

Qualitative Information for 1H Fiscal Year Ending December 31, 2017

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Company: Shinoken Group Co., Ltd.

Listed on TSE

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Qualitative Information for this Fiscal Quarter

(1) Analysis of Business Performance

For this second fiscal quarter, improvements in corporate results and employment situation due to the government's policies and the BOJ's monetary policies are leading to a steady tendency of individual consumption.

In the real estate industry, although there is a sense of slowing in some business areas owing to the impact of soaring land prices, building costs and personnel expenses, the market trend of investment real estate remains robust due to the high attitude of investors and construction demands, along with the backdrop of financial easing.

Amidst this environment, the Group strove to strengthen the cooperation among the Real Estate Sales Business, Real Estate Management Business, General Contractor Business, Energy Business, Elderly Care Business to enhance the corporate value of the Group as a whole.

As a result of the above, consolidated business results for the Group's 1H FY 12/2017, saw net sales of ¥49,386 million (up by 35.5% YoY), operating income of ¥6,430 million (up by 24.3% YoY), ordinary income of ¥6,021 million (up by 30.1% YoY), and profit attributable to owners of the parent of ¥4,103 million (up by 35.4% YoY).

Performance within each segment is as follows:

Starting from 1Q FY 12/2017, we have changed the business segments to "Real Estate Sales Business", "Real Estate Management Related Business", "General Contractor Business", "Energy Business", "Elderly Care Business", and "Other Business". This is to obtain speed in decision making, putting strategy into practice, and to make organization changes for realizing more appropriate management grouping. YoY comparison figures are calculated by applying the figures from the previous fiscal year to the new segments.

① Real Estate Sales Business

Apartments sales made proposals on apartment management that starts from land purchasing, focusing on asset building for salaried workers and civil servants. Sales (Handovers) enjoyed a higher pace than last year, and the Group strove to secure land for new apartments.

As for Condominium sales, in the Tokyo metropolitan area, sales of high design quality properties specialized in investment were steady.

As a result, segment sales stood at ¥36,567million (up by 38.8% YoY), with profit for the segment recorded at ¥5,599 million (up by 22.5% YoY).

② Real Estate Management Related Business

In order to maintain and improve managed property occupancy rates, the Group strove to promote occupancy by advertising and strengthening the leasing business. As a result, the number of rental management units stood at 24,417 units as of the end of 1H. As for condominium management, the Group strove to maintain and improve the asset value of the property, the level of service toward management associations, and condominiums under management stood at 4,911 units as of the end of 1H. This both rental management and condominium management remained steady.

With an aim to augmenting guarantee plans to increase the number of debt 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, the Group strove to augment insurance products and to increase the number of new customers. As a result, segment sales stood at ¥5,009 million (up by 22.9% YoY), with profit for the segment recorded at ¥775 million (up by 31.2% YoY).

③ General Contractor Business

The General contractor business continued to make good progress, owing to obtaining new orders from new customers and existing construction projects making steady progress as planned. These projects are mainly orders from corporations, individuals, and government agencies.

As a result, segment sales stood at ¥6,530million (up by 30.1% YoY), with profit for the segment was recorded at ¥718 million (down by 9.4% YoY, due to changes in the sales composition, such as the amount of consolidated adjustments).

④ Energy Business

Along with the start of operations of SK Energy Osaka Co., Ltd., the number of households supplied by LP gas has reached 22,658 households as of the end of 1H. Also, retail selling of electricity has begun from 1H.

As a result, segment sales stood at ¥617 million (up by 38.7% YoY), with profit for the segment recorded at ¥127 million (up by 10.5% YoY).

⑤ Elderly Care Business

The Group primarily owns and operates housing with services for the elderly, facilities which provide day services, group homes and multifunctional small group homes, in addition to maintaining and improving occupancy rates of each facility, striving to enhance care-related services.

Also, in June 2017, “Friend Kasumigaoka” was opened as our new group home and multifunctional small group home in Fukuoka.

As a result, segment sales stood at ¥586 million (up by 18.2% YoY), with profit for the segment recorded at ¥24 million (down by 63.5% YoY, due to the initial costs for “Friend Kasumigaoka”).

⑥ Other Businesses

As for overseas operations, in Shanghai and Singapore, we initiate intermediation business for real estate leasing and sales, and in Indonesia, construction related business, and real estate development of “Sakura Terrace”, our brand for Investment Apartments in Jakarta. Also, new actions are taken in the domestic business, such as “Renovation × Vacation Rental”, starting the development of new real estate services using block chain technology, in association with Chaintope Inc.

As a result, segment sales stood at ¥74 million (up by 33.5%), with profit for the segment recorded at ¥95 million (up by 69.0%).

(2) Analysis of Consolidated Financial Position

At the end of the consolidated 1H, the balance of cash and cash equivalents (hereinafter referred to as “Cash”) decreased by ¥1,583 million from the end of the previous fiscal year and the total came to ¥11,583 million. The cash flow situation and its reasons are as follows:

(Cash Flow from Operating Activities)

Cash decreased in operating activities was ¥981 million (¥1,105 million decreased in the same period of previous year). The principle reason for the increase was profit before income taxes of ¥6,021 million. The principle reason for the decrease were increase in inventories of ¥4,803 million and decrease in income taxes paid of ¥2,293 million.

(Cash Flow from Investing Activities)

Cash decreased in investing activities was ¥945 million (¥199 million decreased in the same period of previous year). The principle reasons for increase were proceeds from time deposit cancellations of ¥150 million.

The principle reason for the decrease was the purchase of tangible assets of ¥572 million, and payments into time deposits of ¥334 million.

(Cash Flow from Financing Activities)

Cash increased by financing activities was ¥389 million (¥4,295 million was increased in the same period of previous year). The principle reasons for increase were proceeds from long-term loans payable of ¥3,315 million, net increase in short-term loans payable of ¥2,329 million. The principle reasons for decrease were repayments of long-term loans payable of ¥4,208 million.

(3) Explanation of Forecast Information including Consolidated Earnings

There are no changes to the annual forecast that was disclosed in the Summary of Business Results as of Feb.2017.

Disclaimer: This document was originally prepared and published by the Company in Japanese as it contains timely disclosure materials to be submitted to the Tokyo Stock Exchange. This English translation is for your convenience only. To the extent there is any discrepancy between this English translation and the original Japanese version, please refer to the Japanese version.