November 9, 2018

Summary of Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2019 (Six Months Ended September 30, 2018)

[Japanese GAAP]

Company name: KI-STAR REAL ESTATE CO., LTD. Listing: Tokyo Stock Exchange, First Section
Securities code: 3465 URL: http://www.ki-group.co.jp/
Representative: Keiji Hanawa, President and CEO
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Scheduled date of filing of Quarterly Report: November 13, 2018
Scheduled date of payment of dividend: December 10, 2018
Preparation of supplementary materials for quarterly financial results: Yes
Holding of quarterly financial results meeting: Yes

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the First Six Months (April 1, 2018 – September 30, 2018) of the Fiscal Year Ending March 31, 2019

(1) Consolidated results of operations (Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended Sep. 30, 2018	41,800	51.5	2,404	8.3	2,322	6.5	1,419	0.9
Six months ended Sep. 30, 2017	27,590	17.9	2,221	22.5	2,180	23.8	1,407	3.4

Note: Comprehensive income (million yen) Six months ended Sep. 30, 2018: 1,568 (up 6.9%)
Six months ended Sep. 30, 2017: 1,466 (up 7.4%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Sep. 30, 2018	100.05	-
Six months ended Sep. 30, 2017	98.95	-

Notes: 1. Diluted net income per share for the six months ended September 30, 2018 is not presented because there was no potential shares with dilutive effects. Diluted net income per share for the six months ended September 30, 2017 is not presented because dilutive shares do not exist.

2. KI-STAR REAL ESTATE CO., LTD. ("the Company") has established a performance-linked stock compensation plan for directors in the previous fiscal year. The Company's shares for this stock compensation plan held by the trust are recorded as treasury shares in the quarterly consolidated balance sheet and included in treasury shares for calculating the average number of shares during the period for determining net income per share.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Sep. 30, 2018	72,763	15,183	19.5
As of Mar. 31, 2018	60,058	13,856	22.1

Reference: Shareholders' equity (million yen) As of Sep. 30, 2018: 14,191 As of Mar. 31, 2018: 13,283

Note: The Company has established a performance-linked stock compensation plan for directors in the previous fiscal year. The Company's shares for this stock compensation plan held by the trust are recorded as treasury shares in the quarterly consolidated balance sheet.

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2018	-	35.00	-	36.00	71.00
Fiscal year ending Mar. 31, 2019	-	42.00			
Fiscal year ending Mar. 31, 2019 (forecasts)			-	42.00	84.00

Note: Revisions to the most recently announced dividend forecast: None

3. Consolidated Forecast for the Fiscal Year Ending March 31, 2019 (April 1, 2018 – March 31, 2019)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	85,840	33.9	6,380	20.4	6,040	14.3	4,000	17.9	281.86

Note: Revisions to the most recently announced consolidated forecast: None

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in the scope of consolidation): None

Newly added: - Excluded: -

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

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

1) Changes in accounting policies due to revisions in accounting standards, others:	None
2) Changes in accounting policies other than 1) above:	None
3) Changes in accounting estimates:	None
4) Restatements:	None

(4) Number of issued shares (common shares)

1) Number of shares issued at the end of the period (including treasury shares)

As of Sep. 30, 2018:	14,232,500 shares	As of Mar. 31, 2018:	14,232,500 shares

2) Number of treasury shares at the end of the period

As of Sep. 30, 2018:	41,344 shares	As of Mar. 31, 2018:	41,344 shares

3) Average number of shares during the period

Six months ended Sep. 30, 2018:	14,191,156 shares	Six months ended Sep. 30, 2017:	14,224,604 shares

Note: The Company has established a performance-linked stock compensation plan for directors in the previous fiscal year. The Company's shares for this stock compensation plan held by the trust are included in treasury shares for calculating the number of treasury shares at the end of the period and the average number of shares during the period.

* The current quarterly financial report is not subject to quarterly review by certified public accountants or auditing firms.

