

Consolidated Financial Results for the Second Quarter Ended September 30, 2016 (J-GAAP) (Unaudited)

October 26, 2016

Listed company: DAIKYO INCORPORATED
 Securities code: 8840
 Representative: Akira Yamaguchi, Representative Executive Officer, President
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 Planned date of the filing of quarterly report: November 8, 2016
 Planned dividends payment commencement date: —
 2Q earnings presentation materials: Yes
 Holding of earnings announcement: Yes (for institutional investors and analysts)

Listed stock exchange: Tokyo
 URL: <http://www.daikyo.co.jp>

(Amounts of less than one million yen are truncated)

1. Consolidated Performance for the Six Months Ended September 30, 2016 (April 1, 2016 to September 30, 2016)

(1) Consolidated operating results (Cumulative)

(% figures show year-on-year change) (Millions of yen)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
Six months ended September 30, 2016	146,628	(13.5)%	6,592	(39.0)%	6,332	(39.2)%	4,001	(42.6)%
Six months ended September 30, 2015	169,500	34.1%	10,798	- %	10,414	- %	6,976	404.1%

(Note) Comprehensive income: Six months ended September 30, 2016: ¥4,034 million / (43.4)%
 Six months ended September 30, 2015: ¥7,124 million / 323.9%

	Net income per share	Fully diluted net income per share
Six months ended September 30, 2016	¥4.76	¥4.70
Six months ended September 30, 2015	¥8.30	¥8.19

(2) Consolidated financial position

(Millions of yen except for %)

	Total assets	Net assets	Shareholders' equity ratio
As of September 30, 2016	262,748	167,523	63.8%
As of March 31, 2016	274,594	166,090	60.5%

(Reference) Shareholders' equity:

As of September 30, 2016: ¥167,523 million As of March 31, 2016: ¥166,090 million

2. State of Dividends

	Annual dividends (Yen)				
	1Q-end	2Q-end	3Q-end	Year-end	Total
Fiscal year ended March 31, 2016	—	0.00	—	3.00	3.00
Fiscal year ending March 31, 2017	—	0.00			
Fiscal year ending March 31, 2017 (Forecast)			—	6.00	6.00

(Note) Revisions to the latest dividend forecast: Yes

Please refer to "Announcement of Revision of Year-end Dividend Forecast" announced today for details concerning dividend forecast revisions.

The above "State of Dividends" represents the state of dividends from common stock only. Please refer to "State of Dividends from Class Stock" for the state of dividends from class stock (unlisted) issued by DAIKYO INCORPORATED ("the Company") with different rights from common stock.

3. Consolidated Performance Forecast for the Fiscal Year Ending March 31, 2017 (April 1, 2016 to March 31, 2017)

(% figures show year-on-year change) (Millions of yen)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
Full-year	340,000	1.5%	20,000	9.2%	19,000	11.2%	14,000	10.9%	¥16.57

(Note) Revisions to the latest performance forecast: None

Disclaimer

This document was prepared in English for convenience purposes only. The original Japanese document shall take precedence in the event of any discrepancies arising from the translations or interpretations contained in this document.

* Notes

(1) Changes in significant subsidiaries during the six months under review (changes in specified subsidiaries resulting in change in scope of consolidation): None

New: — (Company name:) Excluded: — (Company name:)

(2) Application of special accounting treatment for the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policies and estimates, or retrospective restatements

(i) Change in accounting policies in accordance with revision of accounting standards: Yes

(ii) Change in accounting policies other than item (i) above: None

(iii) Change in accounting estimates: None

(iv) Retrospective restatements: None

(Note) For details on those changes, refer to “2. Summary Information (Notes), (3) Changes in accounting policies and estimates, or retrospective restatements” on page 9.

(4) Number of shares issued (common stock)

				(Unit: share)
1) Number of issued shares at end of period (including treasury stock):	Sep. 30, 2016	843,542,737	Mar. 31, 2016	843,542,737
2) Number of shares of treasury stock at end of period:	Sep. 30, 2016	3,492,871	Mar. 31, 2016	3,488,219
3) Average number of shares during period	Apr.–Sep. 2016	840,052,690	Apr.–Sep. 2015	840,071,207

* Presentation of implementation status for quarterly review procedures

The quarterly review procedure based on the Financial Instruments and Exchange Act does not apply to this Consolidated Financial Results, and the quarterly review procedure based on the Financial Instruments and Exchange Act had not been completed as of the release of this Consolidated Financial Results.

* Explanation of the appropriate use of performance forecasts, other points to note

Forward-looking statements in this document, including the performance outlook, etc., were written based on the information the Company possessed at this time and certain assumptions the Company considered to be reasonable. Actual performance may differ from the forecast figures due to various factors.

On October 26, 2016, the Company plans to hold an earnings announcement for institutional investors and analysts regarding results for the second quarter. The earnings presentation materials used on that day will be posted on the Company’s website after the announcement.

State of Dividends from Class Stock

The breakdown of the dividends per share from class stock with different rights from common stock is as follows.

