

Summary of Consolidated Financial Results
for the Second Quarter of the Fiscal Year Ending March 31, 2020
(Six Months Ended September 30, 2019)

[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
 Contact: Osamu Matsuzawa, Executive Officer, General Manager of Administration Division
 Tel: +81-(0) 495-27-2525

Scheduled date of filing of Quarterly Report: November 13, 2019
 Scheduled date of payment of dividend: December 9, 2019
 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, 2019 – September 30, 2019) of the Fiscal Year Ending March 31, 2020

(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, 2019	57,758	38.2	3,310	37.7	3,125	34.6	1,893	33.4
Six months ended Sep. 30, 2018	41,800	51.5	2,404	8.3	2,322	6.5	1,419	0.9

Note: Comprehensive income (million yen) Six months ended Sep. 30, 2019: 2,127 (up 35.3%)
 Six months ended Sep. 30, 2018: 1,568 (up 6.9%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Sep. 30, 2019	133.42	-
Six months ended Sep. 30, 2018	100.05	-

Notes: 1. Diluted net income per share for the six months ended September 30, 2018 and 2019 is not presented because there was no potential shares with dilutive effects.

2. KI-STAR REAL ESTATE CO., LTD. ("the Company") has established a performance-linked stock compensation plan for directors. The Company's shares for this 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, 2019	80,679	18,490	21.0
As of Mar. 31, 2019	81,416	17,079	19.2

Reference: Shareholders' equity (million yen) As of Sep. 30, 2019: 16,915 As of Mar. 31, 2019: 15,618

Note: The Company has established a performance-linked stock compensation plan for directors. The Company's shares for this 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, 2019	-	42.00	-	42.00	84.00
Fiscal year ending Mar. 31, 2020	-	42.00	-	-	-
Fiscal year ending Mar. 31, 2020 (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, 2020 (April 1, 2019 – March 31, 2020)

(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	118,000	14.4	6,400	7.6	6,100	5.7	3,800	9.8	267.77

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, 2019:	14,232,500 shares	As of Mar. 31, 2019:	14,232,500 shares
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2) Number of treasury shares at the end of the period

As of Sep. 30, 2019:	41,344 shares	As of Mar. 31, 2019:	41,344 shares
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3) Average number of shares during the period

Six months ended Sep. 30, 2019:	14,191,156 shares	Six months ended Sep. 30, 2018:	14,191,156 shares
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Note: The Company has established a performance-linked stock compensation plan for directors. The Company's shares for this 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

Cautionary statement with respect to forecasts

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.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the first half of the current fiscal year, personal consumption showed a slow recovery as personal income recovered steadily. Corporate earnings maintained high levels but lacked growth momentum. Consequently, there was a feeling that the economy had stalled. The uncertainty about the outlook for the global economy is increasing because of worsening Japan-Korea relations, U.S.-China trade friction and other factors.

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, the outlook for the housing industry remained uncertain due to the recent consumption tax hike and because the housing industry’s image has been affected by scandals involving buildings that do not comply with laws and other requirements and other problems.

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 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. Declaring 2019 as the first year of the Group’s IT growth phase, we are pursuing an IT growth strategy with the goal of becoming the leader in the convergence of real estate and IT.

Our highest priority is improving inventory turnover, which is the time from purchasing land to the sale of a house on that land, in order to properly manage the level of financial soundness. We have also been working on speeding up property sales and shortening construction periods in order to shorten inventory turnover.

Sales and earnings climbed to all-time highs for a six-month period. Sales were 57,758 million yen, 15,957 million yen (38.2%) higher than one year earlier mainly due to many activities for the growth strategy for the homebuilding and sales business. Selling, general and administrative expenses increased 1,412 million yen mainly because of an increase in brokerage commissions (a variable expense) due to higher sales. However, operating profit increased 905 million yen (37.7%) to a record-high 3,310 million yen due to sales growth. Ordinary profit increased 803 million yen (34.6%) to 3,125 million yen, while interest expenses were up 69 million yen because of an increase in loans to procure funds from financial institutions for purchasing land based on the growth strategy for the homebuilding and sales business. Profit attributable to owners of parent increased 473 million yen (33.4%) to 1,893 million yen.

Results by business segment are as follows:

i) Homebuilding and sales business

This business stepped up the pace of activities involving its market share growth strategy. 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 monthly 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, 1,309 houses (including land) were sold, 101 more than one year earlier, and sales increased 7,710 million yen to 38,409 million yen. Although earnings were negatively affected by higher brokerage commissions (a variable expense) as sales increased, segment profit was up 671 million yen to 3,248 million yen.

ii) Custom-built housing business

This custom-built housing business is now concentrating on increasing the number of orders from real estate companies for its Fit-Pro custom-built houses.

The number of houses sold during the first half increased by 7 from one year earlier to 57. Sales were down 103 million yen to 664 million yen and segment profit decreased 43 million yen to 119 million yen.

iii) Resales housing sales business

This business pays close attention to current market conditions and purchases only carefully chosen houses from real estate companies and other sellers. 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.

