Note: The accompanying consolidated financial statements were not audited since they have been prepared only for reference purposes only. All statements are based on "Kessan Tanshin" report prepared in accordance with the provisions set forth in the accounting regulations and principals generally accepted in Japan.

Summary of Consolidated Financial Results for the Fiscal Year ended December 31, 2016 [Based on Japanese GAAP]

February 10, 2017

Listed company name: MUGEN ESTATE Co., Ltd Listed Stock Exchange: Tokyo Stock Exchange
Securities code: 3299 URL http://www.mugen-estate.co.jp/en/
Representative: Shinichi Fujita, President
Contact: Takao Yoshioka, Managing Director, General Manager of Administrative Division ir@mugen-estate.co.jp
Scheduled date of general shareholders' meeting: March 28, 2017 Scheduled date of dividend payment: March 29, 2017
Scheduled date of securities report submission: March 28, 2017 Supplementary material for financial results: Yes
Financial results briefing: Yes (for analysts and institutional investors, in Japanese)

(fractions of one million yean are rounded off)

1. Consolidated financial results for the fiscal year ended December 31, 2016

(1) Consolidated financial results

(Percentages represent changes from the previous year.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2016	57,488	25.8	6,310	3.1	5,696	2.2	2,925	(13.5)
FY2015	45,706	51.5	6,123	76.7	5,573	81.2	3,382	92.2

(Note) Comprehensive income FY2016 2,925million yen(-13.5 %) FY2015 3,382million yen(92.2%)

	Net income per share	Diluted net income per share	Return on equity	Ordinary income to total assets	Operating income to net sales
	Yen	Yen	%	%	%
FY2016	121.35	121.13	22.1	11.2	11.0
FY2015	154.15	153.78	36.1	15.7	13.4

(Reference)Equity in earnings (losses) of affiliates FY2016 ― million yen FY2015 ― million yen

(Note) MUGEN ESTATE Co., Ltd. (hereinafter " the Company") conducted a 2-for-1 split which became effective as of July 1, 2016. The figures for net income per share and diluted net income per share have been adjusted to reflect the number of shares after the stock split occurred at the beginning of the previous fiscal year.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2016	58,145	15,557	26.6	634.98
As of December 31, 2015	43,291	11,013	25.3	498.23

(Reference) Shareholders' Equity As of December 31, 2016 15,464 million yen
As of December 31, 2015 10,966 million yen

(Note) The Company conducted a 2-for-1 split which became effective as of July 1, 2016. The figure for net asset per share has been adjusted to reflect the number of shares after the stock split occurred at the beginning of the previous fiscal year.

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
FY2016	(8,723)	(1,242)	11,338	7,663
FY2015	(7,292)	(996)	10,978	6,291

2. Dividends

	Dividends per share					Total amount of dividends (Annual)	Dividend payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY2015	―	0.00	―	32.00	32.00	352	10.4	3.8
FY2016	―	0.00	―	21.00	21.00	511	17.3	3.7
FY2017 (forecast)	―	0.00	―	23.00	23.00		13.7	

(Note) 1. Distribution of Year-end dividend for the fiscal year ended December 31, 2016
Ordinary dividend 19.00 yen Commemorative dividend 2.00 yen

2. Year-end dividend for the Fiscal Year ended December 31, 2016 indicates an amount calculated in consideration of a 2-for-1 stock split with an effective date of July 1, 2016. Annual dividends per share for the Fiscal Year ended December 31, 2016 without considering the stock split is 42.00 yen.

3. Forecast of consolidated financial results for the fiscal year ending December 31, 2017
(from January 1, 2017 to December 31, 2017) (Percentages represent changes from the previous year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
FY2017	72,175	25.5	7,191	14.0	6,370	11.8	4,085	39.6	167.75

* Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in a change in the scope of consolidation): None

(2) Changes in accounting policies, changes in accounting estimates and restatement

(i) Changes in accounting policies due to revisions to accounting standards and other regulations : Yes

(ii) Changes in accounting policies other than (i) : None

(iii) Changes in accounting estimates : None

(iv) Restatement : None

(3) Number of shares issued (common stock)

(i) Number of shares outstanding at end of the period (including treasury stock)

FY2016 24,355,000 shares FY2015 22,010,000 shares

(ii) Number of treasury stock held at end of the period

FY2016 – shares FY2015 – shares

(iii) Average number of shares outstanding during the period

FY2016 24,110,560 shares FY2015 21,939,660 shares

(Note) The Company conducted a 2-for-1 split which became effective as of July 1, 2016. The figures for the number of shares outstanding and the average number of shares outstanding have been adjusted to reflect the number of shares after the stock split occurred at the beginning of the previous fiscal year.

* Status of audit procedures

This financial summary is not subject to the financial statement audits under the Financial Instruments and Exchange Act, and the financial statement audits under the Financial Instruments and Exchange Act have not been completed at the time of the announcement of this financial summary.

