

Qualitative Information for the Second Quarter Ended June 30, 2014

August 11, 2014

C o m p a n y	Shinoken Group Co., Ltd.	Listed on the TSE
S t o c k C o d e	8909	URL: http://www.shinoken.co.jp
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Expected date of filing of quarterly report: August 12, 2014
Expected starting date of dividend payment: September 11, 2014
Preparation of quarterly supplementary financial document: None
Quarterly results briefing: None

1. Qualitative Information Regarding the Settlement of Accounts for the Second Quarter

(1) Explanation on Business Performance

During the first half of fiscal 2014 ending December 31st, the Japanese economy improved due to the government's economic and financial policies, leading to a recovery of the equity market, as well as a correction of the rising Japanese Yen. However, for such reasons that include a drop in demand after a last-minute surge in consumption prior to the consumption tax rate hike that began in April, there is still a sense of uncertainty with respect to the future of the economy.

In the real estate sector, the real estate market showed signs of improvement due to a growing desire from investors and an increase in demand for construction in the residential rental market. On the other hand, the impact of soaring labor and raw material costs projected for the future, as well as a future consumption tax hike do raise a cause for concern.

In a tireless effort to enhance the value of the company, the Group has coordinated its Flow Business (Sales of apartment, Sales of condominium and General contractor) and Stock Business (Property management, Finance and guarantee, Long-term care, and LP gas supply) so as to strengthen its sales and technological capacity as well as to improve the quality of its services.

Furthermore, the Group acquired 4 companies, including Ogawa Construction Co., Ltd, which conducts construction business within the Tokyo Metropolitan Area. These companies became wholly-owned subsidiaries as of February 7th 2014. With this acquisition, the Group has officially entered the construction business.

With three core businesses, construction of condominiums/individual properties, construction renewal business including seismic retrofit and diagnosis of building structures, as well as investment property building for various reasons that include inheritance measures, Ogawa Construction Co., Ltd has been providing various construction services, including planning, design and building construction to wide range of customers that include corporate clients, individuals,

and government bodies. Ogawa Construction Co., Ltd. was founded in 1909. With over 100 years of experience, they have been highly praised for their refined technologies and the trust their customers place in them. With a key role in the General contractor business of the Group, Ogawa Construction Co., Ltd is expected to help the Group strengthen its financial performance in the future.

Furthermore, the acquiring of Ogawa Construction Co., Ltd. has allowed the Group to have investment property-related construction projects to be handled in-house without the need of outside contractors. This means that the Group has strengthened its cost competitive advantage over its competitors. In addition, through the utilization of the sales network of Ogawa Construction Co., Ltd. throughout the Kanto region, the Group will be able to provide higher quality of services and propose more attractive, high-quality residential rental investment ideas to customers.

As a result, financial results of the Group for the first half of fiscal 2014 ending December 31st are as follows: Net sales of ¥20.254 billion (up by 40.7% from the same period of the previous fiscal year), operating income of ¥2.792 billion (up by 60.2%), ordinary income of ¥2.612 billion (up by 56.1%), net income of ¥1.65 billion (up by 40.8%).

In addition, due to the nature of business operations, trading volumes and the tendency of customers to concentrate their orders around the beginning of spring, sales tend to be higher around this time. Earnings results vary throughout the year due to seasonal factors.

The performance within each segment is as follows.

① Sales of apartment business

The Sales of apartment business has mainly been targeted at salaried corporate employees and public servants. The delivery figures for apartments have been in-line with Group's original plan. The Group has also put forth much effort into securing land to be used for new apartments.

At a result, net sales within this segment were ¥4.768 billion (up by 7.0% from the same period of the previous fiscal year) and operating income within the segment was ¥448 million (up by 9.1%).

② Sales of condominium business

The Sales of condominium business has performed steadily and has shown steady performance and exceeded the results of the previous consolidated fiscal year.

As a result, net sales posted within this segment were ¥8.239 billion (up by 14.3% from the same period of the previous fiscal year) and operating income for the segment was ¥2.066 billion (up by 74.3%).

③ General contractor business

The General contractor business has progressed positively within the first half of fiscal 2014.

As a result, net sales within the segment were ¥3.918 billion and operating income for the segment was ¥314 million.

④ Property management business

The Group aims to maintain/improve occupancy rates through advertising channels and the strengthening of its leasing capacity.