* Cautionary statement with respect to forward-looking statements, and other special items

Forecasts of future performance in this report are based on assumptions judged to be valid and information currently available to the Company. Actual results may differ significantly from these forecasts for a number of factors.

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the first half of the current fiscal year, economic sentiment in Japan weakened somewhat because of U.S. trade protectionism, volatility in financial markets and the impact of major natural disasters. Despite these challenges, Japan's economy continued to recover as corporate earnings remained strong and personal income recovered slowly.

In the Japanese housing sector, where the KI-STAR REAL ESTATE Group ("the Group") operates, the environment for purchasing residences remained favorable. The primary reasons are an improvement in personal income, the continuation of reduced taxes that lower the cost of purchasing residences, and low mortgage interest rates. However, there are concerns about the real estate market because of a series of problems, including improper loans for the purchase of residences by investors.

By supplying houses with outstanding quality at low prices, the Group continued to concentrate on the growth strategy for its core homebuilding and sales business. Activities are guided by the Group's management philosophy of "creating lives that are fulfilling, enjoyable and pleasant." For more progress with combining real estate and IT, we conducted research involving the use of IT and created systems for many of our operations. The objective is to build houses incorporating concepts that look into the future in order to provide outstanding comfort and convenience to residents.

We put our highest priority on improving inventory turnover, which is the time from purchasing land to the sale of a house on that land, to properly manage the level of inventory. One step to accomplish this was increased activities during the second quarter to sell inventory properties at the end of the first quarter where the turnover had become longer. The shortage of construction workers in the previous fiscal year is one cause of the longer turnover. Selling these houses improves the Group's financial soundness.

Due to these activities, sales and earnings at all levels increased to all-time highs for a six-month period. First half sales were 41,800 million yen, 14,209 million yen (51.5%) higher than one year earlier because of measures to strengthen sales activities. Gross profit increased 1,103 million yen, benefiting from sales growth but negatively impacted by a lower gross profit margin caused by measures to sell inventory properties quickly in order to improve financial soundness. Selling, general and administrative expenses increased 920 million yen mainly because of an increase in brokerage commissions (a variable expense) due to higher sales. As a result, operating profit increased 183 million yen (8.3%) to a record-high 2,404 million yen. Ordinary profit increased 141 million yen (6.5%) to 2,322 million yen although interest expenses were up 82 million yen because of an increase in loans to procure funds from financial institutions to purchase land based on the growth strategy for the homebuilding and sales business. Profit attributable to owners of parent increased 12 million yen (0.9%) to 1,419 million yen.

In the second quarter of the current fiscal year, the Company acquired 50.5% of shares of Fresco Inc., making this company and its subsidiary Oyumino Jutaku, Inc. consolidated subsidiaries. Accordingly, the Group consists of 15 consolidated subsidiaries and two equity-method affiliates.

Fresco sells land and custom-built houses. There is no significant change to the existing reportable segments due to this acquisition. Fresco and its consolidated subsidiary have been added as a separate business segment, increasing the number of segments to six: homebuilding and sales, custom-built housing, pre-owned home sales, Yokatown, Asahi Housing and Fresco.

Results by business segment are as follows:

i) Homebuilding and sales

Backed by marketing activities that link the KEIAI brand with outstanding designs, we continued to supply houses with outstanding quality at low prices. Prices of houses are set at a level that makes the mortgage payments less expensive than renting a residence. We placed priority on the turnover ratio by shortening the time between the purchase of land and sale of houses. Building houses faster and improving construction processes also contributed to lowering expenses in this business. In addition, we continued to upgrade our sales capabilities by building stronger ties with real estate brokers throughout Japan, increasing purchases of land and increasing the use of outsourced sales activities.

