



daitobo

“Pursuing infinite possibilities with the power of ideas”
since 1896

The **198**th Fiscal Year
Interim Business Report

April 1, 2017 ▶ September 30, 2017

Daitobo Co.,Ltd.

Securities code: 3202



**INTERIM
BUSINESS
REPORT**

Management's message



Kazuhiro Yamauchi
President and Representative Director

Please allow me to begin by extending my heartfelt gratitude to our shareholders for their continued patronage and support.

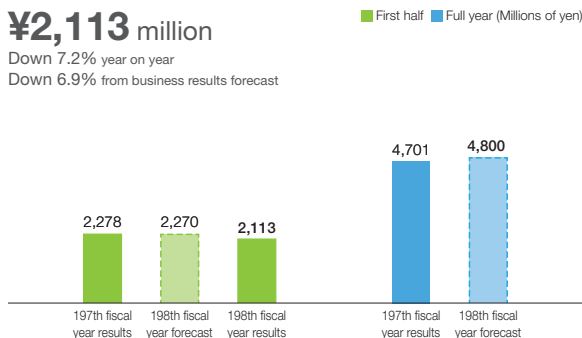
I would like to make a brief statement on our performance for the first half of the 198th fiscal year (from April 1, 2017 to September 30, 2017).

Consolidated financial highlights

■ Net sales

¥2,113 million

Down 7.2% year on year
Down 6.9% from business results forecast



<Introduction>

During the first half of the fiscal year ending March 31, 2018, the Japanese economy remained in a moderate recovery trend overall. Although the domestic income and employment environment continued to improve as a result of various government policies, concerns remained in issues such as the ongoing uncertainty of overseas economies.

Under these circumstances, the Group continued to work diligently on managerial initiatives based on the “Bridge to the Future” Mid-term Management Plan in each of its business sections.

<Business results for the first half>

Net sales decreased to ¥2,133 million (down 7.2% year on year) due to the absence of extraordinary income in the commercial property business seen in the same period of the previous fiscal year, as well as sluggish growth among some OEM customers in the health-related and apparel-related sectors. However, operating income increased to ¥227 million (up 14.9% year on year) as a result of a reduction in general and administrative expenses, and ordinary income increased to ¥169 million (up 81.7% year on year) due to the absence of one-time non-operating expenses incurred in the same period of the previous fiscal year. As a result of this, combined with the absence of extraordinary income and extraordinary losses recorded in the same period of the previous fiscal year and income taxes, profit attributable to owners of parent increased around two-fold year on year to ¥130 million (up 105.7% year on year).

<Business results by segment>

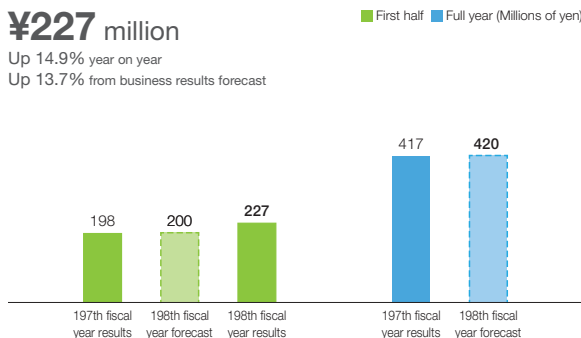
(Commercial property business)

In the commercial property business, the volume of facility handling remained favorable as a result of promoting a preliminary study for future additional development of SUN TO MOON Kakitagawa, one of the leading commercial facilities in Shizuoka Prefecture, and events held throughout the year commemorating the facility's 20th anniversary. However, due to the absence of extraordinary income recorded in the same period of the

■ Operating income

¥227 million

Up 14.9% year on year
Up 13.7% from business results forecast



previous fiscal year and the extraordinary expenditure of renovation costs incurred for events planned for the 20th anniversary, net sales totaled ¥1,172 million (down 2.5% year on year) and operating income amounted to ¥466 million (down 9.7% year on year).

(Health care business)

In the health care business, we further reinforced our shift to the health-related business area, leveraging our capital and business alliance with Ito Physiotherapy & Rehabilitation. However, as a result of the slow sales growth among some OEM customers, the impact from declining demand during summer, as well as persistently high raw material costs, net sales totaled ¥349 million (down 12.4% year on year) and operating loss amounted to ¥25 million (compared with an operating loss of ¥20 million in the same period of the previous fiscal year).

