I. Operating Results

(1) Analysis of Operating Results

1) Operating Results for the Year Ended March 31, 2015

During the fiscal year ended March 31, 2015, the Japanese economy continued to recover gradually despite the backwash from last-minute demand prior to the consumption tax hike. However, the economy currently faces various risks, including the rapid depreciation of the yen, the significant decline in crude oil prices, interest-rate trend in the US, Europe’s debt problem, and stagnation of economic growth in China. In light of such risks, changes in the business environment continue to warrant close attention.

In the office building market, the overall supply-demand balance has been steadily improving, with the vacancy rate in Tokyo’s five central wards falling from the upper to middle 6% range to the lower to middle 5% range during the year. While rents have bottomed out and remained mostly flat, there are signs of improvement in the market as offered rents in the five central Tokyo wards have started to turn upward slightly.

In the hotel industry, occupancy rates and revenue per room are both recovering, supported by a significant increase in demand reflecting Japan’s economic recovery and an increase in visitors from abroad.

In the golf course industry, although demand seems to be partly recovering, the level of demand remains low. Competition among golf courses is expected to continue to intensify.

Amid such a business environment, Jowa Holdings Company, Limited (“the Company”) and its Group companies (“the Group”), which operate a real estate business, hotel business, and golf course business as its core businesses, focused on improving base earnings by pursuing its operations from the perspective of its stakeholders, particularly its customers, as well as by meeting customers’ needs and reducing costs so as to build a stable operational foundation under a highly transparent and efficient holding-company-based business structure.

Consolidated revenue from operations during the fiscal year ended March 31, 2015 totaled ¥27,668 million, an increase of 26.2% from ¥21,930 million in the previous fiscal year. Consolidated operating income totaled ¥8,813 million, an increase of 27.6% from ¥6,905 million in the previous year. Consolidated ordinary income was ¥7,341 million, an increase of 28.2% from ¥5,727 million in the previous year. Consolidated net income totaled ¥4,214 million, an increase of 36.9% from ¥3,078 million in the previous fiscal year, despite posting an extraordinary loss due to loss related to disposal of fixed assets.

Results for the fiscal year under review are presented by segment below.

Real Estate Business
Revenue from operations during the fiscal year ended March 31, 2015, increased 33.5% to ¥21,222 million from ¥15,893 million in the previous fiscal year, and operating income increased 19.4% to ¥7,642 million from ¥6,401 million in the previous fiscal year. This was the result of newly acquired domestic and overseas properties’ contributions to revenue, the sale of residential properties, and exhaustive efforts to acquire new tenants and forestall vacancies in existing properties.

Hotel Business
Revenue from operations during the fiscal year ended March 31, 2015, increased 8.3% to ¥5,946 million from ¥5,491 million in the previous fiscal year. Operating income decreased 20.3% to ¥1,258 million from ¥1,578 million in the previous fiscal year. Although both revenue and income from existing hotels increased with higher room rates than those in the previous fiscal year despite the decrease in the occupancy rate, the segment was impacted by the closing of existing hotels for remodeling and the initial loss incurred in conjunction with the opening of new hotels.

Golf Course Business
Revenue from operations during the fiscal year ended March 31, 2015, increased 2.9% to ¥666 million from ¥648 million in the previous fiscal year, and operating income increased 36.8% to ¥56 million from ¥41 million in the previous fiscal year. These results were attributable to the year-on-year increase in the number of players despite a drop in revenue per customer.
2) Outlook for the Year Ending March 31, 2016
Amid the business environment described above, the Group will endeavor to increase its base earnings in accord with its stock-type business model and improve group-wide efficiency (reduce costs).

In the real estate business, the Group will endeavor to boost earnings by further improving tenant satisfaction and strengthening tenant relations and leasing operations.

In the hotel business, the Group will focus on nationwide expansion, and leverage the strengths in its hotel business, namely accommodation-centered business hotels located in prime locations including the Tokyo Metropolitan and other major regional urban areas, while actively conducting sales activities and striving to further enhance customer satisfaction. The Group plans to open Unizo Inn Sapporo in the fiscal year ending March 31, 2016.

Additionally, the Group will proactively undertake new investments by applying disciplined investment criteria to clearly identify earnings potential and pertinent risks in order to enhance the Group’s profitability.

Through the above activities, the Group will strive to increase corporate and shareholder value.