As a result, the segment posted net sales of ¥2.621 billion (up by 15.4% from the same period of the previous fiscal year) and operating income for the segment was ¥281 million (up by 3.7%).

⑤ Finance and guarantee business

To increase number of rental guarantees, the guarantee services were enhanced, resulting in the acquiring of new customers. At the same time, the Group has worked hard to improve the yield of rental guarantees.

Moreover, JICC SSI Co., Ltd, which operates as a small amount/short term insurance provider, was consolidated.

As a result, net sales within this segment were ¥224 million (up by 96.2% from the same period of the previous fiscal year) and operating income for the segment was ¥88 million (up by 5.3%).

⑥ Long-term care business

Since the end of the previous fiscal year, two (2) building were added which provide nursing care. Operations began at another building as well during the first half of fiscal 2014, with the occupancy rates during the same period showing a steady increase.

As a result, net sales posted within this segment were ¥89 million (¥0 million in the same period of the previous fiscal year) and operating loss for the segment were ¥32 million, due to the start of business wherein prepaid costs were incurred (operating loss for the segment of ¥15 million in the same period of the previous fiscal year).

⑦ Other businesses

The LP gas supply business supplies LP gas to 12,106 households as of the end of the second quarter of fiscal 2014. The business also performed strongly in terms of profitability. As a result, net sales within the segment were ¥391 million (up by 14.2% from the same period of the previous fiscal year) and operating income within the segment was ¥62 million (up by 4.4%).

(2) Qualitative Information on Consolidated Financial Position

At the end of the second quarter of fiscal 2014 ending December 31st, cash and cash equivalents (hereinafter: funds) were ¥7.938 billion, an increase of ¥4.48 billion compared to the end of previous fiscal year.

The different cash flows and factors involved for the first half of fiscal 2014 are as follows.

Cash Flows from Operating Activities

Funds have increased by ¥1.714 billion (¥4.216 billion increase in the same period of the previous fiscal year) due to operating activities. The increase was mainly due to a ¥2.663 billion increase in net income before tax and others, and a ¥1.43 billion decrease in accounts receivable - trade, while the decrease was mainly due to a ¥2.374 billion increase in inventories.

Cash Flows from Investing Activities

Funds have decreased by ¥910 million (¥698 million decrease in the same period of the previous fiscal year) due to investing activities. While there was an increase mainly due to proceeds from withdrawal of time deposits of ¥131 million, the overall decrease was due to the costs incurred when purchasing of shares of subsidiaries with change of scope of consolidation for ¥652 million, when purchasing of property, plant and equipment for ¥243 million, and when ¥162 million was payments into time deposits.

Cash Flows from Financing Activities

Funds have increased by ¥3.64 billion (¥2.439 billion decrease in the same period of the previous fiscal year) due to financing activities. The increase was mainly due to proceeds from loans payable of ¥9.178 billion. The decrease was due to the repayment of loans payable in the amount of ¥5.399 billion.

(3) Qualitative Information on Consolidated Earnings Forecasts

The full fiscal earnings forecast have remained the same as of the announcement on February 14th 2014. The progress of sales and construction for both apartments and condominiums will be

closely examined and information pertaining to such examinations will be disclosed in a timely manner.

※ Information related to earnings forecasts in the materials has been prepared based on information available on and before the announcement date. Actual earnings results may differ from forecasts due to various reasons.

2. Summary Information (notes)

(1) Important Change of Scope of Consolidation During the Period

During the first quarter of fiscal 2014 ending December 31st, the Group acquired 100% of SKG NEXT Co., Ltd. (previous: Yoshimura Shokai Co., Ltd.). Therefore, SKG INVEST Co., Ltd. (previous: Yoshimura • RE • Holdings Co., Ltd.), Ogawa Construction Co., Ltd. and Ogawa Building Co., Ltd. were consolidated by the Group.

The importance of JICC SSI Co., Ltd. to the Group has increased. It was also consolidated during the first quarter of fiscal 2014.

In addition, the transaction related to the actual control of KS Fund Co., Ltd. was terminated and is the company is no longer a subsidiary company of the Group. As a result, it has been excluded as a consolidated company from the second quarter of fiscal 2014.

Among the above companies, Ogawa Construction Co., Ltd. is the only company categorized as specified subsidiary company of the Group.

(2) Application of Special Accounting Method for Preparing Quarterly Consolidated Financial Statements

None

(3) Changes in Accounting Policies, Changes in Accounting Estimates/Revisions Restated

None

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