During the first half, 1,208 houses (including the land) were sold, 370 more than one year earlier, and sales increased 8,974 million yen to 30,699 million yen. Although earnings were negatively affected by a lower gross profit margin, the result of measures to sell inventory properties quickly, and higher brokerage commissions (a variable expense) as sales increased, segment profit was up 93 million yen to 2,577 million yen.

ii) Custom-built housing

This business stopped selling homes to the general public in the previous fiscal year because personnel were transferred to homebuilding and sales to make this business stronger. This business is now concentrating on increasing the number of orders from real estate companies for its Fit-Pro custom-built houses.

Due to this change in sales activities, the number of houses sold during the first half decreased by 84 from one year earlier to 50. Sales were down 1,074 million yen to 768 million yen and segment profit decreased 89 million yen to 163 million yen.

iii) Pre-owned home sales

This business pays close attention to current market conditions and purchases only carefully chosen houses from real estate companies and other sellers. As in prior years, most of the sales are derived from pre-owned houses that are sold after performing renovations. This business has started a revitalization business for existing detached houses. Subsidiary KEIAI Kaimasse Co., Ltd. is purchasing a large number of properties for the growth of this new business.

The number of houses sold during the first half was 55, 38 more than one year earlier. Sales increased 1,239 million yen to 1,629 million yen and segment profit increased 24 million yen to 45 million yen.

iv) Yokatown

The sale of houses and land and the sale of custom-built houses are the primary activities of subsidiary Yokatown Co., Ltd. Custom-built house sales mainly consist of houses where buyers can determine designs on their own and the Hanamaru house line of homes where buyers choose from pre-determined elements.

The number of custom-built houses sold during the first half increased by 10 to 104, the number of built-for-sale houses sold increased by 71 to 105 and the number of home sites sold decreased by 15 to 34. Sales increased 2,033 million yen to 5,066 million yen and segment profit increased 323 million yen to 501 million yen.

v) Asahi Housing

Subsidiary Asahi Housing Co., Ltd. sells built-for-sale houses mainly in Kanagawa prefecture. There are many activities at this company involving housing development projects.

The number of houses sold during the first half increased by 52 to 56 (including land). Sales increased 1,542 million yen to 1,974 million yen and segment profit was 60 million yen, an improvement of 144 million yen compared with the loss one year earlier.

vi) Fresco

Subsidiary Fresco Inc. sells land and custom-built houses mainly in Chiba prefecture. Custom-built house sales mainly consist of houses where buyers can determine designs on their own and the Hanamaru house line of homes where buyers choose from pre-determined elements. Fresco plans to increase sales of built-for-sale houses.

During the first half, Fresco sold 33 custom-built houses and 14 sites for houses and sales were 1,073 million yen. There was a segment loss of 74 million yen. The main reason was an 86 million yen increase in the cost of sales caused by the inclusion in sales of a valuation gain resulting from the revaluation of inventories when Fresco was included in the consolidated financial statements beginning with the current fiscal year. There are no sales and earnings comparisons because Fresco was added to reportable segments as it became a consolidated subsidiary in the first half of the current fiscal year.

vii) Other

Other includes the real estate rental business, the real estate brokerage business and other activities. First half sales were 1,101 million yen and operating profit was 197 million yen.

(2) Explanation of Consolidated Forecast and Other Forward-looking Statements

First half sales and earnings reflect ongoing activities to achieve goals of the growth strategy for the homebuilding and sales business. Measures to sell inventory properties quickly in order to improve financial soundness reduced the first half gross profit. However, sales increased 51.5% to an all-time six-month high of 41,800 million yen and operating profit and profit attributable to owners of parent rose to record highs of 2,404 million yen (up 8.3%) and 1,419 million yen (up 0.9%), respectively.

