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

February 4, 2019

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 Scheduled date of quarterly securities report filing: February 7, 2019
 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, 2019
(April 1, 2018 to December 31, 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) | % |
| Nine months ended December 31, 2018 | 32,758 | (0.2) | 2,273 | 22.4 | 2,384 | 23.3 | 1,434 | 11.8 |
| Nine months ended December 31, 2017 | 32,839 | (2.4) | 1,856 | (16.9) | 1,933 | (16.4) | 1,283 | (9.3) |

Note: Comprehensive income Nine months ended December 31, 2018: ¥1,393 million (7.7%)
 Nine months ended December 31, 2017: ¥1,294 million (-11.0%)

| | Net Income per Share | Net Income per Share (Diluted) |
|-------------------------------------|----------------------|--------------------------------|
| | (¥) | (¥) |
| Nine months ended December 31, 2018 | 49.73 | 49.03 |
| Nine months ended December 31, 2017 | 44.58 | 44.02 |

(2) Consolidated Financial Position

| | Total Assets | Net Assets | Shareholders' Equity Ratio | Net Assets per Share |
|-------------------|--------------|-------------|----------------------------|----------------------|
| | (¥ million) | (¥ million) | % | (¥) |
| December 31, 2018 | 46,280 | 20,488 | 43.9 | 703.75 |
| March 31, 2018 | 47,281 | 19,556 | 41.0 | 671.43 |

Reference: Shareholders' equity December 31, 2018: ¥20,294 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) | December 31, 2018 | 30,823,200 shares | March 31, 2018 | 30,823,200 shares |
| 2) Number of treasury shares | December 31, 2018 | 1,985,245 shares | March 31, 2018 | 1,985,245 shares |
| 3) Average number of shares issued and outstanding for the period | Nine months ended December 31, 2018 | 28,837,955 shares | Nine months ended December 31, 2017 | 28,781,511 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 certain assumptions deemed to be reasonable by the Company 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, 2018, the Japanese economy was considered to be on a moderate recovery trend despite the negative growth recorded in the period from July to September of the previous fiscal year.

In the housing sector, new housing starts have grown steadily due to the interest rate on housing loans continuing to remain at low levels, as well as the continuation of various support measures to promote home acquisition and an improvement 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, strengthen the sales structure of the northern area of Tochigi Prefecture, reinforce our product appeal, and improve profits through cost reduction and other measures while opening a new base and 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.

Through initiatives such as these, orders received for both new and existing homes for the third quarter of Fiscal 2019 were above the previous year's levels and the number of homes sold, which in the first half under review had fallen below the figures in the same period of the previous fiscal year due to the timing of the delivery of some of the homes, recorded only a small decline, recovering to a level basically the same as the previous year's. Moreover, profit was improved year-on-year due to cost reduction and a year-on-year decrease in selling, general and administrative expenses among other expenses.

As a result of these initiatives, the Grandy House Group's consolidated results for the third quarter (cumulative) of Fiscal 2019 were as follows. Net sales were ¥32,758 million, down 0.2% year-on-year; operating income rose to ¥2,273 million, an increase of 22.4% year-on-year; ordinary income was ¥2,384 million, an increase of 23.3% year-on-year; and net income attributable to owners of the parent company totaled ¥1,434 million, an increase of 11.8% year-on-year.

Results by business segment are presented as follows.

a. Real Estate Sales

In the new home sales, we boosted sales activities for large housing lots by holding various experience events at the new model houses at *Yotsuba no Mori* housing lots (211 lots in Tsukuba in Ibaraki Prefecture) and GRAND BEAT PARK Kaminokawa (141 lots, Kaminokawamachi in Tochigi Prefecture), in addition to our efforts to boost customer responses through a complete renewal of our website. Moreover, in order to further develop the northern area of Tochigi Prefecture, in December 2018 we opened a next-generation experience-based showroom GRANDY PLAZA Nasushiobara (Nasushiobara in Tochigi Prefecture) and bolstered our sales structure by relocating our Kenhoku branch to the site. 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 opened the Saitama branch (Urawa-ku, Saitama) and made progress in purchasing housing lots with the branch as our purchasing base.

Through initiatives such as these, orders received were above the previous year's level, but the number of new homes sold during the nine months ended December 31, 2018 was 986 homes (a decrease of 3 homes year-on-year), a level basically the same as the previous year's, albeit a slight decrease. Meanwhile, profit was improved because the cost-cutting initiative had borne 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 third quarter of Fiscal 2019 were above the previous year's level as a result of our efforts to reinforce procurement and shorten the construction period for commercialization by setting up a goal of keeping 70 completed homes in inventory at any time. As a result, the number of homes sold during the nine months ended December 31, 2018 was 111 homes (an increase of 13 homes year-on-year).

