

The **197th** Fiscal Year

Interim Business Report

April 1, 2016 ▶ September 30, 2016

Daitobo Co.,Ltd.

Securities code: 3202

INTERIM
BUSINESS
REPORT

daitobo

“Pursuing infinite possibilities with the power of ideas”

since 1896



Kazuhiro Yamauchi, President and Representative Director

the entire amount of the existing borrowings with a long-term syndicated loan during the first quarter of fiscal 2016, thus steadily achieving the target financial indicators under the Mid-Term Management Plan.

Secondly, in respect of “establishing a robust platform for our core businesses,” in the commercial property business, we worked to further appeal to customers, by taking measures to enhance events for children and invite more attractive tenants at SUN TO MOON Kakitagawa, one of the leading commercial facilities in Shizuoka Prefecture. In the health care business, considering extreme summer heat as a business opportunity, we strove to expand sales of health-promoting bio-linen material for summer and other products drawing on the Company’s proprietary technology. In the textile and apparel business, we endeavored to further boost revenue of the business, which had improved profitability upon streamlining through structural reorganization.

Lastly, regarding “ensuring a higher level of earnings,” although net sales decreased year on year due to the structural reorganization in the textile and apparel business implemented in the prior fiscal year, in terms of earnings, there were positive effects in improved profitability and cost reduction.

Owing to the effects of these measures, we announced the upward revisions in the consolidated business results including an increase in operating income by 50% in the “Revisions in the First Half and Full-year Consolidated Business Results Forecast for the Fiscal Year Ending March 31, 2017” on August 10, 2016.

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 197th fiscal year (from April 1, 2016 to September 30, 2016).

Progress on the Mid-term Management Plan

The Company Group (or the “Group”) has launched the “Bridge to the Future” Mid-term Management Plan this fiscal year, and is implementing the six key strategies as shown below.

- Commercial property business: Maintaining a position to outperform rivals and strengthening our competitive advantage
- Health care business: Promoting business cooperation, with contribution to a society with long healthy lifespans
- Textile and apparel business: Reconstructing the business after the structural reorganization
- Financial strategy: Procurement of stable, long-term funding, and achievement of a range of financial targets
- Corporate governance: Promoting management in line with the corporate governance code
- Personnel strategy: Fostering personnel that can contribute to society

By promoting these strategies, we are committed to “strengthening our financial position,” “establishing a robust platform for our core businesses” and “ensuring a higher level of earnings.”

Firstly, with regard to “strengthening our financial position,” we secured stable and long-term funding through refinancing

Business results for the first half

Net sales for the first half of this fiscal year totaled ¥2,278 million (down 18.9% year on year). Despite favorable performance in the commercial property business, the structural reorganization in the textile and apparel business implemented in the prior fiscal year affected revenues. In terms of earnings, despite the effect of improved gross profit margin associated with the structural reorganization and the effects of a reduction in selling, general and administrative expenses, operating income came to ¥198 million (down 5.2% year on year) due to declined gross profit resulting from a decrease in net sales. Ordinary income was ¥93 million (down 26.2% year on year) due mainly to the initial expenses incurred in the execution of syndicated loan. Furthermore, with a profit attributable to owners of parent at a total of ¥63 million (down 63.3% year on year), both sales and income declined although maintaining profitability. This was caused by the posting of extraordinary losses such as premature cancellation loss on the execution of the syndicated loan and payment of income taxes, in spite of extraordinary income following the sale of our equity interest in the investment in the Chinese business.

For the operating results by reportable segments, please refer to “Overview of business results by segment” described hereafter.

Full-year business results forecast

Consolidated business results for the first half of this fiscal year showed increases in both sales and income and outperformed the business results forecast in every level of income, as evidenced by operating income that exceeded forecast by 32%. Accordingly, we announced “Notice of Difference Between Business Results Forecast and Actual Results for the First Half of the Fiscal Year Ending March 31, 2017” on November 9, 2016. However, as the outlook of the market environment in the second half of the year is uncertain, the full-year business results forecast announced on August 10, 2016 is left unchanged.

In conclusion

In the second quarter of this fiscal year, the Company was released from the obligation of stating significant events regarding going concern assumption, and the grace period related to market capitalization was lifted. We would like to take this opportunity to thank all of our shareholders who have made it possible with their understanding and support over the years. Additionally, we are actively promoting new approaches such as entering into e-commerce business and introducing a shareholder benefit program. Moreover, as already announced, on the occasion of the 120th anniversary of the Company's founding, we changed our trade name to “Daitobo Co., Ltd.” and established a new company logo on September 1, 2016. Going forward, we are committed to working to improve corporate value with increased speed 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.

