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URBANET CORPORATION (3242)

Consolidated Fiscal Year (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY06/2016		17,704	2,005	1,720	1,139	45.6	16.0	234.6
FY06/2017CoE		18,000	2,300	1,900	1,270	50.9	18.0	-
FY06/2016	YoY	48.6%	21.3%	23.3%	30.5%	-	-	-
FY06/2017CoE	YoY	1.7%	14.7%	10.4%	11.5%	-	-	-
Consolidated Half Year (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 to Q2 FY06/2016		7,859	914	739	486	-	-	-
Q3 to Q4 FY06/2016		9,844	1,090	981	653	-	-	-
Q1 to Q2 FY06/2017CoE		11,000	1,750	1,595	1,080	-	-	-
Q3 to Q4 FY06/2017CoE		7,000	550	305	190	-	-	-
Q1 to Q2 FY06/2017CoE	YoY	40.0%	91.3%	115.8%	122.2%	-	-	-
Q3 to Q4 FY06/2017CoE	YoY	(28.9%)	(49.6%)	(68.9%)	(70.9%)	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (16 September 2016)

Persistently Increasing Dividend

URBANET CORPORATION, developing and selling (wholesaling: B to B) studio apartments for investment on a building basis, exclusively in Tokyo's 23 wards with condition to arrive within 10 minutes by walking from nearest stations, as the key operations, is seeing persistently increasing sales and earnings, while planning to increase annual dividend for the sixth consecutive year in FY06/2017. Sales and earnings increased sharply over the previous year in FY06/2016 due mainly to selling of 658 units (up 29.8% YoY) for self-developed studio apartments for investment, which is to be followed by steady increases of sales and earnings in FY06/2017. Although the Company goes for selling of no more than 587 units (down 10.8% YoY) for studio apartments for investment, unit selling prices and thus gross profit margin are to rise in line with increasing exposure to direct lump-sum sales on a building basis to domestic / overseas investors as well as to individuals who are keen on inheritance tax measures. When compared with existing mainstay sales to apartment sales companies, the Company inevitably sees delayed timing for sales contracts being signed but sales and gross profit relatively larger. That is to say, high risk leads to high return. However, in regards to prospective 587 units (down 10.8% YoY) in FY06/2017, sales contracts for all of them have been signed to date, including those of direct lump-sum sales. It is often the case that real estate brokers are intervened in regards to direct lump-sum sales, resulting in increases of SG&A expenses due to brokerage fees to be paid to them. Still, gross profit margin higher is more than compensating and thus operating profit margin is enhanced. Meanwhile, it should be also spotted that the Company is increasingly exposed to diverse sources for earnings in a long-term view, given steady startup of operations for end users (retailing: B to C) by URBANET LIVING CO., LTD. (100% subsidiary).

In FY06/2016, sales came in at ¥17,704m (up 48.6% YoY), operating profit ¥2,005m (up 21.3% YoY) and operating profit margin 11.3% (down 2.5% points YoY). Gross profit margin came in at 18.7% (down 2.9% points YoY), while the ratio of SG&A expenses to sales 7.4% (down 0.4% points), having resulted in adjustment of operating profit margin. In regards to Real Estate Development & Sales, where the Company runs the key operations of developing and selling (wholesaling: B to B) for studio apartments for investment on a building basis, sales came in at ¥15,755m (up 35.0% YoY), Real Estate Trading ¥1,776m (up 18.5x YoY) and Other ¥172m (up 20.6% YoY). In the mainstay Real Estate Development & Sales, the Company did not see direct sales of condominium apartment two years in a row, while sales of Real Estate Trading carrying gross profit margin relatively low shot up, having resulted in sales mix getting worse. In FY06/2015, the Company saw selling of *Asyl Coffret SHIN-NAKANO*, i.e., large-scale compact apartment that generated substantial sales and gross profit margin exceptionally high. Meanwhile, SG&A expenses came in at ¥1,308m (up 41.1% YoY). While personnel expenses increased due mainly to increasing number of personnel to beef up operations by aforementioned URBANET LIVING CO., LTD., so did payment of rent. From existing one to have been cramped for some time, the Company's head office was transferred to new place with floor space larger in June 2015. On top of this, SG&A expenses increased also in line with increasing payment of brokerage fees stemming from direct lump-sum sales of collective 67 units of two buildings to overseas corporations and 41 units of one building to domestic corporation out of collective 658 units of 15 buildings to have been sold as a whole for the Company in FY06/2016.

FY06/2017 Company forecasts are going for prospective sales of ¥18,000m (up 1.7% YoY), operating profit of ¥2,300m (up 14.7% YoY) and operating profit margin of 12.8% (up 1.5% points YoY). Meanwhile, the Company is to increase annual dividend for the sixth consecutive year, planning to pay ¥18.0 per share, implying payout ratio of 35.4%. At the same time, Company forecasts assume gross profit margin of 21.4% (up 2.7 % points YoY) and the ratio of SG&A expenses to sales of 8.6% (up 1.2% points YoY). In regards to the key operations of developing and selling (wholesaling: B to B) studio apartments for investment on a building basis, the number of units to be sold is to come down over the previous year as well as for that of buildings to be sold. Still, changes of contents in the latter suggest sales mix improving over the previous year, i.e., 12 buildings (8 to be sold to apartment sales companies and 4 to domestic / overseas investors, etc.) in FY06/2017 versus 15 buildings (12 and 3, respectively) in FY06/2016.

