

DAITO KENTAKU GROUP

Strategy Report

2016



Since its founding, the Daito Group has been proposing to landowners how to make the most effective use of their land or engage in leasing, and has been supporting tenants' activities ranging from looking for places to live to enabling comfortable lifestyles. Looking ahead, the Group will strive for further growth by pursuing and actualizing the value that rental housing can provide.

Business Philosophy

“Contributing to society by realizing extensive and effective use of limited land.”



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Strongly Pursuing the Potential of Rental Housing

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About this Strategy Report

■ Editorial Policy

This report is for everyone interested in the Daito Group's value-creating activities. It is an integrated report that covers a range of important information, including our business overview, market environment and growth strategies, financial and non-financial performance data, and value-creating activities in FY2015 (the fiscal year ended March 31, 2016).

■ Target Readers

Our target readers are shareholders and investors, along with financial institutions, Daito Group employees and their families, and all other stakeholders with whom we have a close connection.

■ Indicators

Unless otherwise indicated, the figures in this report are for FY2015, or are true as of the end of FY2015

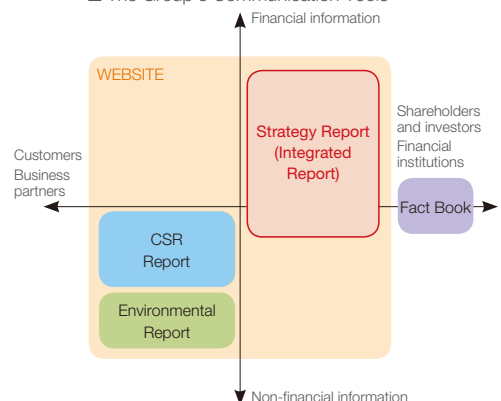
■ Report Period

FY2015
(the fiscal year ended
March 31, 2016)

■ Published

July 2016

■ The Group's Communication Tools



For convenience, corporate names are abbreviated as follows in this document.

- Daito Trust Construction Group → Daito Group
- Daito Trust Construction Co., Ltd. → Daito Trust
- Daito Building Management Co., Ltd. → Daito Building

Note: According to a definition by the Japanese Ministry of Land, Infrastructure, Transport and Tourism (MLIT), "apartment" refers to buildings of two or three stories constructed with iron, concrete, and wood, while "condominium" refers to buildings of three or more stories constructed with iron and concrete or steel-reinforced concrete.

History

Since June 1974, the Daito Group has responded to the changing needs of society and customers by taking on numerous challenges over the years. We have pursued business expansion by shifting emphasis from commercial properties to residential properties, and transformed our business model from one based on a mutual aid association to a unique, whole-building lease method.

Founding Period

Creation of a Business Model Matching the Needs of Property Owners

March 1980: Founding of Daito Kyosaikai, the basis of growth

Drawing on how a mutual aid society works, Daito Kyosaikai was founded in response to requests from rental property owners, to guarantee them a certain amount of rent when business spaces became vacant. This guarantee was realized through marketing based on tenant demand and strong tenant mediation capabilities. The association became a stepping stone for Daito's nationwide business expansion because there were no other rental property management proposals that provided a hedge against vacancies and the risk of losing rental income.



Transformation Period

Major Shift to the Rental Housing Business in Step with Changes in Society

February 1995: Launched the sale of New Crestall 24

Following the Revised Productive Green Land Act in 1992, Japan began taxing farmland in the suburbs at about the same rate as building land. This led to a glut in the supply of rental properties, with vacancy rates rising as a consequence. Compounded by a recession triggered by the yen appreciating, Daito was faced with the major challenge of sluggish sales. To overcome this bottleneck, the Company shifted the emphasis of its real estate rental operation from provision of business properties to provision of residential properties. This was followed in February 1995 by the sale of New Crestall 24, an apartment building with an early American design, developed to differentiate Daito from competitors. The apartment building turned out to be very popular among property owners and provided the Company with a major turnaround in business momentum.



Growth Period

Stocks Listed to Strengthen and Improve Management

February 1992: Listed stocks as Daito Trust Construction Co., Ltd. on the First Section of the Tokyo Stock Exchange to better serve the public

Daito began a plan to list its stocks to improve and strengthen its management and become a company capable of better serving the public. The Company's name recognition rose following the listing on the First Section of the Tokyo Stock Exchange as Daito Trust Construction Co., Ltd. in February 1992, and subsequently became the fountainhead for further growth.



Founding

1974

1980

1985

1990

1995

FY1989
Sales surpass
¥100
billion

FY1991
Sales surpass
¥200
billion

FY2015 Topics

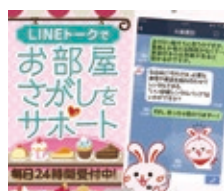
2015

4

- Maturity of whole-building leases extended to 35 years

5

- Online housing search service on LINE Talk launched



6

- All 73 items of Daito's compliance with Japan's Corporate Governance Code announced on the first day of the disclosure period
- Appointment of the Company's first female outside director
- Investment for the first time in a new real estate development business in the U.S.

7

- First Daito Kentaku e-Heya Net Ladies tournament, a professional golf tournament, held



8

- Credit card settlement agency subsidiary, House Payment Co., Ltd. established
- Pal Mail, a service for monitoring gas meters in order to check on the wellbeing of elderly residents, launched
- Subsidiary, HOUSE GUARD SSI, launches the sale of Owner's Guard insurance policies for property owners

9

Accelerated
Growth Period

Development of New Services in Relentless Pursuit of Uniqueness

July 2006: Lease Management Trust System launched

Continued operation of the Daito Kyosaikai ran into difficulties when the revised Insurance Business Act went into effect in April 2006. After reviewing the situation, Daito decided to change course and adopt a business model based on whole-building leases. To create added value different from its competitors, Daito introduced the Lease Management Trust System to rigorously reduce the risk burden of property owners, including by assuming the repair and restoration costs of the apartment buildings. The Lease Management Trust System, leveraging the strengths of the Group, continues to drive the growth of Daito to this day.



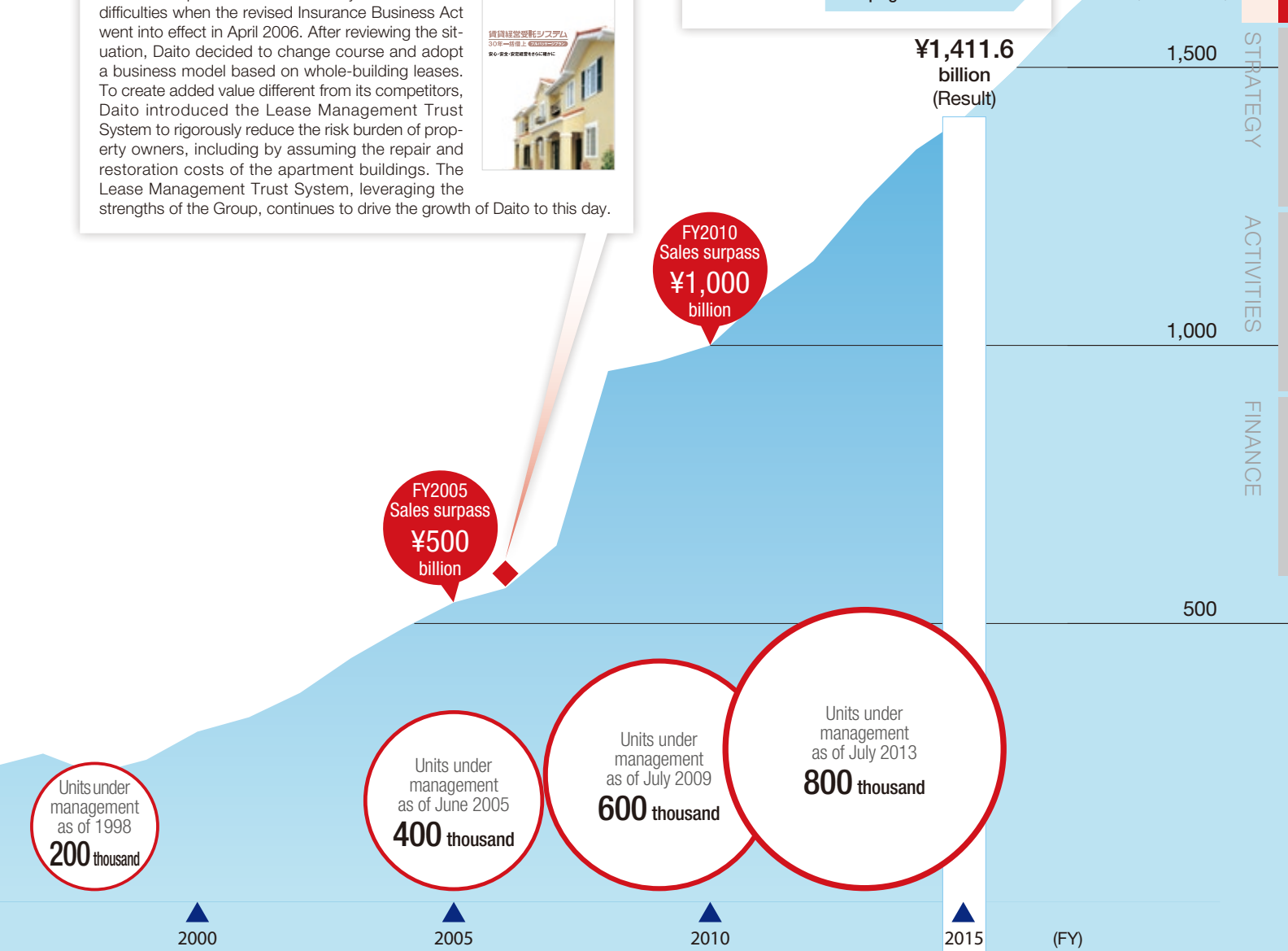
Growth strategy

with the slogan of
“Strongly Pursuing the Potential of
Rental Housing”

We will also continue to focus on our core operations as we expand the scope of our business.

See page 13 for details

Net sales (Billions of yen)



FACT

STRATEGY

ACTIVITIES

FINANCE

10

Ranked first in “the 2015 Awards for Excellence in Corporate Disclosure” by securities analysts for the seventh time, and for the sixth consecutive year



11

D-COMPASS employee attitude survey launched

12

Shares in healthcare and nursing care provider, Solasto Corporation, acquired



2016

1

DK SELECT, a new rental housing brand, launched



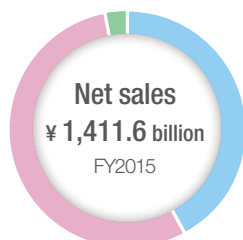
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3

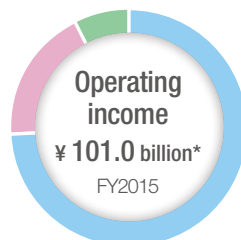
Call center for foreign language speakers launched

Business Model

Positioning our own unique Lease Management Trust System in the center of our businesses, the Daito Group engages in construction, real estate, and other businesses together with Group companies, and provides owners with the stable operation of our building rental business and tenants with safe and secure dwellings and comfortable lifestyles.



Construction Business > ¥595.3 billion
Real Estate Business > ¥774.8 billion
Other Businesses > ¥41.4 billion



Construction Business > ¥90.2 billion
Real Estate Business > ¥22.5 billion
Other Businesses > ¥8.9 billion

* Includes expenses that cut across all businesses.

Construction Business

We plan and propose building rental businesses to landowners who are thinking of ways to utilize their inherited assets, and then design and construct the contracted rental buildings.

Lease Management Trust System

The Lease Management Trust System is the Daito Group's unique total system that covers the various risks associated with lease management with a sense of security.

