

Company profile

For the 2nd quarter of financial year ended December 31st 2014

Shinoken Group Co.,Ltd.
CEO Hideaki Shinohara



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1. 2nd quarter of FY2014

Overview of consolidated financial result

2nd quarter of FY2014 Highlight of consolidated result

- Operating profit JPY2,792 Million (Year-on-year rate 60.2% increase)
Ordinary profit JPY2,612 Million (Year-on-year rate 56.1% increase)
Net income JPY1,650 Million (Year-on-year rate 40.8% increase)
⇒ As 2nd quarter result, the above earning is the **highest profit** earned by the company since its incorporation.
- Excellent condition of real estate sales business
Sales of apartments: 78 buildings , contracted but not handover yet: 181 buildings
(Compared to the same period of the previous year, sales of apartment 80 buildings, contracted but not handover yet: 120 buildings)
Sales of condominiums: 318 units, contracted but not handover yet: 66 units
(Compared to the same period of the previous year, sales of condominiums: 310 units, contracted but not handover yet: 63 units)
⇒ Sales of condominiums show the **highest sales performance** since incorporation as a quarter result

Overview of consolidated income statement

(Unit : JPY Million)

Accounting subject/FY	2nd quarter of FY2013	2nd quarter of FY2014	Change	FY2014 entire FY (Estimate)
Net sales	14,389	20,254	5,865	35,000
Cost of sales	11,077	15,185	4,108	28,000
Gross profit	3,311	5,068	1,757	7,000
Gross profit ratio	23.0%	25.0%	2.0%	20.0%
Selling, general and administrative expenses	1,569	2,275	706	3,700
Operating income	1,742	2,792	1,050	3,300
Operating income ratio	12.1%	13.8%	1.7%	9.4%
Ordinary income	1,672	2,612	940	3,100
Ordinary income ratio	11.6%	12.9%	1.3%	8.9%
Net income	1,172	1,650	478	2,100
Net income ratio	8.1%	8.1%	0.0%	6.0%

Significant increase due to selling well

- Increase in both of operating income ratio and ordinary income ratio, and earning capacity has risen.

Overview of consolidated balance sheet

(Unit : JPY Million)

Accounting subject/FY	As of 2nd quarter of FY2013	As of 2nd quarter of FY2014	Change
Cash and deposits	3,338	8,287	4,949
Accounts receivable from real estate business	254	120	△ 134
Operating loan	823	612	△ 211
Real estate for sale	3,233	6,822	3,589
Costs on real estate business	4,188	6,621	2,433
Property, plant and equipment	3,027	4,749	1,722
Total assets	17,219	32,434	15,215
Accounts payable for real estate business	1,145	2,144	999
Short-term loans payable	5,119	7,561	2,442
Long-term loans payable	4,100	11,160	7,060
Total liabilities	12,472	25,707	13,235
Net assets	4,746	6,727	1,981
Total liabilities and net assets	17,219	32,434	15,215
Equity ratio	24.5%	20.7%	-3.8%

- Due to deriving stable profits, net assets have increased by JPY 2 billion as compared to 2nd quarter of FY2013.

Overview of each segment

(Unit : JPY Million)

■ Total of Flow Business

(Unit : JPY Million)

Accounting subject/FY	2nd quarter of FY2013	2nd quarter of FY2014	Change
Net sales	11,660	16,927	5,266
Operating income	1,596	2,829	1,233
Operating income ratio	13.7%	16.7%	3.0%

Segment	Subject / FY	2nd quarter of FY2013	2nd quarter of FY2014	Change
① Sales of apartment business	Net sales	4,453	4,768	315
	Operating income	411	448	37
② Sales of condominium business	Net sales	7,207	8,239	1,032
	Operating income	1,185	2,066	881
③ General contractor business	Net sales	-	3,918	-
	Operating income	-	314	-

■ Total of Stock Business

(Unit : JPY Million)

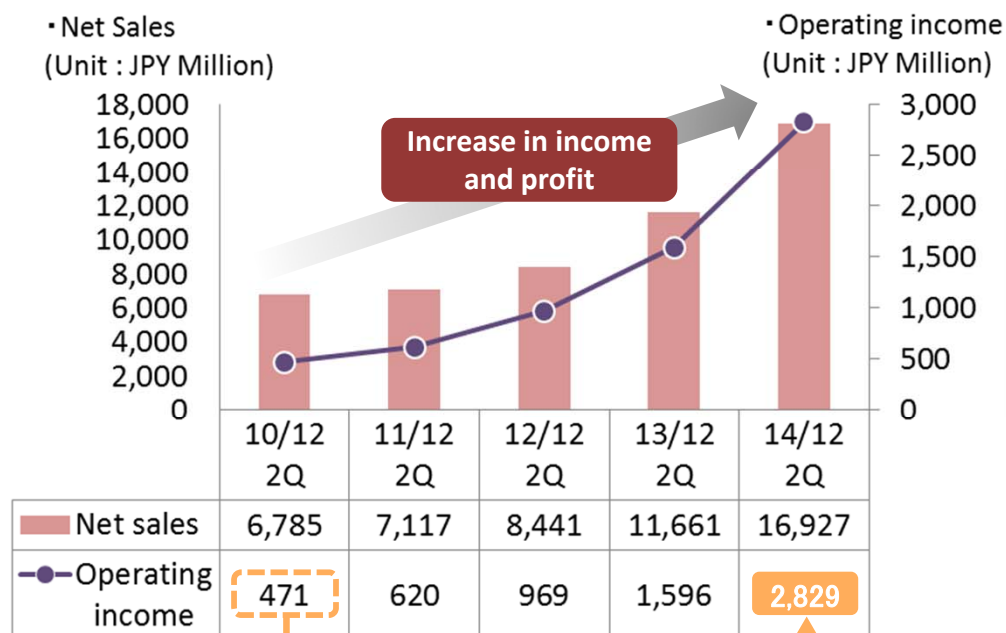
Accounting subject/FY	2nd quarter of FY2013	2nd quarter of FY2014	Change
Net sales	2,728	3,326	598
Operating income	400	400	0
Operating income ratio	14.7%	12.0%	-2.6%

④ Property management business	Net sales	2,270	2,621	350
	Operating income	271	281	10
⑤ Finance and guarantee business	Net sales	114	224	110
	Operating income	84	88	4
⑥ Other businesses	Net sales	343	480	137
	Operating income	44	29	△ 14

※ Other businesses are LP gas supply business and long-term care business, etc.

Historical business result for each segment <Flow and Stock Business>

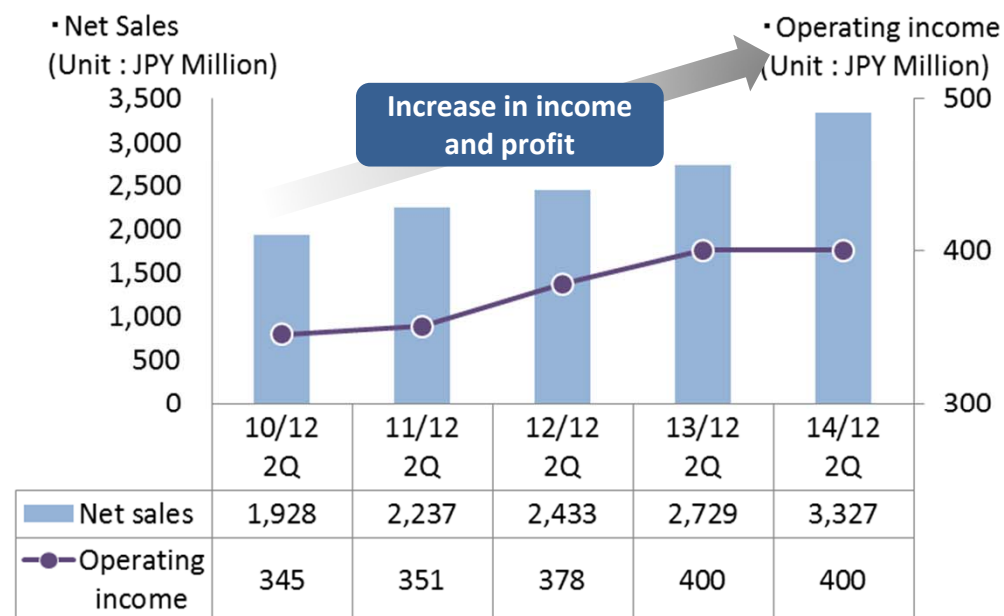
Historical result of Flow Business



**Operating income indicates
that it has increased 6 folds
since 4 years ago**

※ the above comparisons are the results of 2nd quarter of each financial year.

Historical result of Stock Business



Order and sales situation on Flow Business

Item/FY	2nd quarter of FY2013			2nd quarter of FY2014			Change		
	Sales	Backlog of order	Total	Sales	Backlog of order	Total	Sales	Backlog of order	Total
Sales of apartments (Building)	80	120	200	78	181	259	△ 2	61	59
Sales of condominiums (Unit)	310	63	373	318	66	384	8	3	11

Item/FY	State of progress		
	FY2014 Full year plan	As of 2nd quarter of FY2014	Progress ※
Sales of apartments (Building)	240	259	Achieved
Sales of condominiums (Unit)	530	384	146