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2.0 Company Profile

Developing and Selling Studio Apartments for Investment on A Building Basis

Company Name	URBANET CORPORATION CO., LTD. Company Website (Japanese only) IR Information (Japanese only) Share Price
Established	7 July 1997
Listing	28 March 2007: Tokyo Stock Exchange JASDAQ Standard (Ticker: 3242)
Capital	¥1,654m (As of the end of June 2016)
No. of Shares	24,974,400 shares, including 52 treasury shares (As of the end of June 2016)
Main Features	● A developer, started as design office ● Developing apartments, exclusively in Tokyo's 23 wards with condition to arrive within 10 minutes by walking from nearest stations, while sticking to *monozukuri*, meaning high-quality manufacturing ● Selling studio apartments for investment to apartment sales companies, domestic / overseas corporations, etc.
Businesses	Ⅰ. Real Estate Business, mainly developing, trading and selling apartments for investment and condominium apartments
Top Management	President & CEO: Shinji Hattori
Shareholders	Hattori Co., Ltd. 21.2%, Shinji Hattori 4.0%, Hironobu Hattori 1.9% (As of the end of June 2016)
Headquarters	Chiyoda-ku, Tokyo, JAPAN
No. of Employees	Consolidated: 50, Parent: 43 (As of the end of June 2016)

Source: Company Data

3.0 Recent Trading & Prospects

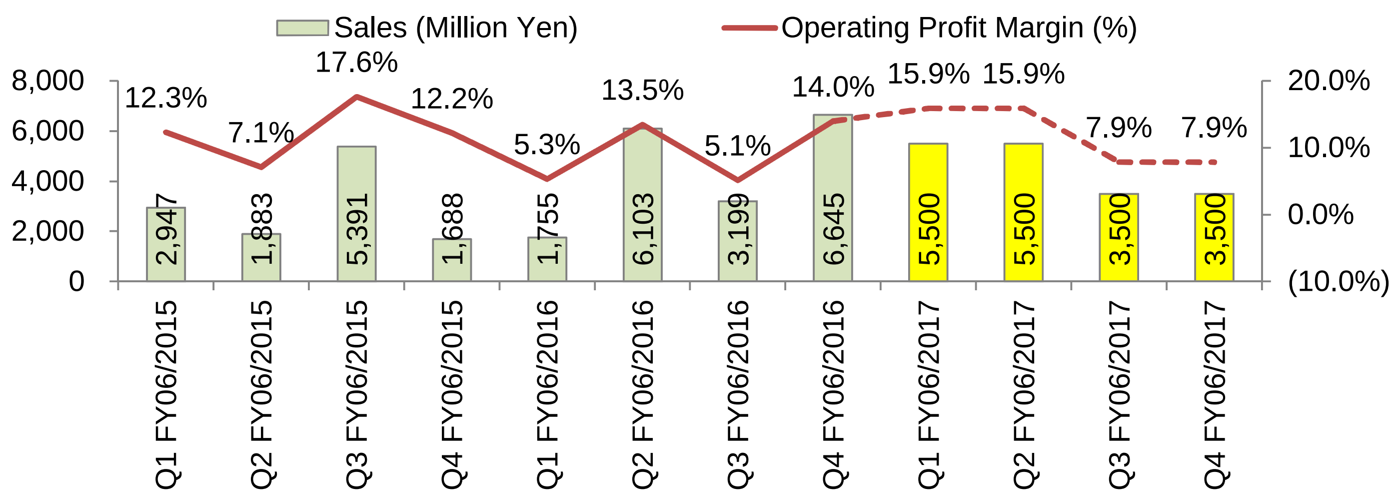
FY06/2016 Results

In FY06/2016, sales came in at ¥17,704m (up 48.6% YoY), operating profit ¥2,005m (up 21.2% YoY), recurring profit ¥1,720m (up 23.3% YoY) and net profit ¥1,139m (up 30.5% YoY), while operating profit margin 11.3% (down 2.5% points YoY).

When compared with initial Company forecasts, sales were better by 10.7% (¥1,704m) and by 13.9% (¥245m) for operating profit. On 10 March 2016, the Company released announcement of upgrades for consolidated sales and earnings where sales were upgraded by 6.3% (¥1,000m) and operating profit by 9.1% (¥160m), while results were even better.

As far as we could gather, above-mentioned overshoots have a lot to do with an issue that one building (*Heiwajima II PJ*: 41 units), one of studio apartments for investment, whose sales contract had not been signed but was assumed to be sold to existing mainstay purchasers, i.e., apartment sales companies in Company forecasts, was eventually sold to domestic corporation on a direct lump-sum basis. Meanwhile, the Company saw sales and gross profit rather larger than assumed in regards to 4 units of ready-made detached houses (developed by the Company for the first time after a decade suspension) to individuals. On top of this, the Company saw sales stemming from selling of land, not assumed in Company forecasts, also contributed to sales better than expected.