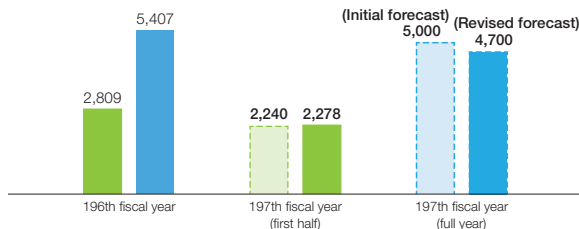


Overview of business results for the first half

Consolidated financial highlights

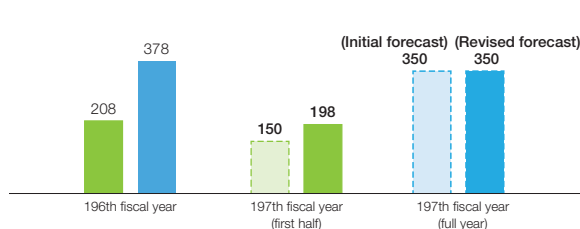
Net sales

¥2,278 million (Millions of yen)
 Down 18.9% year on year
 Up 1.7% from business results forecast



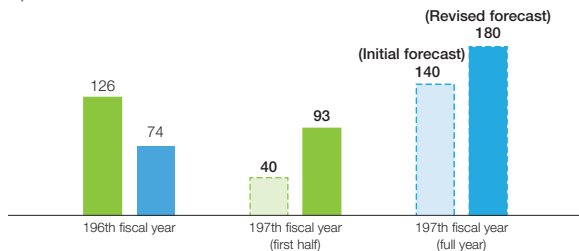
Operating income

¥198 million (Millions of yen)
 Down 5.2% year on year
 Up 32.0% from business results forecast



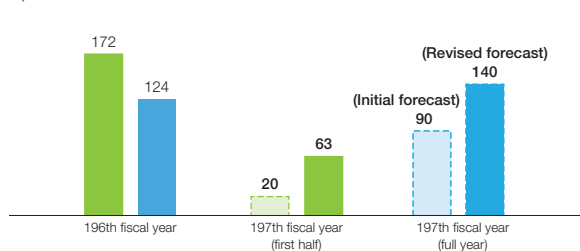
Ordinary income

¥93 million (Millions of yen)
 Down 26.2% year on year
 Up 132.8% from business results forecast



Profit attributable to owners of parent

¥63 million (Millions of yen)
 Down 63.3% year on year
 Up 216.8% from business results forecast



Notes: 1. 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.
 2. Figures in the revised forecast are those announced in the "Revisions in the First Half and Full-year Consolidated Business Results Forecast for the Fiscal Year Ending March 31, 2017" on August 10, 2016.

Overview

Business results were robust for SUN TO MOON Kakitagawa, one of the leading commercial facilities in Shizuoka Prefecture, but due to reduced revenues resulting from the structural reorganization in the textile and apparel business implemented in the prior fiscal year, the Group recorded net sales of ¥2,278 million (down 18.9% year on year), operating income of ¥198 million (down 5.2% year on year), and ordinary income of ¥93 million (down 26.2% year on year). Profit attributable to owners of parent reflecting the payment of income taxes amounted to ¥63 million (down 63.3% year on year).

Compared to the plan, as one-time expenses associated with the syndicated loan have been incorporated from the planning stage, net sales exceeded the plan by 1.7% due mainly to the favorable

performance in the commercial property business. With regard to earnings, reduction of selling, general and administrative expenses such as head office transfer cost surpassed plans. As a result, operating income, ordinary income and profit attributable to owners of parent outperformed the plan by 32.0%, 132.8% and 216.8%, respectively.

Outlook for the full-year

Since the actual results outpaced the business results forecast for the first half of this fiscal year, the Group made an announcement on the difference between business results forecast and actual results. In the second half of this fiscal year, however, as the market outlook is uncertain including possibilities of weakening in consumer sentiment, the full-year business results forecast is left unchanged.

