145,413	147,812
Raw materials and supplies	111,279	115,080
Deferred tax assets	122,613	116,548
Other	401,046	477,808
Allowance for doubtful accounts	(5,344)	(4,976)
Total current assets	25,530,008	28,124,266
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	3,083,718	3,142,854
Machinery, equipment and vehicles, net	8,785	13,544
Tools, furniture and fixtures, net	48,986	50,683
Land	5,851,832	5,859,511
Lease assets, net	107,325	72,674
Construction in progress	58,652	148,441
Total property, plant and equipment	9,159,301	9,287,709
Intangible assets	67,616	67,165
Investments and other assets		
Investment securities	767,434	965,477
Long-term loans receivable	19,870	20,372
Deferred tax assets	108,270	131,646
Other	197,708	235,901
Allowance for doubtful accounts	(3,816)	(17,280)
Total investments and other assets	1,089,467	1,336,117
Total non-current assets	10,316,385	10,690,991
Total assets	35,846,393	38,815,258

(Thousands of Yen)

	FY2015 (As of March 31, 2015)	Third Quarter of FY2016 (As of December 31, 2015)
Liabilities		
Current liabilities		
Accounts payable for construction contracts	2,772,752	2,659,343
Short-term loans payable	14,074,690	16,104,000
Current portion of long-term loans payable	400,508	391,440
Current portion of bonds	21,000	21,000
Lease obligations	43,999	39,312
Income taxes payable	582,687	376,020
Provision for warranties for completed construction	51,167	53,822
Other	721,606	717,268
Total current liabilities	18,668,411	20,362,207
Non-current liabilities		
Bonds payable	129,000	108,000
Long-term loans payable	1,409,644	1,463,544
Lease obligations	69,525	36,594
Provision for directors' retirement benefits	71,204	93,529
Net defined benefit liability	358,010	410,311
Asset retirement obligations	—	4,191
Other	56,416	53,658
Total non-current liabilities	2,093,801	2,169,828
Total liabilities	20,762,212	22,532,036
Net assets		
Shareholders' equity		
Capital stock	2,077,500	2,077,500
Capital surplus	2,205,165	2,205,165
Retained earnings	11,049,455	12,184,383
Treasury shares	(351,814)	(351,831)
Total shareholders' equity	14,980,306	16,115,217
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	28,874	18,004
Total accumulated other comprehensive income	28,874	18,004
Subscription rights to shares	75,000	150,000
Total net assets	15,084,180	16,283,221
Total liabilities and net assets	35,846,393	38,815,258

(2) Quarterly Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
(Quarterly Consolidated Statements of Income)

(Thousands of Yen)

	Nine months ended December 31, 2014 (From April 1, 2014 to December 31, 2014)	Nine months ended December 31, 2015 (From April 1, 2015 to December 31, 2015)
Net sales	27,056,351	30,785,492
Cost of sales	22,285,784	25,360,315
Gross profit	4,770,566	5,425,177
Selling, general and administrative expenses	3,157,352	3,338,543
Operating income	1,613,214	2,086,633
Non-operating income		
Interest income	843	1,237
Dividends income	4,391	5,205
Operations consignment fee	153,153	167,666
Office work fee	98,058	109,232
Other	28,066	17,172
Total non-operating income	284,513	300,514
Non-operating expenses		
Interest expenses	208,992	222,950
Other	3,728	1,548
Total non-operating expenses	212,721	224,498
Ordinary income	1,685,007	2,162,649
Extraordinary loss		
Loss on sale of non-current assets	1,070	—
Loss on retirement of non-current assets	10,647	6,871
Loss on cancellation of lease contracts	2,331	181
Total extraordinary loss	14,048	7,052
Net income before income taxes	1,670,958	2,155,596
Income taxes – current	636,808	802,634
Income taxes – deferred	900	(12,181)
Total income taxes	637,709	790,452
Net income	1,033,248	1,365,143
Net income attributable to owners of the parent company	1,033,248	1,365,143

(Quarterly Consolidated Statements of Comprehensive Income)

(Thousands of Yen)

	Nine months ended December 31, 2014 (From April 1, 2014 to December 31, 2014)	Nine months ended December 31, 2015 (From April 1, 2015 to December 31, 2015)
Net income	1,033,248	1,365,143
Other comprehensive income		
Valuation difference on available-for-sale securities	9,046	(10,870)
Total other comprehensive income	9,046	(10,870)
Comprehensive income	1,042,295	1,354,273
Comprehensive income attributable to:		
Comprehensive income attributable to owners of the parent	1,042,295	1,354,273
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 and Other Information)

Segment Information

I. The nine months ended December 31, 2014 (April 1, 2014 to December 31, 2014)

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	24,955,452	1,888,402	212,496	27,056,351	—	27,056,351
Intersegment sales and transfers	—	2,193,798	53,819	2,247,617	(2,247,617)	—
Total	24,955,452	4,082,201	266,315	29,303,968	(2,247,617)	27,056,351
Segment profit	1,494,658	127,834	130,805	1,753,298	(68,291)	1,685,007

Notes: 1 Adjustments of segment profit (¥68,291 thousand) are eliminations of intersegment 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, 2015 (April 1, 2015 to December 31, 2015)

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	28,394,963	2,194,195	196,333	30,785,492	—	30,785,492
Intersegment sales and transfers	—	2,406,086	61,778	2,467,864	(2,467,864)	—
Total	28,394,963	4,600,281	258,112	33,253,357	(2,467,864)	30,785,492
Segment profit	1,924,770	140,537	129,029	2,194,337	(31,688)	2,162,649

Notes: 1 Adjustments of segment profit (¥31,688 thousand) are eliminations of intersegment 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.