Sales, Operating Profit Margin

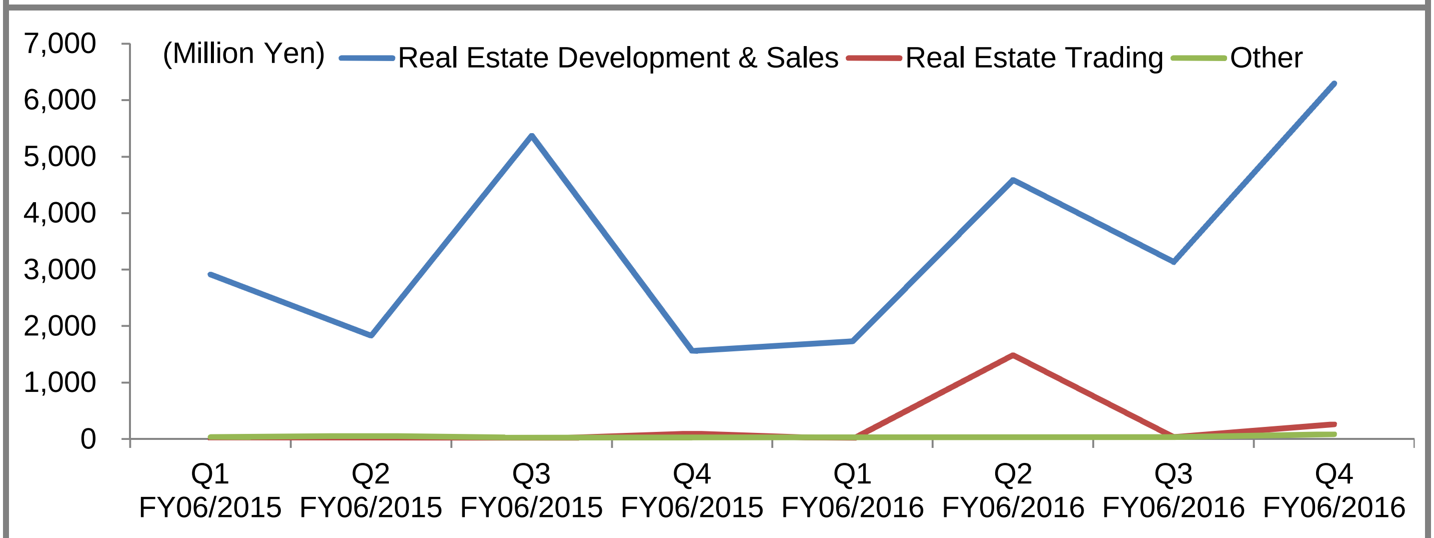


Source: Company Data, WRJ Calculation (quarterly forecasts in FY06/2017: half year Company forecasts, pro rata)

The Company's sales and earnings on a quarterly basis are apt to change with high volatility. This is in line with changes of sales in regards to the mainstay Real Estate Development & Sales, having accounted for 89.0% of sales as a whole for the Company in FY06/2016, while the bulk of sales in here are accounted for by the key operations of developing and selling (wholesaling: B to B) studio apartments for investment on a building basis. Over collective four quarters (during 12 months) of FY06/2016, the Company saw selling of 15 buildings, while said selling is carried out literally by building and thus it was inevitably the case that sales of each quarter were varied.

Still, precisely speaking, in regards to sales to existing mainstay purchasers, i.e. apartment sales companies, it has to be mentioned that sales per building are basically booked in a quarter and one to follow, i.e., during two quarters. In fact, sales contracts are signed on a building basis, but timing for the Company to book sales depends on that of settlement for apartment sales companies to sell to retail investors. Thus, four months are provided in principle as a period of postponement for apartment sales companies to complete all the settlement of sales after transfer of object. Nonetheless, the number of buildings to have been sold stands at no more than 15 and it was inevitable the case that sales on a quarterly basis were varied. Meanwhile, sales are booked literally on a lump-sum basis in regards to direct lump-sum sales to domestic / overseas corporations and/or individuals.

Sales



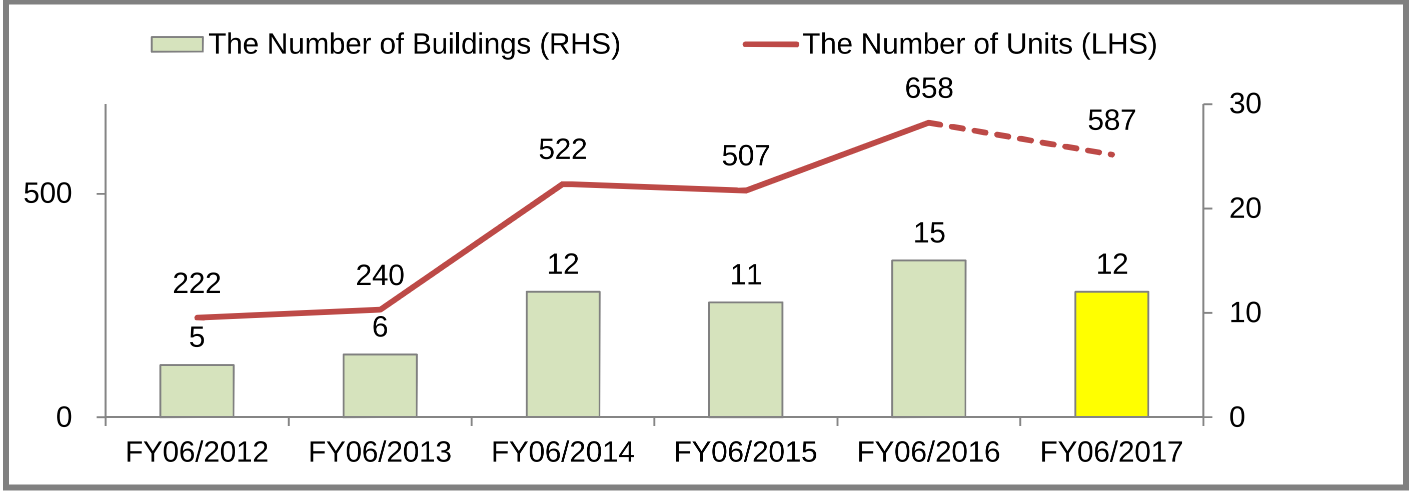
Source: Company Data, WRJ Calculation

At present, Real Estate Development & Sales is overwhelming source of earnings as a whole for the Company. In FY06/2016, the Company saw some meaningful sales of Real Estate Trading in Q2, stemming from selling of externally procured objects, i.e., 30 units of one building and of 7 more detached units, but gross profit margin relatively lower. Meanwhile, as of the end of FY06/2016, inventory for said operations stood at no more than three units.