(Textile and apparel business)

In the textile and apparel business, sales among some fabric-related OEM business partners, where the market is weak, struggled; however, as a result of improved profitability, net sales totaled ¥592 million (down 12.4% year on year) and operating loss amounted to ¥2 million (compared with an operating loss of ¥5 million in the same period of the previous fiscal year).

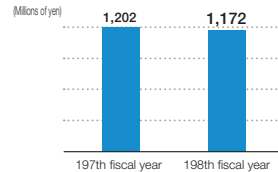
<In conclusion>

In the first half of this fiscal year, we entered into a capital and business alliance with First Brothers Co., Ltd., listed on the First Section of the Tokyo Stock Exchange, in August 2017 for the purpose of strengthening our business base. In addition, we proactively worked on new initiatives such as enriching our shareholder benefit program in association with the reduced unit of share trading. Going forward, we are committed to working to improve corporate value and creating a new tomorrow based on our management philosophies of fostering a spirit of enterprise and of helping others through self-help. We would like to ask our shareholders for their continued support and guidance.

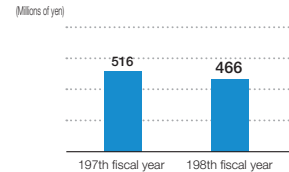
Business results by segment (Graphs show business results for the first half)

Commercial property business

Net sales

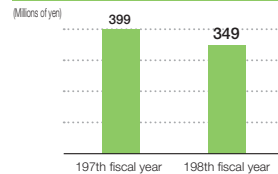


Operating income

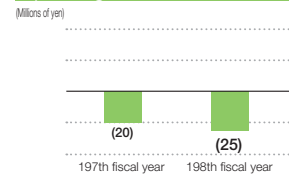


Health care business

Net sales

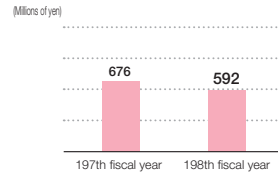


Operating income

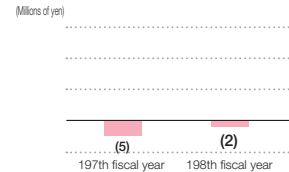


Textile and apparel business

Net sales



Operating income

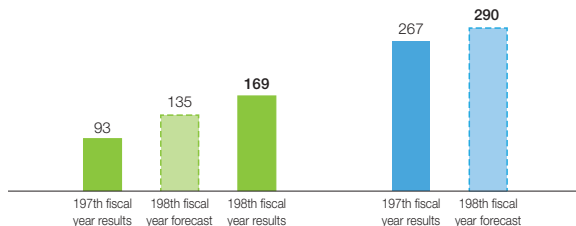


Ordinary income

¥169 million

Up 81.7% year on year
Up 25.3% from business results forecast

■ First half ■ Full year (Millions of yen)

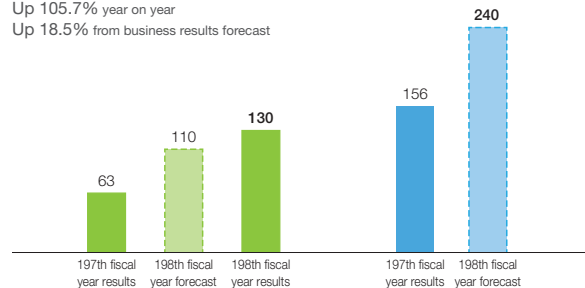


Profit attributable to owners of parent

¥130 million

Up 105.7% year on year
Up 18.5% from business results forecast

■ First half ■ Full year (Millions of yen)



Notes: Forecasts shown above are based on the materials available as of the date of publication of this report, and actual business results may differ from these forecasts due to various factors.



Kazuhiro Yamauchi
President and Representative Director

“Pursuing infinite possibilities

Kazuhiro Yamauchi

President and Representative Director

This year, shogi (Japanese chess) received a great deal of attention, whether it was on Souta Fujii, Yodan (fourth degree), a junior high school professional shogi player who established a new record of consecutive wins, the popular Hifumi Katoh, Kudan (ninth degree) who is known by his nickname “Hifumin,” or Yoshiharu Habu, Ryuo, the first shogi player ever



Muroya

In shogi, it is often said that what is important is the “power of ideas early in the game,” along with keeping the big picture in mind and having the power of ideas. In addition, shogi players are said to

pursue the “infinite possibilities” hidden within the 81 squares on the board. I feel that “pursuing infinite possibilities with the power of ideas,” which is the theme of the Daitobo Group’s logo, is also true for shogi, but what was the concept behind the logo at its inception?

