Qualitative Information for the Fiscal Year Ended December 31, 2015

February 16, 2015

Company	Shinoken Group Co., Ltd.	Listed on the TSE
Stock Code	8909 URL: http://www.shinoken.co.jp	
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Expected date of annual shareholders' meeting: March 26, 2015

Expected starting date of dividend payment: March 27, 2015

Expected date of filing of annual securities report: March 26, 2015

Preparation of supplementary financial document: None

Results briefing: None

1. Analysis of management results and financial condition

(1) Analysis of management results

(Business results for fiscal year ended December 31, 2014)

During the fiscal year ended December 31, 2014, 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 Group, 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 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.

Since becoming a wholly owned subsidiary, it has begun construction subcontracting for some projects in the Group's investment condominium business, and internal production has enabled cost competitiveness unmatchable by peer companies. Present prospects are for order expansion driven by higher construction demand in tandem with the economic situation. Ogawa's business locations that cover all of the Kanto area enable proposals for high quality and attractive rental housing for investment. Going forward, prospects are for substantial contributions from the general contracting segment to the Group's business results.

As a result, financial results of the Group for the fiscal year ended December 2014 are as follows: Net sales of ¥39,724 million (up by 52.9% from the previous fiscal year), operating income of ¥4,740 million (up by 62.7%), ordinary income of ¥4,302 million (up by 61.3%), net income of ¥2,886 million (up by 42.4%). All were up for the fifth straight year, and profits reached record highs as in the prior term.

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.

Segment sales were ¥10,838 million (up by 28.5% from the previous fiscal year), with profit of ¥1,006 million (up by 22.3%).

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.

Segment sales were ¥13,287 million (up by 9.7% from the previous fiscal year) , with profit of ¥3,146 million (up by 56.4%).

③ General contractor business

Ogawa Construction's status as a wholly owned subsidiary enabled entry into the general construction contracting field starting in this term. Good progress was made in construction subcontracting on orders from corporations, individuals and government agencies.

Segment sales were ¥8,798 million, with profit of ¥518 million.

④ Property management business

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

Segment sales were ¥5,440 million (up by 18.2% from the previous fiscal year), with profit of ¥581 million (up by 7.9%).

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.

Segment sales were ¥419 million (up by 102.4% from the previous fiscal year), with profit of ¥155 million (up by 6.6%).

⑥ Long-term care business

Operates three buildings which provide nursing care. Started operation of the third building (Takashimadaira) in addition to existing two buildings (Tokiwadai, Kashiihama) operated from the previous term. Good increases in occupancy rates and filled-out nursing services enabled black-ink profitability.

Segment sales were ¥235 million (¥11 million in the previous fiscal year), with profit of ¥20 million (operating loss for the segment of ¥73 million in the previous fiscal year).

⑦ Other businesses

The number of households to which LP gas was supplied increased to 13,041 at the end of the term.

Segment sales were ¥705 million (up by 15.0% from the previous fiscal year), with profit of ¥90 million (up by 2.5%).

(Outlook for the next term)

The economic situation does not admit of optimism, but the government's economic stimulus policies suggest a gradual recovery. In the real estate industry, however, there remain concerns about soaring personnel and materials expenses, as well as the effects of further consumption tax increase.

In such an environment, the Shinoken Group will seek to build a management foundation that can respond flexibly to any economic environment. The group is aiming to increase the sales centering on the flow business (Sales of apartment, Sales of condominium and General contractor), while strengthening and expanding the earnings and financial foundations of the stock business (real estate rental management, finance and insurance, nursing and LP gas supply and sales), looking to a Group structure that can post stable profits.

The consolidated forecasts for the next fiscal year ending December 2015 are net sales of ¥50,000 million, operating income of ¥5,200 million, ordinary income of ¥4,850 million and net income of ¥3,300 million.