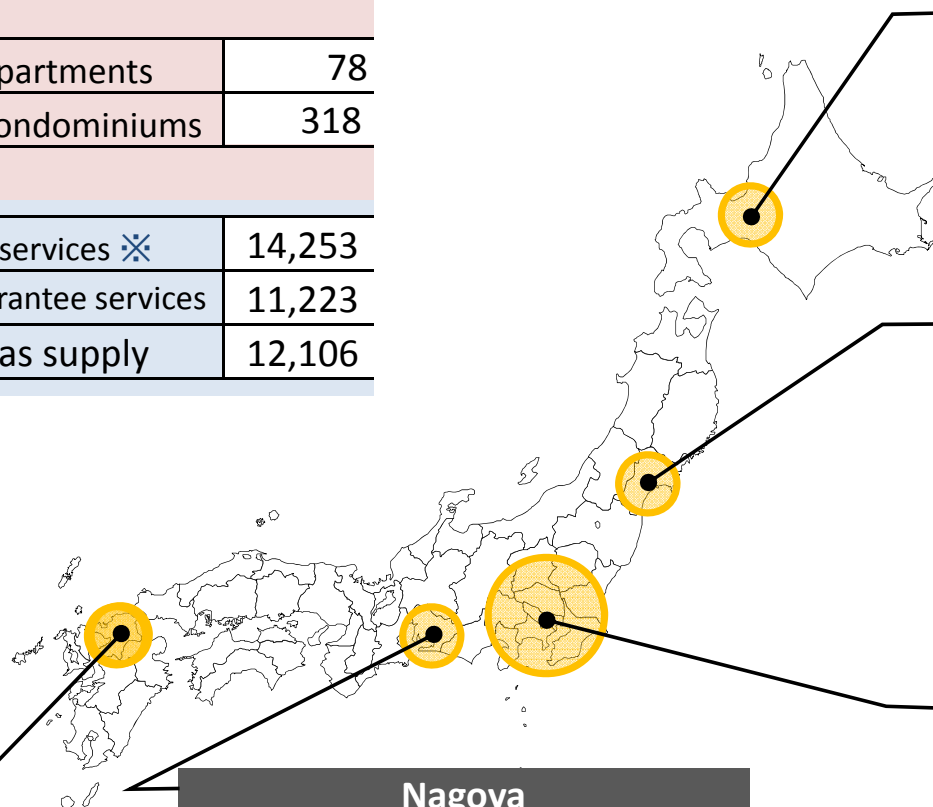
Increase in both of sales of apartments and condominiums

- Achieved the FY 2014 full year plan for sales of apartment business
- Exceeded the same period of the previous year for sales of condominium business

※ Progress = FY2014 full year plan - (Sales till 2nd quarter of FY2014 + Backlog of order as of 2nd quarter of FY2014)
Backlog of order means that buyers have contracted for purchase but not handover yet

Overview of sales performance

■ Total of Flow Business (Jan- Jun, 2014)	Sales of apartments	78
	Sales of condominiums	318
■ Total of Stock Business (As of Jun, 2014)	PM services ※	14,253
	Rent guarantee services	11,223
	LP gas supply	12,106



Sapporo	
PM services	509
Rent guarantee services	381

Sendai	
Sales of apartments	4
PM services	957
Rent guarantee services	924

Tokyo	
Sales of apartments	19
Sales of condominiums	318
PM services	4,435
Rent guarantee services	2,595
LP gas supply	2,183

Fukuoka	
Sales of apartments	27
PM services	5,314
Rent guarantee services	4,668
LP gas supply	6,631

Nagoya	
Sales of apartments	28
PM services	3,038
Rent guarantee services	2,655
LP gas supply	3,292

※Sales of apartments and condominiums are the actual number of completion of handover

PM services stand for property management services

2. Business profile

Company overview

■	Company name	Shinoken Group Co.,Ltd.	
■	CEO & President	Hideaki Shinohara	
■	Head office	Across Fukuoka Bldg., 1-1 Tenjin 1-Chome, Chuo-ku, Fukuoka	
■	Employees	386 (Group, as of 30 June 2014)	
■	Business	Sales of apartment, sales of condominium, general contractor, property management, finance and guarantee, long-term care business, other businesses	
■	Main office	Tokyo, Fukuoka, Nagoya, Sendai, Sapporo, Shanghai	
■	Founded	5 June, 1990	
■	Trading market	Tokyo stock exchange JASDAQ 8909	
■	Capital	JPY1,011 Million	
■	Affiliated companies	Shinoken Produce Co., Ltd. Shinoken Facilities Co., Ltd. SK Energy Co., Ltd.	Shinoken Harmony Co., Ltd. Shinoken Communications Co., Ltd. Ogawa Construction Co., Ltd.

Organization chart



Shinoken Group Co.,Ltd.
(Holding company)

Flow Business

Shinoken Produce Co., Ltd. ①

Shinoken Harmony Co., Ltd. ①②

Ogawa Construction Co., Ltd. ③

Ogawa Building Co., Ltd. ③

- ①・・・Sales of apartment business
- ②・・・Sales of condominium business
- ③・・・General contractor business

Stock Business

Shinoken Facilities Co., Ltd. ④

Shinoken Amenity Co., Ltd. ④

Shinoken Communications Co., Ltd. ⑤

JICC SSI Co., Ltd. (Share 50.0%) ⑤

SK Energy Co., Ltd. ⑥

2 subsidiaries of SK Energy ⑥

- ④・・・Property management business
- ⑤・・・Finance and guarantee business
- ⑥・・・LP gas supply business

Shinoken Wellness Co., Ltd.
(Care business holding company) ⑦

Recross Co., Ltd.
(Care business consulting) ⑦

SHINOKEN RESIDENTIAL ASIA (HK) ⑧

Shinoken Fudosan(Shanghai) ⑧

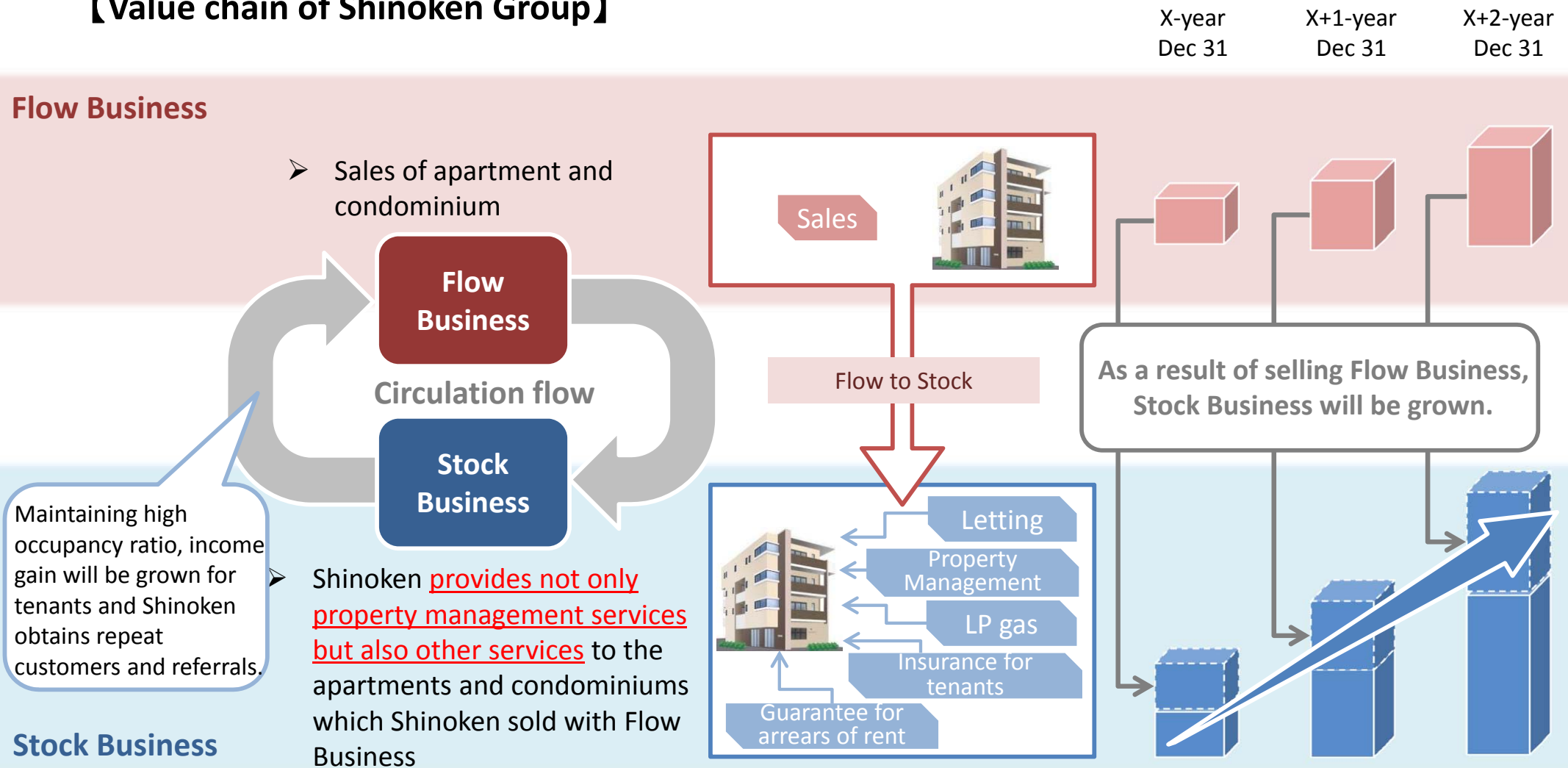
- ⑦・・・Long-term care business
- ⑧・・・Overseas business

Business segment(①～⑧)