Plans and proposals

Number of owners

78 thousand

As of April, 2016



Design and construction

Cumulative number of units constructed

165 thousand units

As of March 31, 2016



Other Businesses

Our Group companies possess a variety of specialized customer capabilities, including providing a wide range of responses to land utilization needs, and lifestyle support that delivers security and comfort.



Energy Business

Group Companies [FY2015: Net sales and operating income (Billions of yen)]

Construction Business

- **Daito Construction Co., Ltd.** [6.58 / 0.13]
Constructs mid- to high-rise rental condominiums in urban centers
- **Daito Steel Co., Ltd.** [4.58 / 0.19]
Produces and constructs steel frames and sale of exterior products

Real Estate Business

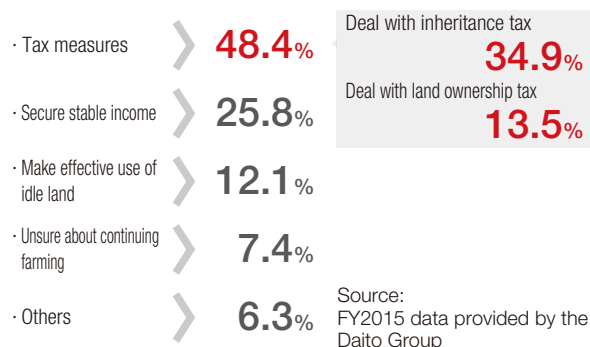
- **Daito Building Management Co., Ltd.** [747.26 / 34.60]
Total management of rental buildings and provision of customer services
- **Housecom Co., Ltd.** [9.30 / 0.80]
Rental building real estate agent in Kanto and Tokai regions
- **House Leave Co., Ltd.** [6.43 / 5.23]
Provides agency guarantee services mainly for tenants' rent liabilities
- **Ju-See Publishing Co., Ltd.** [4.61 / 0.18]
Produces and publishes rental building information magazines and operation of their websites

Land Inheritance and the Social Role of Rental Housing in Japan

In Japan, a majority of people believe that land is an important hereditary asset that should be passed on to succeeding generations. At the same time, our customers face the issue of finding measures for dealing with inheritance and landholding taxes.

The building rental business is recognized as one of the most effective means of land utilization to solve these issues. By constructing a building on vacant land, our customers can reduce both the inheritance tax and the fixed asset tax. The Daito Group's business model is designed to meet these needs of landowners.

The main reason our customers want to utilize land



Real Estate Business

We recruit tenants for constructed rental buildings then provide property management and operation services for the buildings.

35-year whole-building leases

Tenant recruitment

Number of actual tenants

Approx. **1.71** million*
As of March 31, 2016 *Estimated



Management and operation

Number of rental properties under management

960 thousand units
As of March 31, 2016



Care and Nursery School Businesses



Overseas Business



Other Businesses (Finance, etc.)

Other Businesses

● Energy Business ● Care and Nursery School Businesses ● Overseas Business ● Other Businesses (Finance, etc.)

- **Gaspal Co., Ltd.** [25.41 / 3.53]
Constructs LP gas facilities and supplies LP gas to rental buildings
- **Daito Energy Co., Ltd.** [0.003 / (0.007)]
Supplies and sells energy such as electric power to rental buildings
- **Gaspal Kyushu Co., Ltd.** [Started business in June 2016]
Constructs LP gas facilities and supplies LP gas to rental buildings in the Kyushu area
- **Daito Gas Partner Co., Ltd.** [Established in January 2016]
Constructs LP gas facilities and supplies LP gas to rental buildings in the Okinawa area
- **Care Partner Co., Ltd.** [9.71 / 0.18]
Operates elderly day-care centers (visiting care) and nurseries
- **Daito Asia Development (Malaysia) Sdn. Bhd.** [2.55 / 0.25]
Conducts overseas hotel business (Malaysia)

- **D.T.C. REINSURANCE LIMITED** [3.34 / 1.25]
A reinsurance company for tenants' fire insurance
- **Daito Finance Co., Ltd.** [1.34 / 0.86]
Handles financing such as construction funds (for a contract fee)
- **Daito Corporate Service Co., Ltd.** [0.81 / 0.01]
A special subsidiary to employ people with disabilities: document printing, sending, and related services
*In April 2016, the Company merged with Daito Business Center Co., Ltd. [0.83 / 0.06]
- **HOUSE GUARD S.S. Insurance Co., Ltd.** [0.88 / (0.03)]
Sells comprehensive insurance to rental housing tenants
- **Daito Mirai Trust Co., Ltd.** [0.17 / 0.08]
Provides services related to real estate management trusts and to asset succession consulting
- **House Payment Co., Ltd.** [0.009 / (0.01)]
Credit card settlement agency business for rental housing tenants

Market Position

The Daito Group continues to supply added value to meet the needs of the times through the Lease Management Trust System, the Group's unique business model, and is building a strong position in the rental housing market.

> Housing Supplier Ranking (Excluding condominiums)

Rank	Company	Units supplied
1	Daito Trust Construction Co., Ltd.	66,314
2	Sekisui House, Ltd.	49,975
3	Daiwa House Industry Co., Ltd.	46,651
4	Asahi Kasei Homes Corporation	17,484
5	Sekisui Chemical Co., Ltd.	14,490

**For 7
Consecutive
Years**

No.1

Source: Japan Real Estate Institute, August 2015 (Actual result: FY2014)

> Rental Brokerage Ranking

Rank	Company	Units supplied
1	Daito Trust Construction Co., Ltd.	156,151
2	Able Inc.	152,978
3	MiniMini Corporation	148,986
4	Housecom Co., Ltd.*	67,369
5	Token Corporation	65,959

**For 6
Consecutive
Years**

No.1

Source: Zenkoku Chintai Jutaku Shimbun, January 2016
(Actual result: Oct. 2014 – Sep. 2015)

* Daito's Group company

> Rental Housing Management Ranking

Rank	Company	Units supplied
1	Daito Group	864,678
2	Leopalace21 Corporation	554,948
3	Sekisui House Group	545,757
4	Daiwa Living Co., Ltd.	428,597
5	Starts Group	400,047

**For 19
Consecutive
Years**

No.1

Source: Zenkoku Chintai Jutaku Shimbun, August 2015
(Actual result: As of March 31, 2015)

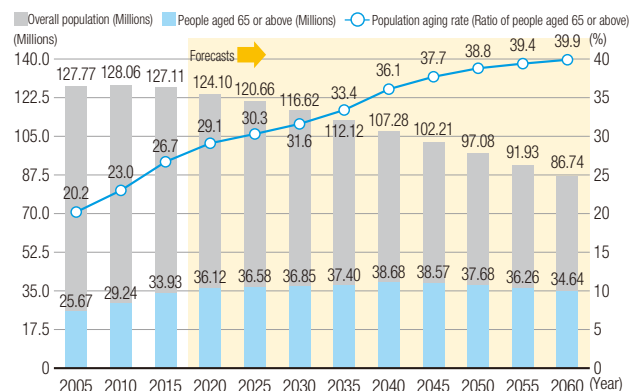
Company names are as published in the referenced source

Aging of the Japanese population

(Construction and Real estate)

- While the overall population is decreasing, the population aging rate is increasing.
- The elderly population (aged 65 and over) stood at 33.93 million in 2015 and has continued to increase. It is projected to peak at 38.78 million in 2042, before declining; however, the population aging rate will increase.
- By 2060, the population aging rate is projected to reach 39.9%, with 1 person aged 65 or above for every 2.5 people aged under 65.
- Mortality is expected to increase through to 2040, with an associated increase in incidences of inheritance and landholding tax.

Aging trends and future projections



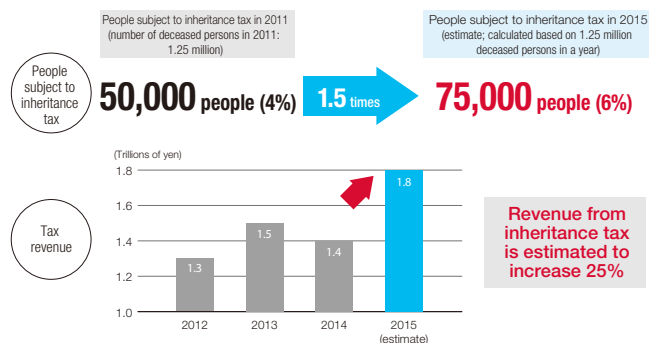
Source: Cabinet Office "2016 Annual Report on the Aging Society"

Revision to the Inheritance Tax Act

(Construction and Real estate)

- In 2015, the revised Inheritance Tax Act was put into effect. The basic exemption was reduced and the maximum tax rate was increased, thereby changing the structure of the tax rates.
- As a result, the number of people subject to the tax is projected to increase by 1.5 times, with a 25% increase in inheritance tax revenues.
- If rental housing is built on vacant land, a certain portion of the land valuation and building valuation will be exempt. This is expected to prompt increased demand for rental housing construction as a tax-reduction strategy.

	Previous taxation (until December 31, 2014)	Current taxation (from January 1, 2015)
Tax rate structure	<p>6 steps</p>	<p>8 steps</p>
Basic tax exemption	Standard tax deduction: 50 million yen Proportional tax deduction based on the number of legal heirs: 10 million yen × number of legal heirs	Standard tax deduction: 30 million yen Proportional tax deduction based on the number of legal heirs: 6 million yen × number of legal heirs



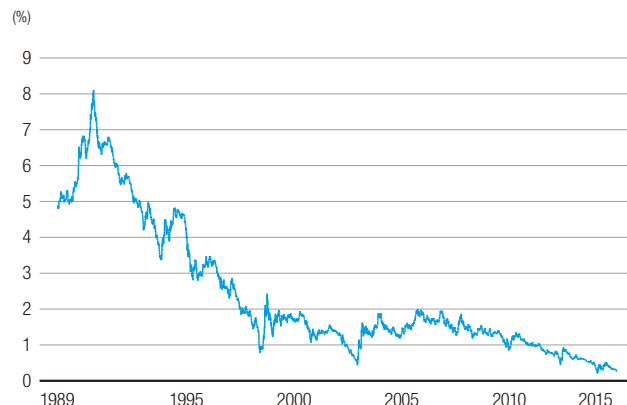
Source: National Tax Agency "Taxation Reform" and "Status of Inheritance Tax Declarations" Ministry of Finance "Proposed Budget"

Low interest rates due to the fiscal easing policy

(Construction)

- Long-term interest rates (10-year government bond yields) in Japan have steadily declined since 1990 in response to the fiscal easing policy of the Bank of Japan.
- The bank's adoption of a negative interest rate policy in January 2016 has driven interest rates even lower.
- Since fixed-type home loan interest rates move in line with long-term interest rates, they have now reached an extremely low level, which is providing a tailwind for apartment loans.

Long-term interest rates (10-year government bond yields)

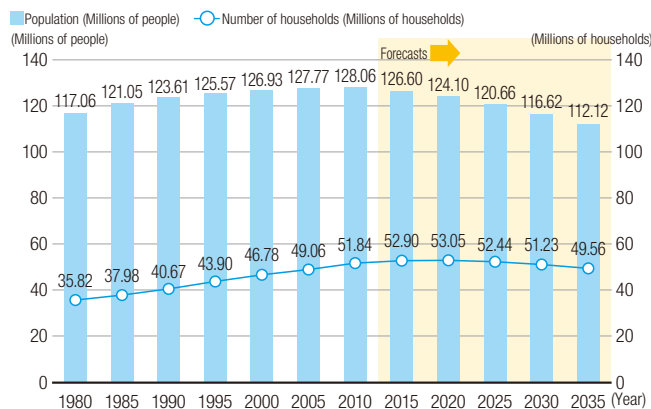


Source: Ministry of Finance "Statistics and Interest Rate Information"

Declining trend in national population and number of households over the medium to long term (Construction and Real estate)

- Having peaked at 128.06 million in 2010, Japan's population is projected to decline 12.4% by 2035 to 112.12 million.
- However, the number of households is projected to increase until 2020, and then begin a gradual decline.