Overview of business results by segment

Commercial property business



•Shopping malls

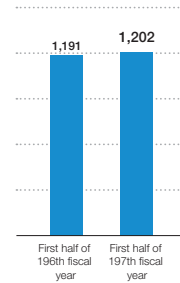
Daitobo's commercial properties are the go-to place for pleasant lifestyles. We will offer enriched living space based on our vision of "creating space that delights our customers."

Performance for the first half

At the commercial property SUN TO MOON Kakitagawa, we ran blockbuster films, enriched events and took other measures to uphold customer footfall levels. As a result, the segment recorded increased sales and income year on year.

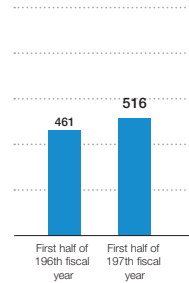
Net sales

(Millions of yen)



Operating income

(Millions of yen)



Health care business



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

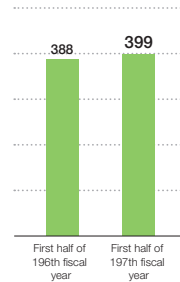
In response to the aging population and rising health consciousness, the Company supports the healthy and comfortable life of customers with products drawing on our proprietary technology. Our strength lies in the high technological ability of the Group's domestic production bases.

Performance for the first half

Although sales of home-use thermal and electric potential therapy devices, etc. were strong, due to increased material costs and selling, general and administrative expenses, the segment recorded increased sales and decreased income year on year.

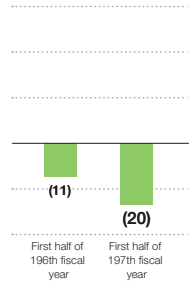
Net sales

(Millions of yen)



Operating income

(Millions of yen)



Textile and apparel business



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

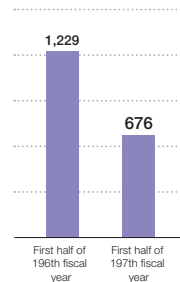
Daitobo will satisfy the diverse needs of our customers, from apparel fashion to uniforms, based on its vision of "creating products that delight our customers."

Performance for the first half

Although net sales declined year on year due to the withdrawals from certain businesses following the structural reorganization in the textile and apparel business, operating loss improved thanks to the effects of a reduction in selling, general and administrative expenses.

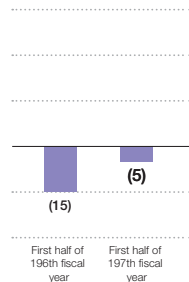
Net sales

(Millions of yen)



Operating income

(Millions of yen)



Review of Financial Results

Consolidated balance sheet

(Thousands of yen)

Description	End of the first half of this fiscal year (as of September 30, 2016)	End of the prior fiscal year (as of March 31, 2016)
(Assets)		
Current assets	2,461,288	1,856,216
Non-current assets	16,722,366	17,140,028
Property, plant and equipment	15,886,260	16,060,922
Intangible assets	11,300	12,995
Investments and other assets	824,805	1,066,110
Total assets	19,183,655	18,996,244
(Liabilities)		
Current liabilities	1,462,049	4,561,660
Non-current liabilities	13,454,185	10,134,269
Total liabilities	14,916,234	14,695,929
(Net assets)		
Shareholders' equity	(752,548)	(815,826)
Capital stock	1,500,000	1,500,000
Capital surplus	503,375	503,375
Retained earnings	(2,748,799)	(2,812,168)
Treasury shares	(7,124)	(7,033)
Accumulated other comprehensive income	5,019,969	5,116,141
Total net assets	4,267,420	4,300,315
Total liabilities and net assets	19,183,655	18,996,244

Consolidated statement of income

(Thousands of yen)

Description	For the first half of this fiscal year (from April 1, 2016 to September 30, 2016)	For the first half of the prior fiscal year (from April 1, 2015 to September 30, 2015)
Net sales	2,278,141	2,809,659
Cost of sales	1,621,289	2,114,240
Gross profit	656,852	695,419
Selling, general and administrative expenses	458,840	486,537
Operating income	198,011	208,881
Non-operating income	54,054	63,524
Non-operating expenses	158,936	146,265
Ordinary income	93,129	126,140
Extraordinary income	109,743	64,814
Extraordinary losses	107,257	—
Profit before income taxes	95,615	190,954
Income taxes-current	30,040	18,481
Income taxes-deferred	2,206	(216)
Profit	63,368	172,689
Profit attributable to owners of parent	63,368	172,689

Consolidated statement of cash flows

(Thousands of yen)