Value chain of Shinoken Group

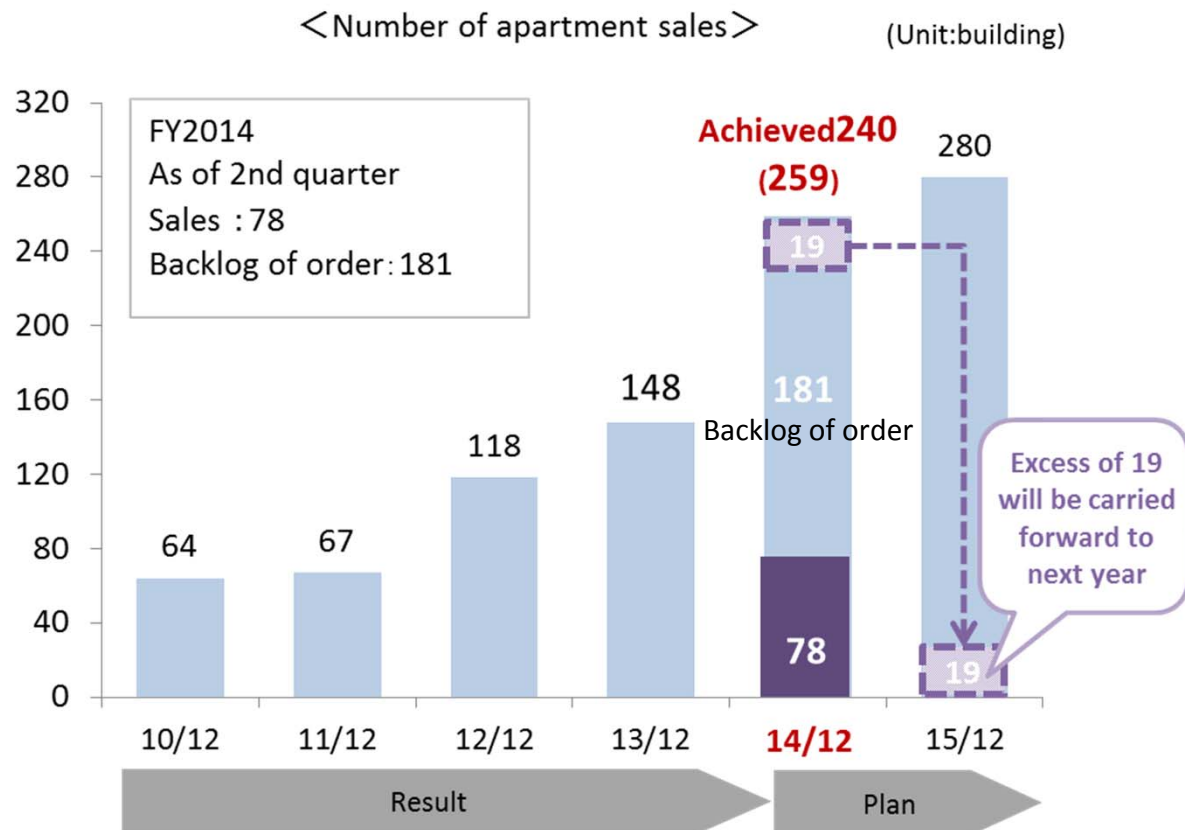
- Main business of Shinoken consist of 「Flow Business」 and 「Stock Business」
- Shinoken has build the strong value chain with the circulation of 「Flow Business」 and 「Stock Business」

【Value chain of Shinoken Group】



Flow Business <Sales of apartment business>

- Achieved the FY 2014 full year plan (240 building) for sales of apartment business as of 2nd quarter of FY2014



**As of 2nd quarter of FY 2014,
240 building sales of full year plan have
been achieved**

Actual sales 259 building

- Full year plan for FY2014 : 240 building

As of 2nd quarter of FY2014,
breakdown of 259 building

- Sales : 78 building
- Backlog of order : 181 building

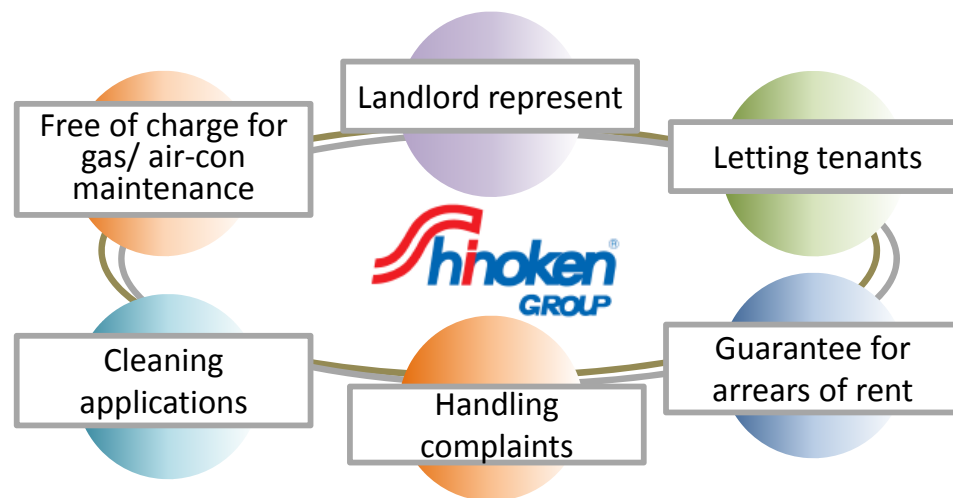
※Backlog of order means that buyers have contracted for purchase but have not handover yet

Flow Business <Sales of apartment business>

Strength of Shinoken's apartment management

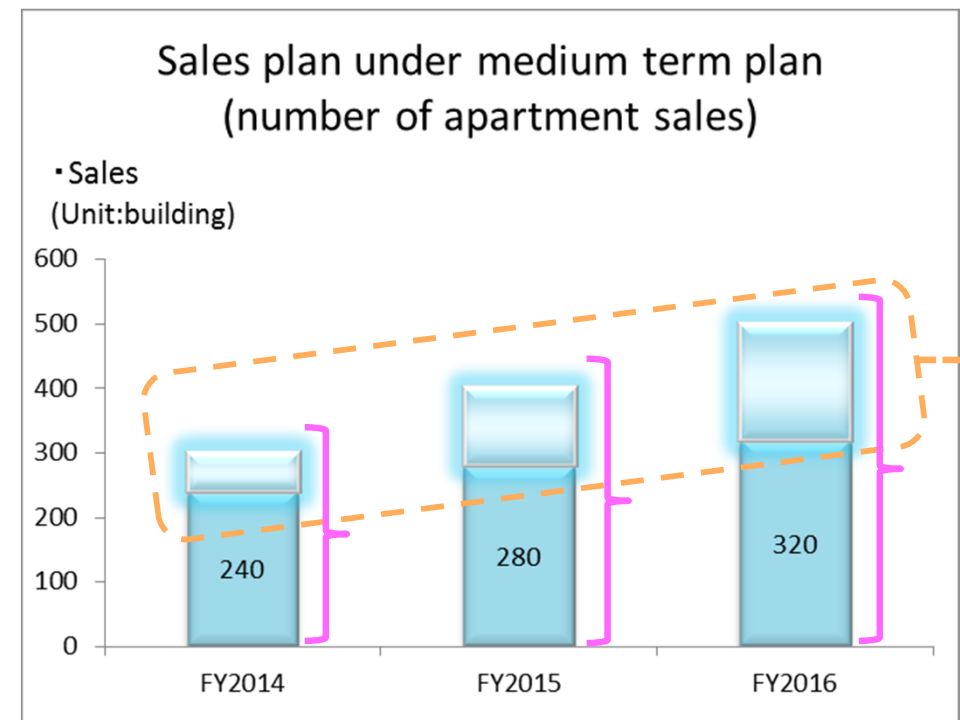
Possible to be a landlord with only JPY 5 million of annual income!!

- Excellent information collection for the site of apartment
- No down payment
- Possible to have 100% loan (full leverage)
- Rental system⇒ more than 97% occupancy ratio
- Stable positive cash flow even monthly principal payment
- After full repayment of loan, land will be no mortgage



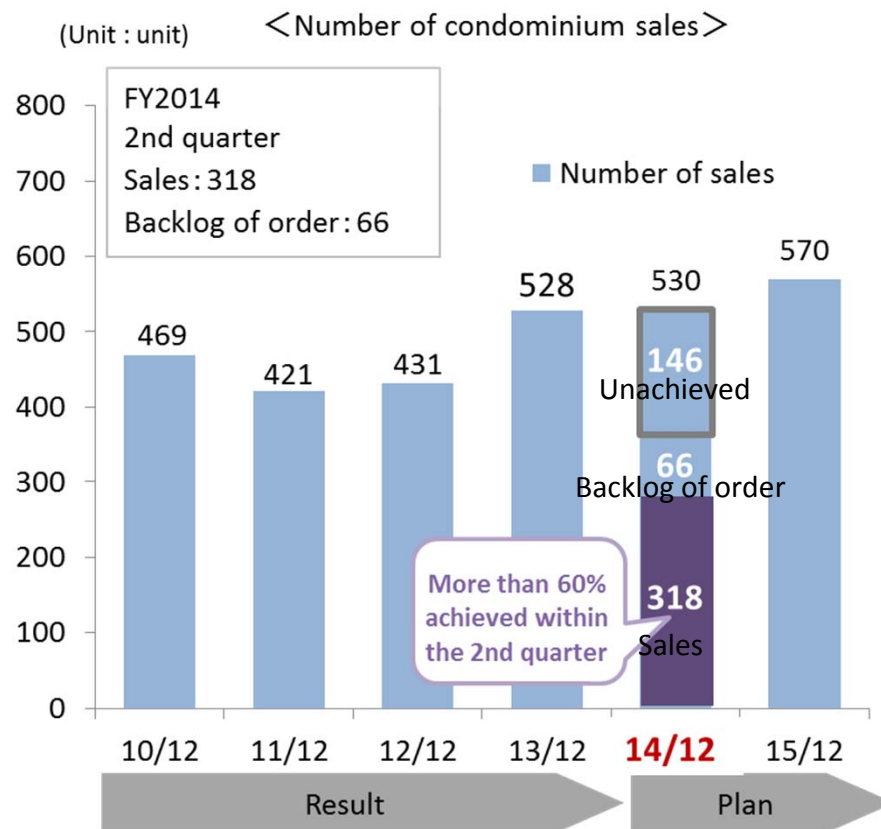
『All support』 for apartment management

Using the strength of sales,
it would be possible to make additional
sales plan (plan to amend the sales plan
after having observed the sales trend)



Flow Business <Sales of condominium business>

- 60% Achieved the FY 2014 full year plan (530 unit) for sales of condominium business as of 2nd quarter of FY2014



As of 2nd quarter of FY 2014, 318 units have been sold. This result achieved more than 60% of 530 unit sales of full year plan

- Full year plan for FY2014 : 530 unit

As of 2nd quarter of FY2014, 318 units have been sold.