The core part of Real Estate Development & Sales is accounted for by the key operations of developing and selling (wholesaling: B to B) studio apartments for investment on a building basis. Over the past five years, the number of buildings to have been sold has been basically increasing, as well as that of units, meaning that they were not always on the rise. This is due mainly to that the Company was intermittently involved with other operations during the same period, i.e., development and direct sales of family apartments and/or compact apartments

For example, in FY06/2015, while the number of buildings and units to have been sold for studio apartments for investment came down over the previous year, the Company saw selling of *Asyl Coffret SHIN-NAKANO*, i.e., large-scale compact apartment that generated substantial sales and gross profit margin exceptionally high.

Studio Apartments for Investment: The Number of Buildings and Units (to Have Been Sold)



Source: Company Data, WRJ Calculation (The Number of Buildings includes redundancies from the previous year)

Then, in FY06/2016 to follow, the Company saw sales from selling 658 units of 15 buildings (including 107 units of 2 buildings associated with sales to apartment sales companies carried forward from the previous year), having seen substantial increases in the number of both units and buildings over the previous year. On top of this, the Company saw sales from selling 4 detached units and two projects to sell land. Thus, sales of Real Estate Development & Sales came in at ¥15,755m (up 35.0%), having increased a lot.

Still, in spite of increasing sales, the Company saw gross profit margin of Real Estate Development & Sales lower than previous year because sales associated with compact apartment in FY06/2015 did not reappear, as far as we could gather.

Meanwhile, in the business model of the key operations of developing and selling (wholesaling: B to B) studio apartments for investment on a building basis, the Company suggests that it takes some two years to recover funds (after development, etc.) since settlement of procurement for business-use sites. Thus, the Company can estimate the number of units and buildings to be sold in FY06/2017 and FY06/2018 with a high probability.

The Company suggests that it has already procured business-use sites for self-development of 599 units as a whole for all the projects to book sales in FY06/2017 by means of having signed contracts to do so (and 609 units, at the moment, in FY06/2018). In regards to studio apartments for investment, FY06/2017 Company forecasts assume selling of 12 buildings or 587 units, while sales contracts for all of them have been signed to date. The remaining 12 units are of one building of walk-up apartment currently being developed for the first time as a new domain by the Company. Said units are currently under development and thus it is taken for granted that sales contracts have not been signed to date. Meanwhile, URBANET LIVING CO., LTD., i.e., 100% subsidiary to have been set up to beef up operations for end users (retailing: B to C), is expected to procure said object and to sell to investor on a building basis.

The other thing is that the Company used to go for larger numbers in regards to buildings and units for studio apartments for investment to be sold in FY06/2017. This is due to delayed timing for booking sales for 62 units of two buildings to FY07/2018 in line with delayed construction and to that the Company has decided not to sell 52 units of one building but to hold the object as own property to generate income.

Income Statement (Cumulative, Quarterly)

Income Statement (Million Yen)	Par.Act Q1 06/2015	Par.Act Q1 to Q2 06/2015	Cons.Act Q1 to Q3 06/2015	Cons.Act Q1 to Q4 06/2015	Cons.Act Q1 06/2016	Cons.Act Q1 to Q2 06/2016	Cons.Act Q1 to Q3 06/2016	Cons.Act Q1 to Q4 06/2016	YoY Net Chg.
Sales	**2,947**	**4,831**	**10,222**	**11,910**	**1,755**	**7,859**	**11,059**	**17,704**	**+5,793**
Cost of Sales	2,382	3,927	8,114	9,330	1,412	6,338	9,080	14,390	+5,060
Gross Profit	565	904	2,108	2,580	343	1,521	1,978	3,313	+733
SG&A Expenses	202	407	661	927	249	606	900	1,308	+380
Operating Profit	**363**	**496**	**1,447**	**1,652**	**93**	**914**	**1,078**	**2,005**	**+352**
Non Operating Balance	(46)	(134)	(184)	(257)	(78)	(175)	(228)	(285)	(27)
Recurring Profit	**316**	**361**	**1,262**	**1,395**	**14**	**739**	**850**	**1,720**	**+324**
Extraordinary Balance	0	0	0	0	0	0	0	0	0
Pretax Profit	316	361	1,262	1,395	14	739	850	1,720	+324
Tax Charges, etc.	114	133	458	522	7	253	296	580	+58
Net Profit	**201**	**228**	**803**	**873**	**7**	**486**	**553**	**1,139**	**+266**
Sales YoY	+248.6%	+33.5%	+48.6%	+13.6%	(40.4%)	+62.7%	+8.2%	+48.6%	-
Operating Profit YoY	-	+36.2%	+77.7%	+39.4%	(74.3%)	+84.1%	(25.5%)	+21.3%	-
Recurring Profit YoY	-	+33.7%	+90.1%	+40.8%	(95.3%)	+104.3%	(32.6%)	+23.3%	-
Net Profit YoY	-	(26.1%)	+43.8%	+14.4%	(96.2%)	+112.9%	(31.1%)	+30.5%	-
Gross Profit Margin	19.2%	18.7%	20.6%	21.7%	19.5%	19.4%	17.9%	18.7%	(2.9%)
SG&A / Sales	6.9%	8.4%	6.5%	7.8%	14.2%	7.7%	8.1%	7.4%	(0.4%)
Operating Profit Margin	12.3%	10.3%	14.2%	13.9%	5.3%	11.6%	9.8%	11.3%	(2.5%)
Recurring Profit Margin	10.7%	7.5%	12.3%	11.7%	0.8%	9.4%	7.7%	9.7%	(2.0%)
Net Profit Margin	6.9%	4.7%	7.9%	7.3%	0.4%	6.2%	5.0%	6.4%	(0.9%)
Tax Charges, etc. / Pretax Profit	36.2%	36.9%	36.3%	37.4%	47.5%	34.2%	34.9%	33.8%	(3.7%)

