Qualitative Information for the Fiscal Year Ended December 31, 2015

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1. Analysis of Business Performance and Financial Position

(1) Analysis of Business Performance

（Current Fiscal Year Results）

For the fiscal year ended December 31, 2015, corporate results and employment situation showed some improvement, thanks to the government's policies and the BOJ's monetary policies. This was despite uncertainties caused by a slowing of the Chinese economy as well as lower crude oil prices. The real estate industry also saw recovery, on the back of monetary easing, a lull in materials prices, as well as growing investor sentiment and a rebound in demand for construction. However, concerns continued to linger due to greater personnel expenses.

Amidst this environment, the Company's Group as a whole strove to strengthen the quality of its sales and technical capabilities, as well as improve its corporate value by linkages between its flow business (sales of apartments, sales of condominiums and general contractor business), and its stock business (property management, finance and guarantee, long-term care and LP gas supply).

As a result of the above, consolidated business results for the Group's fiscal year ended December 31, 2015, saw net sales of ¥55,070 million (up by 38.6% from the previous fiscal year), operating income of ¥6,806 million (up by 43.5%), ordinary income of ¥6,448 million (up by 49.8%), and net income of ¥4,447 million (up by 54.0%). Thus, the Group continued to enjoy record sales and profits for the sixth year running.

Performance within each segment is as follows:

① Sales of Apartment Business

Sales of apartment business made proposals on apartment management for salaried workers and civil servants. The Group worked for planned deliveries of apartments and to secure land for new apartments.

As a result, segment sales stood at ¥23,759 million (up by 119.2%), with profit for the segment recorded at ¥2,688 million (up by 167.0%).

② Sales of Condominium Business

Deliveries of condominiums continued to be strong on the back of proposals to individual investors. In addition, the Group made efforts to obtain prime land in the Tokyo metropolitan area.

As a result, segment sales stood at ¥13,664 million (up by 2.8%), with profit for the segment recorded at ¥3,233 million (up by 2.7%).

③ General Contractor Business

The General contractor business continued to make good progress in construction subcontracting on orders from corporations, individuals, and government agencies.

As a result, segment sales stood at ¥9,382 million (up by 6.6%), with profit for the segment recorded at ¥1,069 million (up by 106.2%).

④ Property Management Business

In order to maintain and improve managed property occupancy rates, the Group strove to promote occupancy by advertising and strengthening of the leasing business.

Amenity Service Co., Ltd. (absorbed by Shinoken Amenity Co., Ltd. in November 2015) and Mansion Life Co., Ltd., both engaged in the condominium management business, are included in the scope of consolidation from this fiscal year.

As a result, segment sales stood at ¥6,411 million (up by 17.8%), with profit for the segment recorded at ¥670 million (up by 15.3%).

⑤ Finance and Guarantee Business

With an aim to augmenting guarantee plans to increase the number of home lease arrears guarantees and to increase the number of new customers, the Group strove to improve the collection rate and acquire new customers of small amount and short term insurance.

As a result, segment sales stood at ¥539 million (up by 28.5%), with profit for the segment recorded at ¥209 million (up by 35.1%).

⑥ Long-term Care Business

The Group owns and operates three buildings for housing with services for the elderly and two facilities which provide day services.

In addition, from the current fiscal year, the Groups' six group home facilities and one multifunctional small group home facility primarily owned and operated by Friend Co., Ltd., and Best Co., Ltd. (absorbed by Friend Co., Ltd. in November 2015), are included respectively in the scope of consolidation. With an aim to promote, and improve the occupancy rate of each facility, the Group has been working to further enhance the long-term care services.

As a result, segment sales stood at ¥520 million (up by 121.4%), with profit for the segment recorded at ¥104 million (up by 411.3%).

⑦ Other Businesses

The number of households being supplied with LP gas continued to rise during the fiscal year, and stood at 15,569 households at the end of the fiscal year.

As a result, segment sales stood at ¥792 million (up by 12.3%), with profit for the segment recorded at ¥138 million (up by 53.9%).

(Expectations for the Next Fiscal Year)

For the fiscal year ending December 31, 2016, corporate results and employment situation are expected to see some improvement, thanks to the government’s economic policies and the BOJ’s monetary policies. This is despite uncertainties caused by a slowing of the Chinese economy and lower crude oil prices. The real estate industry is also expected to see more recovery, on the back of monetary easing, as well as growing investor sentiment.

Against this backdrop, the Group aims to build a more adaptable management structure to deal with changes in the economy. Sales centering on the flow business (sales of apartments, sales of condominiums and general contractor business), are expected to rise. The Group is aiming to strengthen the enhancement of its financial and revenue bases based on the stock business (property management, finance and guarantee, long-term care and LP gas supply) with the aim to build a group structure that will generate stable profits.

