

*** Notes**

(1) Changes in significant subsidiaries during the period (change in 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-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: Yes

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

Note: Please refer to “2. Matters Related to Summary Information (Notes), (3) Changes in Accounting Policies and Accounting-based Estimates, and Restatements” on page 3 of the attachments for further information.

(4) Number of shares outstanding (common stock)

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

As of May 20, 2016:	10,011,841 shares	As of Nov. 20, 2015:	10,011,841 shares
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2) Number of treasury shares at the end of the period

As of May 20, 2016:	733,082 shares	As of Nov. 20, 2015:	732,881 shares
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3) Average number of shares outstanding during the period

Six months ended May 20, 2016:	9,278,858 shares	Six months ended May 20, 2015:	9,279,051 shares
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Information regarding the implementation of quarterly review procedures

The current quarterly financial statements are exempted from quarterly review procedures based on the Financial Instruments and Exchange Act. At the time of disclosure, the review procedures for these consolidated financial statements have not been completed.

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

Forecasts of future performance in these materials are based on assumption judged to be valid and information available to the Company’s management at the time the materials were prepared, but are not promises by the Company regarding future performance. Actual results may differ materially from the forecasts for a number of reasons. Please refer to “1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Forecast and Other Forward-looking Statements” on page 3 for forecast assumptions and notes of caution for usage.

The Company plans to hold a results presentation for institutional investors and analysts on Friday, July 8, 2016. Materials to be distributed at this event will be available on the Company’s website immediately thereafter.

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance	2
(1) Explanation of Results of Operations	2
(2) Explanation of Financial Position	2
(3) Explanation of Consolidated Forecast and Other Forward-looking Statements	3
2. Matters Related to Summary Information (Notes)	3
(1) Changes in Significant Subsidiaries during the Period	3
(2) Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements	3
(3) Changes in Accounting Policies and Accounting-based Estimates, and Restatements	3
(4) Additional Information	4
3. Quarterly Consolidated Financial Statements	5
(1) Quarterly Consolidated Balance Sheet	5
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	7
Quarterly Consolidated Statement of Income	7
Quarterly Consolidated Statement of Comprehensive Income	8
(3) Quarterly Consolidated Statement of Cash Flows	9
(4) Notes to Quarterly Consolidated Financial Statements	10
Going Concern Assumption	10
Significant Changes in Shareholders' Equity	10
Segment and Other Information	10
4. Supplementary Information	10
(1) Breakdown of Sales	10

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the first half (from November 21, 2015 to May 20, 2016), there were expectations for an improvement in corporate earnings and jobs in Japan because of government economic stimulus measures. However, the Japanese economy was sluggish during the first half. In addition, there are concerns about falling prices of resources and slowing economic growth in China and other emerging countries. The rapid appreciation of the yen and falling stock prices further contributed to an economic environment with an uncertain outlook.

Japan's housing sector is benefiting from low interest rates on mortgages along with government actions, such as measures to help people purchase residences. As a result, a recovery is taking place in the single-family home category, both existing houses and newly constructed houses for sale, which is the primary market for the Kitakei Group.

Establishing relationships with new suppliers and customers and upgrading construction capabilities are two major goals of the Kitakei Group. Another goal is increasing construction sales, chiefly for work involving home exteriors and home fixtures. We are also focusing on sales of housing facilities like kitchen equipment and modular bathrooms and of original products.

All these activities were aimed at improving our performance as we made utilizing our resources and improving efficiency our highest priorities.

First half sales were 24,880 million yen compared with 23,136 million yen one year earlier. Earnings were impacted by a lower gross profit margin caused by higher expenses. Operating income decreased from 316 million yen to 296 million yen and ordinary income decreased from 378 million yen to 347 million yen. Furthermore, since earnings one year earlier included an extraordinary gain on the sale of investment real estate, profit attributable to owners of parent was down from 291 million yen to 198 million yen.

(2) Explanation of Financial Position

1) Assets, Liabilities and Net Assets

Assets

Total assets decreased 481 million yen from the end of the previous fiscal year to 21,695 million yen as of the end of the second quarter under review. The main factor was a decrease of 372 million yen in cash and deposits.