The breakdown of remaining 212 units

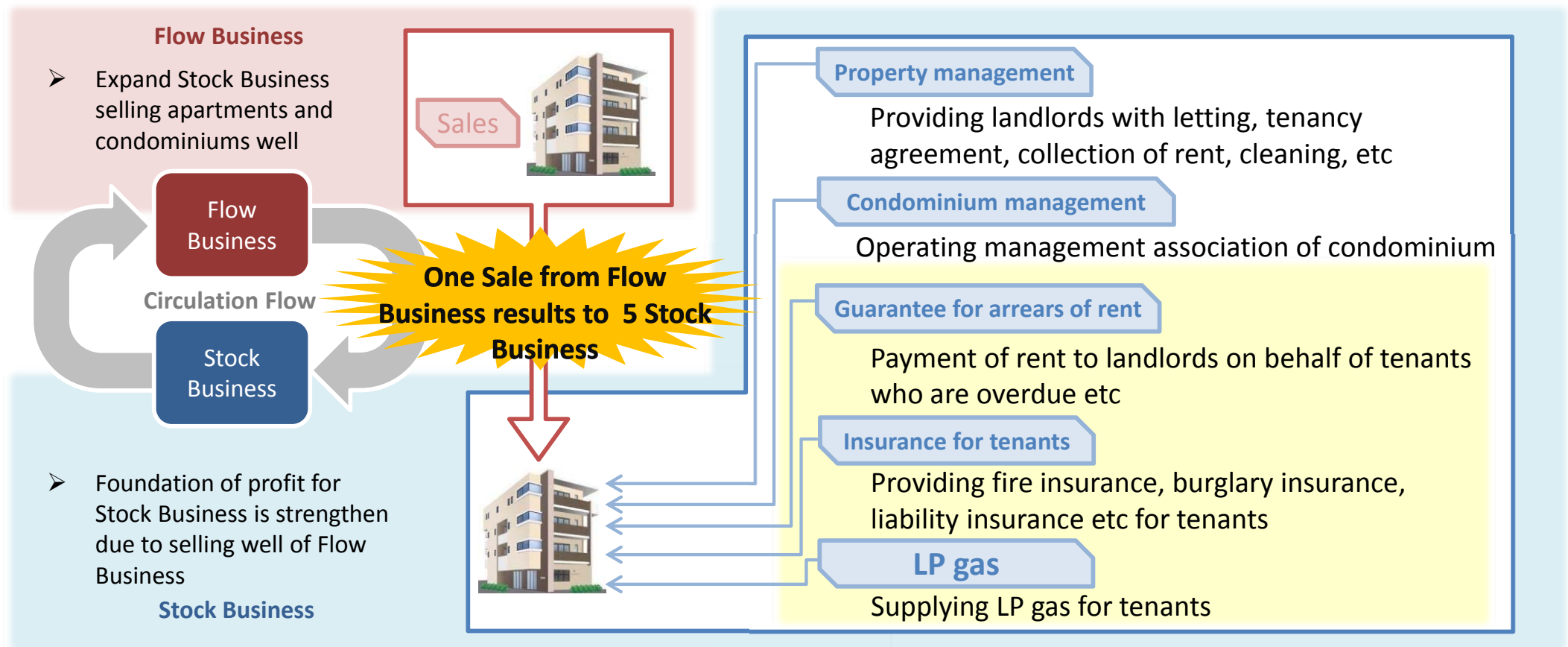
- Backlog of order : 66 units
- Remaining balance : 146 units

※Backlog of order means that buyers have contracted for purchase but have not handover yet

Stock Business

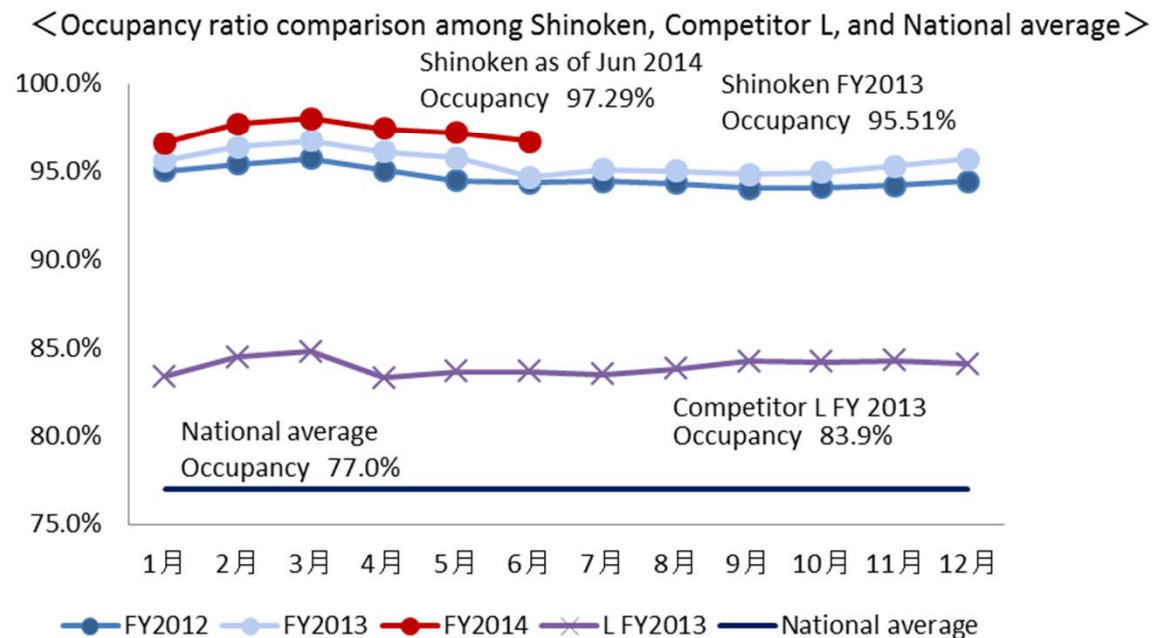
- After sales of apartments and condominiums, automatically customers shift to Stock Business
- Other than property management services, Shinoken provides guarantee for arrears of rent, insurance for tenants, LP gas supply, etc, and Shinoken differentiates from other competitors.

【Expansion image of Stock Business from Flow Business】

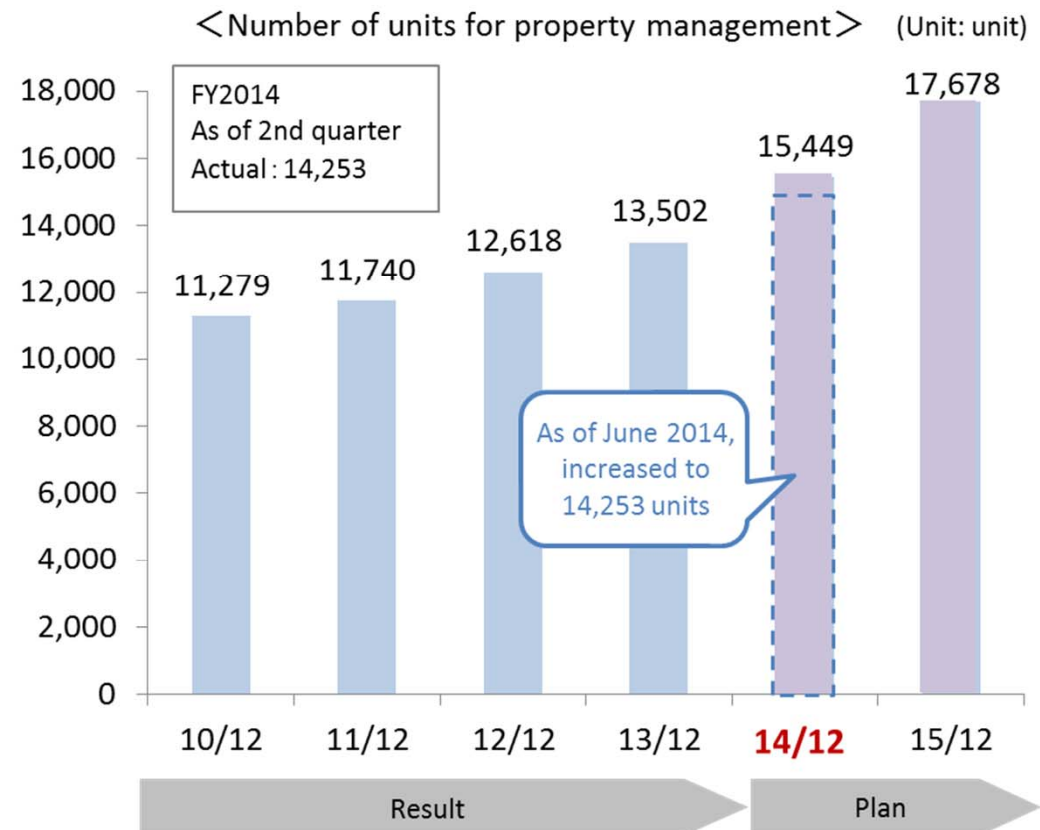


Stock Business <Property management business>

- **Achieved 97.29% occupancy ratio (Average occupancy ratio)**
- Number of units (buildings) for property management service has stably increased



(Source : Statistic Bureau, Ministry of Internal Affairs and Communications 「Statistic survey for house, land in 2008」)



Stock Business < Finance and guarantee business (Finance) >

- Shinoken commenced insurance business in September 2013
- Shinoken developed “restoration insurance for solitary death” which targets landlords who have senior tenants and “Stalker countermeasure cost insurance” which is small amount and short term insurance. These insurances developed by Shinoken are the first products in Japan and has begun selling since July 2014.

Providing Shinoken original and unique insurance!!

