Qualitative Information for the Fiscal Year Ended December 31, 2016

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Company: Shinoken Group Co., Ltd. Listed on TSE
Stock Code: 8909 URL: http//www.shinoken.co.jp
Representative: Hideaki Shinohara, Representative Director and CEO
Contact: Junichi Tsurukawa, Managing Director TEL: +81-92-714-0040

1. Analysis of Business Performance and Financial Position

(1) Analysis of Business Performance

（Current Fiscal Year Results）

For the fiscal year ended December 31, 2016, corporate results and the employment situation showed some improvement, thanks to the government’s policies and the BOJ’s monetary policies. In the world economy, there were signs of recovery as a whole, the US economy remained on a recovery trend, and even in emerging countries, such as a slowdown in growth deceleration due to a recovery in resource prices. However, due to the UK's planned withdrawal from the EU, as well as concerns over US policy trends after the presidential election, the situation remained uncertain.

In the real estate industry, although there is a sense of slowing in some business areas owing to the impact of rising land prices and construction costs, the attitude of real estate investors continued to be robust against the backdrop of financial easing, and overall remained strong.
Amidst this environment, the Company’s Group as a whole strove to strengthen the quality of its sales and technical capabilities, as well as to improve its corporate value by linkages between its flow business (sales of apartment, sales of condominium and general contractor business), and its stock business (leasing / 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, 2016, saw net sales of ¥81,294 million (up by 47.6% from the previous fiscal year), operating income of ¥10,570 million (up by 55.2%), ordinary income of ¥9,895 million (up by 53.4%), and profit attributable to owners of the parent of ¥6,662 million (up by 49.8%). Thus net sales and profits increased for the seventh consecutive year, with profits renewing record highs following the previous fiscal year.

Performance within each segment is as follows:

① Sales of Apartment Business

Sales of apartment business made proposals on apartment management focusing on asset building for salaried workers and civil servants that do not own land. The deliveries of apartments moved as planned, and the Group worked to secure land for new apartments.
As a result, segment sales stood at ¥41,395million (up by 74.2%), with profit for the segment recorded at

¥4,163 million (up by 54.8%).

② Sales of Condominium Business

In the condominium sales business, sales of compact and high quality properties targeted for investment in the Tokyo metropolitan area were steady.

As a result, segment sales stood at ¥17,715 million (up by 29.6%), with profit for the segment recorded at ¥5,088 million (up by 57.3%).

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 ¥11,741million (up by 25.1%), with profit for the segment was recorded at ¥1,440 million (up by 34.6%).

④ Leasing / 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 capabilities. As of the end of the consolidated fiscal year, the number of rental management units stood at 22,021 units, and condominiums under management stood at 4,687 units, remaining steady.

As a result, segment sales stood at ¥7,749 million (up by 20.8%), with profit for the segment recorded at ¥941 million (up by 40.4%).

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.

As for small amount and short term insurance, by developing a new product "Rental management support insurance" that covers the loss of rent and compensates for the renovation costs that occur in the case of an isolated death of a tenant, it is now possible for owners to reduce these risks.

As a result, segment sales stood at ¥685million (up by 27.2%), with profit for the segment recorded at ¥260 million (up by 24.3%).

⑥ Long-term Care Business

In three business bases, Tokyo, Osaka and Fukuoka, the Group primarily owns and operates three buildings for housing with services for the elderly, two facilities which provide day services, six facilities for group home and one facility for a multifunctional small group home.

Also included in the scope of consolidation during the consolidated fiscal year was Apple Care Co., Ltd., the Group began home-visit long-term care services and in-house care support services business. In addition to expanding business areas and maintaining and improving occupancy rates of each facility, we have endeavored to further enhance our long-term care-related services including Ju-Life Plan - a system that enables elderly people to utilize leased management properties of the Group at ease, in safety, and at low cost.

As a result, segment sales stood at ¥1,042 million (up by 100.2%), with profit for the segment recorded at ¥129 million (up by 23.9%).