* Explanation of the proper use of financial forecasts and other important notes

The statements about the future included in this report, including financial projections, are based on information currently available to the Company and certain assumptions that are considered reasonable, which do not guarantee the achievement of such projected results. Actual results may vary considerably from these projections due to a range of factors. See “(1)Analysis of Operating Results under “1. Operating Results and Financial Position“ on page 2 of the Accompanying Materials for the assumptions of the financial forecasts and points to note in the use of financial forecasts

Accompanying Material - Contents

1. Operating Results and Financial Position 2
(1) Analysis of Operating Results 2
(2) Analysis of Financial Position 4
(3) Basic Policy regarding Profit Distribution and Dividends for FY2016 and FY2017 5
2. Management Policy 6
(1) Basic Corporate Management Policy 6
(2) Management Targets 6
(3) Medium- to Long-Term Management Strategies and Issues to be Addressed 6
3. Basic Idea Behind the Selection of Accounting Standards 8
4. Consolidated Financial Statements 9
(1) Consolidated Balance Sheets 9
(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income 11
(3) Consolidated Statements of Changes in Net Assets 13
(4) Consolidated Statements of Cash Flows 14
(Segment information) 16
(Per share information) 18
(Significant subsequent event) 18

1. Operating Results and Financial Position

(1) Analysis of Operating Results

i) Consolidated operating results for the fiscal year ended December 31, 2016

During the consolidated fiscal year under review (January 1 through December 31, 2016), the Japanese economy continued a moderate recovery, in which corporate earnings and capital expenditure remained stable and employment and income continue to improve; the economic outlook, however, remained uncertain, due in part to rapid exchange rate fluctuations and concerns over a slowdown in emerging economies.

In the real estate industry where the MUGEN ESTATE Group operates, strong demand of individual investors, business corporations, and foreign investors for investment-type properties continued thanks to the favorable financing conditions provided by the Bank of Japan policy of Quantitative and Qualitative Monetary Easing with Yield Curve Control. In the used real estate market, while the trend shifted from a temporary surge in large property prices in central Tokyo to a moderate increase, demand for superior real estate is expected to remain strong.

In the used housing market, prices were relatively low, owing primarily to the soaring prices of new condominiums and a supply shortage, and demand for high-quality used condominiums remains high. According to a private-sector research agency, while the number of contracts signed for used condominiums in the Tokyo metropolitan area during the period between January and November 2016 increased 6.1% year on year, the number of new condominium units released for sale decreased 16.0%, which reduced the property supply. The growing demand for used condominiums is expected to continue for some time due to the development of the stock-type market for safe and high-quality homes targeted by the government.

In the office rental market, predominantly in the central Tokyo area, demand from companies relocating their offices and tenants continues to be high. A private-sector research agency announced that the vacancy rate in the 23 wards of Tokyo as a whole remained low at 3.24% in December 2016. A large supply of new offices is planned to be marketed by 2020, and the favorable financing conditions and enhanced appeal of the Tokyo metropolitan area thanks to the development of urban infrastructure in preparation for the Tokyo Olympics and Paralympics are expected to facilitate the demand of many investors seeking investment opportunities.

Under these market conditions, the MUGEN ESTATE Group continued to further its strategy of becoming a dominant player in the Tokyo metropolitan area (consisting of Tokyo and three adjacent prefectures) in the Real Estate Trading Business, its core segment. At the same time, the MUGEN ESTATE Group sustained efforts to strengthen the purchase and resale of investment-type properties, which are its growth drivers.

In the Real Estate Trading Business, the MUGEN ESTATE Group has been enhancing its products to meet the continuously high demand of the affluent, parties seeking inheritance tax shields, domestic investors, which largely comprise general business corporations, and foreign real estate investors, mainly from Asia. Meanwhile, prices of used real estate entered an adjustment phase, and securing a sufficient profit margin has been more difficult than the initial assumption. However, the sale of units of investment-type buildings priced at more than 300 million yen increased significantly to 44 (up 17 year on year, of which 4 units exceeded one billion yen), and sales of investment-type properties rose 31.6% year on year, to 45,182 million yen.

Sales of residential-type properties in the Real Estate Trading Business generally followed the plan, despite a year-on-year decrease in the number of units sold, as the Group carefully selected and acquired units to sell in central Tokyo and areas that are convenient for daily living, and ensured strict profit management while purchase prices continued to rise due to intensified competition caused by the low barriers to entry to the market.

In the Real Estate Leasing and Other Business, revenue from real estate leasing increased gradually linked with the active purchase of investment-type properties in the Real Estate Trading Business

As a result, consolidated net sales increased 25.8% year on year, to 57,488 million yen, consolidated operating income rose 3.1% year on year, to 6,310 million yen, consolidated ordinary income climbed 2.2% year on year, to 5,696 million yen, and consolidated profit attributable to owners of parent declined 13.5% year on year, to 2,925 million yen in the fiscal year under review.

The financial impact of the revision announced in “Notice of Estimated Consumption Tax for the Previous Year (Extraordinary Loss) Associated with Tax Audit by the Authorities and Revision of Financial Forecasts” on January 31, 2017 on the consolidated results of the fiscal year under review was an increase of 368 million yen in taxes and dues under selling, general and administrative expenses and an extraordinary loss of 791 million yen.

Note: The “investment-type properties” are classified as real estate generating rental income, including rental condominiums, office blocks, and apartments, which are used by buyers for the purpose of investment. The “residential-type properties” are classified as real estate used by buyers as their housing units, most of which are owned condominiums.