Muroya

The Daitobo Group is celebrating its 122nd anniversary, and the history of the Group as a business entity is astounding. How do you feel about the weight of this history?

Yamauchi

This is a short period of time compared with the history of shogi in Japan, which dates back around 1,000 years, but our feelings of appreciation to our shareholders, our customers and our business partners, and the sense of pride that we have in somehow having created a history that brings us to the present day is something that we share with every one of our employees.



Yamauchi

The infinity symbol (“daitobo”) is incorporated in the “bo” at the end of the daitobo logo. We imagined the “i” as a person with the “●” on the top representing a head with flexible

ideas. The message symbolized in this logo is that the Group will promote sustainable corporate value leveraging its ideas and its people to enrich lifestyles. I think, as you said, the key concepts of “the power of ideas” and “infinite possibilities” also applies to shogi.

Muroya

Incidentally, this year is the final year of the “Bridge to the Future” Mid-term Management Plan that the Company is working on. Please tell us about your initiatives for the next fiscal year and beyond.

Yamauchi

We are currently in the process of formulating the next mid-term management plan, so it is premature to discuss details. What I can say is, we are moving forward with a preliminary study of additional development in the commercial property business. In addition, in the health care business, we are strengthening alliances with capital and business partners as well as considering potential M&A targets with the aim of cultivating the health care

with the power of ideas”

Yuki Muroya

Women's shogi player

to win lifetime titles in all seven major titles in December 2017. This time, we were pleased to meet Yuki Muroya, a Women's Nidan (second degree) player in the Japan Shogi Association. Kazuhiro Yamauchi, President and Representative Director, enjoyed the opportunity to exchange views on a wide range of topics related to the management of the Group.

business as one of our main businesses. In our next mid-term management plan, I would like to demonstrate the assured growth of the Group with a view to restoring dividends.



Finally, please tell us if there are any areas in common shared between shogi and corporate management.



I believe that “the power of ideas,” which enables creation from non-existence, and “infinite possibilities” are also true for business itself. In addition, “the big picture,” which is another important element in shogi, is also integral in management. With the evolution of AI and the dramatic change in global mechanisms, I would like to engage in management that views the big picture and sees the way ahead in order to further broaden the potential of human beings. In addition, “reading three moves ahead” is a shogi term that also appears in our internal action guidelines. Shogi terms are actually used frequently in the business world. Going forward, as a company, we would like to incorporate shogi as part of our internal training so that we can apply it to training human resources.



Thank you very much. Your resolve on the future of the Daitobo Group impressed me with the potential it holds as a company with great history. I would be delighted if shogi can



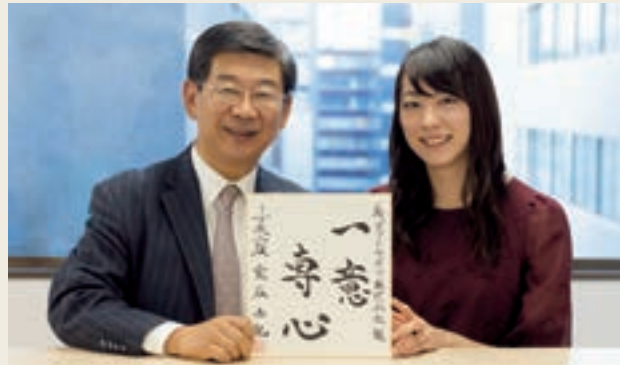
Yuki Muroya, Women's Nidan

Yuki Muroya is a women's shogi player and member of the Japan Shogi Association. She won the Kansai Amateur Women's Competition at the age of 14. After turning professional in 2009, Muroya won her first title at the 2016 Mynavi Women's Open. Born in Osaka Prefecture, she was appointed as Osaka Sayama City Tourism Ambassador in October 2017. She frequently appears on TV and at various events, including on NHK shogi programs.

contribute to human resource training in the Daitobo Group. I trust that your steps towards the future “pursuing infinite possibilities with the power of ideas” will be fruitful.



I have taken up a greater interest in shogi and am grateful to have had the honor of this enlightening conversation with you. I appreciate your continued support.