⑦ Other Businesses

With the start of operations of SK Energy Sendai Co., Ltd. in the Sendai area, the number of households supplied by LP gas has reached 20,498 households as of the end of this consolidated fiscal year. In overseas operations, a local corporation was established in Indonesia and operations are steadily progressing.

As a result, segment sales stood at ¥962 million (up by 21.5%), with profit for the segment recorded at ¥211million (up by 52.1%).

(Expectations for the Next Fiscal Year)

Regarding the expectations for the fiscal year ending December 31, 2017, as for overseas economy, there are uncertainties due to concerns over Britain’s withdrawal from the EU, as well as concerns over uncertainties regarding policies in the US after the presidential election. Despite this, in the Japanese domestic economy, gradual improvement in corporate performance and the employment environment are continuing due to economic and BOJ monetary policies, etc. In the real estate industry as well, market trends are generally steady due to rising investor sentiment accompanying monetary easing.

Under such circumstances, the Group aims to build a management foundation that can flexibly respond to changes in any economic environment, and we are further strengthening the flow business (sales of real estate business, general contractor business). We will accelerate and promote the expansion of our stock business centering on property management-related business to our earnings base and financial base and aim to establish a group structure that can earn profits in a stable manner.

In addition to continuing to focus on our long-term care business, which is expected to experience an expanding market in the future, we will continue to focus on our overseas business, and strive to overcome challenges and further improve corporate value of our new business fields such as the electric power retail business.

To that end, for the next fiscal year (ending December 31, 2017), consolidated results are expected as follows: Net sales at ¥105,000 million, operating income at ¥11,700 million, ordinary income at ¥11,000 million, and profit attributable to owners of parent at ¥7,800 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 ¥19,815 million from the end of the previous fiscal year and the total came to ¥72,273 million. The main reasons for this increase were the following: Real estate for sale increased by ¥8,096 million, cash and deposits were up by ¥5,844 million and costs on real estate business rose by ¥4,631 million.

(Liabilities)

At the end of the current fiscal year, the balance of liabilities rose by ¥13,613 million from the end of the previous fiscal year and the total came to ¥53,724million. The main reasons for this increase were the following: Short-term loans payable increased by ¥4,788 million, long-term loans payable were up by ¥3,440 million and accounts payable for construction contracts rose by ¥1,580 million.

(Net Assets)

At the end of the current fiscal year, the balance of net assets rose by ¥6,202 million from the end of the previous fiscal year and the total came to ¥18,548 million. The main reasons for this increase were an earned surplus increase of ¥6,278 million due to reported profit attributable to owners of parent, 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 ¥5,755 million from the end of the previous fiscal year and the total came to ¥13,166 million.

The cash flow situation and its reasons are as follows:

(Cash Flow from Operating Activities)

Cash used in operating activities was ¥734 million (¥2,441 million was used in the previous fiscal year). The principle reason for the increase was profit before income taxes of ¥9,933 million. The principle reason for the decrease were increase in inventories of ¥12,731 million.

(Cash Flow from Investing Activities)

Cash used in investing activities was ¥1,268 million (¥2,341 million was used in the previous fiscal year). The principle reasons for decrease were purchase of property, plant and equipment of ¥876 million and purchase of investment securities of ¥365 million.

(Cash Flow from Financing Activities)

Cash provided by financing activities was ¥7,775 million (¥6,160 million was provided in the previous fiscal year). The principle reasons for increase were proceeds from long-term loans payable of ¥14,543 million, net increase in short-term loans payable of ¥4,989 million and proceeds from issuance of bonds of ¥1,180 million. The principle reasons for decrease were repayments of long-term loans payable of ¥11,408 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, 2016) results for the year and the future development of the business are taken into account for dividend payments. As such, the term-end ordinary dividends will be made at ¥18 per share. Special dividends of ¥3 per share will be added on the ordinary dividends and the total will come to ¥21 per share (annual dividends of ¥36 per share).