The following is an overview of the results by segment.

[Real Estate Trading Business]

In the Real Estate Trading Business, the MUGEN ESTATE Group sold 249 units of investment-type properties such as rental condominiums and office blocks (up 22 units year on year), whose average unit selling price was 181.45 million yen (up 20.0% year on year). Net sales for investment-type properties were 45,182 million yen (up 31.6% year on year). In addition, the Group sold 368 units of residential-type properties such as condominiums (down seven units year on year), whose average unit selling price was 27 million yen (up 6.5% year on year). Net sales for residential-type properties came to 9,937 million yen (up 4.5% year on year).

As a result, net sales for the segment increased 25.7% year on year, to 55,147 million yen, and segment profit (operating income for the segment) grew 12.1% year on year, to 6,989 million yen.

[Real Estate Leasing and Other Business]

In the Real Estate Leasing and Other Business, revenue from real estate leasing, which was linked to the active purchase of investment-type properties in the Real Estate Trading Business, increased 27.4% year on year, to 2,320 million yen. The segment continues to grow steadily as a stable revenue base.

As a result, net sales for the segment increased 27.3% year on year, to 2,341 million yen, and segment profit (operating income for the segment) grew 8.8% year on year, to 906 million yen.

ii) Outlook for FY2017 (January 1 through December 31, 2017)

In the fiscal year ending December 2017, the trend of moderate economic recovery in Japan is expected to continue, primarily with the support of increased public investment associated with the government’s economic strategy, redevelopment in central Tokyo and major cities, and improvements in employment and income. Overseas, however, uncertainties such as the economic risk posed by the new US administration, the EU’s financial issues, and concerns over a slowdown in Asian economies are expected to continue.

In the real estate industry, in which the MUGEN ESTATE Group operates, the favorable financing conditions facilitated by the negative interest rate policy of the Bank of Japan are expected to continue, and demand for real estate investment is likely to remain strong. The prices of condominiums and office blocks offered by the Group are projected to remain at a high level, and the Group considers it essential to select the property units for purchase even more carefully in order to secure a sufficient profit margin.

In this market environment, the MUGEN ESTATE Group will continue to promote its strategic dominance in the Tokyo metropolitan area in its Real Estate Trading Business and focus on the purchase and resale of investment-type properties, which are the growth drivers, in order to enhance and expand its business in the Tokyo metropolitan area (Tokyo, Kanagawa, Saitama, and Chiba) from the Group’s three offices, comprising the head office, Shinjuku Branch, and Yokohama Branch.

The number of investment-type properties such as rental condominiums and office blocks in the Real Estate Trading Business that are expected to be sold is 278 (up 29 units year on year), whose average unit selling price is estimated to be 216.27 million yen (up 19.2% year on year). Net sales in this segment are forecast to reach 60,125 million yen (up 33.1% year on year). The Group will promote an increase in the sizes of units to sell, including those priced at more than one billion yen, and continuously aim to grow its revenue and profit by increasing the number of units sold and the average unit selling price.

The estimated number of residential-type properties such as condominium units to be sold in the Real Estate Trading Business is 350 (down 18 units year on year). The average unit selling price is forecast to be 26 million yen (down 3.7% year on year), and net sales are projected to decrease to 9,100 million yen (down 8.4% year on year).

In the Real Estate Leasing and Other Business, the Group expects an increase in real estate for sale as a source of revenue in real estate leasing, which is linked to the purchase of investment-type properties in the Real Estate Trading Business, and growth in revenue from real estate leasing through the purchase of fixed assets. Based on this, the Group plans to achieve net sales of 2,933 million yen (up 25.3% year on year).

Through the implementation of the above business activities, the Group estimates that consolidated net sales will be 72,175

million yen (up 25.5% year on year), consolidated operating income will be 7,191 million yen (up 14.0% year on year), consolidated ordinary income will be 6,370 million yen (up 11.8% year on year), and profit attributable to owners of parent will be 4,085 million yen (up 39.6% year on year), resulting in an increase in both revenue and profit for the fiscal year ending December 31, 2017.

(2) Analysis of Financial Position

i) Assets, liabilities, and net assets

The consolidated financial position of the MUGEN ESTATE Group at the end of the fiscal year under review includes assets of 58,145 million yen (up 34.3% year on year), liabilities of 42,588 million yen (up 31.9% year on year), and net assets of 15,557 million yen (up 41.2% year on year).

The principal factors for the growth in assets included growth of 12,307 million yen in real estate for sale, 1,719 million yen in cash and deposits, 453 million yen in land purchased for long-term possession, and 395 million yen in buildings.

The growth of liabilities was mainly attributable to an increase of 9,019 million yen in long-term loans payable (including the current portion of such loans), growth of 1,189 million yen in other current liabilities, a rise of 900 million yen in bonds payable (including the current portion of such bonds), and a decrease of 844 million yen in income taxes payable.