As a result of these initiatives, sales in the real estate sales segment decreased 0.9% year-on-year to ¥30,178 million. Segment profit rose to ¥2,136 million, up 25.8% year-on-year.

b. Construction Material Sales

In the construction material sales, while new housing starts for wooden houses including custom-made houses had stayed below those in the same period of the previous fiscal year, such movements appear to have bottomed out. Meanwhile, in terms of wood material prices, the prices of North American logs have fallen significantly since May due to the slowdown of housing investment arising from the interest rate increase in the United States. Under such circumstances, the Grandy House Group expanded sales of materials to wood material processing businesses while continuing to make efforts, such as boosting sales of building materials/housing equipment other than pre-cut materials. As a result, sales in the construction material sales segment increased 8.6% year-on-year to ¥2,391 million. Segment profit rose to ¥135 million, up 26.0% 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, office vacancies increased due to the resumption of offering for lease in some offices where offering for lease had been suspended for a long period. In the parking lot market, competition remained intense among 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 in vacancy rates at the end of the third quarter of the previous year persisted, one pay-by-the-hour parking lot was sold, and repair expenses for rental properties were incurred. Consequently, sales in the real estate leasing segment were ¥188 million, a decrease of 5.1% year-on-year, and segment profit was ¥117 million, a decrease of 12.0% year-on-year.

(2) Explanation regarding Financial Position

As of the end of the third quarter of Fiscal 2019, total consolidated assets fell to ¥46,280 million, a decrease of ¥1,000 million compared to the end of the previous consolidated fiscal year. This was mainly due to a decrease in inventories following sales of large housing lots for the current fiscal year, in terms of new home sales.

Liabilities decreased to ¥25,791 million, down ¥1,932 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 ¥20,488 million as of December 31, 2018. This represents an increase of ¥932 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.

(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) | Third Quarter of FY2019 (As of December 31, 2018) |
|---|----------------------------------|--|
| Assets | | |
| Current assets | | |
| Cash and deposits | 9,813,941 | 9,359,344 |
| Notes and accounts receivable – trade | 672,527 | 566,261 |
| Real estate for sale | 16,588,298 | 17,551,498 |
| Costs on uncompleted construction contracts | 2,414 | 13,178 |
| Real estate for sale in process | 8,936,229 | 7,065,772 |
| Merchandise and finished goods | 211,897 | 239,830 |
| Raw materials and supplies | 166,467 | 139,682 |
| Other | 413,250 | 631,515 |
| Allowance for doubtful accounts | (4,348) | (3,453) |
| Total current assets | 36,800,680 | 35,563,630 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 3,256,709 | 3,228,069 |
| Machinery, equipment and vehicles, net | 6,175 | 2,954 |
| Tools, furniture and fixtures, net | 62,563 | 72,283 |
| Land | 5,319,659 | 5,573,051 |
| Leased assets, net | 69,002 | 87,740 |
| Total property, plant and equipment | 8,714,109 | 8,964,098 |
| Intangible assets | 66,862 | 83,644 |
| Investments and other assets | | |
| Investment securities | 428,336 | 368,107 |
| Long-term loans receivable | 14,859 | 13,993 |
| Deferred tax assets | 381,203 | 379,621 |
| Other | 846,788 | 872,597 |
| Allowance for doubtful accounts | (4,901) | (5,195) |
| Total investments and other assets | 1,666,286 | 1,629,124 |
| Total non-current assets | 10,447,258 | 10,676,867 |
| Deferred assets | | |
| Bond issuance costs | 33,388 | 39,897 |
| Total deferred assets | 33,388 | 39,897 |
| Total assets | 47,281,326 | 46,280,395 |

(Thousands of Yen)