Review of Financial Results

Consolidated balance sheet

(Thousands of yen)

Description	End of the first half of this fiscal year (as of September 30, 2017)	End of the prior fiscal year (as of March 31, 2017)
(Assets)		
Current assets	2,940,496	3,022,133
Non-current assets	16,013,067	16,071,652
Property, plant and equipment	15,566,615	15,701,243
Intangible assets	7,632	9,417
Investments and other assets	438,819	360,992
Total assets	18,953,564	19,093,785
(Liabilities)		
Current liabilities	1,456,057	1,523,259
Non-current liabilities	13,023,514	13,240,938
Total liabilities	14,479,571	14,764,197
(Net assets)		
Shareholders' equity	(531,610)	(661,897)
Capital stock	1,500,000	1,500,000
Capital surplus	503,375	503,375
Retained earnings	(2,527,780)	(2,658,134)
Treasury shares	(7,206)	(7,138)
Accumulated other comprehensive income	5,003,794	4,990,863
Stock acquisition rights	1,809	622
Total net assets	4,473,992	4,329,588
Total liabilities and net assets	18,953,564	19,093,785

Consolidated statement of income

(Thousands of yen)

Description	For the first half of this fiscal year (from April 1, 2017 to September 30, 2017)	For the first half of the prior fiscal year (from April 1, 2016 to September 30, 2016)
Net sales	2,113,985	2,278,141
Cost of sales	1,494,507	1,621,289
Gross profit	619,478	656,852
Selling, general and administrative expenses	391,988	458,840
Operating income	227,489	198,011
Non-operating income	3,813	54,054
Non-operating expenses	62,089	158,936
Ordinary income	169,214	93,129
Extraordinary income	—	109,743
Extraordinary losses	—	107,257
Profit before income taxes	169,214	95,615
Income taxes-current	40,068	30,040
Income taxes-deferred	(1,208)	2,206
Profit	130,354	63,368
Profit attributable to owners of parent	130,354	63,368

Consolidated statement of cash flows

(Thousands of yen)

Description	For the first half of this fiscal year (from April 1, 2017 to September 30, 2017)	For the first half of the prior fiscal year (from April 1, 2016 to September 30, 2016)
Cash flows from operating activities	177,917	58,233
Cash flows from investing activities	9,334	359,260
Cash flows from financing activities	(183,447)	294,034
Effect of exchange rate change on cash and cash equivalents	(551)	(1,296)
Net increase (decrease) in cash and cash equivalents	3,252	710,232
Cash and cash equivalents at beginning of the period	1,668,446	687,297
Cash and cash equivalents at end of the period	1,671,698	1,397,529

Business fields

Commercial property business

Daitobo's commercial properties are the go-to place for pleasant lifestyles. We will offer enriched living space based on our vision of "creating space that delights our customers."

- Shopping malls



Health care business

In response to the aging population and rising health consciousness, the Company supports the healthy and comfortable life of customers with products drawing on our proprietary technology. Our strength lies in the high technological ability of the Group's domestic production bases.

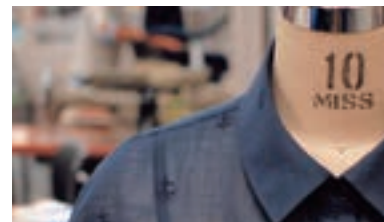
- Health-promoting textile materials-related
- Home-use medical devices
- Health-promoting foodstuffs
- General bed and bedding



Textile and apparel business

Daitobo will satisfy the diverse needs of our customers, from apparel fashion to uniforms, based on its vision of "creating products that delight our customers."

- Uniforms for both official and civilian users
- Production-management type OEM operations
- Knitwear planning

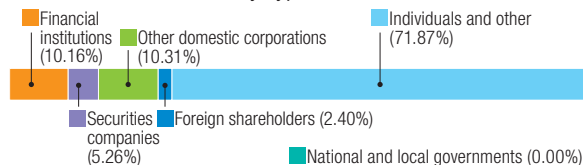


Corporate Overview/Status of Shares (as of September 30, 2017)

Corporate Overview

Established	February 27, 1896
Capital stock	¥1,500,000,000
Place of business	
Head Office	Marukashiwa Tama Building, 6-1 Nihonbashihoncho 1-chome, Chuo-ku, Tokyo, Japan +81-3-6262-6565
Nagoya Sales Office	Meiji Sangyo Building 2, 17-9 Honmachi 4-chome, Ichinomiya-shi, Aichi, Japan +81-586-23-4811
Osaka Sales Office	3-6 Minamikujohjimachi 2-chome, Chuo-ku, Osaka, Japan +81-6-6262-8322
Group companies	Daitobo Estate Co., Ltd. (Shizuoka) Niigata Daitobo Co., Ltd. (Niigata) DAITOBOSHOKU (SHANGHAI) CORPORATION (China)