Population and number of households



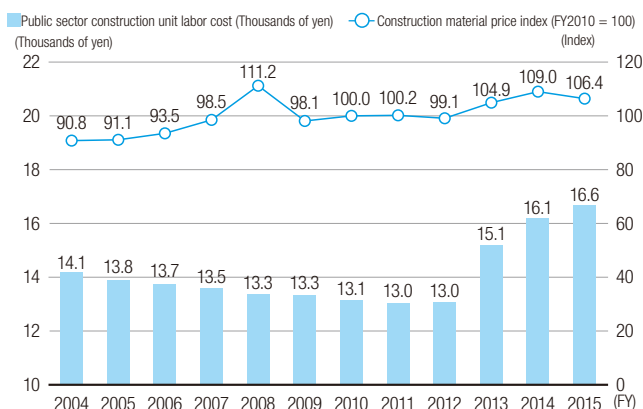
Source: National Institute of Population and Social Security Research
"Population Projection for Japan" and "Household Projection for Japan"

Unit labor cost and material price in the Japanese construction market

(Construction)

- The unit labor cost remained at a low level for a long period, but has been rising constantly over the past three years.
- Construction material prices have remained level overall.

Public sector construction unit labor cost and construction material price index

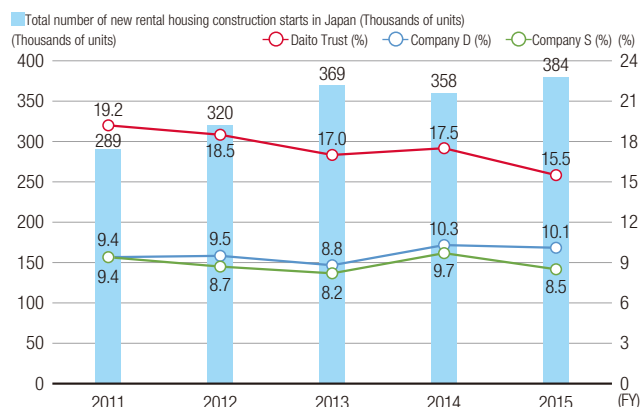


Source: Ministry of Land, Infrastructure, Transport and Tourism
"Public Sector Construction and Design Unit Labor Cost National Average for All Work Types"
Economic Research Association "Construction Material Price Index by City (Construction and Civil Engineering Combined)"

Number of new rental housing construction starts and market shares of industry players (Construction)

- The number of new rental housing construction starts in Japan has been increasing since FY2011. In particular, the number rebounded in FY2015 after declining in FY2014.
- Market shares of construction industry players have been generally constant.
- Daito Trust retains the top share in the industry.

Number of new rental housing construction starts and shares of industry players



Source: Ministry of Land, Infrastructure, Transport and Tourism's "Housing Starts Statistics" and respective company data

Liberalization of the energy retail markets

(Other)

- The full liberalization of the electricity retail market will open up Japan's approximately ¥8.0 trillion electricity retail market.
- Approximately 85 million households and small businesses will become potential customers.
- In 2017, the gas retail market will be deregulated, opening the city gas retail market with a scale of around ¥2.4 trillion.

Electricity retail market liberalization from April 2016

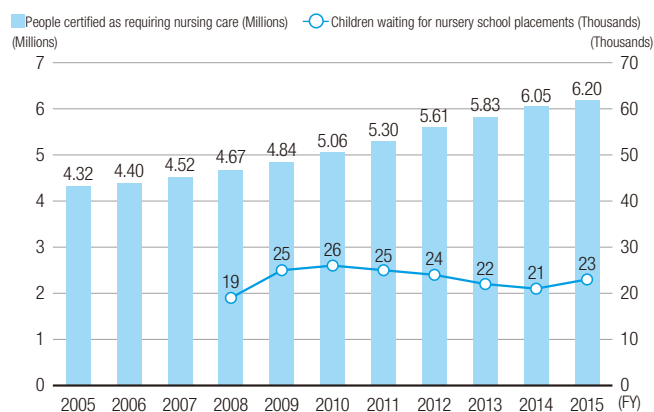
Market scale	¥8.0 trillion
Number of subscribers: General household sector	77.95 million
Shops, offices, etc.	7.18 million

Source: Ministry of Economy, Trade and Industry
"Outline of Full Liberalization of the Electricity Retail Market"

Increase in people certified as requiring nursing care and increase in children waiting for nursery school placements (Other)

- The number of people certified as requiring nursing care under the long-term care insurance system has increased steadily over the past 10 years, along with emerging needs for nursing care support. Japan's nursing care support market is expanding rapidly.
- The number of children waiting for nursery school placements has been constant every year. Expectations are rising for private-sector expertise to resolve the distorted demand-supply gap in the nursery school industry.

People certified as requiring nursing care or support and number of children waiting for nursery school placements

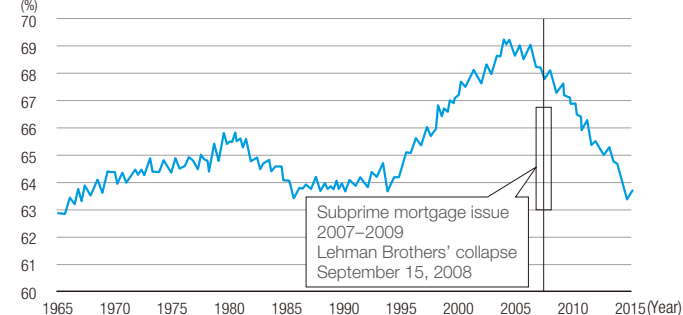


Source: Ministry of Health, Labour and Welfare "Report on Nursing-Care Insurance Business" and "Summary Report on Situation concerning Nursery Schools"

Increasing demand for rental housing in overseas markets (Other)

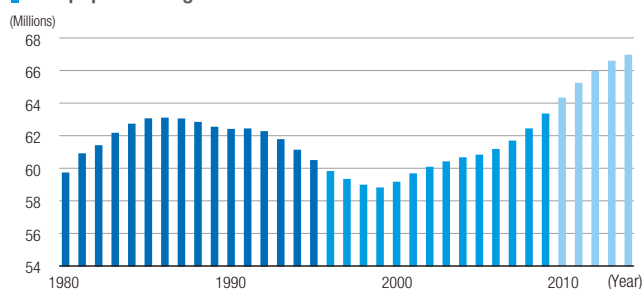
- In the U.S. real-estate market, the ratio of homeowners has been declining since the financial crisis stemming from the subprime mortgage issue and the Lehman Brothers' collapse.
- The U.S. population aged 20–34 is increasing, and lifestyle changes are seeing people marry and have children later in life. These changes are driving an increase in people who choose to move into new rental housing.

Ratio of U.S. homeowners



Source: Census, Urban Institute

U.S. population aged 20–34



Source: Census, Zelman and Associates, Greystar

Performance Highlights

		'06/3	'07/3	'08/3	'09/3	'10/3	'11/3
Operating results		Unit					
Net sales	Billions of yen	538.6	564.3	641.0	954.8	972.6	1001.1
Construction Business	Billions of yen	419.8	441.2	439.9	469.6	465.5	430.2
Real Estate Business	Billions of yen	89.8	93.8	171.3	464.7	483.5	545.2
Other Businesses	Billions of yen	28.9	29.1	29.7	20.4	23.4	25.6
Gross profit	Billions of yen	172.9	181.0	187.1	181.8	188.7	195.3
Construction Business	Billions of yen	130.1	135.4	141.8	150.3	166.4	167.0
Real Estate Business	Billions of yen	23.3	25.0	28.0	25.3	14.4	19.2
Other Businesses	Billions of yen	19.5	20.5	17.1	6.2	7.8	9.0
Operating income	Billions of yen	63.7	72.6	66.2	70.3	71.1	73.7
Operating income margin	%	11.8	12.9	10.3	7.4	7.3	7.4
Net income attributable to owners of the parent	Billions of yen	36.8	41.8	44.4	42.1	45.3	43.1
Financial position							
Total assets	Billions of yen	440.4	473.3	532.1	540.4	558.1	532.9
Shareholders' equity	Billions of yen	242.0	274.6	300.8	295.7	311.5	131.1
Equity ratio	%	55.0	58.0	56.5	54.7	55.8	24.6
ROE	%	15.6	16.2	15.5	14.1	14.9	19.5
Shareholder return							
EPS	Yen	299	345	367	349	386	384
Cash dividends per share	Yen	87	94	232	104	193	229
Payout ratio	%	29.1	27.2	63.2	29.8	49.9	59.6
Total return ratio (including treasury stock acquisition)	%	76.7	74.0	81.7	57.2	79.8	526.0
Indicators related to the construction business							
Value of orders received	Billions of yen	414.2	408.6	498.5	437.2	435.2	503.4
Number of construction sales staff	People	2,579	2,985	3,087	3,020	2,830	2,981
Net sales from completed construction*	Billions of yen	419.8	441.2	439.9	469.6	465.5	430.2
Gross profit margin for completed projects	%	31.0	30.7	32.3	32.0	35.8	38.8
* In accordance with the revision of the "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information," from FY2010, the sales from building and repairs of Daito Building that had previously been included under other in net sales--construction contracts were recorded under net sales--real estate.							
Indicators related to the real estate business							
Number of tenant recruitment	Thousands	133	146	159	171	180	204
Rental housing units under management	Thousands	404	454	502	552	598	645
Rent-based occupancy rate on a revenue-from-rent basis (March)	%	97.0	96.6	96.4	95.6	94.6	96.0
Cash flows							
Cash flows provided by operating activities	Billions of yen	66.1	60.3	25.4	30.2	46.0	60.7
Cash flows (used in) provided by investing activities	Billions of yen	(20.0)	(13.1)	12.4	(13.4)	(26.8)	49.9
Cash flows used in financing activities	Billions of yen	(29.7)	(12.1)	(10.7)	(39.6)	(29.8)	(94.9)
Cash and cash equivalents at end of period	Billions of yen	146.1	181.2	208.2	181.5	170.7	184.8