For the fiscal year ending March 31, 2016, the Group forecasts consolidated revenue from operations of ¥30,700 million, a 11.0% increase from ¥27,668 million in the year ended March 31, 2015; consolidated operating income of ¥10,100 million, a 14.6% increase from ¥8,813 million in the year ended March 31, 2015; consolidated ordinary income of ¥8,100 million, a 10.3% increase from ¥7,341 million in the year ended March 31, 2015; and consolidated net income of ¥5,000 million, a 18.6% increase from ¥4,214 million in the year ended March 31, 2015.

(2) Analysis of Financial Position
1) Changes in Financial Position
Total assets as of March 31, 2015, amounted to ¥391,486 million, an increase of ¥113,542 million from March 31, 2014. The increase was attributable to a ¥111,907 million increase in property and equipment due to acquisitions of office buildings and other assets. The value of the Group’s lease properties (office buildings for lease, etc.) as of March 31, 2015 was ¥309,127 million on the consolidated balance sheet and their market value was ¥374,760 million as of the same date. The hotel and golf course properties operated by the Group were carried on its March 31, 2015 balance sheet at a book value of ¥52,813 million and had a market value of ¥69,808 million as of the same date.

As of March 31, 2015, total liabilities amounted to ¥338,785 million, an increase of ¥94,216 million from March 31, 2014. The total loan balance increased ¥92,790 million from March 31, 2014.

Net assets as of March 31, 2015, amounted to ¥52,700 million, an increase of ¥19,326 million from March 31, 2014. The increase was the result of a ¥5,683 million increase in capital stock and a ¥5,683 million increase in capital surplus obtained through the public offerings carried out in November and December 2014, a ¥3,222 million increase in retained earnings and other factors.

2) Cash Flows
Cash and cash equivalents as of March 31, 2015, amounted to ¥3,513 million, a ¥1,079 million increase from March 31, 2014. The increase was the result of net cash inflows of ¥11,175 million from operating activities and ¥103,216 million from financing activities, offset by a ¥113,399 million net cash outflow from investing activities.

Cash Flows from Operating Activities
Net cash provided by operating activities in the year ended March 31, 2015, amounted to ¥11,175 million, a ¥2,948 million decrease from the previous fiscal year. Major sources of operating cash flow included ¥6,823 million of income before income taxes, ¥4,915 million of depreciation and amortization, a non-cash expense, a ¥1,779 million increase in security and guarantee deposits received from tenants, and a ¥2,200 million decrease in inventories. Major uses of operating cash flow included ¥2,919 million of income taxes paid.

Cash Flows from Investing Activities
Net cash used in investing activities in the year ended March 31, 2015, amounted to ¥113,399 million, ¥52,414 million less than in the previous fiscal year, largely reflecting expenditures of ¥114,119 million to purchase property and equipment.
Cash Flows from Financing Activities

Net cash provided by financing activities amounted to ¥103,216 million, a ¥56,267 million increase from the previous fiscal year. Sources of net cash from financing activities included ¥119,887 million of proceeds from long-term loans payable used mainly to acquire property and equipment. These cash inflows were partially offset by repayment of long-term loans payable of ¥39,090 million.

(Reference) Trends in Cash Flow-Related Indices

<table>
<thead>
<tr>
<th></th>
<th>Year ended March 31, 2011</th>
<th>Year ended March 31, 2012</th>
<th>Year ended March 31, 2013</th>
<th>Year ended March 31, 2014</th>
<th>Year ended March 31, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity ratio (%)</td>
<td>13.0</td>
<td>12.1</td>
<td>14.0</td>
<td>12.0</td>
<td>13.4</td>
</tr>
<tr>
<td>Equity ratio on a market-capitalization basis (%)</td>
<td>11.0</td>
<td>10.0</td>
<td>18.1</td>
<td>20.3</td>
<td>23.5</td>
</tr>
<tr>
<td>Ratio of interest-bearing liabilities to cash flow</td>
<td>23.3</td>
<td>26.2</td>
<td>37.7</td>
<td>15.7</td>
<td>28.2</td>
</tr>
<tr>
<td>Interest coverage ratio</td>
<td>2.3</td>
<td>2.7</td>
<td>2.7</td>
<td>9.0</td>
<td>6.5</td>
</tr>
</tbody>
</table>

Notes:
1. All indices are calculated on the following basis utilizing consolidated financial data.
   - Equity ratio: Total equity / Total assets
   - Equity ratio on a market capitalization basis: Market capitalization / Total assets
   - Ratio of interest-bearing liabilities to cash flow: Interest-bearing liabilities / Cash flows from operating activities
   - Interest coverage ratio: Cash flows from operating activities / Interest payments
2. Market capitalization is calculated based on the number of shares issued after deducting treasury stock.
3. “Cash flows from operating activities” in the above calculation corresponds to that in the consolidated statements of cash flows.
4. Interest-bearing liabilities include all interest-bearing liabilities recorded on the consolidated balance sheets. In addition, interest expenses recorded in the Company’s consolidated statements of cash flows is used in calculations that use interest payments.