The rise in net assets chiefly reflected an increase of 959 million yen in capital stock and growth of 959 million yen in capital surplus that resulted from an issuance of new shares through public offering and a capital increase through a private placement of new shares in connection with their offering through overallotment, a rise of 2,925 million yen in retained earnings caused by the recording of profit attributable to owners of parent, and an asset decrease of 352 million yen attributable to dividends paid from surplus.

ii) Cash flows

Cash and cash equivalents at the end of the consolidated fiscal year under review (“cash”) have increased by 1,372 million yen from the end of the previous consolidated fiscal year, to 7,663 million yen. The cash flow positions and contributing factors are as follows:

[Cash flows from operating activities]

Net cash used in operating activities during the consolidated fiscal year under review totaled 8,723 million yen (net cash used in operating activities during the previous consolidated fiscal year was 7,292 million yen). This was primarily attributable to an increase of 12,939 million yen in inventory and the payment of 3,061 million yen in income taxes, while income before income taxes was 495 million yen.

[Cash flows from investing activities]

Net cash used in investing activities during the consolidated fiscal year under review amounted to 1,242 million yen (net cash used in investing activities during the previous consolidated fiscal year was 996 million yen). This was caused primarily by 1,574 million yen for payments into time deposits and 874 million yen for the acquisition of property, plant, and equipment, while the proceeds from the withdrawal of time deposits totaled 1,249 million yen.

[Cash flows from financing activities]

Net cash provided by financing activities during the consolidated fiscal year under review amounted to 11,338 million yen (net cash provided by financing activities in the previous consolidated fiscal year was 10,978 million yen). This was primarily the result of proceeds from long-term loans payable amounting to 34,061 million yen, proceeds of 1,904 million yen from the issuance of stock and proceeds of 882 million yen from the issuance of corporate bonds, while the repayment of long-term loans payable was 25,042 million yen.

(Reference) Cash flow indicators

	FY2014	FY2015	FY2016
Equity ratio: equity (%)	28.2	25.3	26.6
Market value equity ratio (%)	73.6	65.3	30.4
Interest-bearing debt to cash flow ratio (years)	—	—	—
Interest coverage ratio (times)	—	—	—

Equity ratio: shareholders' equity / total assets

Market value equity ratio: market capitalization / total assets

Interest-bearing debt to cash flow ratio: interest-bearing debts / cash flow

Interest coverage ratio: cash flow / interest payment

Note 1: The market capitalization has been calculated by multiplying the closing stock price at the fiscal year-end by the number of shares outstanding at the fiscal year-end.

Note 2: The cash flow used for the calculation is cash flows from operating activities.
The interest-bearing debt to cash flow ratio and interest coverage ratio for FY2014, FY2015, and FY2016 are omitted because the cash flows from operating activities in these years is negative.

(3) Basic Policy regarding Profit Distribution and Dividends for FY2016 and FY2017

The Company considers the return of profits to shareholders to be one of the key management issues, and has established the basic policy of enhancing profits and returns to shareholders while strengthening financial position and ensuring internal reserves for future business growth.

Considering the growth and expansion phase of the Company from a medium- to long-term perspective, the Company plans to pay the optimal dividends by comprehensively taking into account such factors as the levels of the dividend on equity ratio, ROE, and profit growth rate, in addition to the dividend payout ratio, and changes in the environment of securities markets.

The year-end dividend for the fiscal year ended December 31, 2016 is planned to pay 21 yen per share in total. This consist of 19 yen for the ordinary dividend and 2 yen for the commemorative divided to be listed on the First-Section of Tokyo Stock Exchange in February 5, 2016. The year-end dividend for the fiscal year ending December 31, 2017 is expected to be 23 yen per share based on the projected business performance.

2. Management Policy

(1) Basic Corporate Management Policy

The company name, Mugen Estate, comes from its motto "*Mugen* (turning dreams into reality and pursuing ideals)," which expresses the Company's desire to help customers realize their dreams of owning a home. The Mugen Estate Group has grown through the sales of refurbished condominiums, which are relatively more affordable than new condominiums. To help realize the dreams of more customers, the Group has been expanding its business to include other products, in particular used investment-type properties such as rental condominiums and office blocks. The Group will continue working to build up its businesses, based on its corporate motto and philosophy as the basic management policy, and contribute to the development of local communities through the recycling and distribution of used real estate, aiming to further enhance corporate value.

(Company Motto)

"*Mugen*": Turning dreams into reality and pursuing ideals

(Corporate Philosophy)

· We will help society to achieve prosperity and will continue to grow.

· We will ensure compliance in our management.

· We will strive to enhance stakeholder satisfaction.

(Vision)

Helping create a society that will inspire dreams through the real estate business

(Mission)

Helping customers make their dreams come true and growing with cusomers

The Group also aims to establish a strong revenue base to ensure sustainable growth as part of its basic management strategy. The following three" S"s keywords describe this strategy.

· Speed: Improving the speed of management

· Satisfaction: Pursuing customers' satisfaction

· Skills: Enhancing employees' skill

(2) Management Targets

The Mugen Estate Group understands that it is in the growth stage. It is aiming to achieve stable growth, using net sales and ordinary income as the key management indicators.