Mid-Term Management Plan

'12/3	'13/3	'14/3	'15/3	'16/3	'17/3	'18/3	'19/3	'20/3	'21/3	Year-on-year change ('16/3 '15/3)
1,087.1	1,152.4	1,259.6	1,353.1	1,411.6	1,498.0	1,595.0	1,681.2	1,763.7	1,847.8	104.3%
468.6	489.5	545.3	589.1	595.3	623.0	658.4	689.4	715.4	741.4	101.1%
589.9	630.4	677.6	723.8	774.8	825.7	872.5	918.2	966.1	1,016.0	107.0%
28.5	32.4	36.6	40.1	41.4	49.3	64.1	73.6	82.2	90.4	103.2%
214.1	218.4	233.0	238.9	254.4	274.9	287.2	303.6	318.2	333.1	106.5%
175.1	172.1	175.2	172.5	176.2	186.9	197.2	207.1	214.9	222.7	102.2%
29.2	35.3	45.3	52.2	62.6	70.4	71.1	76.2	81.5	86.9	119.7%
9.7	10.9	12.4	14.1	15.5	17.6	18.9	20.3	21.8	23.5	110.0%
81.9	82.4	89.7	91.5	101.0	107.0	112.0	118.0	123.0	128.0	110.4%
7.5	7.2	7.1	6.8	7.2	7.1	7.0	7.0	7.0	6.9	+0.4P
47.1	51.6	55.2	56.1	67.2	74.5	77.9	82.1	85.4	88.8	119.9%
569.0	617.7	684.4	701.1	728.5	731.7	737.9	754.7	805.0	844.4	103.9%
158.3	191.2	224.8	240.5	250.1	272.1	291.4	311.8	332.5	344.8	104.0%
27.8	31.0	32.9	34.3	34.3	37.2	38.4	40.3	41.3	40.8	+0.0P
32.5	29.6	26.6	24.1	27.4	28.5	27.6	27.2	26.5	26.2	+3.3P
594	648	693	710	863	953	1,012	1,083	1,144	1,208	121.5%
297	324	347	375	432	477	506	542	572	604	115.2%
50.0	50.0	50.0	52.8	50.1	50.0	50.0	50.0	50.0	50.0	-2.7P
50.0	50.0	80.0	82.8	80.1	80.0	80.0	80.0	80.0	80.0	-2.7P
611.7	655.1	625.8	660.4	693.0	715.0	737.0	763.0	787.0	812.0	104.9%
3,222	3,204	3,325	3,247	3,420	3,500	3,620	3,740	3,860	3,980	105.3%
468.6	489.5	545.3	589.1	595.3	623.0	658.4	689.4	715.4	741.4	101.1%
37.4	35.2	32.1	29.3	29.6	30.0	30.0	30.0	30.0	30.0	+0.3P
214	220	241	253	267	284	303	321	339	358	105.4%
694	747	805	864	923	981	1,039	1,099	1,162	1,227	106.8%
96.8	96.7	96.9	96.7	96.8	96.8	96.8	96.8	96.8	96.8	+0.1P
77.8	87.8	83.8	59.4	78.8	CAGR (10 year period from '06/3 to '16/3)					
(11.3)	(10.3)	(59.4)	0.9	(93.5)	Net sales	10.1%	Number of construction sales staff	2.9%		
(29.4)	(36.2)	(39.1)	(60.8)	(57.9)	Operating income	4.7%	Number of tenant recruitment	7.2%		
221.0	264.1	253.2	255.5	182.6	EPS	11.2%	Rental housing units under management	8.6%		



To Our Shareholders

The Daito Group is carrying out its medium-term management plan under the slogan “Strongly Pursuing the Potential of Rental Housing.” We do more than just build rental housing—we pursue greater potential from rental housing, from Daito Trust and from ourselves as individuals. In doing so, we promote business activities designed to energize local economies, in order to better serve residents’ daily lives and their communities.

In the fiscal year ended March 31, 2016 (FY2015), we saw sales and profits increase for an eighth straight year, with operating income and ordinary income both surpassing ¥100 billion for the first time since our listing. Our performance also exceeded targets for both return on equity (ROE), which came in at 27.4%, and the operating income margin, which was 7.2%.

We paid our shareholders a cash dividend per share of ¥432 for the year, and in the fiscal year ending March 31, 2017 (FY2016), we are projecting a dividend increase of ¥45 for an annual cash dividend per share of ¥477.

In the rental housing market, the January 2015 revision of the Inheritance Tax Law and low interest rates on apartment loans are stimulating further demand for asset utilization among landowners. We also expect tenant demand for rental housing to remain firm, partly reflecting the increasing trend in the number of single-person households. In this promising business environment, we will make a fully focused effort to recover our share of new rental housing construction starts from a year-on-year decline in FY2015, and continue to target growth in sales and profits.

Accordingly, under our medium-term management plan, which was formulated looking ahead to 2020, our policy is to drive growth by drawing on the original business model we have cultivated since our foundation, seeking to further consolidate our position in the domestic construction and real estate markets. In addition, we will focus our efforts on the new core businesses of energy, care and nursery schools, and overseas and work to expand our businesses and enhance our earning capability. At the same time, we will take our corporate governance a step further to maintain transparent management. By steadily executing these strategies, we are certain that we will continue the growth and corporate value enhancement of the Daito Group.

We believe that the only path to sustainable growth is to be a company that is truly trusted by its customers.

All Group employees will reaffirm the significance of “trust” in being “entrusted with land that was built on or with land to build on” as we work together as one to achieve the objectives of the medium-term management plan.

熊切直美

Naomi Kumakiri
President and Representative Director (CEO)



“We will harness changes in the business environment and grasp our unique strengths as a group accurately and objectively, using them to bolster our competitiveness as we aim for sustainable growth.”

Naomi Kumakiri

President and Representative Director (CEO)
In charge of Construction Business Headquarters and
Corporate Management Headquarters

Strongly Pursuing the Potential of Rental Housing

We will provide rental housing residents with comfortable lifestyles, while pushing ahead with business activities that energize towns and local communities and the regional economy.

“We will take steps to increase our competitive capabilities while deploying our original business model centered on the Lease Management Trust System.”

Hitoshi Kadouchi

Vice President and Representative Director
In charge of Real Estate Business Headquarters and
Subsidiary Business Headquarters



The Group delivered record-high profit by achieving increases in sales and earnings for the eighth straight year.

In FY2015, the Daito Group achieved new records in net sales and all levels of earnings for an eighth straight year of sales and profit growth, with both operating income and ordinary income surpassing ¥100 billion for the first time. Net sales increased 4.3% year on year to ¥1,411,643 million, operating income increased 10.4% to ¥101,001 million, ordinary income increased 10.1% to ¥105,558 million, and net income attributable to owners of the parent increased 19.9% to ¥67,279 million. Performance exceeded targets for both ROE, at 27.4% (target: 20.0% or higher), and the operating income margin, at 7.2% (target: 7.0% or higher). FY2015 was an epoch-making year for the Group, particularly with the launch of our new brand, DK SELECT,

ROE

27.4%

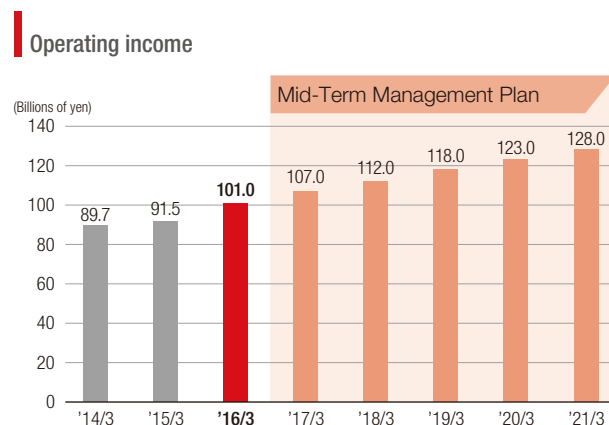
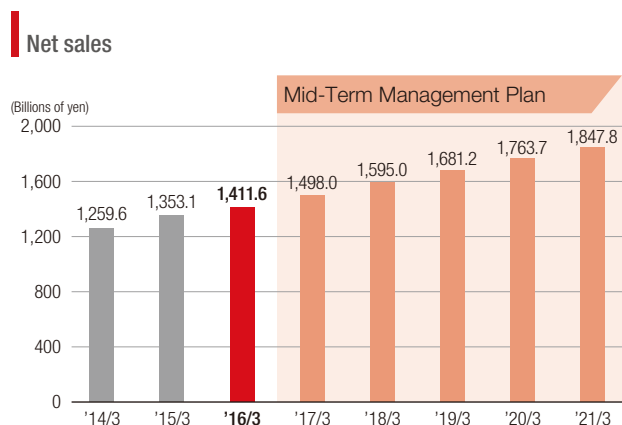
Operating
income margin

7.2%

as a coverall term for rental housing.

Looking at results by segment, in the construction business segment, Net sales from completed construction rose 1.1% year on year to ¥595.3 billion, reaching an all-time high. The gross profit margin for completed contracts increased by 0.3 of a percentage point year on year to 29.6% with improved profitability on completed construction contracts due to a sales price revision and other factors, despite a continued increase in labor costs. However, the share of rental housing construction starts among construction starts in Japan increased by 7.1% year on year, with the Group's share of these declining 2.0 percentage

points to 15.5%. In the real estate business segment, sales increased 7.0% year on year to ¥774.8 billion, mainly due to an increase in rental revenue at Daito Building, and a contribution from the sales of House Leave Co., Ltd. The gross profit margin also increased 0.9 of a percentage point to 8.1%. We also saw steady growth in the other businesses segment as sales increased 3.2% year on year to ¥41.4 billion and the gross profit margin grew 2.3 percentage points to 37.5%. The main factors driving growth were the launch of Group company operations including an LP gas supply business, a day-care service for elderly people, and a small-amount and short-term insurance business.



We will maintain a total return ratio of 80% to return profits to shareholders.

Within the Daito Group, our basic policy is to maintain stable dividend payments. In specific terms, our dividend payments consist of a base dividend and an additional profit return component that reflects our business performance.

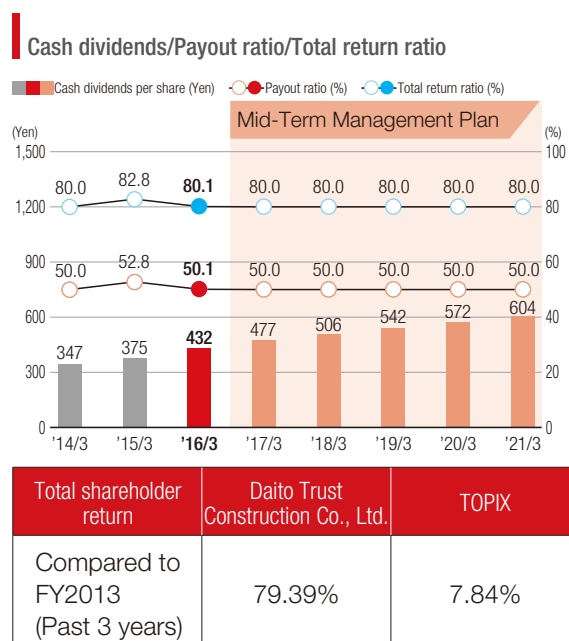
We have issued an annual cash dividend payment of ¥432 per share for FY2015. In addition, we plan to spend ¥20.2 billion, or 30% of our consolidated annual net income for the fiscal year under review, for the acquisition of 1.30 million shares of treasury stock and to extinguish these shares in FY2016. As a result, the payout ratio will be 50.1%. Combined with the acquisition and extinguishment of treasury stock worth 30% of annual net income, the total return ratio will be 80.1%.

For FY2016, we plan to issue an annual cash dividend of ¥477 per share, an increase of ¥45 year on year. We also plan to continue to acquire and extinguish treasury stock.

The total shareholder return over the three-year period from FY2013 to FY2015 was 79.39%. This has even outperformed TOPIX (7.84%) over the same period.

Total return ratio

80.1%



Taking an objective view of the business environment and our strengths to create new growth.

In addition to the revisions to the Inheritance Tax Law in January 2015, the Bank of Japan implemented bold fiscal easing measures, resulting in continued low interest rates on apartment loans. This environment has stimulated demand for asset utilization among landowners. In FY2015, the number of rental housing construction starts in Japan grew 7.1% year on year.



Meanwhile, the Daito Group has been expanding its original business centered on the Lease Management Trust System, while continuously working to hone its competitive edge. Under the Lease Management Trust System, in addition to the complementary construction and real estate businesses, we will focus our effort on other businesses to enhance the level of our total service.

Our unique strengths in the construction business include direct sales capabilities offering flexible proposals to meet the demands of individual landowners and construction capabilities boasting the highest number of housing units supplied and product development capabilities that are leading the times.

Furthermore, in the real estate business, we will leverage our abundant experience in rental housing management as a strength to expand our Internet sales channel and enhance our services for comfortable and secure living, promoting original initiatives to respond to the needs of our diversifying tenants.

In our other businesses, we will leverage our market-leading rental housing stock to capture opportunities afforded by the full-scale deregulation of the electricity and gas retail markets by developing services to meet the needs of our customers.

Amid these changes in the business environment, we will grasp our unique strengths as a group accurately and objectively, using them to bolster our competitiveness as we aim for sustainable growth.