(Class 1 preferred stock)

	Annual dividends (Yen)				
	1Q-end	2Q-end	3Q-end	Year-end	Total
Fiscal year ended March 31, 2016	—	—	—	8.13	8.13
Fiscal year ending March 31, 2017	—	—			
Fiscal year ending March 31, 2017 (Forecast)			—	7.73	7.73

1. Qualitative Information on Consolidated Performance in the Second Quarter

(1) Explanation of the consolidated operating results

During the six months ended September 30, 2016, net sales decreased ¥22,872 million yen, or 13.5% year on year, to ¥146,628 million, operating income decreased ¥4,206 million, or 39.0% year on year, to ¥6,592 million, and ordinary income decreased ¥4,082 million, or 39.2%, to ¥6,332 million. Profit attributable to owners of parent decreased ¥2,975 million, or 42.6%, to ¥4,001 million.

This is primarily due to plans for fewer unit completions in condominium sales year on year; however, progress in each segment was generally in line with full-year forecasts, and there has been no change in the full-year performance forecast announced in May this year.

(Millions of yen)

Category	Six months ended September 30, 2015	Six months ended September 30, 2016	Change
Net sales	169,500	146,628	(22,872)
Operating income	10,798	6,592	(4,206)
Ordinary income	10,414	6,332	(4,082)
Profit attributable to owners of parent	6,976	4,001	(2,975)

Performance by segment is described below. Please note that amounts for each segment include intersegment transactions.

Furthermore, in accordance with the medium-term management plan announced today, the order in which segments are listed has been changed from the second quarter of this consolidated fiscal period.

Performance by Segment

(Millions of yen)

Category	Six months ended September 30, 2015		Six months ended September 30, 2016		Change	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Real Estate Management	75,970	4,219	75,597	4,320	(372)	100
Real Estate Brokerage	26,251	1,835	28,833	1,138	2,582	(696)
Real Estate Development and Sales	69,844	6,327	44,339	2,362	(25,505)	(3,965)
Adjustments (Eliminations or Corporate Assets/Expenses)	(2,564)	(1,583)	(2,141)	(1,229)	423	354
Total	169,500	10,798	146,628	6,592	(22,872)	(4,206)

1) Real Estate Management

In the real estate management segment, although management income was generally strong and increased ¥544 million year on year to ¥42,339 million, contract work income decreased ¥672 million year on year to ¥29,168 million. As a result, net sales amounted to ¥75,597 million, down ¥372 million year on year. Operating income increased ¥100 million year on year to ¥4,320 million thanks to contributions from cost reductions, etc.

The number of condominium units managed increased 1,057 units to 529,587 units and the volume of contract work orders received at the end of the second quarter was ¥35,745 million, an increase of ¥2,902 million compared with the end of the same period of the previous fiscal year.

Breakdown of Net Sales (Millions of yen)

Category	Six months ended September 30, 2015	Six months ended September 30, 2016	Change
Condominium Management, Building Management	41,794	42,339	544
Contract Work	29,841	29,168	(672)
Other	4,334	4,089	(244)
Total	75,970	75,597	(372)

Number of Condominium Units Managed

Category	As of September 30, 2015	As of September 30, 2016	Change
Number of Condominium Units Managed	528,530 units	529,587 units	1,057 units

Contract Work (Millions of yen)

Category	As of September 30, 2015	As of September 30, 2016	Change
Volume of Contract Work Orders Received	32,843	35,745	2,902

2) Real Estate Brokerage

Net sales in the real estate brokerage segment rose ¥2,582 million to ¥28,833 million due to a ¥2,612 million year-on-year increase in existing real estate sales to ¥16,215 million. However, operating income decreased ¥696 million to ¥1,138 million, due to higher operating costs resulting from a year-on-year increase of six offices and the reinforcement of personnel aimed at the expansion of the office network.

Breakdown of Net Sales (Millions of yen)

Category	Six months ended September 30, 2015	Six months ended September 30, 2016	Change
Real Estate Brokerage	3,991	4,030	39
Existing Real Estate Sales	13,602	16,215	2,612
Lease Management	4,819	4,874	55
Other	3,838	3,713	(124)
Total	26,251	28,833	2,582

Amount of Brokerage Transactions (Millions of yen)

Category	Six months ended September 30, 2015	Six months ended September 30, 2016	Change
Number of Brokerage Transactions	3,263	3,394	131
Total Amount of Transactions	78,932	82,844	3,911

Existing Real Estate Sales (Millions of yen)

Category		Six months ended September 30, 2015		Six months ended September 30, 2016		Change	
		Units	Amount	Units	Amount	Units	Amount
Sales Results	Condominiums	571 units	13,356	655 units	16,049	84 units	2,693
	Other	—	246	—	165	—	(80)
	Total	571 units	13,602	655 units	16,215	84 units	2,612

3) Real Estate Development and Sales

Due to the effect of condominium sales amounting to 1,019 units (down 553 units year on year), and net sales amounting to ¥39,526 million (down ¥20,190 million year on year) as a result of fewer planned completions year on year, net sales for the real estate development and sales segment decreased ¥25,505 million to ¥44,339 million. Operating income fell ¥3,965 million over the previous year to ¥2,362 million due to a fall in condominium sales, in spite of an increase in profit margin for condominiums and a decrease in advertising costs.