Liabilities

Total liabilities decreased 537 million yen from the end of the previous fiscal year to 11,496 million yen as of the end of the second quarter under review. The main factor was a decrease of 646 million yen in notes and accounts payable-trade.

Net assets

Total net assets increased 56 million yen from the end of the previous fiscal year to 10,199 million yen as of the end of the second quarter under review. The main factor was an increase of 68 million yen in retained earnings.

2) Cash flows

Cash and cash equivalents (hereinafter, "net cash") at the end of the first half under review decreased 372 million yen from the end of the previous fiscal year to 7,007 million yen.

The cash flow components during the first half and the main reasons for changes are as described below.

Cash flow from operating activities

Net cash used in operating activities was 220 million yen (compared with 125 million yen provided in the same period of the previous fiscal year). Major negative factors include a 428 million yen decrease in notes and accounts payable-trade and income taxes paid of 112 million yen. Main positive factors include profit before income taxes of 339 million yen.

Cash flow from investing activities

Net cash used in investing activities was 23 million yen (compared with 209 million yen provided in the same period of the previous fiscal year). Main negative factors include payments of 8 million yen for the purchase of intangible assets, 7 million yen for the purchase of property, plant and equipment, and 7 million yen for the purchase of investment securities.

Cash flow from financing activities

Net cash used in financing activities was 128 million yen (compared with 129 million yen used in the same period of the previous fiscal year). This was mainly due to cash dividends paid of 128 million yen.

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

There is no change in the full-year consolidated forecast that was announced on January 6, 2016.

2. Matters Related to Summary Information (Notes)**(1) Changes in Significant Subsidiaries during the Period**

Not applicable.

(2) Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements

Not applicable.

(3) Changes in Accounting Policies and Accounting-based Estimates, and Restatements**Changes in accounting policies**

Application of the accounting standard for business combinations, etc.

Effective from the first quarter of the current fiscal year, the Company has adopted the “Accounting Standard for Business Combinations” (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013), “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013) and other standards. In association with these changes, the presentation of net income and other items has been revised. For consistency with these changes, the consolidated financial statements for the first half of the previous fiscal year and the previous fiscal year have been revised.

Change in depreciation method

Following tax law revisions, the Company has adopted the “Practical Solution on a Change in Depreciation Method due to Tax Reform 2016” (ASBJ Practical Issue Task Force (PITF) No. 32, June 17, 2016) from the second quarter of the current fiscal year, and changed the method for the depreciation of facilities attached to buildings and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method.

The effect of this change on the quarterly consolidated financial statements for the first half is insignificant.

(4) Additional Information

Revised amount of deferred tax assets and deferred tax liabilities following the change in the corporate tax rate, etc.

Following the promulgation on March 31, 2016 of the “Act for Partial Revision of the Income Tax Act, etc.” (Act No. 15 of 2016), “Act for Partial Revision of the Local Tax Act, etc.” (Act No. 13 of 2016), corporate tax rate, etc. have been revised for the fiscal years beginning on or after April 1, 2016.

Consequently, the statutory effective tax rate for the calculation of deferred tax assets and deferred tax liabilities will be lowered from 32.2% to 30.8% for temporary differences expected to be reversed for the fiscal years beginning from November 21, 2016 and 2017, and to 30.5% for temporary differences expected to be reversed for the fiscal year beginning from November 21, 2018 and thereafter.

Due to these changes in tax rates, there were decreases of 7,443 thousand yen in deferred tax liabilities (after deducting deferred tax assets), 4,716 thousand yen in income taxes-deferred and 2,017 thousand yen in remeasurements of defined benefit plans, and an increase of 4,744 thousand yen in valuation difference on available-for-sale securities.