3) Financial Position for the Year Ending March 31, 2016

The Company expects its total assets to increase during the fiscal year ending March 31, 2016, in accord with its plans to continue investing in prime income-generating real estate in Japan and overseas and opening a new hotel.


With respect to the distribution of profits, the Company has a basic policy of maintaining consistent and stable cash dividend payments. The Company continuously strives to enhance corporate and shareholder value by maintaining a balance between stable cash dividends and robust shareholders’ equity in consideration of the need for promoting future business development, strengthening the business foundation, trends in the business environment and business results, along with the financial condition.

Based on the above policy and the financial results for the year ended March 31, 2015, the Company plans to pay a year-end cash dividend of ¥35 per share. The annual dividend is therefore ¥65 per share, including the previously paid interim dividend of ¥30 per share.

For the year ending March 31, 2016, consistent with its basic policy and based on the assumption that financial results will be achieved as forecast, the Company expects to pay an annual dividend of ¥70 per share, comprising interim and fiscal year-end payments, each of ¥35 per share.

(4) Business and Other Risks

Of the items that relate to the Company’s operating results and financial position, the Company has included the key risks that may significantly impact investors’ decisions. Although some risk factors included may not meet such criterion, the Company discloses all risks determined to be important to investors’ decision-making for the purpose of proactive disclosure of information.

After determining the potential for these items to arise, the Group takes steps to prevent their occurrence and to implement any and all appropriate countermeasures. With respect to forward-looking statements, the Group’s statements are based on information available to its management as of the date of this report.
1) Trends in Economic and Real Estate Market Conditions

The Group’s core real estate business (leasing office buildings in Japan and overseas) is susceptible to the effects of economic trends as well as real estate market conditions. Real estate market trends, including an increase in vacancy rates and a decrease in rents due to a downturn in the economy or oversupply in the market for office buildings for lease, as well as deterioration in real estate prices, have the potential to significantly impact the Group’s financial results and position.

Similarly, the Group’s core hotel business is also susceptible to the effects of economic trends and personal consumption behavior. In this regard, a decrease in demand for business and leisure travel by the corporate sector and individuals due to an economic slump, a downturn in room rates and occupancy stemming from an oversupply of rooms due to the opening of new hotels, and other related factors have the potential to significantly impact the Group’s financial results and position.

2) Changes in Various Statutory and Regulatory Requirements

In addition to general laws and ordinances that affect corporate management led by the Companies Act as well as the City Planning Act, the Building Standards Act, the Building Lots and Building Transactions Business Act, the Hotel Business Act and other related legislations, the Group’s business activities in Japan are subject to regulatory requirements imposed by local government authorities. Likewise, the Group’s overseas business activities are also subject to statutory and regulatory state and local requirements related to those business activities. As a result, any future change in those requirements, the imposition of new obligations, an increase in compliance costs and restriction on business and operating rights have the potential to significantly impact the Group’s financial results and position.

Furthermore, the Group has acquired all the necessary licenses and permits required to conduct its businesses. The Group continues to comply with all appropriate terms as well as related laws and regulations. The Company is not aware of any reason for its licenses and permits to be revoked. In the event, however, that the Group should breach any statutory or regulatory requirement that results in the termination of a license or permit, the potential exists for the Group’s activities to be negatively affected with a subsequent loss of credibility, reputation and standing. Ultimately, this may significantly impact the Group’s businesses.

With respect to a change in real estate-related tax systems, any increase in the costs associated with the acquisition, maintenance and disposal of real estate has the potential to significantly impact the Group’s financial results and position.

3) Fluctuations in Interest Rates

The vast majority of the Group’s funds are procured as debt from financial institutions. The balance of outstanding debt increased by ¥92,790 million during the fiscal year ended March 31, 2015, and the loan to total assets ratio ended the fiscal year at a high level of 80.5%. Changes in financial conditions that result in higher interest rates and, in turn, increased financing costs have the potential to significantly impact the Group’s financial results and position.

4) Fluctuations in Exchange Rates

The Group's operations are affected by exchange rate fluctuations. If the yen appreciates, the yen-equivalent value of the Group's transactions denominated in foreign currencies would decrease. Additionally, a portion of the Group's assets and liabilities are converted to yen-equivalent values for presentation in the Group's consolidated financial statements. These assets and liabilities' yen-equivalent values may be affected by exchange rate movements even if their values in local-currency terms remain unchanged.