SWOT analysis

- ① Lease Management Trust System covering all stages from planning to management and operation
- ② Business development capabilities using market-leading rental housing stock
- ③ Speedy management and ability to achieve targets
- ④ Management strategy based on focusing on key points
- ⑤ Highly transparent corporate governance system
- ⑥ Flexible and well-developed education system

Strengths

S

Weaknesses

W

- ① Lack of earnings sources outside of core businesses
- ② Corporate image and brand value
- ③ Next generation leader development program not yet finalized
- ④ Attrition rate of sales personnel

- ① Revision of Inheritance Tax Law (tax increase)
- ② Increase in inheritance needs due to an aging population
- ③ Low interest rates due to the fiscal easing policy
- ④ Government policies in response to increase in people certified as requiring long-term care and increase in children waiting for nursery school placements
- ⑤ Full deregulation of the electricity and gas retail markets
- ⑥ Increasing demand for rental housing in overseas markets

Opportunities

O

Threats

T

- ① Declining trend in national population and number of households over the medium to long term
- ② Entry of new players in the market
- ③ Rapid cost increase in materials and labor due to pressures inside the construction labor market
- ④ Foreign exchange rate fluctuation risk

Aiming for a ninth straight year of sales and profit growth in FY2016.

In FY2016, we will set key objectives in each business field and make an even greater effort to further our progress under the medium-term management plan, which covers the period through to FY2020.

In the construction business segment, we are taking steps to enhance the construction system, which is one of our strengths as a group, by stepping up our efforts to build relationships with various regional partners. We also need to boost cost competitiveness, such as reducing sales prices through continued cost-cutting and other means. In boosting our sales capabilities, we will bolster our capabilities to respond to landowners' asset succession needs by creating the strongest sales force in the industry, focusing on recruiting and training of human resources. Progress in this area will be a vital element in ensuring our sustainable growth. Of course, it is also vital to expand our services in response to landowners' needs. We will bolster our efforts in comprehensive consulting services for full, smooth asset succession in collaboration with our managed trust company, Daito Mirai Trust Co., Ltd. aiming to increase customer satisfaction.

In the real estate business segment, we will continue to promote market penetration of our rental brokerage brand e-Heya Net through television commercials and social media, as well as by holding events such as Ladies Professional Golfers' Association Tour. We will also continue our efforts to enhance tenant convenience, such as accepting payments by credit card and expanding our services that do not require a guarantor. Furthermore, we will conduct promotions through our new brand, DK SELECT, and establish the Net Store that offers round-the-clock services every day of the year.

In the other businesses segment, we will focus our efforts on our new core businesses of energy, care and nursery school, and overseas, and work to expand them. In the energy business, we will enter the electricity retail business and in the care and nursery school business, we will actively promote and expand care and nursery school services in response to the falling birthrate and the aging population. In our overseas business, we are developing and identifying overseas real estate investment projects, including investments into large-scale real estate facilities in the United States. We are also continuing to develop total asset management services here in Japan as we expand peripheral businesses around our core businesses.

FY2016 Plan

Net sales

¥1,498.0 billion

Operating income

¥107.0 billion

Operating income margin

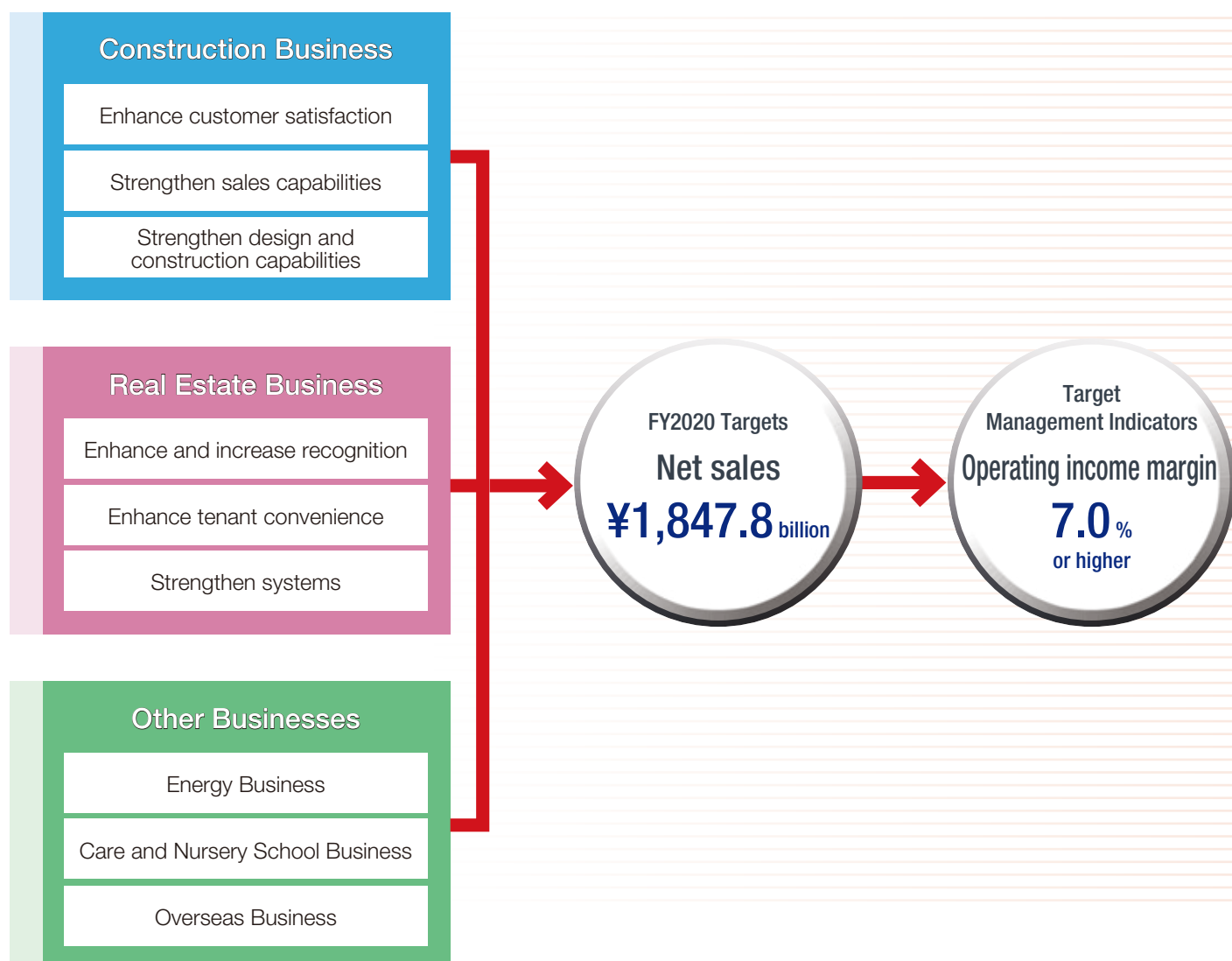
7.1%

ROE

28.5%



Roadmap to Realizing the Medium-Term Management Slogan



We will strengthen the foundation of our competitive advantage to achieve sustainable growth.

To realize sustainable growth, we will strengthen the foundation of our competitive edge, leveraging our original business model centered on the Lease Management Trust System.

As a company with business operations throughout Japan, the revitalization of regional communities is essential for the Daito Group's sustainable growth. Our business model is not focused only on inner cities, but aims to work together with owners in every part of Japan. We are working to build relationships between local communities, our customers, and ourselves by promoting various activities in collaboration with people in regions nationwide,

participating actively in community events, and holding events of our own for interacting with neighborhood residents near our construction sites.

We are also taking action to preserve the global environment. We work proactively to reduce waste from construction sites and use renewable energy such as solar power generated using the rented rooftops of rental housing.

We recognize that recruitment and training of human resources is a key element in achieving medium- to long-term growth. In particular, sales personnel have a powerful influence on the Company's business promotion capabilities, and we have established recruitment and training

Strongly Pursuing the Potential of Rental Housing

We will provide rental housing residents with comfortable lifestyles, while pushing ahead with business activities that energize towns and local communities and the regional economy.

Target
Management Indicators

ROE
20.0%
or higher

Payout ratio

Target

50.0%

Total return ratio

Target

80.0%

programs designed to help enhance our sales force in terms of ensuring quantity (personnel numbers) and quality (efficiency). In addition, we aim to enable each individual employee to reach their potential effectively by creating working environments that are sensitive to diversity and work-life balance.

We are committed to establishing corporate governance that is appropriate for all of our stakeholders, such as shareholders and investors, and to ensuring highly transparent and efficient management. To maximize our corporate value we will assemble a robust system for management decision-making and supervision, and

advance our business swiftly and efficiently. Furthermore, we will proactively appoint outside directors in tune with our corporate philosophy and strategy, using their experience and expertise effectively to strengthen our management capabilities.

Looking ahead, the Daito Group will focus on maximizing our corporate value by strengthening our business development and enhancing our corporate foundation. Our goal is to achieve stronger growth, in order to meet the expectations of our stakeholders.

Review of Operations in the Construction Business

In FY2015, orders received hit a record high

In FY2015, revisions to the Inheritance Tax Act and low interest rates on apartment loans stimulated further demand for asset utilization among landowners.

The construction business already had a large orders backlog, and steady work to complete projects allowed the business to record new record high sales of ¥595.3 billion, up 1.1% year on year. The gross profit margin for completed construction contracts improved due to price hikes, rising 0.3 of a percentage point to 29.6%, and gross profit from completed construction rose 2.2% year on year to ¥176.2 billion.

The value of orders received also increased 4.9% year on year to ¥693.0 billion as the number of construction sales staff increased by 5.3% to 3,420. The overall market was strong, with new rental housing construction starts rising 7.1% year on year nationwide to 383,678 units. However, Daito Trust's market share dipped by 2.0 of a percentage point year on year to 15.5%.

The overall business environment is expected to remain buoyant in FY2016, but competition is likely to intensify as rival housing manufacturers focus their efforts on acquiring orders for rental housing. We expect orders to increase 3.2% year on year to ¥715.0 billion, net sales from completed construction contracts are expected to grow 4.6% year on year to ¥623.0 billion, and gross profit from completed construction contracts is forecast to rise 6.0% to ¥186.9 billion.