(3) Medium- to Long-Term Management Strategies and Issues to be Addressed

In the Real Estate Trading Business, the core segment, the Group expects demand for used condominiums in convenient areas in Tokyo Metropolitan Area to remain strong. It also expects the use of used condominiums for a wide range of purposes other than the buyers' housing, such as inheritance tax shields and pension security (asset building), will continue.

Under this business environment, the Mugen Estate Group aims to achieve the highest sales in the market of refurbished real estate in the Tokyo Metropolitan Area. To achieve this goal, the Group will implement its basic management strategy (establishing a strong revenue base to ensure sustainable growth) with the three "S"s – speed, satisfaction, and skills – as the main keywords incorporated into the following tasks and measures.

i) Continue to promote strategic dominance in the Tokyo Metropolitan Area

Given the expected concentration of the population in the Tokyo Metropolitan Area, the Group will continue to promte a strategy of becoming the dominant player in the Tokyo Metropolitan Area rather than opening branches in regional cities. The Group will enhance and expand its business in Tokyo and the three neighboring prefectures from the Group's three offices—the head office, Shinjuku Branch, and Yokohama Branch—and strengthen its competitiveness in the used real estate market in the Tokyo Metropolitan Area.

ii) Raise the average unit selling price in the sale of investment-type properties

The Group will seek to increase the sizes of trading properties, including units priced more than one billion yen, and raise the average unit selling price to further increase sales of investment-type properties, such as rental condominiums and office blocks,

as a growth driver of the Group.

iii) Maintain or reduce the holding period

The Group will maintain or reduce the operation period between the settlement of purchases (transfer of ownership from the sellers to the Company) and settlement of sales (transfer of ownership from the Company to the buyers) in an effort to increase the inventory turnover. In addition, the Group will work on reducing inventory risks, such as a valuation loss on products caused by a prolonged inventory retention period.

iv) Expand product lines

The Group will expand the variety of its product lines, ranging from investment-type properties such as rental condominiums and office blocks, to residential-type properties such as owned condominium units and detached houses, within a price range of several million yen to more than one billion yen in order to meet the wide range of customer needs for real estate purchases.

v) Optimize management resources

The Group recognizes the importance of continuously optimizing its management resources for internal system investments, strong sales forces and other objectives. Therefore, the Group works to improve its work systems and operations, and standardize and centralize internal data to establish efficient operation management.

vi) Develop and retain human resources

The Mugen Estate Group understands that one of the most important tasks is to hire and develop superior human resources to overcome management issues. In its annual and mid-career recruitment based on personnel planning, the Group seeks to retain people who support its corporate philosophy, who are willing to grow together with the Company, and who have the ability to take action. The Group will also enhance its in-house education and training programs to improve the system for supporting the growth of each individual employee.

vii) Strengthen the compliance system for management

The Mugen Estate Group recognizes the importance of ensuring the legal compliance of management, and has included it in its corporate philosophy. The Group believes it is necessary to establish corporate ethics and ensure its compliance with laws and regulations and internal rules in order to prioritize compliance in its corporate management. To this end, the executives and employees share the code of conduct on ethics and legal compliance, as well as strive to always act with a sense of ethics and social decency, be viewed by the public as a reliable company, and continue to grow. In-house education is continuously provided when needed, and cooperation between the internal audit division, the board of auditors, and accounting auditors will be strengthened to enhance the Group's audit functions.

vii) Strengthen the risk management system

The Mugen Estate Group considers four types of risks – strategic risk, disaster risk, operational risk, and financial risk – as key risks, and that it is necessary to prevent these risks and minimize the damage to the Group if it is exposed to these risks. Therefore, the Group will establish risk management rules, promote risk management activities, and review risks every year, taking into account the motives, causes, and background factors assumed for each type of risk in order to strengthen its risk management system. In addition, it will continuously provide internal education when needed, and carry out regular audits based on its internal audit plan.

ix) Strengthen financial condition and capital-raising capability

In transferring the Group's stock listing to the First Section of the Tokyo Stock Exchange, it will consider financing through various means, such as direct financing in addition to conventional indirect financing, such as bank loans, to further strengthen and stabilize its financial base. For this purpose, the Group will constantly analyze data on its situation from various angles, and periodically describe its business condition to financial institutions in order to promote mutual understanding.

3. Basic Idea Behind the Selection of Accounting Standards

The Mugen Estate Group currently plans to prepare its consolidated financial statements based on the Japanese standards for the time being because it operates businesses in Tokyo Metropolitan Area, and because the percentage of foreign corporations and other non-Japanese shareholders is low.