5) Fluctuations in Share Prices of Securities

As part of its business strategies, the Group invests in the shares of public and non-public companies in accordance with its policy. In the event of a substantial decline in the overall prices of securities, the Company is susceptible to both an impairment and devaluation loss on its marketable securities, which has the potential to impact the Group’s financial results and position significantly.

6) Office Building Tenants and Lease Agreements

There are no guarantees that lease agreements will be renewed at the end of the lease term. In addition, tenants are able to cancel lease agreements during the lease term by providing advance notice, for a specified period of time, prior to the cancellation. Accordingly, if cancellations increase, the Group’s financial results could be affected by factors such as declines in the Group's rental revenue, during the period until new tenants are found.
7) Natural and Human-Made Disasters
The Group maintains a substantial real estate portfolio comprising numerous properties. Accordingly, the Group takes steps to ensure that it maintains an appropriate level of property and casualty insurance coverage. Despite this coverage, human-caused incidents such as fires, natural disasters including earthquakes, tsunamis, hurricanes and floods, and accidents attributable to unanticipated events have the potential to significantly impact the Group’s financial results and position.

For the Group’s golf course business, inclement weather including typhoons and heavy snowfalls may lead to a decrease in the number of players. This has the potential to significantly impact the Group’s financial results and position.

8) Information Management
The Group collects and collates wide-ranging general and personal information in the normal course of its operating activities. While the maintenance and management of this information is handled with the utmost care, any leakage of all or a part of this information due to unauthorized external access or inappropriate use by in-house employees may result in a significant deterioration in the reputation and standing of the Group. Any subsequent impairment in credibility has the potential to significantly impact the Group’s financial results and position.

9) Litigation
The Group is not involved in any currently ongoing litigation with the potential to have a material impact on its earnings. In the conduct of its business activities, however, the Group may become party to lawsuits initiated for a variety of reasons by parties such as business partners and customers. In such a case, the potential exists for the Group’s financial results and position to be significantly affected.

When the Group acquires or constructs real estate, including office buildings, hotels and residences, the Company makes every effort to ensure compliance with all relevant statutory and regulatory requirements. In addition to careful evaluation and assessment, the Group consults closely with local residents, selects highly qualified professionals in the case of construction projects and takes steps to address legal, environmental and quality concerns. If, however, for unforeseen reasons, an issue arises with respect to the Group’s property holdings, and the Group is served with a claim or subject to litigation that results in damage to its reputation and social standing, its financial results and position may be significantly affected.

II. Information on Group Companies
The Group is comprised of Jowa Holdings Company, Limited and its eleven consolidated subsidiaries. The Group operates a real estate business consisting of the ownership, leasing, and management of office building and other properties, real estate brokerage, and sale of residential lots; a hotel business consisting of the ownership and operation of business hotels; and a golf course business consisting of the ownership and management of golf courses. The positioning and reporting segments of each Group company are presented as follows.

<table>
<thead>
<tr>
<th>Company name</th>
<th>Principal Business Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Real Estate Business</strong></td>
<td></td>
</tr>
<tr>
<td>Jowa Real Estate Company, Limited</td>
<td>Ownership and leasing of office buildings and other properties, asset management, property management, leasing of dormitories and company housing, real estate brokerage, subdivision and sales of residential land, etc.</td>
</tr>
<tr>
<td>Jowa Real Estate One, LLC</td>
<td>Real estate business in the USA</td>
</tr>
<tr>
<td>Jowa Real Estate Two, LLC</td>
<td></td>
</tr>
<tr>
<td>Jowa Holdings NY, LLC</td>
<td></td>
</tr>
<tr>
<td>Jowa Building Service Company,</td>
<td>Janitorial and management services for office buildings and other properties</td>
</tr>
<tr>
<td>Limited</td>
<td></td>
</tr>
<tr>
<td><strong>Hotel Business</strong></td>
<td></td>
</tr>
<tr>
<td>Jowa Hotel Company, Limited</td>
<td>Ownership and operation of business hotels</td>
</tr>
<tr>
<td><strong>Golf Course Business</strong></td>
<td></td>
</tr>
<tr>
<td>Jowa Golf Management Company,</td>
<td>Ownership and operation of YACHIYO GOLF CLUB public golf course</td>
</tr>
<tr>
<td>Limited</td>
<td></td>
</tr>
</tbody>
</table>

Note: Jowa Real Estate Company, Limited absorbed Jowa Golf Management Company, Limited on April 1, 2015 as the effective date of absorption-type merger.