FY2015 Results

Net sales from completed construction

¥595.3 billion

Operating income

¥90.2 billion

FY2016 Plan

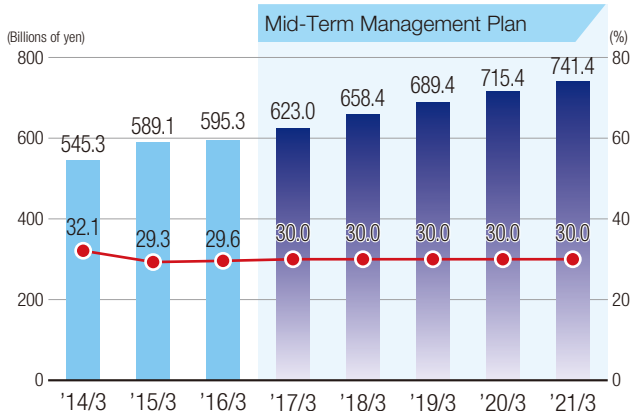
Net sales from completed construction

¥623.0 billion

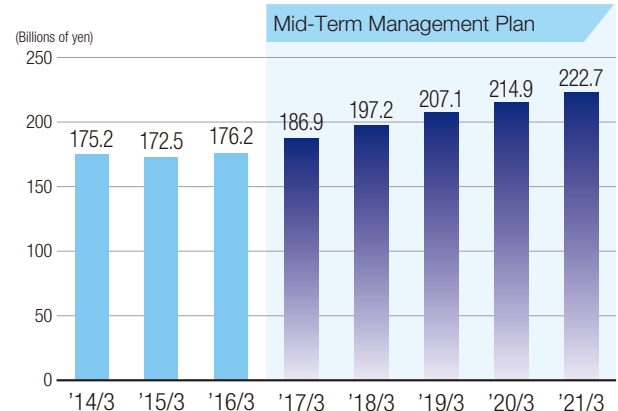
Operating income

¥94.0 billion

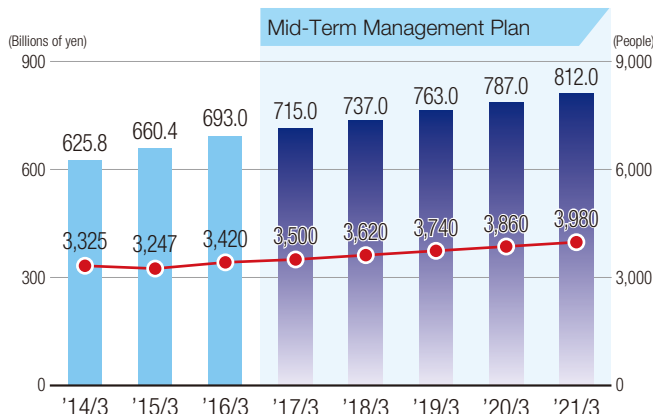
Net sales from completed construction (Billions of yen)/ Operating income margin for completed construction contracts (%)



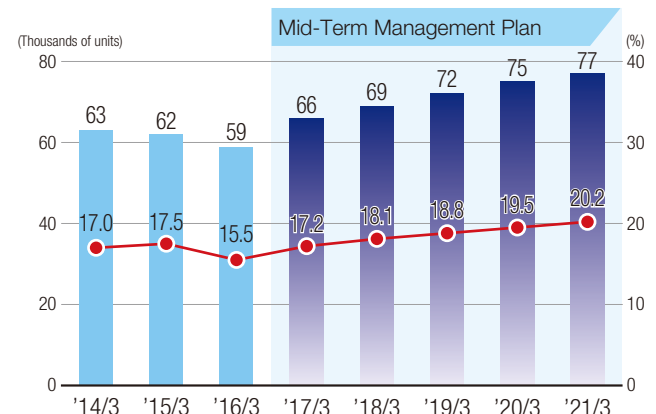
Gross profit from completed projects (Billions of yen)



Value of orders received (Billions of yen)/ Number of construction sales staff (People)

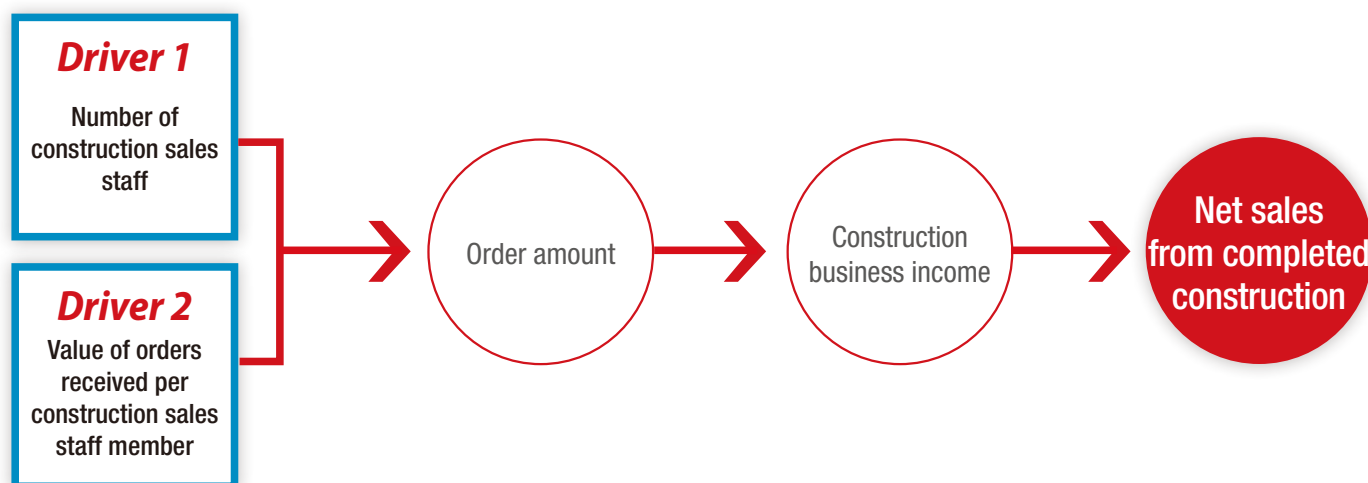


Number of new rental housing construction starts of the Company (Thousands of units)/ Share of new rental housing construction starts of the Company (%)



Source: Daito Construction Trust data

Growth Drivers in the Construction Business



Driver 1 Number of construction sales staff

Building an industry-leading sales force by focusing on personnel recruitment and training

Daito Trust is bolstering its construction sales system to expand the value of orders received.

This not only entails hiring more sales personnel, but also giving them the necessary training to succeed. An aggressive recruitment program aims to increase the sales force to 3,500 members. The source of the Group's success in direct sales is the training program, which gives sales representatives the know-how to propose rental housing management solutions that meet the specific needs of each landowner.

New employees spend their first three months at the Company in an intensive training program. Within three years,

they will have become trained professionals, able to make effective property management proposals. Improvements to the training program and revisions to the personnel system provide a working environment that is comfortable for all, and the Company continues to recruit and train women as sales representatives.

Number of construction sales staff

FY2015 Results

3,420 people



FY2016 Plan

3,500 people

Driver 2 Value of orders received per construction sales staff member

Maintaining our competitive edge by promoting an organization with high operating efficiency and diverse sales support measures

Daito Trust has developed a wide range of sales support measures to help maintain the competitiveness of its construction sales operations, allowing the sales force to build strong relationships with landowners and maximize the value of orders.

The sales structure motivates employees by dividing the market by region and local area, assigning sales representatives responsibility for sales in a given area, and making their remuneration highly proportional to their performance. The Company offers a diverse selection of products and services covering both hard and soft aspects of the business, and is constantly working to develop new tools to

allow sales staff to make better proposals.

Furthermore, there are rating systems and recognitions that help to motivate each employee, as well as support for those seeking accreditation or career development. Such efforts promote constant increases in sales efficiency and effectiveness.

Value of orders received per construction sales staff member

FY2015 Results

¥1,774 million per month



FY2016 Plan

¥1,730 million per month

Initiatives in the Construction Business

In addition to strengthening sales capabilities, the Company strives to enhance customer satisfaction

To meet the targets of its medium-term management plan, Daito Trust has identified three key objectives: enhancing customer satisfaction, strengthening sales capabilities, and strengthening design and construction capabilities.

To reflect customers' needs and increase satisfaction, the Company offers consulting services and information to help property owners, starting with asset management and asset succession.

The Company intends to bolster its sales capabilities

by increasing staff levels to 3,500 and focusing on their training, with the goal of creating the industry's top construction sales capabilities.

To strengthen the Company's design and construction capabilities we will pursue product development targeting attractive, comfortable residences that satisfy tenants. We also aim to strengthen our ties to business partners and develop a construction operation that can work effectively in joint development projects.

	Enhancing customer satisfaction	Strengthening sales capabilities	Strengthening design and construction capabilities
Hold a variety of seminars	●	●	
Expand sales to corporate customers	●	●	
Develop sales staff	●	●	
Research and develop new products	●		●
Collaborate with local partners			●

A variety of seminars offer information to match customers' needs

The Company offers various seminars as part of its efforts to expand its customer contact points. These cover issues such as asset management making use of property, inheritance strategies, and rental property management. The seminars benefit not only our new and existing clients, but also address a wide range of inheritance issues for the generation that will inherit assets.

For example, one seminar entitled "Parents and children think about inheriting the family home" dealt with the increasingly common issue of a family home left empty when the parents pass away, or cases of secondary inheritance following the death of the first inheritor. Experts on these topics were invited to discuss inheritance options.

During FY2015, the Company held 20 seminars of this type at the head office, with 425 participants, while branch offices held 612 seminars and attracted 17,622 participants.

<Main Seminar Themes at the Head Office>

- Parents and children think about inheriting the family home
- A must see for landlords! Useful empty-home strategies for rental management
- Asset management seminars, etc.



Creating new sales opportunities by expanding sales to corporate clients

Daito Trust is expanding sales efforts targeting corporate clients in order to cultivate new sales opportunities. We aim to increase "tenant set" opportunities, as well as renovation contracts. We will also pursue feedback marketing and referrals to promote property sales or trading opportunities.

As one of our "tenant set" services, we operate the "Joint System," which brings together individual landowners and chain retailers seeking to open stores nationwide. We offer the store developer information on optimal locations, while helping landowners put their land to a productive use by proposing not only rental housing, but also commercial

facilities. In this way, we can leverage our strengths in original solutions to match the needs of both parties, while generating new sales opportunities.



Matsuya Foods opened a restaurant in a property owner's building through an introduction under the Joint System

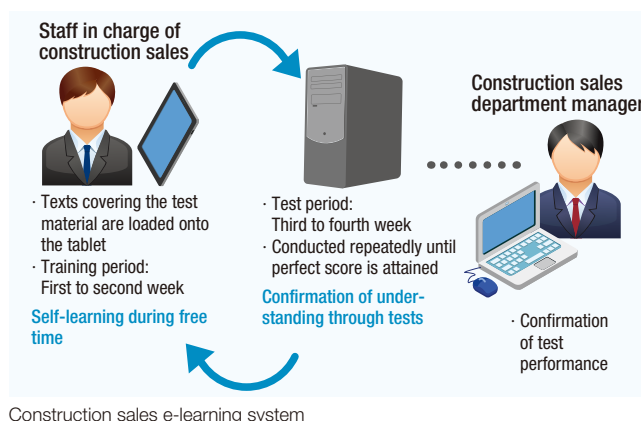


FamilyMart opened a store in the suburbs of Nagoya under a convenience store contract

Employee training contributes to increased trust as well as sales results

The Company's construction sales training system is based on a three-month recruit training program (comprising formal training at each business unit and on-the-job training sessions at each branch office and including various other training). It is designed to give every salesperson the skills to offer clients professional proposals for utilizing their property, within three years of joining the Company.

We also supplement training with "e-learning" using tablets, which have been introduced at sales offices. The tablets give each salesperson instructional texts and tests to confirm their progress in order to reinforce knowledge acquisition.



Product R&D from the tenant's perspective

Daito Trust tries to enhance research and development efforts by thinking about their products from a tenant's perspective, and considering how to make better places to live. To assist this process, a "test building" has been constructed in Okayama prefecture. This allows us to test the sound insulation quality—a key factor for lease tenants—as well as air quality environmental factors. The Company conducts ongoing tests and analysis, researching new features that will make the next generation of rental housing healthy and enjoyable to live in.

The Company's TOYRO brand of 2×4-type housing products are designed to allow tenants to adjust the layout of rooms based on their lifestyle and life stage. The size of rooms can be reconfigured by moving walls, which employ "Art Panel*" movable fixtures. In this way, tenants can adjust the layout of their home and make it comfortable for living in.