Income Statement (Million Yen)	Par.Act Q1 06/2015	Par.Act Q2 06/2015	Cons.Act Q3 06/2015	Cons.Act Q4 06/2015	Cons.Act Q1 06/2016	Cons.Act Q2 06/2016	Cons.Act Q3 06/2016	Cons.Act Q4 06/2016	YoY Net Chg.
Sales	**2,947**	**1,883**	**5,391**	**1,688**	**1,755**	**6,103**	**3,199**	**6,645**	**+4,956**
Cost of Sales	2,382	1,545	4,187	1,216	1,412	4,925	2,742	5,310	+4,093
Gross Profit	565	338	1,203	471	343	1,178	457	1,334	+862
SG&A Expenses	202	205	253	266	249	356	294	407	+141
Operating Profit	**363**	**133**	**950**	**205**	**93**	**821**	**163**	**927**	**+721**
Non Operating Balance	(46)	(88)	(49)	(72)	(78)	(96)	(52)	(56)	+15
Recurring Profit	**316**	**45**	**900**	**133**	**14**	**724**	**110**	**870**	**+736**
Extraordinary Balance	0	0	0	0	0	0	0	0	0
Pretax Profit	316	45	900	133	14	724	110	870	+736
Tax Charges, etc.	114	18	324	64	7	246	43	284	+220
Net Profit	**201**	**26**	**575**	**69**	**7**	**478**	**67**	**585**	**+516**
Sales YoY	+248.6%	(32.1%)	+65.3%	(53.2%)	(40.4%)	+224.0%	(40.6%)	+293.6%	-
Operating Profit YoY	-	(63.1%)	+111.4%	(44.6%)	(74.3%)	+514.2%	(82.8%)	+350.5%	-
Recurring Profit YoY	-	(85.8%)	+129.0%	(59.3%)	(95.3%)	-	(87.7%)	+551.9%	-
Net Profit YoY	-	(92.6%)	+130.3%	(66.1%)	(96.2%)	-	(88.2%)	+745.9%	-
Gross Profit Margin	19.2%	18.0%	22.3%	28.0%	19.5%	19.3%	14.3%	20.1%	(7.9%)
SG&A / Sales	6.9%	10.9%	4.7%	15.8%	14.2%	5.8%	9.2%	6.1%	(9.6%)
Operating Profit Margin	12.3%	7.1%	17.6%	12.2%	5.3%	13.5%	5.1%	14.0%	+1.8%
Recurring Profit Margin	10.7%	2.4%	16.7%	7.9%	0.8%	11.9%	3.5%	13.1%	+5.2%
Net Profit Margin	6.9%	1.4%	10.7%	4.1%	0.4%	7.8%	2.1%	8.8%	+4.7%
Tax Charges, etc. / Pretax Profit	36.2%	41.8%	36.1%	48.1%	47.5%	34.0%	39.0%	32.7%	(15.4%)

Source: Company Data, WRJ Calculation

Balance Sheet (Quarterly)