There is no change to the consolidated forecast for the fiscal year ending March 31, 2019. First half performance was in line with the forecast, and from the third quarter onward, inventory properties with a long turnover period have been significantly reduced, the volume of new orders is remaining strong, and there is a sufficient level of inventory properties to reach the fiscal year sales forecast.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	FY3/18 (As of Mar. 31, 2018)	Second quarter of FY3/19 (As of Sep. 30, 2018)
Assets		
Current assets		
Cash and deposits	8,066,564	5,017,042
Accounts receivable from completed construction contracts	15,831	9,481
Real estate for sale	20,491,892	28,110,788
Real estate for sale in process	25,181,037	30,918,878
Costs on uncompleted construction contracts	734,071	1,252,349
Other	1,428,712	1,373,208
Allowance for doubtful accounts	(9,021)	(9,000)
Total current assets	55,909,087	66,672,747
Non-current assets		
Property, plant and equipment	2,703,771	3,391,321
Intangible assets		
Goodwill	323,108	358,024
Other	82,624	298,801
Total intangible assets	405,733	656,826
Investments and other assets	1,040,353	2,042,591
Total non-current assets	4,149,859	6,090,738
Total assets	60,058,946	72,763,486
Liabilities		
Current liabilities		
Electronically recorded obligations - operating	789,788	762,113
Accounts payable for construction contracts	5,572,025	6,273,683
Short-term loans payable	32,641,685	38,728,863
Current portion of bonds	22,400	56,400
Current portion of long-term loans payable	1,255,880	1,767,793
Income taxes payable	1,093,003	882,152
Provision for bonuses	208,203	248,263
Other	2,380,328	3,082,400
Total current liabilities	43,963,316	51,801,669
Non-current liabilities		
Bonds payable	64,000	335,800
Long-term loans payable	2,051,478	5,305,767
Asset retirement obligations	67,395	69,451
Other	55,998	67,273
Total non-current liabilities	2,238,873	5,778,292
Total liabilities	46,202,189	57,579,961
Net assets		
Shareholders’ equity		
Capital stock	821,050	821,050
Capital surplus	1,727,835	1,727,835
Retained earnings	10,815,070	11,722,585
Treasury shares	(77,428)	(77,428)
Total shareholders’ equity	13,286,528	14,194,042
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(3,224)	(2,609)
Total accumulated other comprehensive income	(3,224)	(2,609)
Share acquisition rights	-	362
Non-controlling interests	573,453	991,729
Total net assets	13,856,757	15,183,524
Total liabilities and net assets	60,058,946	72,763,486

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statement of Income
(For the Six-month Period)

(Thousands of yen)

	First six months of FY3/18 (Apr. 1, 2017 – Sep. 30, 2017)	First six months of FY3/19 (Apr. 1, 2018 – Sep. 30, 2018)
Net sales	27,590,683	41,800,343
Cost of sales	22,426,114	35,532,093
Gross profit	5,164,569	6,268,250
Selling, general and administrative expenses	2,943,404	3,863,571
Operating profit	2,221,164	2,404,678
Non-operating income		
Interest income	205	51
Dividend income	384	1,858
Refund of real estate acquisition tax	68,198	72,979
Share of profit of entities accounted for using equity method	-	1,029
Other	29,738	61,699
Total non-operating income	98,526	137,619
Non-operating expenses		
Interest expenses	125,516	208,140
Other	13,707	11,712
Total non-operating expenses	139,224	219,853
Ordinary profit	2,180,466	2,322,444
Extraordinary income		
Gain on sales of non-current assets	5,056	133
Total extraordinary income	5,056	133
Extraordinary losses		
Loss on sales of non-current assets	-	4,791
Loss on retirement of non-current assets	1,158	5,779
Total extraordinary losses	1,158	10,570
Profit before income taxes	2,184,365	2,312,007
Income taxes-current	674,235	829,612
Income taxes-deferred	43,284	(85,164)
Total income taxes	717,519	744,448
Profit	1,466,845	1,567,559
Profit attributable to non-controlling interests	59,275	147,676
Profit attributable to owners of parent	1,407,570	1,419,882

Quarterly Consolidated Statement of Comprehensive Income
(For the Six-month Period)