Restoration insurance for solitary death

Insurance covers cleaning, repair and restoration, etc



Stalker countermeasure cost insurance

Insurance covers purchasing security cameras, legal fees for stalking victims



Home care worker cost insurance

Insurance covers hiring costs of home care worker in the event that tenants require home care worker due to accidents in rental housing



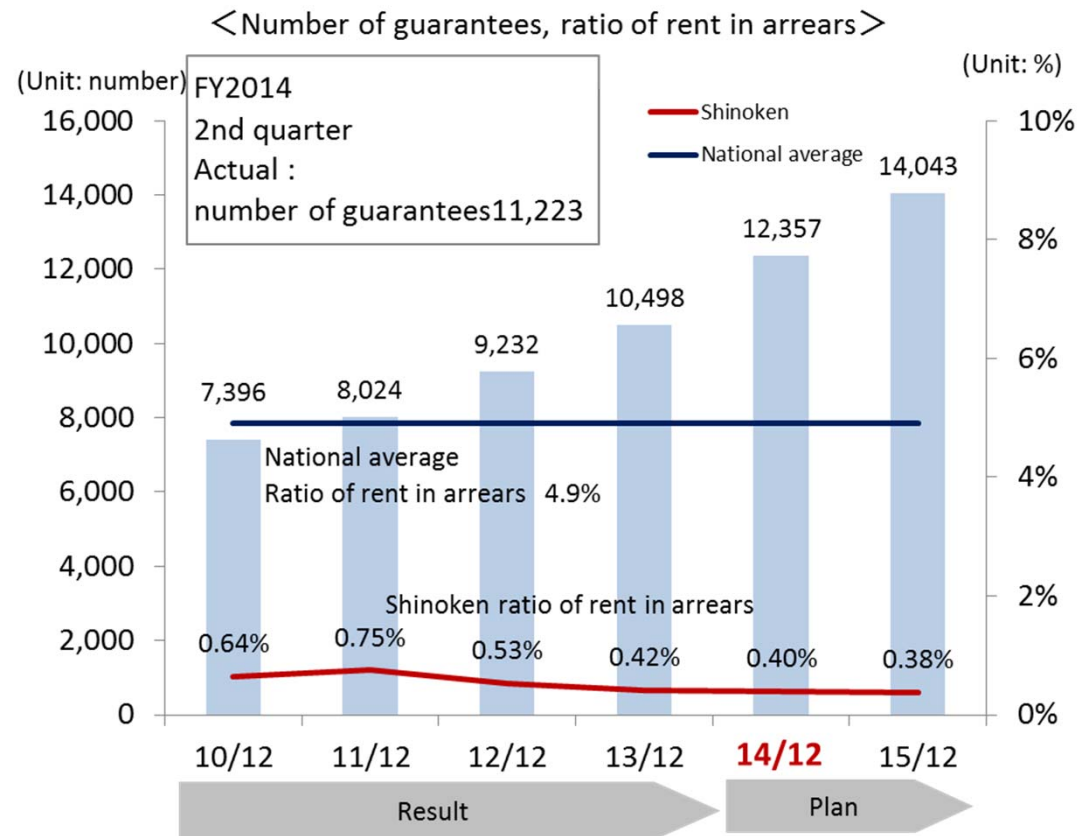
Pet charge insurance

Insurance covers pet hotel charges in the event that pets had accidents or owners of pets had accidents rental housing



Stock Business < Finance and guarantee business (Guarantee)>

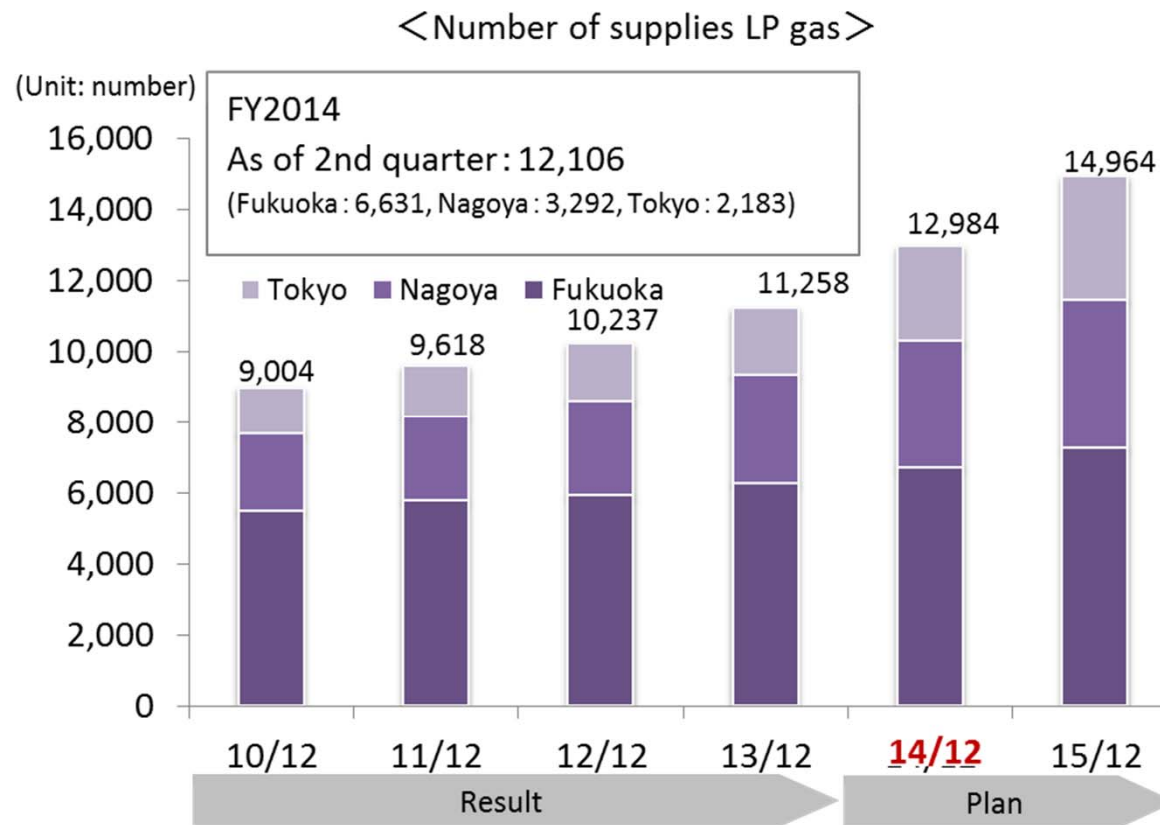
- Guarantee for arrears of rent means guarantee of rent payment and targeting tenants who are behind on their rent.
- The number of customers for the guarantee has been stably increased with the increasing in the number of property management services



(Source: Japan Property Management Association, “Nikkankyotankan” in the first half of 2013)

Stock Business <LP gas supply business>

- LP gas supply has stably increases as LP gas is supplied to the properties Shinoken Group sold under Flow Business
- Providing in Fukuoka, Tokyo and Nogoya



Long-term care business

- Operation 3 serviced elderly houses (Tokiwadai, Takashimadaira and Kashiihama) in Tokyo and Fukuoka
- Shinoken owns the serviced elderly houses and enhances the services collaborating with care service providers

【Directly operating the serviced elderly houses in Tokyo and Fukuoka】

Fukuoka city Higashi-ku:

Ju life Aquavilla Kashiihama

Total unit of 201 is the largest in Kyushu



Tokyo ward, Itabashi-ku:

Ju life Takashimadaira

Obtained first approval as Tokyo promotion business “Medical, care serviced elderly house”



Day service

Applife Takashimadaira



Fukuoka prefecture, Kasuya-gun:

Day service

Applife Higashi Fukuoka



Tokyo ward, Itabashi-ku:

Ju life Tokiwadai

Ranked no.1 in the largest care facility web site “HOME’S KAIGO”

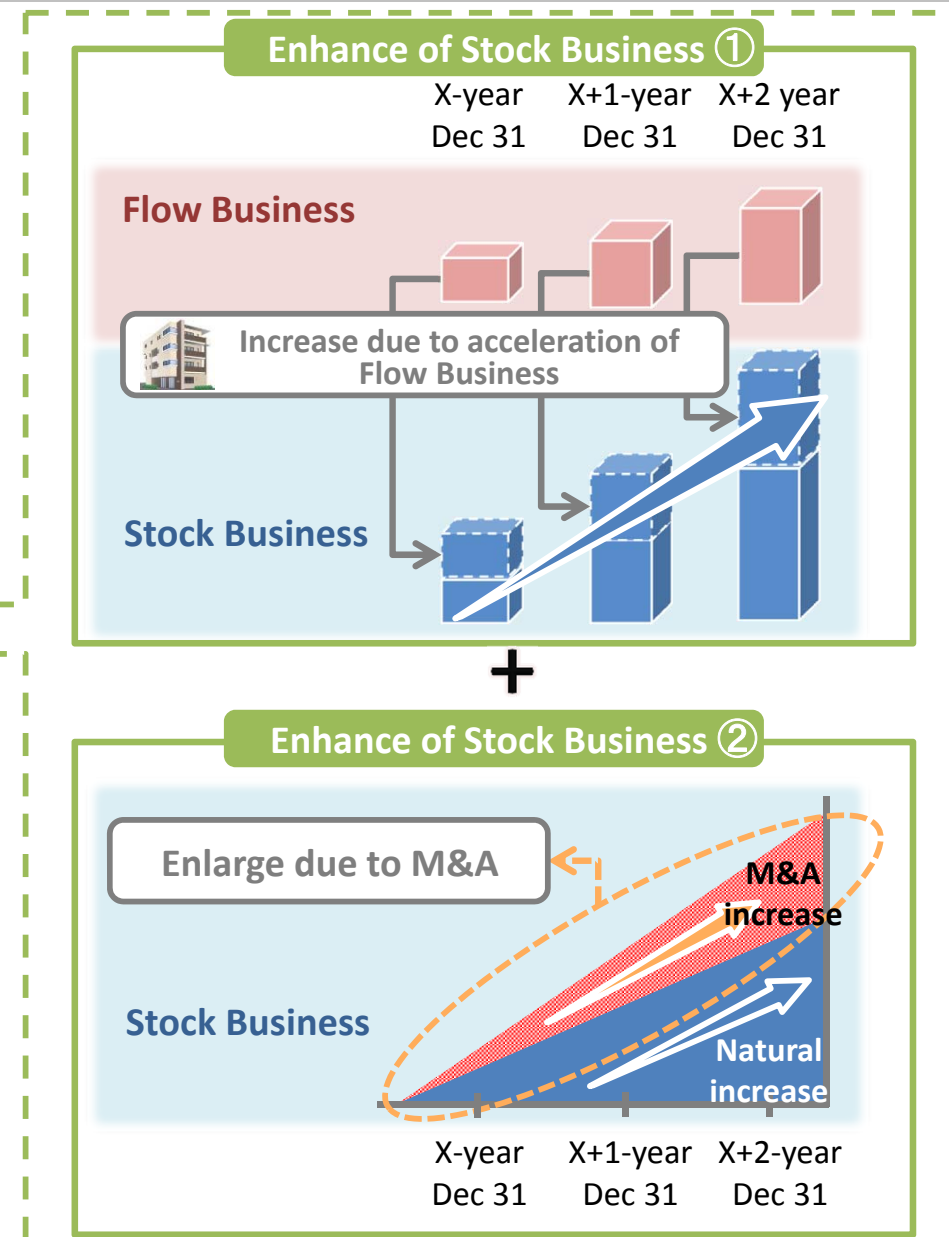
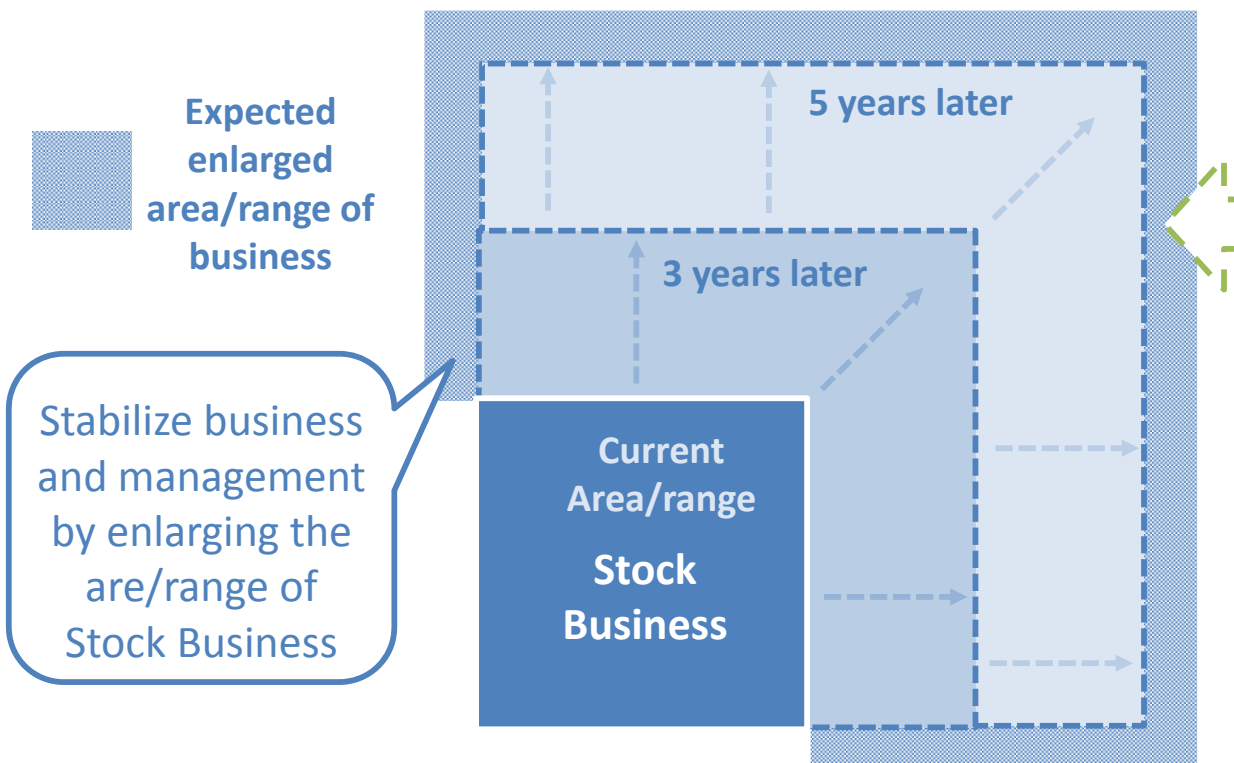