Balance Sheet	Par.Act	Par.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	YoY
(Million Yen)	06/2015	06/2015	06/2015	06/2015	06/2016	06/2016	06/2016	06/2016	Net Chg.
Cash & Deposit	2,274	1,864	2,631	2,684	1,846	2,620	2,363	2,547	(136)
Accounts Receivables	1	1	-	-	-	-	-	-	-
Property for Sale	1,090	1,830	1,334	1,895	4,695	1,362	3,820	2,005	+109
Property for Sale In Process	6,259	8,378	7,663	8,689	10,433	11,280	11,250	11,252	+2,562
Other	206	193	144	169	303	153	340	78	(91)
Current Assets	**9,832**	**12,268**	**11,773**	**13,439**	**17,278**	**15,415**	**17,774**	**15,883**	**+2,444**
Tangible Assets	872	1,263	1,331	1,857	1,855	1,901	2,389	2,825	+967
Intangible Assets	2	2	2	2	2	1	2	2	-
Investments & Other Assets	159	212	269	277	277	206	222	240	(36)
Fixed Assets	**1,034**	**1,478**	**1,603**	**2,137**	**2,135**	**2,109**	**2,615**	**3,068**	**+931**
Total Assets	**10,867**	**13,747**	**13,377**	**15,576**	**19,414**	**17,525**	**20,390**	**18,952**	**+3,375**
Accounts Payables	802	1,261	635	1,371	2,031	954	2,052	875	(495)
Short Term Debt	3,129	4,595	4,017	3,775	5,330	5,048	5,880	5,963	+2,187
Corporate Bond (Less than 1 year)	20	68	68	68	68	68	100	100	+32
Other	564	593	802	955	490	1,070	1,187	1,421	+465
Current Liabilities	**4,516**	**6,518**	**5,524**	**6,170**	**7,920**	**7,142**	**9,220**	**8,359**	**+2,189**
Corporate Bond	60	152	152	118	118	84	152	118	-
Long Term Debt	3,024	3,773	3,920	4,116	6,401	4,823	5,650	4,512	+395
Other	52	52	55	89	91	88	85	92	+2
Fixed Liabilities	**3,136**	**3,978**	**4,128**	**4,324**	**6,610**	**4,995**	**5,887**	**4,722**	**+398**
Total Liabilities	**7,652**	**10,496**	**9,652**	**10,494**	**14,530**	**12,138**	**15,108**	**13,082**	**+2,588**
Shareholders' Equity	**3,211**	**3,257**	**3,733**	**5,091**	**4,899**	**5,380**	**5,273**	**5,858**	**+767**
Other	3	(6)	(8)	(9)	(16)	7	8	10	+20
Total Assets	**3,214**	**3,250**	**3,724**	**5,081**	**4,883**	**5,387**	**5,282**	**5,869**	**+787**
Total Liabilities & net Assets	**10,867**	**13,747**	**13,377**	**15,576**	**19,414**	**17,525**	**20,390**	**18,952**	**+3,375**
Equity Capital	3,211	3,257	3,721	5,091	4,877	5,380	5,273	5,858	+767
Interest Bearing Debt	6,233	8,588	8,158	8,077	11,918	10,024	11,782	10,693	+2,615
Net Debt	3,959	6,723	5,527	5,393	10,071	7,404	9,419	8,146	+2,752
Equity Capital Ratio	29.5%	23.6%	27.8%	32.6%	25.1%	30.7%	25.9%	30.9%	(1.7%)
Net-Debt-Equity Ratio	123.3%	206.4%	148.5%	105.9%	206.5%	137.6%	178.6%	139.1%	+33.1%
ROE (12 months)	35.9%	22.6%	30.2%	21.1%	16.8%	26.2%	13.9%	20.8%	(0.3%)
ROA (12 months)	12.6%	8.7%	12.9%	10.6%	7.2%	11.3%	5.8%	10.0%	(0.6%)
Days for Inventory Turnover	282	603	196	794	977	234	502	228	-
Inventory Turnover	1.3	0.6	1.9	0.5	0.4	1.6	0.7	1.6	-
Quick Ratio	50.4%	28.6%	47.6%	43.5%	23.3%	36.7%	25.6%	30.5%	-
Current Ratio	217.7%	188.2%	213.1%	217.8%	218.2%	215.8%	192.8%	190.0%	-

Source: Company Data, WRJ Calculation

Cash Flow Statement (Cumulative, Quarterly)

Cash Flow Statement	Par.Act	Par.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	
	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	YoY
(Million Yen)	06/2015	06/2015	06/2015	06/2015	06/2016	06/2016	06/2016	06/2016	Net Chg.
Operating Cash Flow	283	(1,958)	(624)	(1,245)	(4,493)	(1,822)	(3,139)	(1,366)	(120)
Investing Cash Flow	12	(484)	(555)	(1,055)	(13)	39	(529)	(986)	+69
Operating CF & Investing CF	**295**	**(2,443)**	**(1,179)**	**(2,301)**	**(4,506)**	**(1,782)**	**(3,668)**	**(2,352)**	**(51)**
Financing Cash Flow	(149)	2,175	1,670	(2,838)	3,686	1,732	3,353	2,216	+5,055
Cash Flow Statement	Par.Act	Par.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	YoY
(Million Yen)	06/2015	06/2015	06/2015	06/2015	06/2016	06/2016	06/2016	06/2016	Net Chg.
Operating Cash Flow	283	(2,241)	1,334	(621)	(4,493)	2,670	(1,316)	1,772	+2,394
Investing Cash Flow	12	(496)	(71)	(499)	(13)	52	(569)	(456)	+43
Operating CF & Investing CF	**295**	**(2,738)**	**1,263**	**(1,121)**	**(4,506)**	**2,723**	**(1,885)**	**1,315**	**+2,437**
Financing Cash Flow	(149)	2,324	(504)	(4,509)	3,686	(1,954)	1,621	(1,137)	+3,371