2. Analysis of financial condition

(1) Assets, liabilities and net assets

(Assets)

The outstanding balance of assets at the end of the fiscal year ended December 31, 2014 was ¥38,625 million, up by ¥16,422 million from the end of the previous fiscal year. The increase derived mainly from consolidation of four new subsidiaries, including Ogawa Construction, that increased real estate for sale by ¥6,261 million, the real estate balance by ¥3,313 million, cash and deposits by ¥2,607 million, and notes receivable and completed construction receivables by ¥2,316 million.

(Liabilities)

The outstanding balance of liabilities at the end of the fiscal year ended December 31, 2014 was ¥30,623 million, up by ¥13,481 million from the end of the previous fiscal year. The increase derived mainly from consolidation of four new subsidiaries, including Ogawa Construction, that increased long term borrowings by ¥6,795 million, short term borrowings by ¥2,494 million, and construction payables by ¥1,704 million.

(Net assets)

The outstanding balance of net assets at the end of the fiscal year ended December 31, 2014 was ¥8,001 million, up by ¥2,941 million from the end of the previous fiscal year. The increase derived mainly from net profit that increased retained earnings by ¥2,892 million.

(2) Cash flows

Cash and equivalents (hereinafter "cash") increased by ¥2,603 million from the end of the previous fiscal year to ¥6,026 million. Following are the factors that affected cash flows:

(Cash flows from operating activities)

Net cash used by operating activities was ¥2,515 million (¥3,745 million was provided in the previous fiscal year). The principal sources of cash were pretax net profit of ¥4,353 million, a ¥956 million increase in accounts payable, interest payable of 374 million yen, a 251 million yen decline in accounts receivable, depreciation of 244 million yen and goodwill amortization of 231 million yen. The principal use of cash was a 9,072 million yen increase in inventory assets.

(Cash flows from investing activities)

Net cash used by investing activities was ¥1,140 million (¥2,348 million was used in the previous fiscal year). The principal uses of cash were expenditure of ¥652 million for acquisition of subsidiaries' stock in connection with changes in the scope of consolidation, and expenditure of ¥381 million for acquisition of tangible fixed assets.

(Cash flows from financing activities)

Net cash provided by financing activities was ¥6,256 million (¥77 million was used in the previous fiscal year). The principal source of cash was income of ¥15,823 million from long term borrowings. The principal uses of cash were expenditures of ¥8,527 million for repayment of long term borrowings, interest payments of ¥368 million and a decline of ¥361 million in short term borrowings.

(3) Basic policy for distribution of profit and divided in the current and next fiscal year

The Group intends ongoing improvement in shareholder value, including return of profit to shareholders. To this end, the Group promotes efficient management and aggressive business activity, and establishment of a stable and sustainable earnings foundation not swayed by the economic environment, thereby implementing stable returns to shareholders and prioritizing the Group’s position as an ongoing concern.

Based on these policies, the dividend for the fiscal year ended December 31, 2014 takes into account its business results and forecasts for the following term, and is set at 10 yen per share, for an annual dividend of 15 yen.

The year-end dividend and interim dividend for the next fiscal year ending December 31, 2015, are expected at 6.25 yen each, for an annual 12.5 yen per share.

Based on a resolution of the Board of Directors meeting convened on November 17, 2014, a 2-for-1 common stock split was carried out with an effective date of January 1, 2015. The dividend for the fiscal year ended December 31, 2014 is based on the pre-split number of shares. For the year ending December 2015, it will be based on the post-split number.

(4) Business risks

No new business risks emerged in the term under review. There was material change in the risks noted in the prior term's securities report.

2. Management policy

(1) Basic management policy of the Group

Since the Group's establishment, "customer asset creation" has been the objective, helping asset formation for salaried corporate employees and public servants by means of proposals for rental housing management. The Group's flow business which includes sales of apartment, sales of condominium and general contractor as the mainstays, has strong synergies with the stock businesses of property management business, finance and guarantee business, nursing care and supply and sales of LP gas, developing the real estate business throughout the Group.