The Group plans to discuss and examine the timing for introducing the International Financial Reporting Standards (IFRS), taking into account its business development going forward and factors such as domestic trends and international trends.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Thousand yen)

	FY2015 (As of December 31, 2015)	FY2016 (As of December 31, 2016)
Assets		
Current assets		
Cash and deposits	7,106,471	8,825,885
Accounts receivable - trade	22,863	21,468
Real estate for sale	33,046,378	45,354,211
Real estate for sale in process	57,864	77,690
Deferred tax assets	294,629	339,850
Other	774,633	556,393
Allowance for doubtful accounts	(9,352)	(8,055)
Total current assets	41,293,488	55,167,445
Non-current assets		
Property, plant and equipment		
Buildings	884,238	1,282,299
Accumulated depreciation	(220,617)	(260,517)
Buildings, net	663,621	1,021,782
Land	960,434	1,413,516
Other	116,148	134,162
Accumulated depreciation	(66,024)	(68,737)
Other, net	50,123	65,424
Total property, plant and equipment	1,674,179	2,500,723
Intangible assets		
Leasehold right	55,637	55,637
Other	62,196	83,058
Total intangible assets	117,833	138,695
Investments and other assets		
Deferred tax assets	106,302	230,372
Other	99,752	91,432
Total investments and other assets	206,054	321,805
Total non-current assets	1,998,068	2,961,223
Deferred assets		
Bond issuance cost	—	16,687
Total deferred assets	—	16,687
Total assets	43,291,556	58,145,356

(Thousand yen)

	FY2015 (As of December 31, 2015)	FY2016 (As of December 31, 2016)
Liabilities		
Current liabilities		
Accounts payable - trade	721,108	621,824
Short-term loans payable	4,042,142	3,927,200
Current portion of bonds	—	180,000
Current portion of long-term loans payable	2,574,573	3,472,013
Income taxes payable	1,832,086	988,068
Provision for bonuses	63,827	45,590
Construction warranty reserve	34,845	56,836
Other	481,650	1,671,147
Total current liabilities	9,750,234	10,962,679
Non-current liabilities		
Bonds payable	—	720,000
Long-term loans payable	21,899,246	30,021,520
Net defined benefit liability	56,844	69,264
Other	571,268	814,858
Total non-current liabilities	22,527,358	31,625,643
Total liabilities	32,277,593	42,588,322
Net assets		
Shareholders' equity		
Capital stock	1,586,930	2,549,609
Capital surplus	1,509,930	2,472,609
Retained earnings	7,869,151	10,442,741
Total shareholders' equity	10,966,011	15,464,961
Subscription rights to shares	47,952	92,072
Total net assets	11,013,963	15,557,033
Total liabilities and net assets	43,291,556	58,145,356

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statement of Income

(Thousand yen)

	FY2015 (From January 1, 2015 to December 31, 2015)	FY2016 (From January 1, 2016 to December 31, 2016)
Net sales	45,706,748	57,488,716
Cost of sales	36,421,289	47,156,193
Gross profit	9,285,459	10,332,522
Selling, general and administrative expenses	3,162,005	4,021,894
Operating income	6,123,454	6,310,627
Non-operating income		
Interest and dividend income	1,471	1,501
Commission fee	10,479	7,190
Penalty income	33,427	10,939
Insurance income	—	7,590
Reversal of deposits received	—	60,155
Other	11,666	8,651
Total non-operating income	57,043	96,029
Non-operating expenses		
Interest expenses	508,808	647,148
Share issuance cost	—	15,457
Commission fee	53,587	43,994
Other	44,691	3,082
Total non-operating expenses	607,087	709,683
Ordinary income	5,573,410	5,696,973
Extraordinary income		
Gain on sales of non-current assets	28,521	34
Other	175	—
Total extraordinary income	28,696	34
Extraordinary losses		
Loss on sales of non-current assets	43	—
Consumption taxes for prior period	—	791,877
Other	—	20
Total extraordinary losses	43	791,898
Profit before income taxes	5,602,063	4,905,109
Income taxes - current	2,406,177	2,148,650
Income taxes - deferred	(186,197)	(169,290)
Total income taxes	2,219,979	1,979,359
Profit	3,382,083	2,925,750
Profit attributable to owners of parent	3,382,083	2,925,750

Consolidated Statements of Comprehensive Income

(Thousand yen)

	FY2015 (From January 1, 2015 to December 31, 2015)	FY2016 (From January 1, 2016 to December 31, 2016)
Income before minority interests	3,382,083	2,925,750
Comprehensive income	3,382,083	2,925,750
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,382,083	2,925,750

(3) Consolidated Statements of Changes in Net Assets

FY2015 (From January 1, 2015 to December 31, 2015)

(Thousand yen)

	Shareholders' equity				Subscription rights to shares	Total net assets
	Capital stock	Capital surplus	Retained earnings	Total shareholders' equity		
Balance at the beginning of the fiscal year	1,584,340	1,507,340	4,673,523	7,765,203	—	7,765,203
Changes of items during period						
Issuance of new shares				—		—
Issuance of new shares - exercise of subscription rights to shares	2,590	2,590		5,180		5,180
Dividends of surplus			(186,456)	(186,456)		(186,456)
Profit attributable to owners of parent			3,382,083	3,382,083		3,382,083
Net changes of items other than shareholders' equity					47,952	47,952
Total changes of items during period	2,590	2,590	3,195,627	3,200,807	47,952	3,248,760
Balance at the end of the fiscal year	1,586,930	1,509,930	7,869,151	10,966,011	47,952	11,013,963

FY2016 (From January 1, 2016 to December 31, 2016)

(Thousand yen)

