February 12, 2019

# Summary of Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2019 (Nine Months Ended December 31, 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/
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Scheduled date of filing of Quarterly Report: February 13, 2019
Scheduled date of payment of dividend: -
Preparation of supplementary materials for quarterly financial results: None
Holding of quarterly financial results meeting: None

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

## 1. Consolidated Financial Results for the First Nine Months (April 1, 2018 – December 31, 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 | % |
| Nine months ended Dec. 31, 2018 | 71,148 | 66.5 | 4,117 | 19.8 | 3,963 | 18.6 | 2,351 | 13.4 |
| Nine months ended Dec. 31, 2017 | 42,719 | 22.0 | 3,435 | 27.1 | 3,341 | 28.7 | 2,073 | 8.7 |

Note: Comprehensive income (million yen) Nine months ended Dec. 31, 2018: 2,627 (up 18.4%)
Nine months ended Dec. 31, 2017: 2,218 (up 13.9%)

| | Net income per share | Diluted net income per share |
|---|---|---|
| | Yen | Yen |
| Nine months ended Dec. 31, 2018 | 165.71 | - |
| Nine months ended Dec. 31, 2017 | 145.90 | - |

Notes: 1. Diluted net income per share for the nine months ended December 31, 2018 is not presented because there was no potential shares with dilutive effects. Diluted net income per share for the nine months ended December 31, 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 Dec. 31, 2018 | 71,495 | 15,645 | 20.3 |
| As of Mar. 31, 2018 | 60,058 | 13,856 | 22.1 |

Reference: Shareholders' equity (million yen) As of Dec. 31, 2018: 14,507 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 Dec. 31, 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 Dec. 31, 2018: | 41,344 shares | As of Mar. 31, 2018: | 41,344 shares |
| 3) Average number of shares during the period | | | |
| Nine months ended Dec. 31, 2018: | 14,191,156 shares | Nine months ended Dec. 31, 2017: | 14,213,414 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 nine months of the current fiscal year, there was a small recovery in economic sentiment following the downturn caused by major natural disasters. Overall, the economy continued to recover as corporate earnings remained strong and personal income recovered slowly. The outlook continues to be uncertain due to the risk of an economic downturn caused by slowing growth in China, increasing U.S. trade protectionism and other reasons.

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 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.

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. One step to accomplish this was increased activities during the second and third quarters to sell inventory properties where the turnover had become longer as of the end of the first quarter. The shortage of construction workers in the previous fiscal year is one cause of the longer turnover. Selling these inventory properties improves financial soundness.

Due to these activities, sales and earnings at all levels increased to all-time highs for a nine-month period. Sales were 71,148 million yen, 28,428 million yen (66.5%) higher than one year earlier because of measures to strengthen sales activities. Gross profit increased 2,305 million yen, benefiting from sales growth but negatively impacted by a lower gross profit margin caused by measures to sell inventory properties where the turnover had become longer quickly in order to improve financial soundness. Selling, general and administrative expenses increased 1,624 million yen mainly because of an increase in brokerage commissions (a variable expense) due to higher sales. As a result, operating profit increased 681 million yen (19.8%) to a record-high 4,117 million yen. Ordinary profit increased 621 million yen (18.6%) to 3,963 million yen. However, interest expenses were up 121 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 277 million yen (13.4%) to 2,351 million yen.

In the first nine months 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 now 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 nine months, 1,998 houses (including the land) were sold, 746 more than one year earlier, and sales increased 19,654 million yen to 51,940 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 502 million yen to 4,002 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 custom-built housing 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 nine months decreased by 147 from one year earlier to 78. Sales were down 1,945 million yen to 1,097 million yen and segment profit decreased 352 million yen to 197 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 and has started sales of the properties.

The number of houses sold during the first nine months was 95, 66 more than one year earlier. Sales increased 1,947 million yen to 2,690 million yen and segment profit increased 61 million yen to 91 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 nine months increased by 71 to 212, the number of built-for-sale houses sold increased by 127 to 203 and the number of home sites sold decreased by 26 to 66. Sales increased 3,416 million yen to 8,908 million yen and segment profit increased 476 million yen to 891 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 nine months increased by 87 to 98 (including land). Sales increased 2,579 million yen to 3,450 million yen and segment profit was 95 million yen, an improvement of 196 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 nine months, Fresco sold 54 custom-built houses, 39 sites for houses and 16 built-for-sale houses, and sales were 2,132 million yen. There was a segment profit of 5 million yen. Earnings were held down by an 87 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 nine months of the current fiscal year.

vii) Other

Other includes the real estate rental business, the real estate brokerage business and other activities.
Sales in the first nine months were 1,661 million yen and segment profit was 400 million yen.