* Introduced in the TOYRO LX and EX models



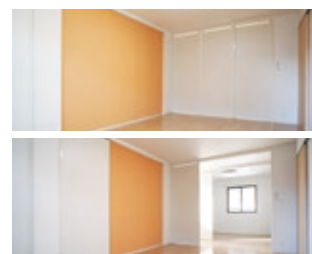
Test building



Investigated sound insulation performance



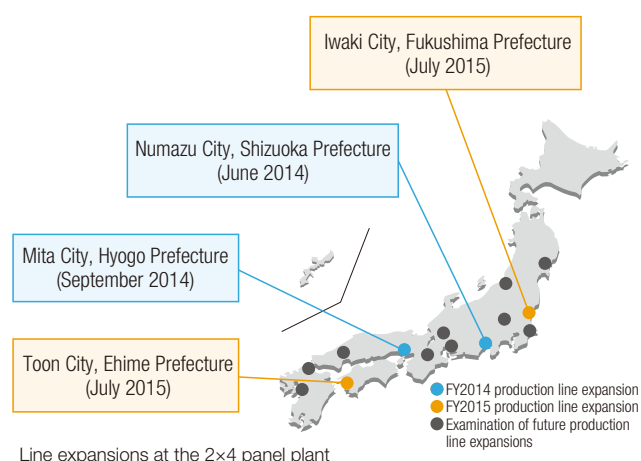
TOYRO LX



Room partitions can be changed using "Art Panel"

Cooperation with local partners enhances construction capabilities

The Company is taking many steps to enhance its construction capabilities. We have a network of local partners—Cooperative Daito Trust Construction—who cooperate with us on design and construction activities. This network provides members with support for benefits packages and technical skills acquisition. We are also expanding our "Partner Program" to further enhance ties to these local partners. In FY2015, for example, we lent support to two 2×4 panel construction companies, allowing them to expand their production lines and increase output.



Review of Operations in the Real Estate Business

Net sales and operating income increased sharply in FY2015

Strong results in the construction business provided a large stock of managed buildings and a surge in income from whole-building leases. Revenues from the “Tenant Guarantor Service” increased as well, boosting net sales by 7.0% year on year to ¥774.8 billion. Gross profit rose sharply by 19.7% year on year to ¥62.6 billion.

Constant efforts to improve the efficiency of the contract process helped increase the number of tenant recruit by 5.4% year on year to 267,116. Measures to strengthen the Group’s rental brokerage brand, e-Heya Net, and expand the range of methods to search for an apartment, helped increase the rent-based occupancy rate on a revenue-from-rent basis a further 0.1 of a percentage point from last year’s healthy 96.8%.

In FY2016, the Daito Group will continue working to strengthen the e-Heya Net brand and try to increase awareness of the new DK SELECT brand of rental housing. We will also expand the contract process and continue seeking ways to enhance convenience for our tenants.

FY2015 Results

Net sales

¥774.8 billion

Operating income

¥22.5 billion

FY2016 Plan

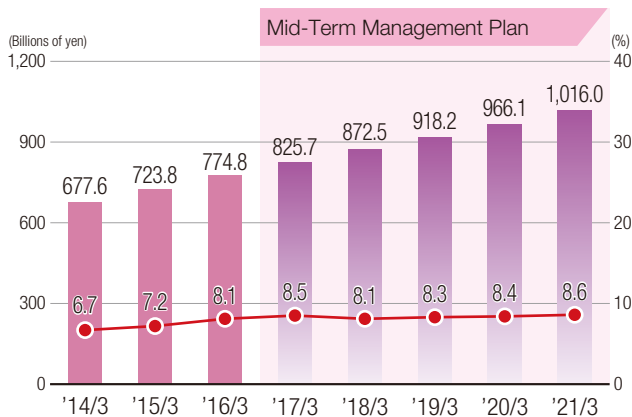
Net sales

¥825.7 billion

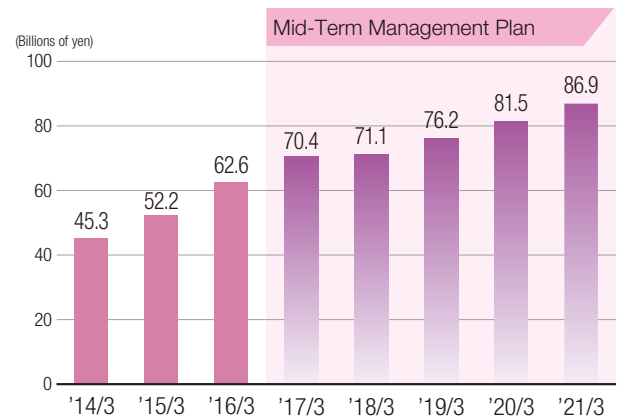
Operating income

¥27.2 billion

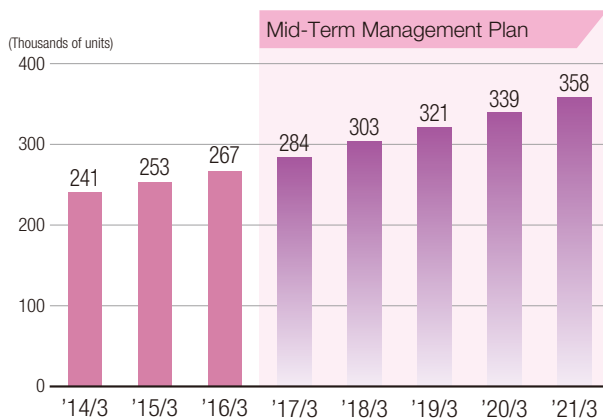
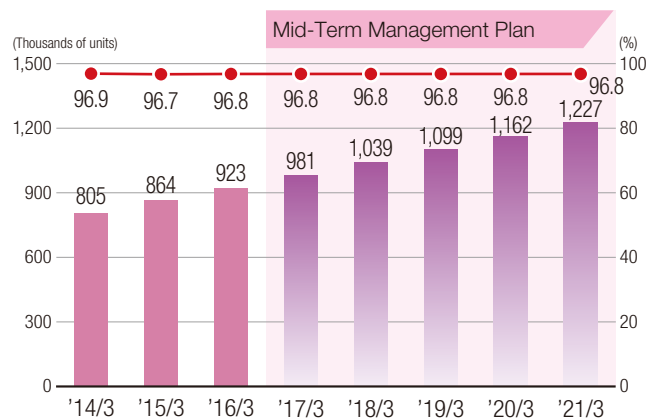
Net sales (Billions of yen)/Gross profit margin (%)



Gross profit (Billions of yen)

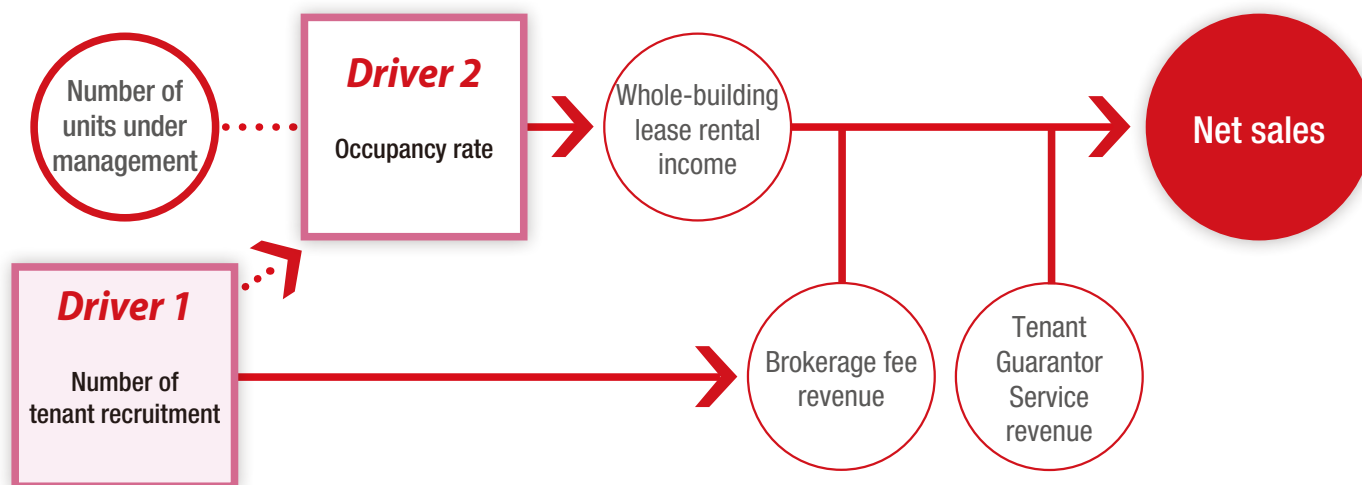


Number of tenant recruitment (Thousands of units)

Rental housing units under management (Thousands of units)/
Rent-based occupancy rate on a revenue-from-rent basis (%)

Source: Daito Construction Trust data

Growth Drivers in the Real Estate Business



Note: The Company has control only over the items marked with this border:

Driver 1 Number of tenant recruitment

Leveraging the power of individuals to benefit the organization as a whole

Enhancing sales capabilities through various measures in cooperation with real estate companies

The Daito Group will bolster its rental sales capabilities even further. We are bolstering our training system by teaching enhanced feedback response skills. Rather than relying on individual initiative to drive sales results, the Group is trying to focus more on team efforts.

In its partnerships with real estate companies, the Group will pursue a symbiotic approach, offering new services to partners and building a network that benefits the whole. In-house efforts to attract tenants are also important and we will create and develop plans with strong appeal. Meanwhile, the Group is expanding outlets that market to corporate

customers and reorganizing its network of real estate rental offices to better appeal to customers. Cooperation with Group subsidiary Housecom Co., Ltd. is being broadened, including programs to train personnel at both companies.

Number of tenant recruitment

FY2015 Results

267 thousand units

FY2016 Plan

284 thousand units

Driver 2 Occupancy rate

Maintaining a high occupancy rate at rental buildings managed by the Group by strengthening the brand and improving tenants' convenience

To maintain high occupancy rates at the rental buildings it manages, the Daito Group sets targets for each sales area and each office to better manage tenant recruitment.

To meet these targets, it is essential to make rental buildings more appealing. The Group is seeking ways to improve properties in terms of both soft and hard aspects. For example, the Group has introduced the industry's first credit card settlement service to improve convenience for tenants and proposes comfortable lifestyles.

In addition, the Group is also aggressively introducing online services to expand the appeal to prospective tenants,

including the launch of an online housing search service on the LINE social network and the Net Store.

Furthermore, we continue our efforts to strengthen the e-Heya Net brand, and make use of other media to increase the Group's fan appeal, ensuring that occupancy rates remain at high levels.

Rent-based occupancy rate on a revenue-from-rent basis

FY2015 Results

96.8 %

FY2016 Plan

96.8 %

Initiatives in the Real Estate Business

Enhance and increase the Group's name recognition and enhance convenience for customers

In order to meet the targets of our medium-term management plan, we will pursue three key objectives: enhance and increase recognition, enhance convenience for customers, and strengthen systems.

To enhance recognition of the e-Heya Net brand, the Daito Group has introduced new TV commercials and is sponsoring the Daito Kentaku e-Heya Net Ladies tournament, one of the competitions on the Japan LPGA

(Ladies Professional Golfers' Association of Japan) Tour. Meanwhile, the Group continues to expand services and features, and the range of methods clients can use to search for rental housing.

We are also working to improve the communication skills and responsiveness of employees, aiming to become the rental agent of choice for more customers.

	Enhance and increase recognition	Enhance tenant convenience	Strengthen systems
Penetration of the e-Heya Net brand	●		
Expand rental housing search methods		●	
Expand tenant services		●	●
Develop human resources for rental housing sales and building management			●

Diverse measures to promote penetration of the e-Heya Net brand

New TV commercials have been created and aired in an effort to increase and enhance recognition of the Group's housing rental agency brand, e-Heya Net. These were selected as the most favorably received TV commercial campaign out of 125 advertisers in the construction and real estate sector. As a result, the number of Internet searches for the keywords "e-Heya Net" is rising. Unaided recall of the brand has increased, and we will continue to strengthen it going forward.

Also, for the first time, the Group sponsored the Daito Kentaku e-Heya Net Ladies tournament, which was a high-profile event generating high TV viewer ratings and attracting over 7,000 spectators. Efforts such as these will continue as the Group seeks to generate PR for e-Heya Net and further enhance brand recognition.