| | FY2018 (As of March 31, 2018) | Third Quarter of FY2019 (As of December 31, 2018) |
|---|----------------------------------|--|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable for construction contracts | 3,408,906 | 2,960,027 |
| Short-term loans payable | 19,177,700 | 17,750,000 |
| Current portion of long-term loans payable | 494,513 | 535,496 |
| Current portion of bonds | 21,000 | 21,000 |
| Lease obligations | 24,403 | 29,617 |
| Income taxes payable | 495,419 | 218,431 |
| Provision for warranties for completed construction | 58,686 | 58,048 |
| Other | 755,677 | 798,125 |
| Total current liabilities | 24,436,306 | 22,370,746 |
| Non-current liabilities | | |
| Bonds payable | 1,066,000 | 1,545,000 |
| Long-term loans payable | 1,384,806 | 967,015 |
| Lease obligations | 50,099 | 65,580 |
| Provision for directors' retirement benefits | 166,279 | 160,979 |
| Net defined benefit liability | 571,584 | 629,053 |
| Asset retirement obligations | 4,296 | 9,518 |
| Other | 45,483 | 44,006 |
| Total non-current liabilities | 3,288,549 | 3,421,152 |
| Total liabilities | 27,724,855 | 25,791,899 |
| 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 | 16,379,903 |
| Treasury shares | (341,339) | (341,339) |
| Total shareholders' equity | 19,366,395 | 20,339,101 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | (3,824) | (44,505) |
| Total accumulated other comprehensive income | (3,824) | (44,505) |
| Subscription rights to shares | 193,900 | 193,900 |
| Total net assets | 19,556,471 | 20,488,496 |
| Total liabilities and net assets | 47,281,326 | 46,280,395 |

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

(Thousands of Yen)

| | Nine months ended December 31, 2017 (From April 1, 2017 to December 31, 2017) | Nine months ended December 31, 2018 (From April 1, 2018 to December 31, 2018) |
|---|--|--|
| Net sales | 32,839,105 | 32,758,766 |
| Cost of sales | 27,243,065 | 26,819,809 |
| Gross profit | 5,596,040 | 5,938,957 |
| Selling, general and administrative expenses | 3,739,075 | 3,665,157 |
| Operating income | 1,856,965 | 2,273,799 |
| Non-operating income | | |
| Interest income | 1,043 | 656 |
| Dividends income | 6,203 | 5,703 |
| Operations consignment fee | 176,619 | 170,569 |
| Office work fee | 114,805 | 118,092 |
| Other | 41,135 | 21,074 |
| Total non-operating income | 339,807 | 316,096 |
| Non-operating expenses | | |
| Interest expenses | 253,091 | 193,649 |
| Commission for syndicate loan | 6,072 | 4,999 |
| Other | 4,531 | 7,150 |
| Total non-operating expenses | 263,694 | 205,800 |
| Ordinary income | 1,933,078 | 2,384,095 |
| Extraordinary loss | | |
| Loss on sales of non-current assets | – | 75 |
| Loss on retirement of non-current assets | 12,492 | 13,267 |
| Impairment loss | 26,112 | – |
| Loss on cancellation of lease contracts | – | 2,528 |
| Directors' retirement benefits | – | 300,000 |
| Total extraordinary loss | 38,604 | 315,871 |
| Net income before income taxes | 1,894,473 | 2,068,223 |
| Income taxes – current | 628,057 | 614,708 |
| Income taxes – deferred | (16,589) | 19,401 |
| Total income taxes | 611,467 | 634,110 |
| Net income | 1,283,006 | 1,434,113 |
| Net income attributable to owners of the parent company | 1,283,006 | 1,434,113 |

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

(Thousands of Yen)

| | Nine months ended December 31, 2017 (From April 1, 2017 to December 31, 2017) | Nine months ended December 31, 2018 (From April 1, 2018 to December 31, 2018) |
|---|--|--|
| Net income | 1,283,006 | 1,434,113 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 11,126 | (40,680) |
| Total other comprehensive income | 11,126 | (40,680) |
| Comprehensive income | 1,294,132 | 1,393,432 |
| Comprehensive income attributable to: | | |
| Comprehensive income attributable to owners of the parent company | 1,294,132 | 1,393,432 |
| 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.

(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 Investments and other assets.

(Segment and Other Information)

Segment Information

I. The nine months ended December 31, 2017 (April 1, 2017 to December 31, 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 | 30,439,245 | 2,201,511 | 198,348 | 32,839,105 | — | 32,839,105 |
| Inter-segment sales and transfers | — | 2,404,264 | 59,583 | 2,463,847 | (2,463,847) | — |
| Total | 30,439,245 | 4,605,775 | 257,932 | 35,302,953 | (2,463,847) | 32,839,105 |
| Segment profit | 1,698,485 | 107,542 | 133,031 | 1,939,059 | (5,981) | 1,933,078 |

Notes: 1 Adjustments of segment profit (–¥5,981 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

In the real estate leasing segment, we implemented a book value reduction in property, plant and equipment down to the recoverable value and recorded the reduction amount in extraordinary loss as impairment loss. The recorded amount of the impairment loss was ¥26,112 thousand during the nine month period ended December 31, 2018.

II. 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.