(Thousands of yen)

	First six months of FY3/18 (Apr. 1, 2017 – Sep. 30, 2017)	First six months of FY3/19 (Apr. 1, 2018 – Sep. 30, 2018)
Profit	1,466,845	1,567,559
Other comprehensive income		
Valuation difference on available-for-sale securities	68	615
Total other comprehensive income	68	615
Comprehensive income	1,466,913	1,568,174
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	1,407,638	1,420,041
Comprehensive income attributable to non-controlling interests	59,275	148,133

(3) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Segment and Other Information

Segment information

I. First six months of FY3/18 (Apr. 1, 2017 – Sep. 30, 2017)

1. Information related to net sales and profit or loss for each reportable segment

(Thousands of yen)

	Reportable segment					
	Homebuilding and sales	Custom-built housing	Pre-owned home sales	Yokatown	Asahi Housing	Total
Net sales						
Sales to external customers	21,724,674	1,842,675	389,758	3,032,950	432,372	27,422,431
Inter-segment sales and transfers	-	-	-	-	-	-
Total	21,724,674	1,842,675	389,758	3,032,950	432,372	27,422,431
Segment profit (loss)	2,483,289	253,422	21,182	177,965	(83,895)	2,851,964

	Others (Note 1)	Adjustments (Note 2)	Amounts shown on the quarterly consolidated statement of income (Note 3)
Net sales			
Sales to external customers	168,251	-	27,590,683
Inter-segment sales and transfers	132,405	(132,405)	-
Total	300,657	(132,405)	27,590,683
Segment profit (loss)	189,996	(820,795)	2,221,164

Notes: 1. Others represent the businesses which are not included in any of the reportable segments and mainly consist of real estate leasing and brokerage businesses.

2. Adjustments to segment profit (loss) consist of corporate expenses that cannot be attributed to any of the reportable segments.

3. Segment profit (loss) is adjusted with operating profit shown on the consolidated statement of income.

II. First six months of FY3/19 (Apr. 1, 2018 – Sep. 30, 2018)

1. Information related to net sales and profit or loss for each reportable segment

(Thousands of yen)

	Reportable segment						
	Homebuilding and sales	Custom-built housing	Pre-owned home Sales	Yokatown	Asahi Housing	Fresco	Total
Net sales							
Sales to external customers	30,699,188	768,122	1,629,149	5,066,321	1,974,576	1,073,703	41,211,060
Inter-segment sales and transfers	-	-	-	-	-	-	-
Total	30,699,188	768,122	1,629,149	5,066,321	1,974,576	1,073,703	41,211,060
Segment profit (loss)	2,577,098	163,540	45,356	501,907	60,868	(74,311)	3,274,459

	Others (Note 1)	Adjustments (Note 2)	Amounts shown on the quarterly consolidated statement of income (Note 3)
Net sales			
Sales to external customers	589,282	-	41,800,343
Inter-segment sales and transfers	511,825	(511,825)	-
Total	1,101,108	(511,825)	41,800,343
Segment profit (loss)	197,950	(1,067,731)	2,404,678

Notes: 1. Others represent the businesses which are not included in any of the reportable segments and mainly consist of real estate leasing and brokerage businesses.

2. Adjustments to segment profit (loss) consist of corporate expenses that cannot be attributed to any of the reportable segments.

3. Segment profit (loss) is adjusted with operating profit shown on the consolidated statement of income.

2. Information related to revisions for reportable segments

In association with acquiring shares of Fresco Inc. and making this company a consolidated subsidiary, the Company revised a reportable segment structure to include the Fresco Business.

Additional Information

Application of “Partial Amendments to Accounting Standard for Tax Effect Accounting,” etc.

The Company has applied the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018), etc. from the beginning of the first quarter of FY3/19. Accordingly, deferred tax assets and deferred tax liabilities are reclassified and included in the investments and other assets section and the current liabilities section, respectively.