3. Growth strategy

Growth strategy

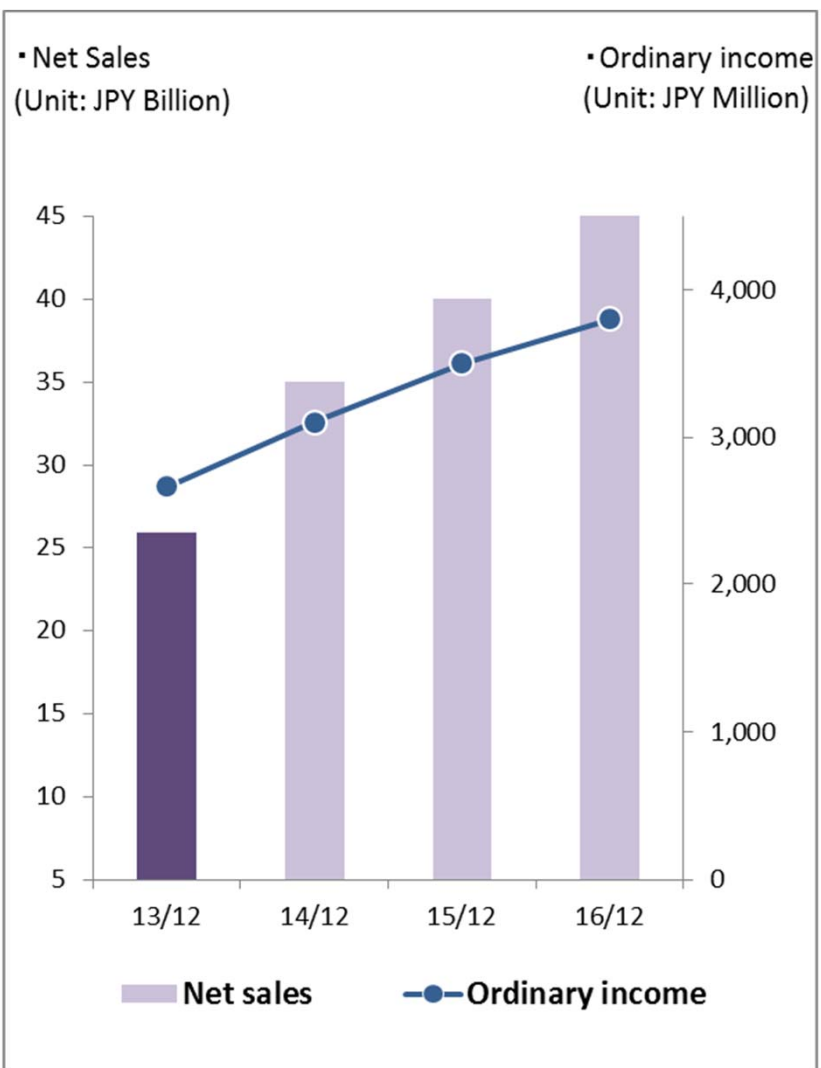
- Accelerate Flow Business and strengthen Stock Business
- Acquiring companies which operate Stock Business and enlarge business area

(Business range/area expansion image of Stock Business as growth strategy)



Medium term plan

■ FY2014: expected dividend JPY10.00 / share (reference, FY2013 : dividend JPY8.25 / share)



【Medium term plan】

Subject	Result	Plan			
	FY2013 Actual	FY2014 Plan	FY2015 Plan	FY2016 Plan	(Unit: JPY Million)
Net sales	25,970	35,000	40,000	45,000	
Operating income	2,912	3,300	3,700	4,000	
Ordinary income	2,667	3,100	3,500	3,800	
Net income	2,026	2,100	2,400	2,700	
Net assets	5,060	7,160	9,560	12,260	
EPS	249.18Yen	257.84Yen	294.68Yen	331.51Yen	

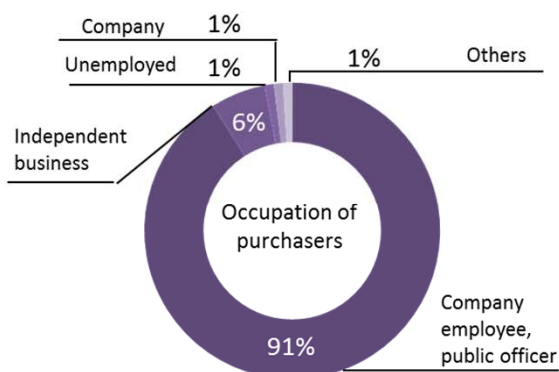
【Sales plan under medium term plan】

Item	Result	Plan			
	FY2013 Actual	FY2014 Plan	FY2015 Plan	FY2016 Plan	
Sales of apartment	148	240	280	320	
Sales of condominium	528	530	570	610	

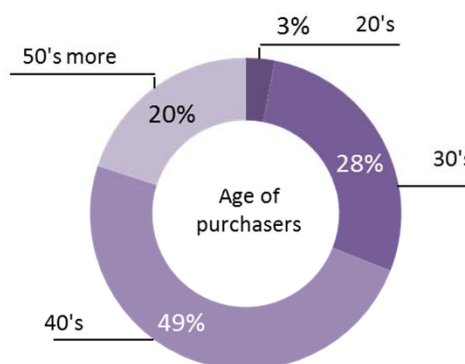
4. Appendices

【Appendix】 Breakdown of customer segment

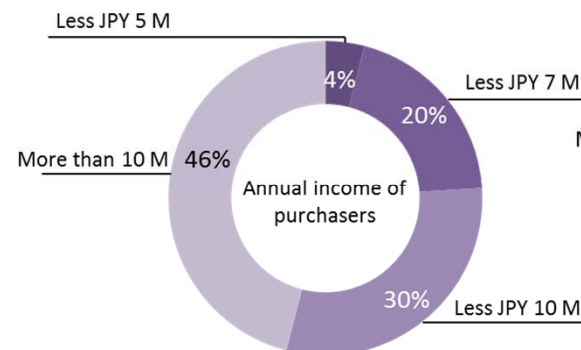
- Marketing method is primarily using advertising media and targeting individuals directly (**Pull type marketing**)
- Purchasers of apartments and condominiums are mainly in their 20s – 40s , comprising of company employees and public officers
- **40% of sales of apartments and condominiums are repeat customers and referrals from existing customers** (remaining 60% is new customers)



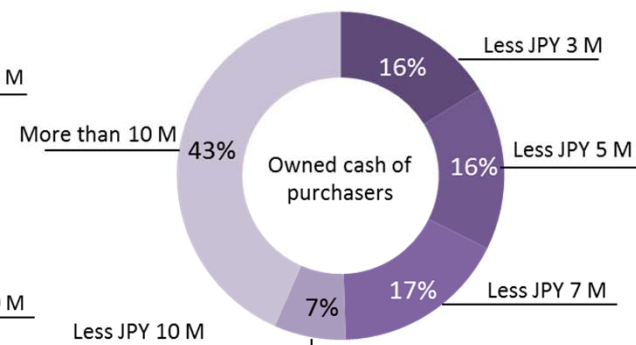
More than 90% of purchasers are company employees and public officers



More than 80% of purchasers are below forties



More than 50% of purchasers are below JPY 10 million of annual income, while about 46% are above JPY 10 million