To that end, for the next fiscal year (ending December 31, 2016), consolidated results are expected as follows: Net sales at ¥72,000 million, operating income at ¥7,500 million, ordinary income at ¥7,100 million, and profit attributable to owners of parent expected at ¥4,800 million.

(2) Analysis of Consolidated Financial Position

① Assets, liabilities and net assets

(Assets)

At the end of the current fiscal year, the balance of assets rose by ¥13,831 million from the end of the previous year and the total came to ¥52,457 million.

The main reasons for this increase were the following: Real estate for sale increased by ¥6,694 million, costs on real estate business were by ¥2,365 million, cash and deposits were by ¥1,449 million, notes receivable and accounts receivable from completed construction contracts rose by ¥1,309 million, and tangible fixed assets, including those of making Friend Co., Ltd. a subsidiary, were by ¥953 million.

(Liabilities)

At the end of the current fiscal year, the balance of liabilities rose by ¥9,487 million from the end of the previous year and the total came to ¥40,111 million. The main reasons for this were the following: Short-term loans payable were up by ¥3,169 million, long-term loans payable by ¥2,802 million, accounts payable for construction contracts by ¥837 million, income taxes payable by ¥830 million, and bonds payable were higher by ¥690 million.

(Net Assets)

At the end of the current fiscal year, the balance of net assets rose by ¥4,343 million from the end of previous year and the total came to ¥12,345 million. The main reasons for this were an earned surplus increase of ¥4,262 million due to reported net income, etc.

② Cash Flow Situation

At the end of the current fiscal year, the balance of cash and cash equivalents (hereinafter referred to as “Cash”) increased by ¥1,383 million from the end of previous year and the total came to ¥7,410 million.

The cash flow situation and its reasons are as follows:

(Cash Flow from Operating Activities)

Cash used in operating activities was ¥2,441 million (¥2,515 million was used in the previous year). The principle reasons for increase were income before income taxes and minority interests of ¥6,550 million and increase in notes and accounts payable - trade of ¥1,210 million. The principle reasons for decrease were increase in inventories of ¥9,056 million and increase in accounts receivable - trade of ¥1,308 million.

(Cash Flow from Investing Activities)

Cash used in investing activities was ¥2,341 million (¥1,140 million was used in the previous fiscal year). The principle reasons for decrease were payments of loans receivable from subsidiaries and associates of ¥1,070 million, and payments of long-term loans receivable of ¥773 million, and purchase of shares of subsidiaries resulting in change in scope of consolidation of ¥737 million. The principle reasons for increase were proceeds from sales of shares of subsidiaries and associates of ¥933 million

(Cash Flow from Financing Activities)

Cash provided by financing activities was ¥6,160 million (¥6,256 million was provided in the previous fiscal year). The principle reasons for increase were proceeds from long-term loans payable of ¥11,357 million, net increase in short-term loans payable of ¥2,407 million and proceeds from issuance of bonds of ¥829 million. The principle reasons for decrease were repayments of long-term loans payable of ¥7,772 million.

(3) Basic Policy on the Payment of Dividends and Dividends for the Current and Next Fiscal Year

The Group aims to continuously maximize shareholder value including distribution of profits.

To that end, the Group is promoting the development of an efficient management structure, as well as aggressive marketing activities. In addition, we emphasize the return of earnings to shareholders by establishing stable and profitable revenue bases that are not easily influenced by economic swings, and the survival of the Company to be a top management priority.

Under these policies, for the fiscal year ended December 31, 2015 results for the year and the future development of the business are taken into account for dividend payments. As such, the term-end dividends will be made at ¥8 yen per share (annual dividends of ¥14.25 per share).

It should be noted that for the next fiscal year (ending December 31, 2016) dividends, there is a partial revision of the dividend policy, so in addition to the ordinary dividends, depending on the results we achieve, the Group is planning special dividends for a dividend increase.

Ordinary Dividends	As basic policy for the return of earnings to shareholders, the Group plans for a dividend of ¥15 per share for the mid-term and term-end (annual dividends of ¥30 per share).
Special Dividends	With regards to financial statements, for the fiscal year ending December 31, 2016 full-year consolidated earnings forecast were for ordinary income at ¥7,100 million, but the amount of ordinary income at the end of the fiscal year is now expected to show a 10% increase from the original forecast at the start of the fiscal year, at ¥7,810 million. If that is the case, the Group is planning a dividend increase of ¥3 per share at the year-end.