**(2) 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. In the first nine months of the current fiscal year, sales increased 66.5% to 71,148 million yen, ordinary profit increased 18.6% to 3,963 million yen and profit attributable to owners of parent increased 13.4% to 2,351 million yen. All are record highs for the first nine months. We also expect that sales and earnings will reach all-time highs in this fiscal year.

In the first nine months of the current fiscal year, sales were high in relation to the expected pace of sales that was used to determine the fiscal year forecast. The reason is increased sales activities for inventory properties with a long turnover (see note) in order to improve financial soundness. Sales of properties at reduced prices caused the gross profit margin to decline. But the faster than expected pace of sales resulted in growth of earnings at all levels. As a result, there is no change to the consolidated forecast for the fiscal year ending March 31, 2019. An announcement will be made promptly if there is any new information about the forecast that requires disclosure.

Note: To maintain financial soundness of built-for-sale housing operations, we closely control inventories by using the inventory turnover, which is the time between the purchase of land and sale of a house on that land. Although we purchased a large volume of land in the previous fiscal year, there were delays in the start of home construction on that land because of Japan’s labor shortage and other reasons. These delays resulted in a number of properties where the length of turnover exceeded our standard. To preserve financial soundness, we lowered the prices of these properties in order to sell them quickly. We believe that this issue will not affect upcoming results of operations because there is now an adequate supply of construction workers for our homebuilding business.

## 2. Quarterly Consolidated Financial Statements and Notes

### (1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

| | FY3/18 (As of Mar. 31, 2018) | Third quarter of FY3/19 (As of Dec. 31, 2018) |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 8,066,564 | 6,041,596 |
| Accounts receivable from completed construction contracts | 15,831 | 9,820 |
| Real estate for sale | 20,491,892 | 26,776,379 |
| Real estate for sale in process | 25,181,037 | 30,008,069 |
| Costs on uncompleted construction contracts | 734,071 | 1,082,440 |
| Other | 1,428,712 | 1,623,667 |
| Allowance for doubtful accounts | (9,021) | (8,998) |
| Total current assets | 55,909,087 | 65,532,975 |
| Non-current assets | | |
| Property, plant and equipment | 2,703,771 | 3,347,201 |
| Intangible assets | | |
| Goodwill | 323,108 | 346,920 |
| Other | 82,624 | 406,033 |
| Total intangible assets | 405,733 | 752,954 |
| Investments and other assets | 1,040,353 | 1,862,486 |
| Total non-current assets | 4,149,859 | 5,962,641 |
| Total assets | 60,058,946 | 71,495,617 |
| Liabilities | | |
| Current liabilities | | |
| Electronically recorded obligations - operating | 789,788 | 706,912 |
| Accounts payable for construction contracts | 5,572,025 | 6,589,243 |
| Short-term loans payable | 32,641,685 | 37,860,230 |
| Current portion of bonds | 22,400 | 38,200 |
| Current portion of long-term loans payable | 1,255,880 | 1,755,841 |
| Income taxes payable | 1,093,003 | 419,286 |
| Provision for bonuses | 208,203 | 109,724 |
| Other | 2,380,328 | 2,826,690 |
| Total current liabilities | 43,963,316 | 50,306,129 |
| Non-current liabilities | | |
| Bonds payable | 64,000 | 312,800 |
| Long-term loans payable | 2,051,478 | 5,099,092 |
| Asset retirement obligations | 67,395 | 68,848 |
| Other | 55,998 | 63,243 |
| Total non-current liabilities | 2,238,873 | 5,543,983 |
| Total liabilities | 46,202,189 | 55,850,112 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 821,050 | 821,050 |
| Capital surplus | 1,727,835 | 1,727,835 |
| Retained earnings | 10,815,070 | 12,056,563 |
| Treasury shares | (77,428) | (77,428) |
| Total shareholders' equity | 13,286,528 | 14,528,021 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | (3,224) | (20,055) |
| Total accumulated other comprehensive income | (3,224) | (20,055) |
| Share acquisition rights | - | 724 |
| Non-controlling interests | 573,453 | 1,136,814 |
| Total net assets | 13,856,757 | 15,645,504 |
| Total liabilities and net assets | 60,058,946 | 71,495,617 |