Progress made in contracted units has generally been strong, at 81% of the full-year condominium sales forecast as of the end of the second quarter (compared to 80% at the end of the second quarter of the previous fiscal year).

The number and amount of contracted sales of condominiums at the end of the second quarter of the current fiscal year were 1,523 units and ¥52,076 million, respectively, marking decreases of 159 units and ¥8,785 million compared with the end of the same period of the previous fiscal year.

Breakdown of Net Sales (Millions of yen)

Category	Six months ended September 30, 2015	Six months ended September 30, 2016	Change
Real Estate Sales	66,641	42,114	(24,527)
Other	3,202	2,224	(977)
Total	69,844	44,339	(25,505)

Real Estate Sales (Millions of yen)

Category		Six months ended September 30, 2015		Six months ended September 30, 2016		Change	
		Unit	Amount	Unit	Amount	Unit	Amount
Contract Agreement Results*	Condominiums	1,229 units	44,480	1,022 units	36,237	(208) units	(8,243)
	Houses	29 units	1,213	16 units	559	(14) units	(653)
	Other	—	1,115	—	1,764	—	648
	Total	1,258 units	46,809	1,038 units	38,561	(221) units	(8,247)
Sales Results	Condominiums	1,572 units	59,716	1,019 units	39,526	(553) units	(20,190)
	Houses	31 units	1,279	22 units	823	(9) units	(456)
	Other	—	5,645	—	1,764	—	(3,881)
	Total	1,603 units	66,641	1,041 units	42,114	(562) units	(24,527)
Contracted Sales Results**	Condominiums	1,682 units	60,862	1,523 units	52,076	(159) units	(8,785)
	Houses	5 unit	236	6 units	227	2 unit	(8)
	Other	—	—	—	—	—	—
	Total	1,687 units	61,098	1,529 units	52,304	(157) units	(8,794)

* Represents the number and amount of condominium units for which sales agreements are entered into each period.

** Represents the number and amount of condominium units for which sales agreements have been entered into but have yet to be delivered.

Note: Contracted sales are the balance as of the end of the quarter.

(2) Explanation of financial position

Assets, liabilities and net assets

(Millions of yen)

	As of March 31, 2016	As of September 30, 2016	Change
Total assets	274,594	262,748	(11,845)
Inventories	104,972	112,554	7,582
Total liabilities	108,503	95,224	(13,278)
Interest-bearing debt	38,484	34,860	(3,624)
Total net assets	166,090	167,523	1,432
Shareholders' equity ratio	60.5%	63.8%	3.3 pp

Total assets as of September 30, 2016 were ¥262,748 million, down ¥11,845 million compared with the end of the previous fiscal year. This reflected a ¥12,520 million decrease in cash and deposits and a ¥2,489 million decrease in notes and accounts receivable, canceling out a ¥7,582 million increase in inventories.

Total liabilities were ¥95,224 million, down ¥13,278 million compared with the end of the previous fiscal year. This resulted from decreases of ¥6,087 million in other current liabilities mainly due to a decrease in deposits, ¥3,624 million in interest-bearing debt, and ¥3,089 million in notes and accounts payable. Total net assets were ¥167,523 million, up ¥1,432 million compared with the end of the previous fiscal year. This can be attributed to a ¥4,001 million increase from profit attributable to owners of parent, offsetting a ¥2,601 million decrease in retained earnings due to retained earnings distributions. Furthermore, the shareholders' equity ratio was 63.8%, 3.3 percentage points higher compared with the end of the previous fiscal year.

(3) Explanation of information regarding consolidated performance forecast and other projections

There are no changes from the consolidated performance forecast announced on May 10, 2016. Furthermore, the Group has formulated a medium-term management plan that will operate from the fiscal year ending March 2017 through the end of the fiscal year ending March 2021. Please refer to "Announcement of Formulation of the Daikyo Group's Medium-term Management Plan 'Create NEW VALUE 2021 -New Value Creation through Real Estate Solutions-'", which was announced today, for details.

2. Summary Information (Notes)

(1) Changes in significant subsidiaries during the six months under review

Not applicable

(2) Application of special accounting treatment for the preparation of quarterly consolidated financial statements

Not applicable

(3) Changes in accounting policies and estimates, or retrospective restatements

(Changes in accounting policies)

Due to revisions in the Corporation Tax Act, the Company has adopted the “Practical Solution on a Change in Depreciation Method due to Fiscal 2016 Tax Reforms” (ASBJ Practical Issue Task Force No. 32, issued on June 17, 2016) from the first quarter of the current fiscal year, and changed the method for the depreciation of some facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.

The effect of this change on the Company’s consolidated financial statements for the second quarter is insignificant.

(4) Additional information

The Company has adopted the “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016) from the first quarter of the current fiscal year.