It should be noted that for the next fiscal year (ending December 31, 2017) dividends, in addition to the ordinary dividends, depending on the results we achieve, the Group is continuously planning special dividends for a dividend increase.

Ordinary Dividends	As basic policy for the stable return of earnings to shareholders, the Group plans for a dividend of ¥22.5 per share for the 2nd quarter-end and year-end each (annual dividends of ¥45 per share).
Special Dividends	Forecast for ordinary income for the fiscal year ending December 31, 2017 is at ¥11,000 million. In case the amount of ordinary income at the end of the fiscal year is expected to show an increase from the original forecast, the Group is planning a special dividend as follows: ・ 10% increase (¥12,100 mil.) from the original forecast… ¥5 ・ 20% increase (¥13,200 mil.) from the original forecast… ¥10

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 apartment management, we have helped with asset building for salaried workers and civil servants, as a pioneer of investment apartment management.

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 apartment and sales of condominium, general contractor business, leasing / property management, finance and guarantee, the LP gas supply, etc. in each respective operating company. In recent years, to deal with a rapidly aging society, we have aggressively embarked on our long-term care business.

The Group has its base of operations and business foundations in major cities, mainly in the Tokyo metropolitan area, Sapporo, Sendai, Nagoya, Osaka and Fukuoka in Japan. With bases in Shanghai China, Singapore and Indonesia, we expect to strive to develop our overseas business activities.
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 and services, with the aim of growing as a fair and sustainable public 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 apartment, sales of condominium, and general contractor business) and real estate management-related business.

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

The sales of condominium is mainly deployed in the Tokyo metropolitan area. The Group has a leading sales force in the Japanese market of condominiums for investment. 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 in accordance with the current economic trend. We make it possible to develop high-quality and reasonably-priced condominiums for investment, by producing the condominiums within the Group, thus creating 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 our local representative office.

The real estate management-related business is now a stable source of income with 22,000 rental management units and condominium units managed at over 4,600 units. A high occupancy rate of rental management property is being maintained. This is due to the fact that the properties which the Group has sold become the trustee of the leasing / property management business. This is expected to continue.

The condominium management business focuses on the management business of the properties that the

Group has sold. By utilizing our accumulated knowledge in building maintenance, we handle the cleaning operations for rental properties, which results in realizing greater profitability and cost reduction. Looking ahead, we plan to continue to work with the flow businesses to improve the service level of the entire group, thus ensuring 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 services for the elderly, in Tokyo, Osaka and Fukuoka. Friend Co., Ltd. primarily owns and manages six group homes and one multifunctional small group home.
Apple Care Co., Ltd. was included in the scope of consolidation for the consolidated fiscal year, and the Group started providing services such as home-visit long-term care services and in-house care support services. In response to an accelerating aging society and expanding senior market, we will utilize our real estate related knowledge, which is our strength, and endeavor to offer long-term care-related services that are highly satisfying according to customers' needs, such as the Ju-Life Plan which enables elderly people to use facilities with peace, safety and cost effectiveness.

In addition, in June 2017, Friend Co., Ltd. is planning to open a new group home (Friend Kasumigaoka) in Fukuoka-shi. As a result, we believe that it is possible to provide "one stop" fulfilling long-term care services even in the Fukuoka area, thus improving users' convenience.

Medium- and long-term management strategy of the Group is to maximize the strong synergies between flow business (sales of apartment/condominium), general contraction business which has strong synergy for real estate business, and stock business (leasing / property management, condominium management, finance and guarantee, long-term care, LP gas supply, electricity retail business, etc.).

In addition, in order to respond to the rapidly aging society, we will promote our long-term care business. At the same time, we will actively engage in development projects, etc. in Indonesia, our overseas business, as a future engine of growth. In the future, we plan to build a group structure putting equal emphasis on the flow business and the stock business, 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 apartment, sales of condominium and general contractor business), as well as to create synergy with each of our stock businesses (leasing / 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 expanding overseas business, in response to the rapidly 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 will aim to improve further enterprise value.

3. The 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 the future business development and the business climate in Japan and abroad.