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

### Quarterly Consolidated Statement of Income

### (For the Nine-month Period)

(Thousands of yen)

| | First nine months of FY3/18 (Apr. 1, 2017 – Dec. 31, 2017) | First nine months of FY3/19 (Apr. 1, 2018 – Dec. 31, 2018) |
|---|---|---|
| Net sales | 42,719,910 | 71,148,074 |
| Cost of sales | 34,793,068 | 60,915,473 |
| Gross profit | 7,926,842 | 10,232,601 |
| Selling, general and administrative expenses | 4,490,925 | 6,115,517 |
| Operating profit | 3,435,916 | 4,117,083 |
| Non-operating income | | |
| Interest income | 486 | 72 |
| Dividend income | 574 | 4,680 |
| Refund of real estate acquisition tax | 79,799 | 89,326 |
| Share of profit of entities accounted for using equity method | - | 2,472 |
| Other | 49,907 | 90,070 |
| Total non-operating income | 130,768 | 186,622 |
| Non-operating expenses | | |
| Interest expenses | 199,726 | 321,669 |
| Share of loss of entities accounted for using equity method | 5,990 | - |
| Other | 19,685 | 18,829 |
| Total non-operating expenses | 225,401 | 340,498 |
| Ordinary profit | 3,341,283 | 3,963,207 |
| Extraordinary income | | |
| Gain on sales of non-current assets | 9,946 | 133 |
| Surrender value of insurance | 1,040 | - |
| Total extraordinary income | 10,986 | 133 |
| Extraordinary losses | | |
| Loss on sales of non-current assets | - | 4,820 |
| Loss on retirement of non-current assets | 3,624 | 9,348 |
| Total extraordinary losses | 3,624 | 14,168 |
| Profit before income taxes | 3,348,645 | 3,949,171 |
| Income taxes-current | 1,050,578 | 1,236,998 |
| Income taxes-deferred | 80,918 | 55,081 |
| Total income taxes | 1,131,497 | 1,292,079 |
| Profit | 2,217,148 | 2,657,092 |
| Profit attributable to non-controlling interests | 143,310 | 305,467 |
| Profit attributable to owners of parent | 2,073,838 | 2,351,624 |

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

(Thousands of yen)

| | First nine months of FY3/18 (Apr. 1, 2017 – Dec. 31, 2017) | First nine months of FY3/19 (Apr. 1, 2018 – Dec. 31, 2018) |
|---|---|---|
| Profit | 2,217,148 | 2,657,092 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 1,298 | (29,008) |
| Share of other comprehensive income of entities accounted for using equity method | - | (527) |
| Total other comprehensive income | 1,298 | (29,536) |
| Comprehensive income | 2,218,447 | 2,627,555 |
| Comprehensive income attributable to: | | |
| Comprehensive income attributable to owners of parent | 2,075,137 | 2,334,793 |
| Comprehensive income attributable to non-controlling interests | 143,310 | 292,761 |

## (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 nine months of FY3/18 (Apr. 1, 2017 – Dec. 31, 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 | 32,286,031 | 3,042,054 | 743,067 | 5,491,867 | 870,654 | 42,433,674 |
| Inter-segment sales and transfers | - | - | - | - | - | - |
| Total | 32,286,031 | 3,042,054 | 743,067 | 5,491,867 | 870,654 | 42,433,674 |
| Segment profit (loss) | 3,500,371 | 550,293 | 29,130 | 414,691 | (100,755) | 4,393,731 |

| | Others (Note 1) | Adjustments (Note 2) | Amounts shown on the quarterly consolidated statement of income (Note 3) |
|---|---|---|---|
| Net sales | | | |
| Sales to external customers | 286,235 | - | 42,719,910 |
| Inter-segment sales and transfers | 201,021 | (201,021) | - |
| Total | 487,257 | (201,021) | 42,719,910 |
| Segment profit (loss) | 310,582 | (1,268,397) | 3,435,916 |

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 nine months of FY3/19 (Apr. 1, 2018 – Dec. 31, 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 | 51,940,446 | 1,097,048 | 2,690,572 | 8,908,135 | 3,450,102 | 2,132,253 | 70,218,558 |
| Inter-segment sales and transfers | - | - | - | - | - | - | - |
| Total | 51,940,446 | 1,097,048 | 2,690,572 | 8,908,135 | 3,450,102 | 2,132,253 | 70,218,558 |
| Segment profit | 4,002,397 | 197,673 | 91,012 | 891,410 | 95,343 | 5,418 | 5,283,254 |

| | Others (Note 1) | Adjustments (Note 2) | Amounts shown on the quarterly consolidated statement of income (Note 3) |
|---|---|---|---|
| Net sales | | | |
| Sales to external customers | 929,516 | - | 71,148,074 |
| Inter-segment sales and transfers | 731,517 | (731,517) | - |
| Total | 1,661,033 | (731,517) | 71,148,074 |
| Segment profit | 400,332 | (1,566,503) | 4,117,083 |

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 consist of corporate expenses that cannot be attributed to any of the reportable segments.

3. Segment profit 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 in the second quarter of FY3/19 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.

*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.*