Description	For the first half of this fiscal year (from April 1, 2016 to September 30, 2016)	For the first half of the prior fiscal year (from April 1, 2015 to September 30, 2015)
Cash flows from operating activities	58,233	(462,301)
Cash flows from investing activities	359,260	109,218
Cash flows from financing activities	294,034	240,780
Effect of exchange rate change on cash and cash equivalents	(1,296)	(132)
Net increase (decrease) in cash and cash equivalents	710,232	(112,435)
Cash and cash equivalents at beginning of the period	687,297	919,966
Cash and cash equivalents at end of the period	1,397,529	807,531



Kazuhiro Yamauchi,
President and Representative Director

Introduction of a new company name and Group logo, and relocation of the head office

On the occasion of the 120th anniversary of the Company's founding, we established a new company name and Group logo, and relocated the head office on September 1, 2016.

New company name: **Daitobo Co.,Ltd.**

Establishment of a new Group logo **daitobo**

Theme of the new Group logo

“Pursuing infinite possibilities with the power of ideas”

The last syllable “bo” took the infinity symbol “∞” as a motif.

It represents our creed as a corporation that contributes to the wellbeing of people through sustainable development. Also, the letter “i” symbolizes a person, the dot on the top “●” representing the head, the source of flexible ideas. The image is infused with our belief that the collective energy of talents creates the future of the Group. Leveraging the Company's unique “ideas and human resources,” it will work to improve corporate value.

New head office location

7th floor, Marukashiwa Tama Building, 6-1 Nihonbashihoncho 1-chome, Chuo-ku, Tokyo, 103-0023 Japan
+81-3-6262-6565

We resolved to introduce a shareholder benefit program at the Board of Directors' meeting held on August 24, 2016.

1 Eligible shareholders

The program targets the shareholders who own one unit of the Company's shares (1,000 shares) or more 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

Number of shares held (held for six consecutive months or longer)	Detail of benefit
1,000 shares or more but less than 2,000 shares	Products worth ¥2,000
2,000 shares or more	Products worth ¥4,000

Commencement timing and method

The program will commence for the shareholders who own one unit of the Company's shares (1,000 shares) or more for six consecutive months or longer and are registered or recorded in the shareholders' register as of March 31, 2017. 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/>



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 Minamikuhojimachi 2-chome, Chuo-ku, Osaka, Japan +81-6-6262-8322
Group companies	Daitobo Estate Co., Ltd. Niigata Daitobo Co., Ltd. DAITOBOSHOKU (SHANGHAI) CORPORATION NINGBO SHANJING APPAREL CO. LTD. (entity accounted for using equity method)

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 Inuma
Outside Director (Audit and Supervisory Committee Member)	Takashi Kagami
Outside Director (Audit and Supervisory Committee Member)	Shusaku Okumura

Notes: 1. Messrs. Yasunobu Sawada, Haruki Inuma, 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.

Status of Shares

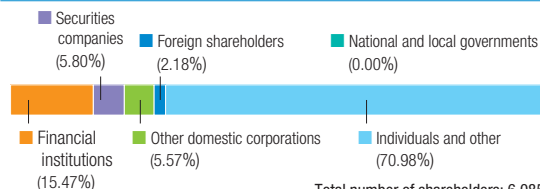
Total number of shares authorized to be issued	96,000,000 shares
Total number of shares issued	30,000,000 shares
Total number of shareholders	6,085

Principal Shareholders (Top 10)

Shareholder name	Number of shares held (Thousand shares)	Shareholding ratio (%)
Sumitomo Mitsui Trust Bank, Limited	1,478	4.93
SBI SECURITIES Co., Ltd.	716	2.39
Mitsui Sumitomo Insurance Company, Limited	610	2.03
Developer Sanshin inc.	550	1.83
Atsushi Hida	516	1.72
Rakuten Securities, Inc.	514	1.71
Yoshio Koizumi	499	1.66
Japan Trustee Services Bank, Ltd. (Trust account 5)	352	1.17
The Master Trust Bank of Japan, Ltd. (Trust account)	339	1.13
Japan Trustee Services Bank, Ltd. (Trust account 6)	325	1.08

Note: Shareholding ratio is calculated excluding treasury stock (67,498 shares).

Breakdown of Shares by Type of Shareholder (Shareholding ratio)



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.
(For telephone inquiries)	☎ 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 <i>The Nikkei</i> .

Daitobo Co.,Ltd.

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

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