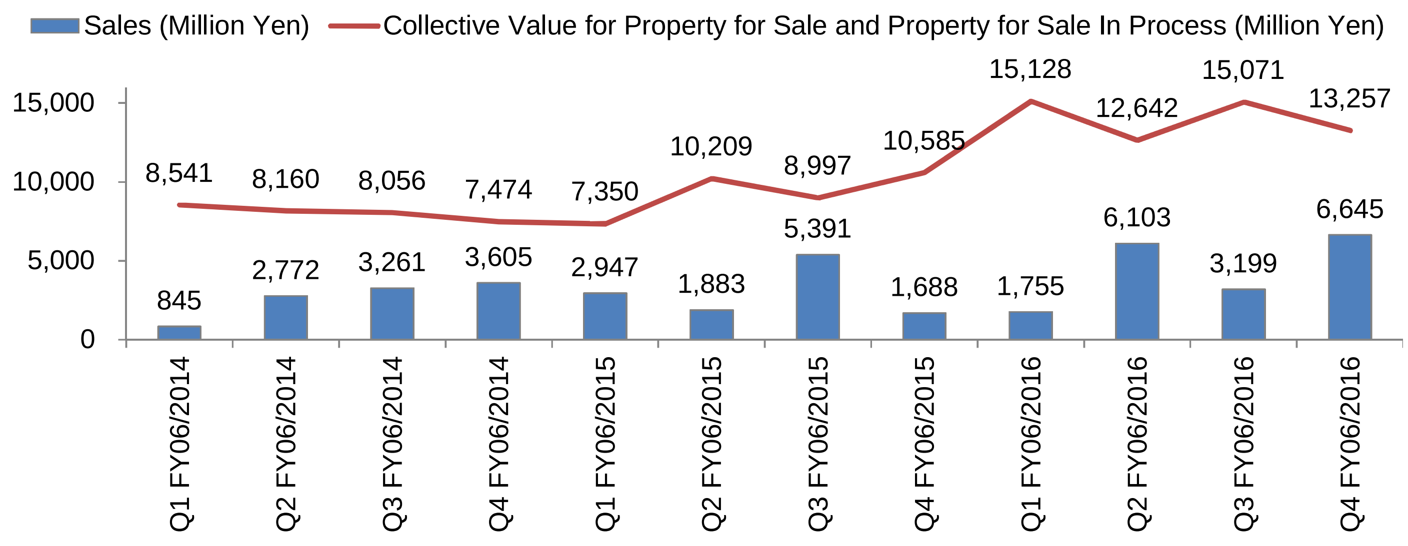
Source: Company Data, WRJ Calculation

FY06/2017 Company Forecasts

FY06/2017 Company forecasts are going for prospective sales of ¥18,000m (up 1.7% YoY), operating profit of ¥2,300m (up 14.7% YoY), recurring profit of ¥1,900m (up 10.4% YoY) and net profit of ¥1,270m (up 11.5% YoY), while operating profit margin of 12.8% (up 1.5% points YoY).

In regards to prospective annual divided, Company forecasts are going for ¥18.0 per share, implying payout ratio of 35.4%, by which the Company is to increase annual dividend for the sixth consecutive year. When compared with ¥16.0 per share, implying payout ratio of 35.1%, in FY06/2016, this is up ¥2.0 while payout ratio is to remain roughly unchanged. The Company used to hold basic policy for dividend to payout 30% of net profit after excluding impacts from corporate tax adjustments, while having been going for increases up to 35% for this starting in FY06/2016 and this is to persist in FY06/2017.

Sales, Collective Value of Property for Sale and Property for Sale in Process



Source: Company Data, WRJ Calculation

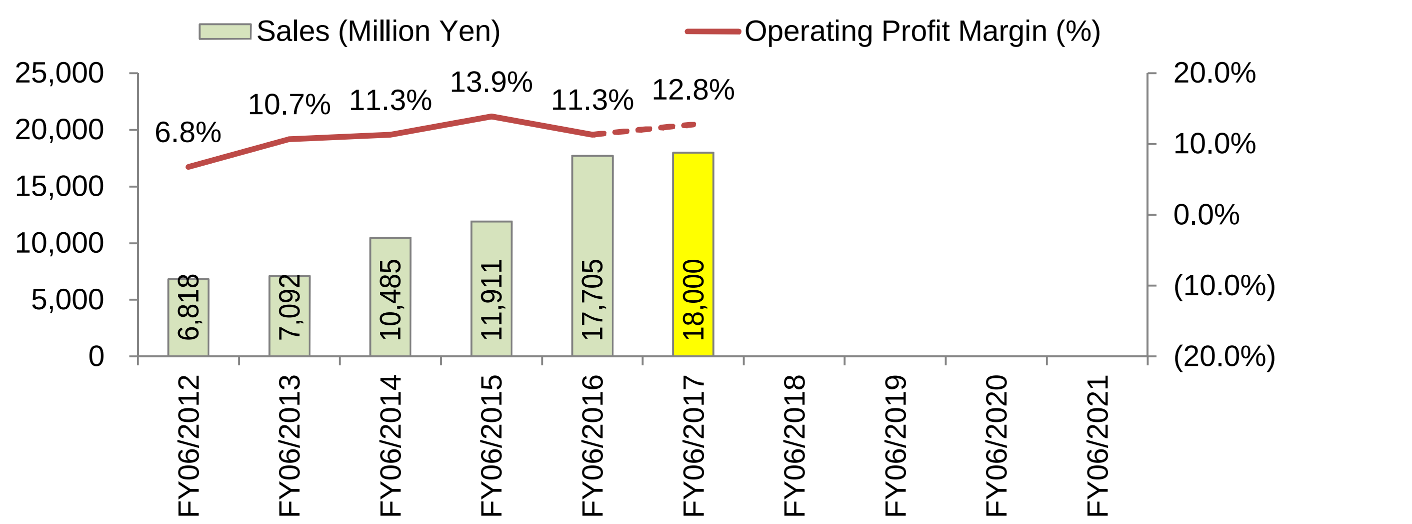
As mentioned, in the business model of the key operations of developing and selling (wholesaling: B to B) studio apartments for investment on a building basis, the Company suggests that it takes some two years to recover funds (after development, etc.) since settlement of procurement for business-use sites. Meanwhile, it is suggested that collective value of property for sale and property for sale in process is an indicator for business-use sites outstanding after settlement. In the most recent results of Q4 FY06/2016, said value looks marginally adjusting due to concentration of sales booking but maintaining high level.

Meanwhile, FY06/2017 Company forecasts, seemingly based on above-mentioned information, etc. are very likely to be met, because said information suggests that prospective sales, etc. over the next two years are effectively in sight. On top of this, sales contracts have been booked to date in regards to almost all the objects to be sold in FY06/2017 to date, while it appears that the Company has solid and specific prospects for Q1 to Q2 FY06/2018.