With Fukuoka and the Tokyo area as the principal areas of operations, the Group has business bases in other major Japanese cities such as Osaka, Nagoya, Sendai and Sapporo. Also in overseas, the Group is engaged in marketing activities with a focus on Shanghai and Singapore. Going forward, the Group will leverage business synergies, to strengthen the overall Group organization and product development, and focus on growth as a fair and sustainable public company.

(2) Important management indicator targets

Within the Group, the equity capital ratio and return on equity (ROE) are positioned as important management indicators. By reinforcing its financial condition, the Group aims at achieving an equity capital ratio of 30% or higher early, and ROE of 20% or better in any operating environment.

(3) Medium to long-term management strategy of the Group

The Group's principal profit basis is the flow businesses (Sales of apartment, Sales of condominium and General contractor) plus real estate rental management.

Sales of apartment are conducted in the high demand cities around Tokyo, Osaka, Fukuoka, Nagoya and Sendai. The Group’s proprietary business model promotes approaches to salaried workers and civil servants who do not possess land to differentiate the Group from other companies. In recent years, there have been increases in inquiries from individual investors who already own land, so the Group is stressing proposal-based sales to make effective use of it and working toward further increases in the number of sales of buildings.

In sales of condominium business, the Group has deployed into high demand areas centering on Tokyo. In the investment condominium market, the Group has eminent domestic marketing capabilities. The Group is aiming to meet the needs of individual investors by purchasing good quality properties in advantageous locations backed by its marketing capabilities.

In general contractor business, the Group’s core business fields are three: construction subcontracting business for Tokyo-centered condominiums, office buildings and public facilities; earthquake proofing, building diagnostics and other renovation business; and inheritance tax measures and other land use business. Backed by higher construction demand incident to the present economic situation, new orders are increasing favorably.

The Group expects wide range of synergies, which enables the Group to make proposals for better quality and more reasonable condominiums, by internal production of subcontracting in the Group's investment condominium business.

In real property management business, the number of units exceeds 15,000 and is a stable income source for the Group. The Group expects that the number of units under management continues to increase because the occupancy rate of the managed properties maintains a high level and most of properties sold by the Group are to be under managed by the Group.

In the condominium management business, Shinoken Amenity Co. undertakes management of properties centering on those sold by the Group, and also makes use of its accumulated expertise in building maintenance. The Group will aiming to enhance its earning power and reduce costs by conducting its cleaning work in Group rental management properties internally. Going forward as well, linkage of these real estate rental management businesses will improve the overall Group service levels, strengthen competitiveness and secure stable earnings.

In the nursing care business in which the Group entered full scale in the previous term, Shinoken Wellness Co. owns and operates three buildings as service-equipped residences for the elderly. By focusing on the increasing aging society and the expanding senior market, the Group can anticipate synergies with the real estate business. Nursing care is positioned as an important future business and will be reinforced.

The Group's medium to long-term management strategy is maximization of synergies between the flow and stock businesses, Property management, Finance and guarantee, Long-term care, and LP gas supply and sales. In the stock business' , the number of rent arrears guarantee contracts now exceeds 11,800 and the number of households served by the LP gas business exceeds 13,000, the business scale is growing steadily.

Going forward, while seeking a balance between the flow and stock businesses, and stabilization and maximization of earnings, the Group will build a Group structure that can secure stable earnings notwithstanding the state of the economy and real estate market.

(4) Issues facing the Group

The Group seeks to build a management foundation that can flexibly cope with any changing economic environment. To this end, the flow business, apartment and condominium sales systems are to be reinforced and unit sales increased. Sales are also to be increased and in the general construction contracting business. In the stock business, real estate rental management-centered finance and insurance, nursing care and LP gas sales are to be expanded. Management will seek to build a stable and sustainable earnings foundation that is not vulnerable to the management environment.

Closer coordination will be promoted among Group companies with the aim of building a corporate group that can maximize synergies. Shinoken will continue to strive to increase our corporate value by expanding earnings and securing stable profits through the above initiatives.