2. Management Policy

(1) Basic Management Policy

The Group has, since its establishment, had as its purpose to "increase Customer assets". By means of proposals for rental housing management, we have helped with asset building for salaried workers and civil servants. With the introduction of the Shinoken Group to the holding company system as a pure holding company, we aimed for expansion of real estate sales business consisting of sales of apartments, sales of condominiums, general contractor business, property management, finance and guarantee, the LP gas supply, etc. in respective operating company. In recent years, to deal with a rapidly aging society, we have aggressively embarked on a long-term care business with the motto of "making a life with peace of mind."

The Group has its base of operations and business foundations in major cities, mainly in the Tokyo metropolitan area and Fukuoka in Japan. From now into the future, we are expected to strive to develop our business activities overseas, with bases in Shanghai China, Singapore and Indonesia.

Going forward, the Group will maximize the high synergy effects that are created with close coordination with each operating company. The Group as a whole will improve the quality of its sales force, with the aim to grow as a fair and sustainable company.

(2) Management Indicators and Targets

In the Group, important management indicators are the shareholders' equity ratio and the return on equity ratio. With regards to the shareholders' equity ratio, the goal is to quickly achieve 30% or more in order to strengthen the Group's financial position. For the return on equity ratio, the Group aims for a high profitability of over 20% that can be achieved in any environment.

(3) Medium- and Long-term Management Strategies

The main profit base of the Group is the flow business (sales of apartments, sales of condominiums, and general contractor business) and property management.

With regards to the Group's sales of apartment business, we are fostering businesses in major cities with high demand across the country, promoting sales to salaried workers, civil servants and others that do not own land, as part of our business model. This is in order to differentiate ourselves from competitors.

The sale of condominium business is mainly deployed in the Tokyo metropolitan area. The Group has a leading sales force in Japan for the condominium-for-sale for investment market. Against this backdrop, the Group continues to purchase properties on carefully selected prime locations to meet the needs of individual investors.

The General contractor business enjoyed new orders against the background of greater construction. We make it possible to develop high-quality and reasonably-priced condominiums for investment with in-house production of condominium construction. This caused Group synergy to increase. In the future, the Group will strive to expand its business overseas to build a system of direct orders in Indonesia with a local representative office.

The property management business is now a stable source of income with 18,000 rental management units and over the number of condominium units managed at 3,700 units. Shinoken Facilities Co., Ltd. maintains a high occupancy rate of rental management property. This is due to the fact that most of the properties that the Group has sold become the trustee of the property management business. This is expected to continue.

Shinoken Amenity Co., Ltd., as part of our condominium management business, contracts the management business of the Group's properties for sale. With their in-house cleaning business of rental management properties of the Group, by utilizing accumulated know-how in the building maintenance businesses, has helped us to realize greater profitability and cost reduction.

Looking ahead, we plan to continue to work with the property management business to improve the service level of the entire group, and as such, to ensure stable earnings through greater competitiveness.

Concerning the Group's long-term care business, Shinoken Wellness Co., Ltd. owns and manages three buildings for housing with the services for the elderly. Friend Co., Ltd. primarily owns and manages six group homes and one multifunctional small group home.

With an increasing aging society, the market for services aimed at the elderly is expected to grow. Reflecting this, the Group is aiming to take advantage of its experience in real estate know-how to provide long-term care services for the elderly at a reasonable cost with high satisfaction.

Medium- and long-term management strategy of the Group is to maximize the strong synergies of its flow business to maximize its stock business (property management business, finance and guarantee business, long-term care business and LP gas supply business, etc.).

Among the stock business, there are over 13,900 rent guarantee cases and over 15,500 customers using the LP gas supply service. Therefore, it is safe to say that the scale of these businesses is growing steadily.

In the future, while achieving a balance of the flow and stock businesses, the Group plans to achieve and maximize stable group revenue. To that end, we plan to build a group structure to ensure that stable income can be secured regardless of the economy and real estate market conditions.

(4) Company Challenges

The Shinoken Group aims to build a management foundation that can respond flexibly to any changes in the economic environment. To that end, as a real estate-related business, we aim to strengthen the operating system of our flow business (sales of apartments, sales of condominiums and general contractor business), as well as to create synergy with each of our stock business (property management, finance and guarantee, LP gas supply) to create a synergistic effect, and in so doing, strive to establish a solid management foundation.

In addition, while taking into consideration overseas markets, along with expanding its businesses, in response to the aging society, the Group will strive to utilize its real estate-related expertise so as to promote its long-term care-related business. In doing so, it aims to improve further its enterprise value.

3. Basic Concept Concerning the Selection of Accounting Standards

The Group is applying Japanese accounting standards, taking into account the comparability between the consolidated financial statements and between companies.

Regarding the application of the International Financial Reporting Standards (IFRS) in the future, the Group plans to respond appropriately, taking into consideration future business development and the business climate in Japan and abroad.