	Shareholders' equity				Subscription rights to shares	Total net assets
	Capital stock	Capital surplus	Retained earnings	Total shareholders' equity		
Balance at the beginning of the fiscal year	1,586,930	1,509,930	7,869,151	10,966,011	47,952	11,013,963
Changes of items during period						
Issuance of new shares	959,781	959,781		1,919,562		1,919,562
Issuance of new shares - exercise of subscription rights to shares	2,898	2,898		5,797		5,797
Dividends of surplus			(352,160)	(352,160)		(352,160)
Profit attributable to owners of parent			2,925,750	2,925,750		2,925,750
Net changes of items other than shareholders' equity					44,120	44,120
Total changes of items during period	962,679	962,679	2,573,590	4,498,950	44,120	4,543,070
Balance at the end of the fiscal year	2,549,609	2,472,609	10,442,741	15,464,961	92,072	15,557,033

(4) Consolidated Statements of Cash Flows

(Thousand yen)

	FY2015 (From January 1, 2015 to December 31, 2015)	FY2016 (From January 1, 2016 to December 31, 2016)
Cash flows from operating activities		
Profit before income taxes	5,602,063	4,905,109
Depreciation	493,761	683,329
Increase (decrease) in allowance for doubtful accounts	6,273	(1,297)
Increase (decrease) in provision for bonuses	16,179	(18,237)
Increase (decrease) in provision for directors' retirement benefits	6,262	—
Increase (decrease) in construction warranty reserve	10,656	21,990
Increase (decrease) in net defined benefit liability	10,842	12,420
Interest and dividend income	(1,471)	(1,501)
Interest expenses	508,808	647,148
Share issuance cost	—	15,457
Share-based compensation expenses	47,952	47,745
Reversal of deposits received	—	(60,155)
Amortization of bond issuance cost	—	1,062
Loss (gain) on sales of non-current assets	(28,477)	(34)
Loss on retirement of non-current assets	—	20
Loss from prior period of consumption tax	—	791,877
Decrease (increase) in notes and accounts receivable - trade	(15,596)	1,394
Decrease (increase) in inventories	(12,322,198)	(12,939,477)
Increase (decrease) in notes and accounts payable - trade	217,276	(99,283)
Increase (decrease) in accrued consumption taxes	(2,791)	352,451
Decrease (increase) in consumption taxes refund receivable	16,025	82,403
Increase (decrease) in lease and guarantee deposits received	83,084	268,723
Decrease (increase) in other current assets	(3,867)	145,373
Increase (decrease) in other current liabilities	148,595	111,980
Other, net	2,055	26,175
Subtotal	(5,204,564)	(5,005,323)
Interest and dividend income received	1,471	1,501
Interest expenses paid	(498,720)	(658,137)
Income taxes paid	(1,590,721)	(3,061,832)
Net cash provided by (used in) operating activities	(7,292,535)	(8,723,791)
Cash flows from investing activities		
Payments into time deposits	(1,106,459)	(1,574,247)
Proceeds from withdrawal of time deposits	917,509	1,249,914
Purchase of property, plant and equipment	(897,700)	(874,299)
Proceeds from sales of property, plant and equipment	151,109	34
Purchase of intangible assets	(57,819)	(37,187)
Payments for investments in capital	(2,740)	(7,000)
Net cash provided by (used in) investing activities	(996,101)	(1,242,785)

(Thousand yen)

	FY2015 (From January 1, 2015 to December 31, 2015)	FY2016 (From January 1, 2016 to December 31, 2016)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(677,290)	(114,942)
Proceeds from long-term loans payable	30,887,900	34,061,800
Repayments of long-term loans payable	(19,047,568)	(25,042,086)
Proceeds from issuance of bonds	—	882,249
Proceeds from issuance of common shares	—	1,904,105
Proceeds from exercise of share options	5,180	2,171
Repayments of lease obligations	(3,429)	(2,480)
Cash dividends paid	(186,456)	(352,160)
Net cash provided by (used in) financing activities	10,978,335	11,338,657
Net increase (decrease) in cash and cash equivalents	2,689,698	1,372,080
Cash and cash equivalents at beginning of period	3,601,319	6,291,018
Cash and cash equivalents at end of period	6,291,018	7,663,098

(Segment information)

[Segment information]

1. Summary of reportable segments

(1) Method for determining which segments to report

The reportable segments of the Group comprise those business units for which separate financial information is available, and which are subject to a regular review conducted by the Company's Board of Directors in order to determine the allocation of management resources and assess the business performance.

The principal business of the Group is real estate trading in which used condominium units and detached houses are purchased, refurbished, and sold. In addition, the Group operates a leasing business, in which it purchases and leases real estate for lease, leases condominiums and other buildings before selling, and provides lease management of condominiums, etc.

Therefore, the Group has decided that the "Real Estate Trading Business" and "Real Estate Leasing and Other Business" will be the segments it reports.

(2) Types of products and services in each reportable segment

The Real Estate Trading Business includes revenues from trading owned condominiums, investment-type properties (rental condominiums, apartments, and office blocks), and detached houses, related interior and exterior work, and sales brokerage.

The Real Estate Leasing and Other Business includes rent income from leasing condominiums, buildings, owned condominium units, etc., and fees for providing lease management service for rental condominiums and buildings.

2. Method for calculating net sales, profit or loss, assets, liabilities, and amounts of other items for each reportable segment

The accounting method for the reportable segments is generally the same as that provided in the "Key factors fundamental to the preparation of the consolidated financial statements."