● Breakdown of Shares by Type of Shareholder (Shareholding ratio)



Status of Shares

Total number of shares authorized to be issued	96,000,000 shares
Total number of shares issued	30,000,000 shares
Total number of shareholders	7,775

● Principal Shareholders (Top 10)

Shareholder name	Number of shares held (Thousand shares)	Shareholding ratio (%)
First Brothers Co., Ltd.	682	2.27
The Master Trust Bank of Japan, Ltd. (Trust account)	574	1.91
Developer Sanshin inc.	550	1.83
Japan Trustee Services Bank, Ltd. (Trust account 5)	541	1.80
SEED INC.	501	1.67
Yoshio Koizumi	456	1.52
Japan Trustee Services Bank, Ltd. (Trust account 2)	400	1.33
SBI SECURITIES Co., Ltd.	343	1.14
JAPAN SECURITIES FINANCE CO., LTD.	330	1.10
Japan Trustee Services Bank, Ltd. (Trust account 1)	297	0.99

Note: Shareholding ratio is calculated excluding treasury stock (68,598 shares).

Members of the Board of Directors

President and Representative Director	Kazuhiro Yamauchi
Vice President and Representative Director	Toshiyasu Nomura
Director and Executive Officer	Shogo Mieda
Outside Director	Yasunobu Sawada
Director (Audit and Supervisory Committee Member)	Yuji Kakuma
Outside Director (Audit and Supervisory Committee Member)	Haruki Iinuma
Outside Director (Audit and Supervisory Committee Member)	Takashi Kagami
Outside Director (Audit and Supervisory Committee Member)	Shusaku Okumura

Notes: 1. Messrs. Yasunobu Sawada, Haruki Iinuma, Takashi Kagami and Shusaku Okumura are Outside Directors (independent directors).
2. The Company has an Audit and Supervisory Committee which is composed of four (4) Audit and Supervisory Committee Members.



Yasunobu Sawada	Takashi Kagami	Shogo Mieda	Haruki Iinuma	Shusaku Okumura
Toshiyasu Nomura	Kazuhiro Yamauchi	Yuji Kakuma		

Daitobo Co.,Ltd.

<http://www.daitobo.co.jp/>

For inquiries regarding this report, please contact: Business Management Headquarters TEL: +81-3-6262-6565

We resolved to change our shareholder benefit program following the change to the number of shares per unit at the Board of Directors' meeting held on August 10, 2017.

1 Eligible shareholders

The program targets shareholders who own 100 shares or more of the Company's share for six consecutive months or longer and are registered or recorded in the shareholders' register as of March 31 of each year.

2 Detail of the plan

Consecutively held period	Number of shares held		
	100 shares or more but less than 1,000 shares	1,000 shares or more but less than 2,000 shares	2,000 shares or more
Six months or more but less than one year	One benefit discount coupon for products available at the Company's internet shopping site	① QJOU card worth ¥2,000 ② One benefit discount coupon for products available at the Company's internet shopping site	① QJOU card worth ¥4,000 ② One benefit discount coupon for products available at the Company's internet shopping site
One year or more	Two benefit discount coupons for products available at the Company's internet shopping site	① QJOU card worth ¥3,000 ② Two benefit discount coupons for products available at the Company's internet shopping site	① QJOU card worth ¥5,000 ② Two benefit discount coupons for products available at the Company's internet shopping site

Commencement timing and method

The program will commence for the shareholders who are registered or recorded in the shareholders' register as of March 31, 2018.

Benefits will be mailed after the Annual General Meeting of Shareholders.

IR information

Please visit the Company's website with IR information such as summary of financial results and securities report, as well as the latest financial information and matters for timely disclosure.

<http://www.daitobo.co.jp/ir/>



Information for Shareholders

Fiscal year	From April 1 to March 31 of the following year
Record dates for dividend of surplus	Year-end dividend March 31 Interim dividend September 30
Annual General Meeting of Shareholders	June every year
Administrator of shareholders' register (special account management institution)	4-1 Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan Sumitomo Mitsui Trust Bank, Limited.
Mailing address	8-4 Izumi 2-chome, Suginami-ku, Tokyo 168-0063, Japan Stock Transfer Agency Business Planning Dept., Sumitomo Mitsui Trust Bank, Limited. 0120-782-031 (toll-free in Japan)
Method of public notice	Public notices by the Company shall be done by electronic means; however, in the event that accidents or other unavoidable reasons prevent public notice by electronic means, the notice will be posted in the The Nikkei.