The number of houses sold during the first half was 90, 35 more than one year earlier. Sales increased 836 million yen to 2,466 million yen and segment profit decreased 6 million yen to 38 million yen.

iv) Yokatown business

Subsidiary Yokatown Co., Ltd. sells built-for-sale houses, land and custom-built houses mainly in Fukuoka prefecture. In particular, Yokatown started to work on strengthening its built-for-sale house sales business from the previous fiscal year.

The number of built-for-sale houses sold during the first half increased by 91 to 230 (including land), the number of custom-built houses sold decreased by 33 to 71. Sales increased 1,657 million yen to 6,724 million yen and segment profit increased 20 million yen to 522 million yen.

v) Asahi Housing business

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 22 to 78 (including land). Sales increased 917 million yen to 2,892 million yen and segment profit increased 53 million yen to 114 million yen.

vi) Fresco business

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.

Fresco sold 47 custom-built houses, 32 sites for houses and 36 built-for-sale houses. Sales increased 1,556 million yen to 2,630 million yen and segment profit was 134 million yen. This segment reported a loss in the first half of the previous fiscal year as earnings were held down due to an increase in the cost of sales caused by the inclusion in sales of a valuation gain resulting from the revaluation of inventories based on market prices as of the time Fresco was consolidated. The previous first half was an irregular 3-month accounting period (July to September) because Fresco was added to reportable segments as it became a consolidated subsidiary in July 2018.

vii) Kensin business

Subsidiary Kensin Construction inc. primarily sells built-for-sale houses, custom-built homes and land and performs building site preparation work mainly in Kanagawa prefecture. The company has been involved with many real estate development projects that required the preparation of building sites at locations with big differences between high and low areas. Kensin plans to increase sales of built-for-sale houses.

Kensin sold 30 custom-built houses, 14 sites for houses and 29 built-for-sale houses. Sales were 3,203 million yen and segment profit was 21 million yen. There are no sales and earnings comparisons because Kensin was added to reportable segments in the previous second half as it became a consolidated subsidiary in January 2019.

(2) Explanation of Financial Position

Assets

Total assets decreased by 737 million yen from the end of the previous fiscal year to 80,679 million yen at the end of the second quarter of the current fiscal year. The main reason includes a decrease of 2,245 million yen in cash and deposits, while there was a 1,529 million yen increase in inventories, which include real estate for sale, real estate for sale in process and costs on uncompleted construction contracts.

Liabilities

Total liabilities decreased by 2,147 million yen to 62,189 million yen. The main reasons were decreases of 1,389 million yen in accounts payable for construction contracts and 1,283 million yen in short-term borrowings primarily to improve financial soundness.

Net assets

Total net assets increased by 1,410 million yen to 18,490 million yen. The main reasons were an increase of 1,893 million yen in retained earnings due to profit attributable to owners of parent, which was partly offset by a 597 million yen decrease in retained earnings as a result of payments of cash dividends, and a 112 million yen increase in non-controlling interests.

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

In every fiscal year, sales and earnings at all levels tend to be higher in the second half than in the first half. Due to many activities for the growth strategy for the homebuilding and sales business in the first half of the current fiscal year, sales increased 38.2% to 57,758 million yen, ordinary profit increased 34.6% to 3,125 million yen and profit attributable to owners of parent increased 33.4% to 1,893 million yen. All are record highs for the first half. We also expect that sales and earnings will reach all-time highs in this fiscal year.

Although sales and earnings in the first half were higher than the forecast, there are no revisions to the consolidated forecasts for the fiscal year ending March 31, 2020, which was announced on May 10 2019. An announcement will be made promptly if there is any new information about the forecast that requires disclosure.

2. Quarterly Consolidated Financial Statements and Notes**(1) Quarterly Consolidated Balance Sheet**

(Thousands of yen)