Profit from the reportable segments is based on operating income.

Inter-segment revenues and transfers are based on the prevailing market prices.

3. Information on net sales, profit or loss, assets, liabilities, and amounts of other items for each reportable segment

FY2015 (From January 1, 2015 to December 31, 2015)

(Thousand yen)

	Reportable Segments			Adjustment (Note)	Total
	Real Estate Trading Business	Real Estate Leasing and Other Business	Sub-total		
Net sales					
Net sales to external customers	43,866,922	1,839,825	45,706,748	—	45,706,748
Inter-segment sales or transfer	5,592	8,308	13,901	(13,901)	—
Total	43,872,515	1,848,134	45,720,650	(13,901)	45,706,748
Segment profit	6,233,741	833,641	7,067,383	(943,928)	6,123,454
Segment assets	4,949,926	30,494,615	35,444,542	7,847,014	43,291,556
Other items					
Depreciation	5,965	471,314	477,280	16,481	493,761
Increase in PPE and intangible non-current assets	11,058	959,899	970,957	32,329	1,003,287

(Notes)

1. The adjustments include the following.
   (1) The segment profit adjustment of (943,928) thousand yen consists of primarily company-wide expenses that are not allocated to the selling, general and administrative expenses of each reported segment.
   (2) The segment asset adjustment of 7,847,014 thousand yen includes cash and cash deposits, deferred tax assets, assets related to the management division, and other items which are company-wide assets that are not allocated to each reported segment.
2. The segment profit has been adjusted to the operating income stated in the consolidated statements of income.
3. Because the rent income from the investment-type properties before the sale is included in the net sales in the Real Estate Leasing and Other Business, these properties are segment assets of the Real Estate Leasing and Other Business during the period of possession, and are transferred to the segment assets of the Real Estate Trading Business at the book value every time they are sold.

FY2016 (From January 1, 2016 to December 31, 2016)

(Thousand yen)

	Reportable Segments			Adjustment (Note)	Total
	Real Estate Trading Business	Real Estate Leasing and Other Business	Sub-total		
Net sales					
Net sales to external customers	55,147,498	2,341,218	57,488,716	—	57,488,716
Inter-segment sales or transfer	596	7,867	8,464	(8,464)	—
Total	55,148,094	2,349,085	57,497,180	(8,464)	57,488,716
Segment profit	6,989,742	906,635	7,896,377	(1,585,749)	6,310,627
Segment assets	4,039,774	44,330,937	48,370,711	9,774,645	58,145,356
Other items					
Depreciation	7,541	643,813	651,355	21,342	672,698
Increase in PPE and intangible non-current assets	18,564	851,655	870,220	48,727	918,948

(Notes)

1. The adjustments include the following.
   (1) The segment profit adjustment of (1,585,749) thousand yen consists of primarily company-wide expenses that are not allocated to the selling, general and administrative expenses of each reported segment.
   (2) The segment asset adjustment of 9,774,645 thousand yen includes cash and cash deposits, deferred tax assets, assets related to the management division, and other items which are company-wide assets that are not allocated to each reported segment.
2. The segment profit has been adjusted to the operating income stated in the consolidated statements of income.
3. Because the rent income from the investment-type properties before the sale is included in the net sales in the Real Estate Leasing and Other Business, these properties are segment assets of the Real Estate Leasing and Other Business during the period of possession, and are transferred to the segment assets of the Real Estate Trading Business at the book value every time they are sold.

(Per share information)

	FY2015 (From January 1, 2015 to December 31, 2015)	FY2016 (From January 1, 2016 to December 31, 2016)
Net assets per share	498.23 yen	634.98 yen
Net income per share	154.15 yen	121.35 yen
Diluted net income per share	153.78 yen	121.13 yen

(Note) 1. The Company conducted a 2-for-1 split which became effective as of July 1, 2016. The figure for net asset per share has been adjusted to reflect the number of shares after the stock split occurred at the beginning of the previous fiscal year.

2. The basis for the calculation of net income per share and diluted net income per share is as follows.

Item	FY2015 (From January 1, 2015 to December 31, 2015)	FY2016 (From January 1, 2016 to December 31, 2016)
Net income per share		
Profit attributable to owners of parent (thousand yen)	3,382,083	2,925,750
Amount that does not belong to ordinary shareholders (thousand yen)	—	—
Profit attributable to owners of parent, available to common stock (thousand yen)	3,382,083	2,925,750
Average number of common stock outstanding for the period (shares)	21,939,660	24,110,560
Diluted net income per share		
Adjustment for profit attributable to owners of parent (thousand yen)	—	—
Increase in the number of common stock (shares)	53,436	43,786
Overview of dilutive shares not included in the calculation of diluted net income per share due to the absence of the dilution effect	Second issuance of subscription rights to shares resolved at the meeting of the Board of Directors held on April 10, 2015 (110,800 shares for the subscription rights to shares)	Second issuance of subscription rights to shares resolved at the meeting of the Board of Directors held on April 10, 2015 (110,000 shares for the subscription rights to shares)

(Significant subsequent event)

Not applicable.