More than 30% of purchasers are less JPY 5 million of own cash

【Appendix】 Sales plan of apartments – Meguro

— Access —



Close to Meguro Station

JR Yamanote Line Meguro Station

9

Minutes

Apartment

Toei Mita/Nanboku Line Shirokanedai Station

8

Minutes

Gross yield 6.02%

Gross yield calculated based on land price, building price and water supply work, but excluding consumption tax and other costs

Leveraged gross yield 36.97%

Depends on LTV. Leveraged gross yield calculated based on leveraged cash flow divided by own cash paid

Estimated gross rental 6,000 Thousand

Sales price 102,306 Thousand (Incl tax)

Land price/ 67,300 Thousand @ 2161.9 Thousand/Tsubo

Building price/ 33,386 Thousand (Incl tax) Building 30,913 Thousand Consumption tax 2,473 Thousand

Water supply work/ 1,620 Thousand (Incl tax)

Other costs/ 3,974 Thousand (Estimate) ... Registration tax, Fire insurance, Finance fees, etc

Total/ 106,280 Thousand (Incl tax)

Estimated monthly net income

123,230 Yen

Estimated yearly net income

1,478,760 Yen

◇Funding plan

Own cash 4,000 Thousand Loan amount 102,300 Thousand

Estimated gross rent

① Average rent **62,500 Yen (Unit) x 8 Unit =**

② Car park - Yen (Unit) x - Unit

Monthly gross rent

500,000 Yen

Monthly repayment of loan

102,300 Thousand loan Monthly repay P+I 376,770 Yen
35 Years Floating rate 2.700% =

Monthly repay P+I

376,770 Yen

Outline

— Land —

Address / Kami osaki 1-chome, Shinagawa-ku

Lot area / 103m² (31.14 Tsubo)

Building area / 83m² (25.17 Tsubo)

Zoning / Residential area

Building coverage ratio / 60%

FSI / 200%

— Building —

Type / **AVAND**

Structure / Siding wooden 2storey

Layout / 1R+loft

Gas / LP gas

Water works / Public

Sewerage / Flushing

【Appendix】 Sales plan of apartments – Nagoya



Close to Nagoya Station

Apartment

— Access —

Subway Higashiyama Line Shinsakaemachi Station

10

Minutes

Subway Tsurumai Line Tsurumai Station

14

Minutes

Gross yield 7.41%

Gross yield calculated based on land price, building price and water supply work, but excluding consumption tax and other costs

Leveraged gross yield 64.68%

Depends on LTV. Leveraged gross yield calculated based on leveraged cash flow divided by own cash paid

Estimated gross rental 6,462 Thousand

Sales price 89,322 Thousand (Incl tax)

Land price/ 44,800 Thousand @ 717 Thousand/Tsubo

Building price/ 44,522 Thousand (Incl tax) Building 41,224 Thousand

Consumption tax 3,298 Thousand

Water supply work/ 1,296 Thousand (Incl tax)

Other costs/ 3,766 Thousand (Estimate) ... Registration tax, Fire insurance, Finance fees, etc

Total/ 94,384 Thousand (Incl tax)

Estimated monthly net income

204,820 Yen

Estimated yearly net income

2,457,840 Yen

◇Funding plan

Own cash 3,800 Thousand Loan amount 90,600 Thousand

Estimated gross rent

① Average rent 55,500 Yen (Unit) × 9 Unit =

② Car park 13,000 Yen (Unit) × 3 Unit =

Monthly gross rent

538,500 Yen

Monthly repayment of loan

90,600 Thousand loan Monthly repay P+I 333,680 Yen
35 Years Floating rate 2.700% =

Monthly repay P+I

333,680 Yen

◆ Outline

— Land —

Address / Shinsakae 2-chome, Naka-ku, Nagoya

Lot area / 207m² (62.48 Tsubo)

Building area / 207m² (62.48 Tsubo)

Zoning / Commercial district

Building coverage ratio / 80%

FSI / 400%

— Building —

Type / **N-STD**

Structure / Siding wooden 2storey

Layout / 1K+loft

Gas / LP gas

Water works / Public

Sewerage / Flushing

【Appendix】 Product lineup – Sales of apartment business

- Providing in Tokyo, Fukuoka, Nagoya and Sendai
- Maintain high occupancy rate due to high quality design and good location within 10 minutes from nearest station

Area	Price range (Land and Building)		Gross yield	Structure	Layout	Target range
Tokyo	JPY 60 Million	~ JPY 100 Million	6.0 ~ 7.0%	Wooden	1K~1LDK With loft (11~40m ²)	Single person or DINKS with below 40's
Fukuoka	JPY 30 Million	~ JPY 60 Million	7.0 ~ 8.0%			
Nagoya	JPY 40 Million	~ JPY 70 Million	7.0 ~ 8.0%			
Sendai	JPY 30 Million	~ JPY 60 Million	7.0 ~ 8.0%			

- Main lineup of apartments are as follows (5 types)

※ Floor area of each are just reference purposes

QUGA

1LDK with loft
30m²~



LATRE

Maisonette Dwelling
35m²~



New Standard

Step floor type with loft
20m²~



AVAND

One room with loft
(Only in Tokyo)
11m²~



MeZoNa

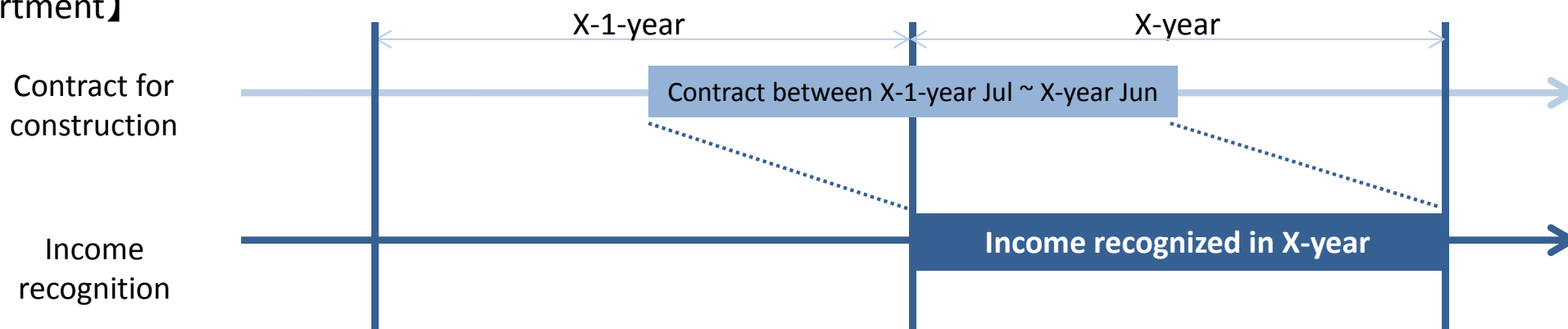
Maisonette Dwelling with loft
23m²~



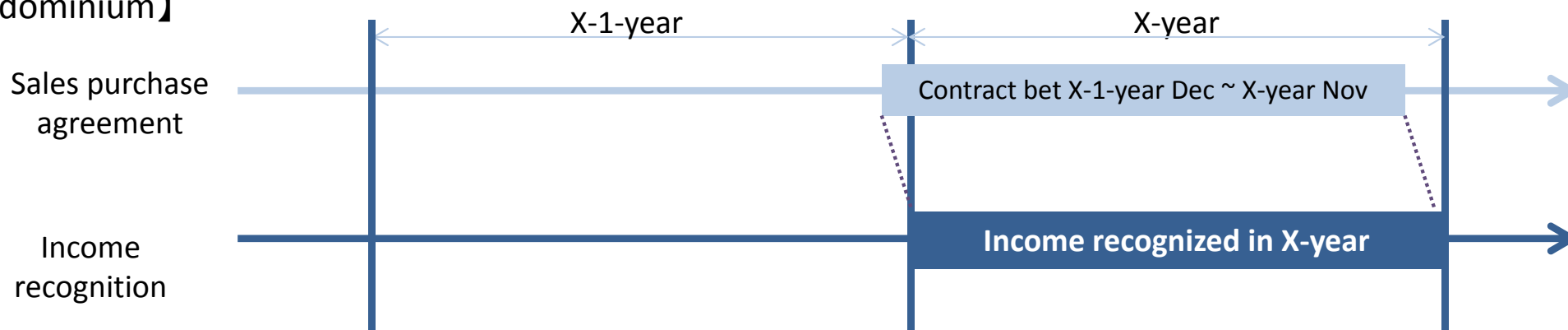
【Appendix】 Sales recognition of Flow Business

- Time lag between entering into sales, purchase agreement and income recognition is as follows:
- In the case of apartment, as construction starts after construction contract, the time lag is **six months** while time lag for condominium sales is only **one month**.