	FY3/19 (As of Mar. 31, 2019)	Second quarter of FY3/20 (As of Sep. 30, 2019)
Assets		
Current assets		
Cash and deposits	14,020,502	11,775,256
Accounts receivable from completed construction contracts	517,875	173,368
Real estate for sale	26,950,339	24,546,143
Real estate for sale in process	28,412,462	32,220,062
Costs on uncompleted construction contracts	2,293,041	2,418,869
Other	2,000,893	1,664,996
Allowance for doubtful accounts	(14,659)	(14,719)
Total current assets	74,180,454	72,783,978
Non-current assets		
Property, plant and equipment	4,234,275	4,445,481
Intangible assets		
Goodwill	934,705	903,391
Other	464,190	574,216
Total intangible assets	1,398,896	1,477,607
Investments and other assets	1,602,945	1,972,112
Total non-current assets	7,236,116	7,895,201
Total assets	81,416,570	80,679,179
Liabilities		
Current liabilities		
Electronically recorded obligations-operating	518,350	439,624
Accounts payable for construction contracts	8,066,132	6,676,682
Short-term borrowings	41,718,900	40,435,088
Current portion of bonds	122,400	174,200
Current portion of long-term borrowings	2,149,753	3,362,730
Lease obligations	14,121	59,153
Income taxes payable	1,118,414	1,003,868
Provision for bonuses	225,697	282,550
Other	3,558,295	3,024,486
Total current liabilities	57,492,066	55,458,386
Non-current liabilities		
Bonds payable	480,600	601,600
Long-term borrowings	6,173,017	5,758,591
Lease obligations	13,232	178,356
Asset retirement obligations	69,334	67,631
Other	108,735	124,443
Total non-current liabilities	6,844,921	6,730,623
Total liabilities	64,336,987	62,189,009
Net assets		
Shareholders' equity		
Share capital	821,050	821,050
Capital surplus	1,727,835	1,726,245
Retained earnings	13,166,014	14,461,660
Treasury shares	(77,428)	(77,428)
Total shareholders' equity	15,637,472	16,931,527
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(18,580)	(15,619)
Total accumulated other comprehensive income	(18,580)	(15,619)
Share acquisition rights	1,086	1,967
Non-controlling interests	1,459,604	1,572,293
Total net assets	17,079,583	18,490,170
Total liabilities and net assets	81,416,570	80,679,179

(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 FY3/19 (Apr. 1, 2018 – Sep. 30, 2018)	First six months of FY3/20 (Apr. 1, 2019 – Sep. 30, 2019)
Net sales	41,800,343	57,758,278
Cost of sales	35,532,093	49,171,970
Gross profit	6,268,250	8,586,307
Selling, general and administrative expenses	3,863,571	5,275,640
Operating profit	2,404,678	3,310,667
Non-operating income		
Interest income	51	175
Dividend income	1,858	5,666
Refund of real estate acquisition tax	72,979	13,489
Share of profit of entities accounted for using equity method	1,029	-
Other	61,699	94,465
Total non-operating income	137,619	113,796
Non-operating expenses		
Interest expenses	208,140	277,391
Other	11,712	21,152
Total non-operating expenses	219,853	298,544
Ordinary profit	2,322,444	3,125,919
Extraordinary income		
Gain on sales of non-current assets	133	478
Total extraordinary income	133	478
Extraordinary losses		
Loss on sales of non-current assets	4,791	-
Loss on retirement of non-current assets	5,779	1,527
Total extraordinary losses	10,570	1,527
Profit before income taxes	2,312,007	3,124,870
Income taxes-current	829,612	1,020,171
Income taxes-deferred	(85,164)	(17,121)
Total income taxes	744,448	1,003,049
Profit	1,567,559	2,121,820
Profit attributable to non-controlling interests	147,676	228,412
Profit attributable to owners of parent	1,419,882	1,893,408

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

(Thousands of yen)

	First six months of FY3/19 (Apr. 1, 2018 – Sep. 30, 2018)	First six months of FY3/20 (Apr. 1, 2019 – Sep. 30, 2019)
Profit	1,567,559	2,121,820
Other comprehensive income		
Valuation difference on available-for-sale securities	615	6,142
Total other comprehensive income	615	6,142
Comprehensive income	1,568,174	2,127,963
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	1,420,041	1,896,369
Comprehensive income attributable to non-controlling interests	148,133	231,593

(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

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.

First six months of FY3/20 (Apr. 1, 2019 – Sep. 30, 2019)

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	Kensin
Net sales							
Sales to external customers	38,409,450	664,238	2,466,070	6,724,008	2,892,002	2,630,607	3,203,203
Inter-segment sales and transfers	-	-	-	-	-	-	-
Total	38,409,450	664,238	2,466,070	6,724,008	2,892,002	2,630,607	3,203,203
Segment profit (loss)	3,248,740	119,655	38,756	522,099	114,791	134,295	21,448

	Reportable segment	Others (Note 1)	Adjustments (Note 2)	Amounts shown on the quarterly consolidated statement of income (Note 3)
	Total			
Net sales				
Sales to external customers	56,989,582	768,696	-	57,758,278
Inter-segment sales and transfers	-	467,317	(467,317)	-
Total	56,989,582	1,236,013	(467,317)	57,758,278
Segment profit (loss)	4,199,786	205,122	(1,094,242)	3,310,667

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 Kensin CONSTRUCTION inc. and making this company a consolidated subsidiary in FY3/19, the Company has revised a reportable segment structure in FY3/19 to include the Kensin Business.

Additional Information

The Company has established a performance-linked stock compensation plan for directors. The Company's shares for this plan held by the trust are recorded as treasury shares in the quarterly consolidated balance sheet. The number of shares of the Company's stock held by the trust was 41,300 shares with a book value of 77 million yen as of September 30, 2018 and 2019.

This financial report is solely a translation of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.