3. Quarterly Consolidated Financial Statements**(1) Quarterly Consolidated Balance Sheet**

(Thousands of yen)

	FY11/15 (As of Nov. 20, 2015)	Second quarter of FY11/16 (As of May 20, 2016)
Assets		
Current assets		
Cash and deposits	7,379,756	7,007,455
Notes and accounts receivable-trade	9,371,803	9,426,938
Securities	300,480	300,080
Merchandise	615,546	543,742
Costs on uncompleted construction contracts	568,903	572,891
Other	108,869	110,281
Allowance for doubtful accounts	(14,063)	(11,264)
Total current assets	18,331,294	17,950,124
Non-current assets		
Property, plant and equipment	1,679,381	1,653,785
Intangible assets	178,852	161,969
Investments and other assets		
Other	2,022,269	1,965,306
Allowance for doubtful accounts	(34,770)	(35,345)
Total investments and other assets	1,987,499	1,929,961
Total non-current assets	3,845,733	3,745,716
Total assets	22,177,027	21,695,840
Liabilities		
Current liabilities		
Notes and accounts payable-trade	7,391,904	6,745,205
Electronically recorded obligations-operating	2,548,628	2,766,939
Income taxes payable	118,279	129,050
Provision for directors' bonuses	19,000	-
Other	683,107	627,175
Total current liabilities	10,760,920	10,268,370
Non-current liabilities		
Provision for directors' retirement benefits	268,230	187,160
Net defined benefit liability	185,319	190,679
Asset retirement obligations	16,243	16,291
Other	802,958	833,848
Total non-current liabilities	1,272,751	1,227,980
Total liabilities	12,033,672	11,496,351

	(Thousands of yen)	
	FY11/15 (As of Nov. 20, 2015)	Second quarter of FY11/16 (As of May 20, 2016)
Net assets		
Shareholders' equity		
Capital stock	2,220,082	2,220,082
Capital surplus	2,851,408	2,851,408
Retained earnings	5,117,267	5,185,996
Treasury shares	(205,600)	(205,701)
Total shareholders' equity	9,983,158	10,051,785
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	245,017	233,225
Deferred gains or losses on hedges	1,022	(3,035)
Remeasurements of defined benefit plans	(85,842)	(82,485)
Total accumulated other comprehensive income	160,197	147,703
Total net assets	10,143,355	10,199,489
Total liabilities and net assets	22,177,027	21,695,840

(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 FY11/15 (Nov. 21, 2014 – May 20, 2015)	First six months of FY11/16 (Nov. 21, 2015 – May 20, 2016)
Net sales	23,136,464	24,880,197
Cost of sales	20,778,322	22,443,170
Gross profit	2,358,142	2,437,027
Selling, general and administrative expenses	2,041,407	2,140,147
Operating income	316,734	296,880
Non-operating income		
Interest income	3,365	3,279
Dividend income	6,286	7,940
Purchase discounts	57,688	61,261
Rent income	16,471	14,350
Other	25,242	13,247
Total non-operating income	109,054	100,080
Non-operating expenses		
Sales discounts	42,729	42,263
Rent cost of real estate	3,397	3,084
Other	1,329	4,301
Total non-operating expenses	47,456	49,648
Ordinary income	378,332	347,311
Extraordinary income		
Gain on sales of non-current assets	1,669	-
Gain on sales of investment property	83,968	-
Total extraordinary income	85,637	-
Extraordinary losses		
Impairment loss	-	8,107
Total extraordinary losses	-	8,107
Profit before income taxes	463,970	339,203
Income taxes-current	154,017	115,218
Income taxes-deferred	18,862	25,350
Total income taxes	172,879	140,569
Profit	291,090	198,634
Profit attributable to owners of parent	291,090	198,634

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

(Thousands of yen)

	First six months of FY11/15 (Nov. 21, 2014 – May 20, 2015)	First six months of FY11/16 (Nov. 21, 2015 – May 20, 2016)
Profit	291,090	198,634
Other comprehensive income		
Valuation difference on available-for-sale securities	27,925	(11,792)
Deferred gains or losses on hedges	(5,279)	(4,058)
Remeasurements of defined benefit plans, net of tax	2,391	3,356
Total other comprehensive income	25,036	(12,493)
Comprehensive income	316,127	186,140
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	316,127	186,140
Comprehensive income attributable to non-controlling interests	-	-