【Apartment】



【Condominium】



【Appendix】 Three Pillars of sales – Sales of condominium

- Providing condominium planning and sales in cities that have a lot of single people
- Concepts of sales of condominiums are “direct sales”, “overseas” and “actual demands”

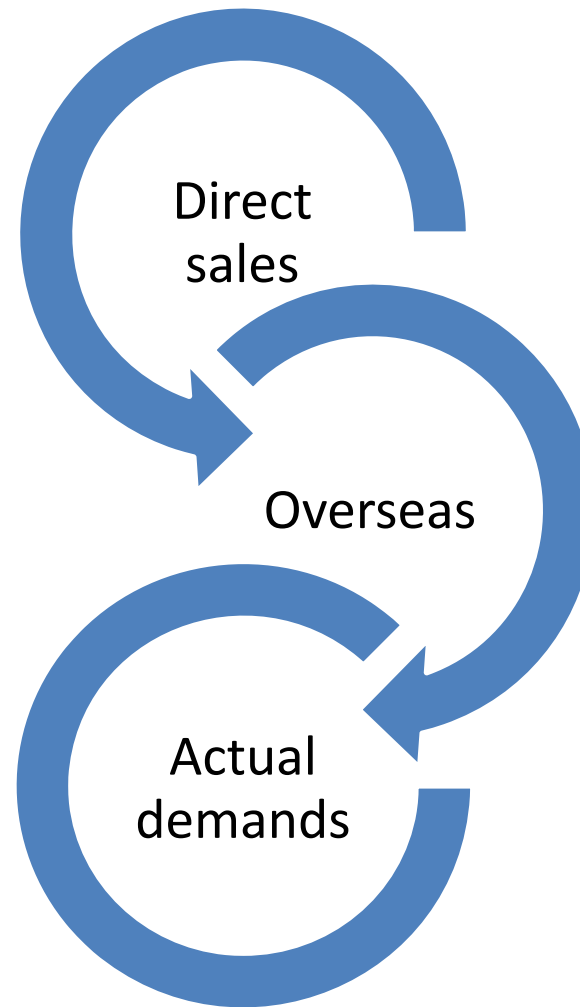
Direct sales

- Direct sales to end users
- Increase sales with increase in sales capabilities



Actual demands

- Sell the unit with 30m²~50m² for own use
- Strengthen the sales capabilities by setting up expert team



【Concept of condominium sales】



Overseas

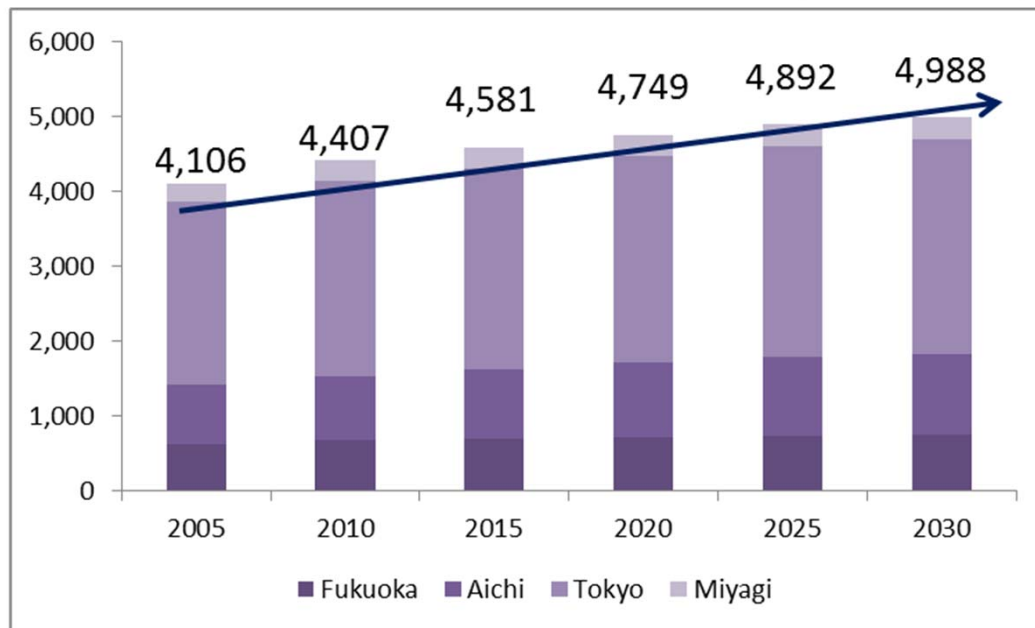
- Sales to investors, mainly Taiwanese and Chinese
- Increase real estate investment into Japan due to depreciation of JPY



【Appendix】 Business environments – Real estate sales

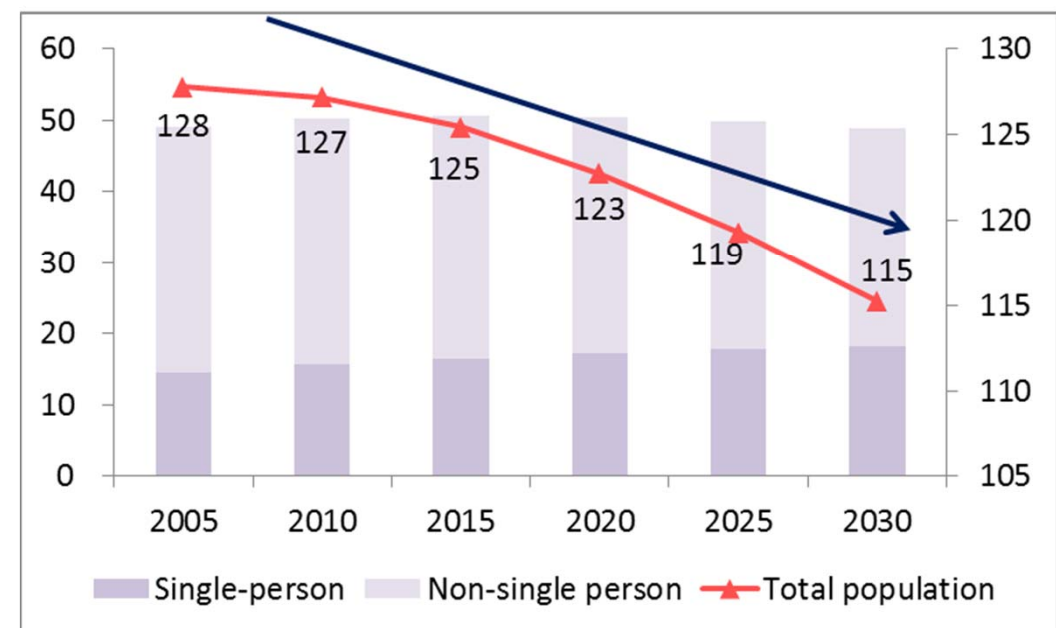
- Single-person households tend to increase in the 4 cities which Shinoken provides sales of real estate
- It is continuously expected to have stable occupancy rate, as single-person households which Shinoken targets tend to increase, despite total population is decreasing
- Increasing single-person households is positive factor for decision making of real estate investments

<Trends of single-person households(Target area of Shinoken)
(Unit: Thousand)



(Source: National Institute of Population and Social Security Research)

<Trend of total population and single-person households>
(Unit: M unit) (Unit: M people)

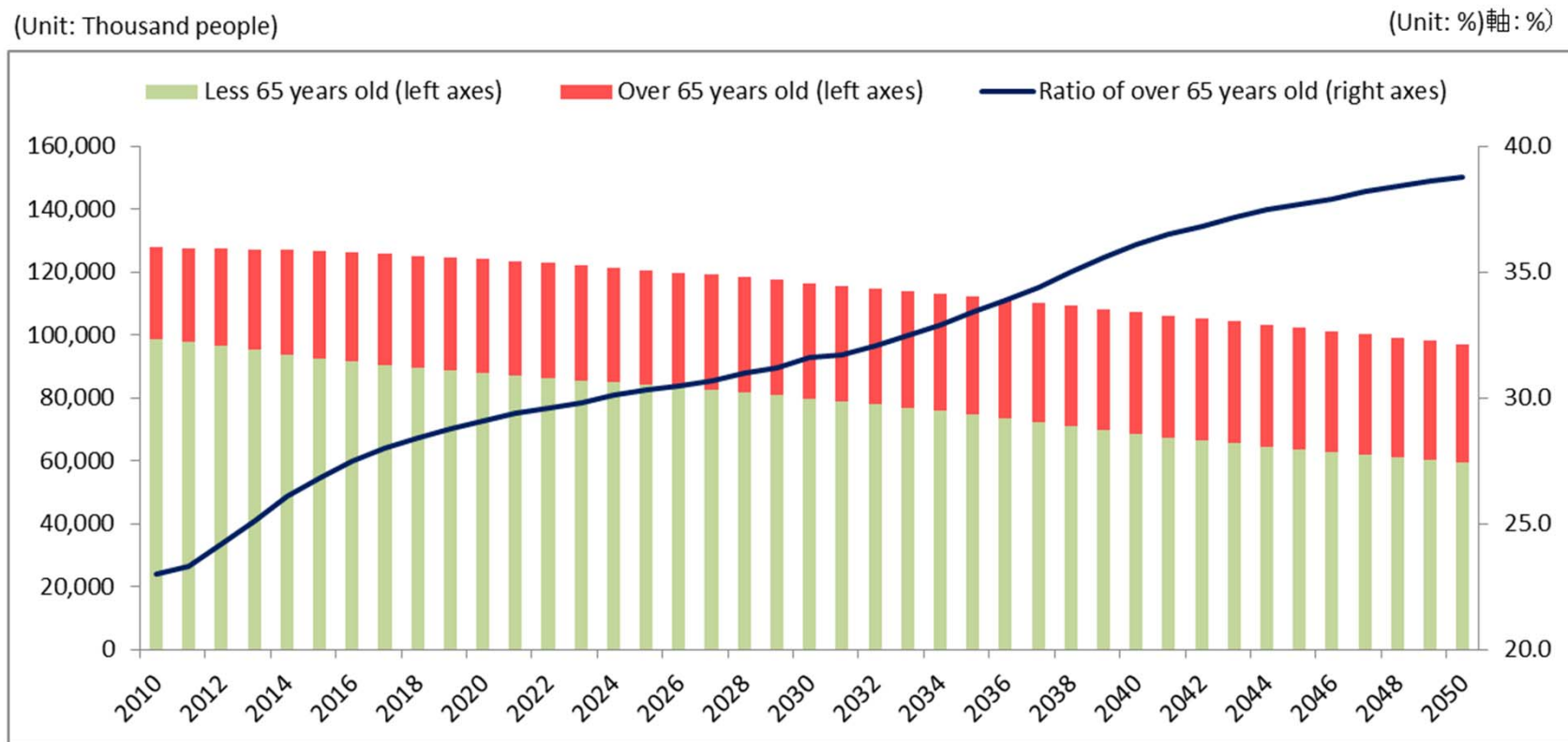


(Source: National Institute of Population and Social Security Research)

【Appendix】 Business environments – Long term care

- It is estimated that people over 65 years old will be increased to 38,782 thousand people in 2042, and shift to decrease afterwards
- Ratio of people over 65 years old has been increased since 2010 and it is estimated to continue to increase by 2050. The ratio is estimated to reach 38.8% in 2050

<Projection of elderly people (over 65 years old)>



(Source: National Institute of Population and Social Security Research, Population Projections for Japan (April 2012), Projection for Birth Middle Estimate(Death Middle Estimate))

5. Contact details

～ Disclaimer ～

The information contained herein includes assumptions, estimations and plans for future as of 23 August 2014. Due to uncertainty elements such as future economy and business environments, actual result might be different from estimation contained herein

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