Long-Term Prospects

It is taken for granted that the Company's prospective long-term earnings hinge on many factors. Meanwhile, the fact that the Company is currently running operations of developing and selling (wholesaling: B to B) studio apartments for investment on a building basis, exclusively in Tokyo's 23 wards with condition to arrive within 10 minutes by walking from nearest stations, as the key operations, suggests that "environment for development" and "environment for sales" for studio apartments for investment in said regional area are the key factors to give substantial impacts to the Company's long-term earnings.

Long-Term Prospects



Source: Company Data, WRJ Calculation

In regards to "environment for development", the Company goes for: While hiking prices for business-use sites in metropolitan area persist, operators of hotels kicked in as new player on top of increasing number of players for development on an existing basis, including new entrance by major developers into business-use sites small-and/or-medium-scale, resulting in intensifying competition in procuring business-use sites in metropolitan area, on the page of The Current Situations of Apartment Industry in FINANCIAL REPORT, released on 10 August 2016. Meanwhile, in regards to "environment for sales", the Company goes for: Firm demand for studio apartments for investment continues, supported by lowering interest rate and driven by inheritance tax measures, although it cannot be denied that yield by investment in real estate as a whole is coming down in line with hiking prices.

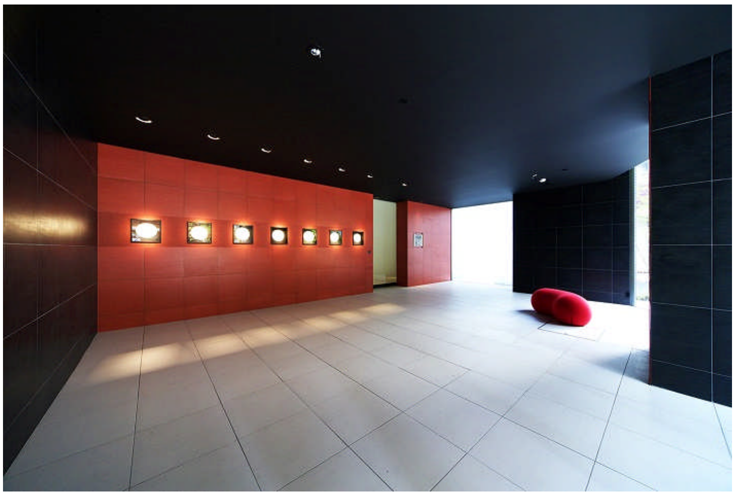
Having considered all those above-mentioned issues, the Company has come up with an idea that it should be so selective in procuring business-use sites, going forward, while trying to stick to sales to apartment sales companies as near-future purchasers because they carry low risk, as far as we could gather.

4.0 Business Model

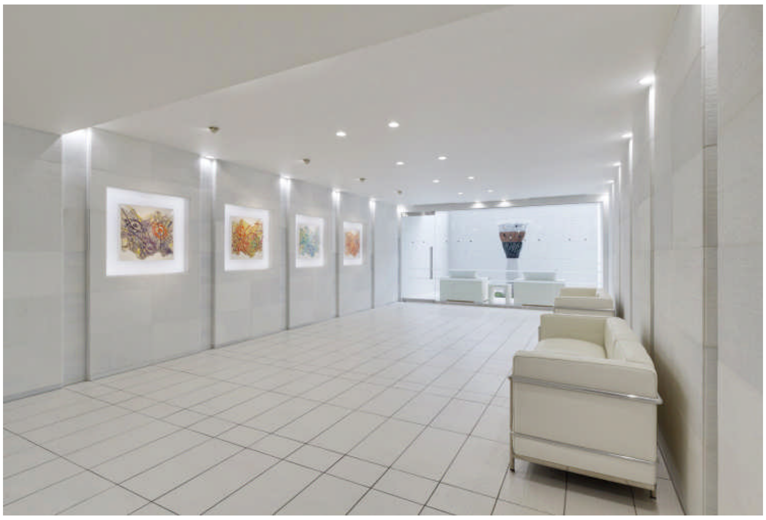
Developing Apartments, Sticking to *Monozukuri*

The Company, established in July 1997 as design office, is now developer which is involved with operations of developing apartments exclusively at the sites of Tokyo's 23 wards with a condition to arrive within 10 minutes by walking from nearest stations, sticking to *Monozukuri*, meaning high-quality manufacturing, where the Company pursues fusion between rationality / efficiency and art / design, or, respectively, civilization and culture, according to the Company. Specifically, as the key operations, the Company runs those of developing and selling (wholesaling: B to B) studio apartments for investment on a building basis, while having being also involved with direct sales of family apartments and/or compact apartments.

Gran Tiara SHIN-OKACHIMACHI Asyl Court



Asyl Coffret SHIN-NAKANO



Source: Company Data

In regards to studio apartments for investment (25 square meters or larger), the Company applies brand of *Asyl Court,* compact apartments (30 to 50 square meters), of *Asyl Coffret* and family apartments (50 to 80 square meters), of *Gran Asyl*, while of *Asyl Villa* for detached houses.

The Company argues that there are 5 main points for *Monozukuri*, adopted in development of apartments, comprising a) applying monotone colors to external walls so that they should not be out of fashion anyhow, while applying innovated design with strong impacts, b) implementing resident questionnaires basically every two years and taking advantage of the outcome after detailed analysis for developing new ones in the future, c) maximizing storage space with no expansion of floor space, d) adopting self-developed pure white bathes where individual tenants should be able to fully stretch the legs and e) materializing living space with art by means of installing original-design stereoscopic art at entrance halls. With all those issues, the Company is always trying to get at designing and developing apartments highly appealing to actual end users, i.e., individual tenants, eventually becoming provider of the best ones in all the geographical areas.

Disclaimer

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