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	First six months of FY11/15 (Nov. 21, 2014 – May 20, 2015)	First six months of FY11/16 (Nov. 21, 2015 – May 20, 2016)
Cash flows from operating activities		
Profit before income taxes	463,970	339,203
Depreciation	56,288	50,630
Impairment loss	-	8,107
Increase (decrease) in net defined benefit liability	(6,032)	13,287
Increase (decrease) in provision for directors' retirement benefits	1,680	(81,070)
Increase (decrease) in allowance for doubtful accounts	(9,608)	(2,224)
Increase (decrease) in provision for directors' bonuses	(23,000)	(19,000)
Interest and dividend income	(9,652)	(11,219)
Loss (gain) on sales of non-current assets	(1,669)	-
Gain on sales of investment estates	(83,968)	-
Decrease (increase) in notes and accounts receivable-trade	837,874	(70,423)
Decrease (increase) in inventories	184,711	67,868
Increase (decrease) in notes and accounts payable-trade	(999,132)	(428,387)
Other, net	(83,861)	13,373
Subtotal	327,599	(119,854)
Interest and dividend income received	10,954	11,841
Income taxes paid	(212,741)	(112,354)
Net cash provided by (used in) operating activities	125,812	(220,366)
Cash flows from investing activities		
Proceeds from redemption of securities	200,000	-
Purchase of property, plant and equipment	(13,749)	(7,795)
Proceeds from sales of property, plant and equipment	4,684	250
Purchase of intangible assets	(4,224)	(8,111)
Purchase of investment securities	(101,239)	(7,343)
Proceeds from sales of investments in real estates	123,565	-
Net cash provided by (used in) investing activities	209,037	(23,000)
Cash flows from financing activities		
Decrease (increase) in treasury shares	(80)	(101)
Cash dividends paid	(129,166)	(128,809)
Net cash provided by (used in) financing activities	(129,246)	(128,910)
Effect of exchange rate change on cash and cash equivalents	40	(22)
Net increase (decrease) in cash and cash equivalents	205,642	(372,301)
Cash and cash equivalents at beginning of period	6,549,345	7,379,756
Cash and cash equivalents at end of period	6,754,988	7,007,455

(4) Notes to Quarterly Consolidated Financial Statements**Going Concern Assumption**

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Segment and Other Information

The Kitakei Group does not provide business segment information because all business activities are in a single category. Group companies are engaged in the sale (including sales with installation) of materials and equipment used for homebuilding, such as new types of materials and a variety of housing fixtures, and in activities associated with these sales. These products are sold to stores that sell wood products and building materials, construction companies, homebuilding companies and other buyers.

4. Supplementary Information**(1) Breakdown of Sales****1) Sales**

Sales in the period under review are broken down by category as follows.

(Thousands of yen)

Category		First six months of FY11/15 (Nov. 21, 2014 – May 20, 2015)		First six months of FY11/16 (Nov. 21, 2015 – May 20, 2016)	
		Amount	%	Amount	%
Products	Wood building materials	2,414,253	10.4	2,187,688	8.8
	Non-wood building materials	1,529,752	6.6	1,529,818	6.1
	Plywood	988,825	4.3	1,034,608	4.2
	Wood products	920,299	4.0	913,554	3.7
	Housing fixtures	5,998,166	25.9	5,526,540	22.2
	Sales with installation	1,228,355	5.3	2,549,621	10.2
	Others	1,715,128	7.4	1,629,880	6.6
	Subtotal	14,794,780	63.9	15,371,713	61.8
Construction	Completed construction contracts	8,341,683	36.1	9,508,483	38.2
	Subtotal	8,341,683	36.1	9,508,483	38.2
Total		23,136,464	100.0	24,880,197	100.0

Notes: 1. Figures in this table do not include consumption taxes.

2. No single customer accounts for more than 10% of total sales.

3. Product sales in the first six months of FY11/16 include original product sales of 859,478 thousand yen.

Original products: Products that the Kitakei Group has developed and started selling since 1978 by using its own brands. Major original products include solid hardwood flooring manufactured at the factory of a business partner overseas and a line of building materials manufactured at factories of business partners in Japan and other countries.

4. Sales with installations and completed construction contracts are defined as follows.

Sales with installation: A company affiliated with the manufacturer of the associated materials performs the installation and assumes all responsibility.

Completed construction contracts: A subcontractor selected and supervised by the Kitakei Group performs the installation or construction.

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.