Daito Trust holds a regular e-Heya Best Design Contest for tenants in buildings managed by the Group, providing them with an opportunity to display their skill and imagination in using their living space. This not only gives participants a sense of satisfaction for having chosen one of our properties, but also allows the Group to identify latent customer needs by employing a public judging process. By innovating and sharing ways to make use of the residences, the competition also enhances people's impression of the value of rental housing.



e-Heya Net TV commercial



The first queen of the tournament, Erina Hara, and employees of the Company



The Company's affiliated professional golfer, Aya Ezawa

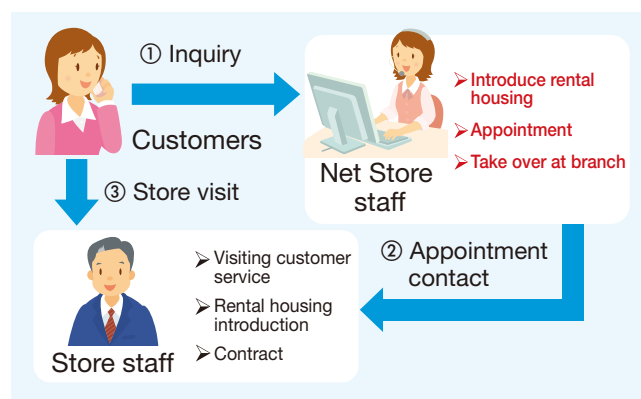


The first-prize-winning entry of the third e-Heya Best Design Contest "Shabby-Chic French Interior"

Responding to diverse needs by expanding rental housing search methods

The Group is expanding the range of rental housing search methods to respond to a greater diversity of needs.

For example, the Daito Trust Rental Housing Search Support Service on the LINE social network lets prospective tenants discuss their needs and get service from specialist operators. We also launched the industry's first 24-hour/365-day online licensed real estate office that provides service to users at any time that suits them. Furthermore, to address new needs, we have strengthened the operation of e-Heya Net and offer support in five major languages, in addition to Japanese, for foreign tenants.

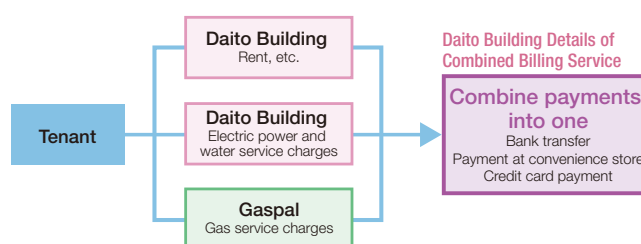


Net Store flow

Expanded services offer greater convenience for tenants

To expand the range of services available to enhance convenience for tenants, Group subsidiary House Leave Co., Ltd. launched the Tenant Guarantor Service. This year, the new usage rate has increased significantly from the previous year. The service has simplified the contract process and is becoming well established. In addition, the Combined Billing Service allows tenants to make their rent and utility payments all in a single bank transfer, and another subsidiary, House Payment Co., Ltd., enables tenants to settle their accounts using a credit card.

We also offer a variety of support services to existing tenants. For example, DK SELECT Good Living Navigator gives tenants useful information on local retailers and other local matters as well as other useful information for living, such as government offices, medical facilities and other services.



Details of Combined Billing Service



Renewed DK SELECT Good Living Navigator website

Develop human resources for rental housing sales and building management

The Group is strengthening the employee training aspect of its organizational foundation to reflect its ongoing value of "communication that demonstrates effort in an environment of objective awareness." The Group recently held its fourth Hospitality Contest, in which employees are expected to demonstrate politeness and the ability to respond effectively to typical needs or requests. This helps to set an example for the entire company. The Group is also taking steps to promote teamwork in dealing with clients, and through this sort of training exercise, seeking to become the real estate agent of choice for more customers.



Hospitality Contest
Visiting Customer Service
Category



Hospitality Contest
Winner of the First Prize

Review of Operations in the Other Businesses

Sales and profit growth, with energy, care and nursery school, and overseas designated as new core businesses

Net sales in the other businesses segment rose 3.2% year on year to ¥41.4 billion, while gross profit climbed 10% to ¥15.5 billion. The increases reflect growth in the number of houses supplied with LP gas from Gaspal Co., Ltd., an increase in the number of users at the elderly day-care centers operated by Care Partner Co., Ltd., and growth in subscriber numbers for property and casualty insurance services at HOUSE GUARD S.S. Insurance Co., Ltd.

The Group's medium-term management plan identifies three business segments as future core operations: the energy business, the care and nursery school business and the overseas business.

In FY2016, subsidiaries like Gaspal, Care Partner and HOUSE GUARD SSI will continue to leverage synergies

with the Daito Group's core businesses. The Group aims to actively pursue business opportunities in new sectors, as changes such as full liberalization of the electricity and gas retail markets open up new opportunities for growth.

FY2015 Results

Net sales

¥41.4 billion

Operating income

¥8.9 billion

FY2016 Plan

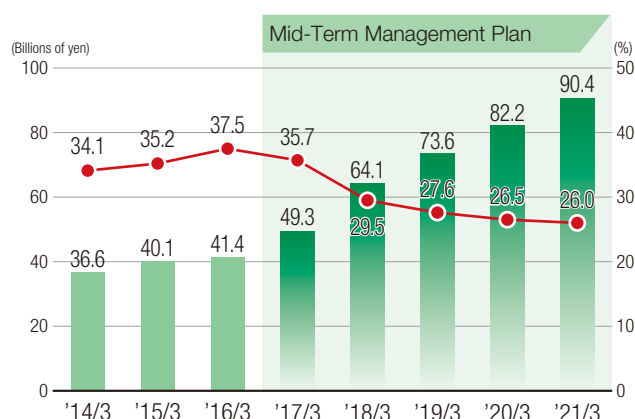
Net sales

¥49.3 billion

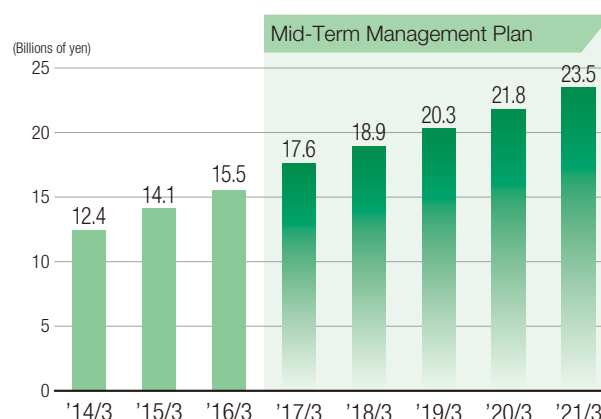
Operating income

¥9.6 billion

Net sales (Billions of yen)/Gross profit margin (%)



Gross profit (Billions of yen)



Source: Daito Construction Trust data

Core businesses operated by group companies

	Energy Business	Care and Nursery School Business	Overseas Business	Other Businesses
Gaspal Co., Ltd.	●			
Daito Energy Co., Ltd.	●			
Gaspal Kyushu Co., Ltd.	●			
Daito Gas Partner Co., Ltd.	●			
Care Partner Co., Ltd.		●		
Daito Asia Development (Malaysia) Sdn. Bhd.			●	
D.T.C. REINSURANCE LIMITED				●
Daito Finance Co., Ltd.				●
Daito Corporate Service Co., Ltd.				●
HOUSE GUARD S.S. Insurance Co., Ltd.				●
Daito Mirai Trust Co., Ltd.				●
House Payment Co., Ltd.				●

Energy Business

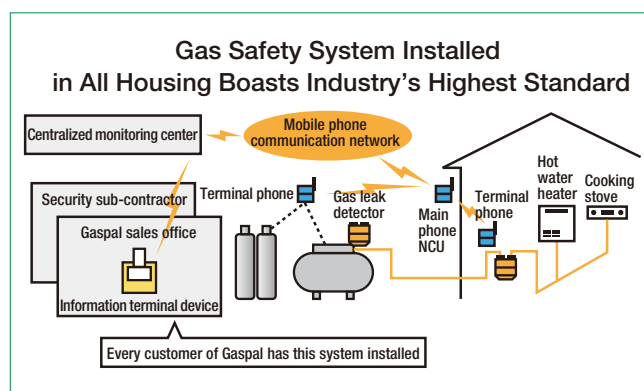
Review of Operations

Providing high-value LP gas and other services to tenants

Gaspal Co., Ltd. supplies LP gas, primarily to buildings managed by the Daito Group. Gaspal's measures to improve safety systems, strengthen the security structure, and provide security for facilities earned recognition from the Ministry of Economy, Trade and Industry in 2015, for distinguished service in the promotion of LP gas consumption security. This was the third consecutive year that the company has earned the judges award, which is the highest possible rating.

In addition, in August 2015, Gaspal launched Pal Mail, a service for elderly persons living alone that notifies relatives by e-mail to inform them of the volume of gas used by the elderly individual.

Furthermore, in January 2016, the Group established a new subsidiary, Daito Gas Partner Co., Ltd., to supply LP gas in the Okinawa area. In June of the same year, Gaspal Kyushu Co., Ltd. took over LP gas supply operations in the Kyushu region from Gaspal. In this way, the Group is steadily expanding the reach of its LP gas supply business and keeping close ties to local regions.



METI's Commerce and Distribution Award

Number of units with LP gas supply:
250,106
As of March 31, 2016

Initiatives

Full liberalization of Japan's electricity retail market opens the door to new services

In April 2016, Japan fully deregulated its electricity retail market. In response, Daito Energy Co., Ltd. launched a new service called e-Heya Electricity in May. The service is aimed at residents in rental housing managed by the Daito Group and offers users a fixed discount on electric power relative to the metered rate charged by the regional electric power company.

The Group also intends to link this with its core businesses to grow its business in the energy field.



Three merits of e-Heya Electricity

Merit 1

Service is only available to residents of buildings managed by the Daito Group

Merit 2

Users receive a discount on metered electric power usage based on the amount used by the rental housing

Merit 3

Service is provided to residences nationwide*
* Except in areas served by Okinawa Electric Power Company

Care and Nursery School Business

Review of Operations

Strengthening the framework for elder care and nursery school operations

Care Partner Co., Ltd. offers care services, mainly elderly day-care centers, with 73 centers in operation nationwide. The company has a highly trained staff of caregivers who have acquired extensive know-how working in daytime care centers. Their skills are being put to use in a new home visit-type care service, launched in March 2015, which offers “bodily care,” “lifestyle support” and other services to clients at their own residences.

In addition, the Group launched a nursery school program in 2013, known as Kids Partner. As of April 2016, the Group operates 11 nursery schools, primarily in Yokohama and Kobe. In the future, elder care and nursery school operations will be strengthened in line with demographic trends such as the low birthrate and the aging of the population.



Number of day-care centers
73
As of March 31, 2016



Number of nursery schools
11
As of April 1, 2016

Initiatives

Care and nursery school services that address societal needs

The Daito Group concluded a capital tie-up with Solasto Corporation, a company with expertise in the medical and care sector, and acquired its shares in December 2015. The capital tie-up will allow Care Partner and Solasto to work in concert to expand the care and nursery school business. Care Partner will concentrate on offering day-care services for elderly people and small-scale licensed nursery school services, while Solasto will focus on home visit-type care and large-scale licensed nursery school operations. In this way, both companies can complement one another's areas of expertise.



In October 2015, Care Partner introduced a new service called Soft-Food, which offers meals that look just like regular food products. This new genre of food product can be masticated just by the pressure of the tongue against the upper jaw.



Soft-Food's grilled salmon

In March 2016, the Group opened the Kashiwa Fukushi Yogu Center, which leases and sells equipment for use at care facilities, such as bariatric beds, wheelchairs, walkers, and other items that help elderly people increase their mobility and lead safer, happier lives of better quality. In the future, the Group will seek to develop new products and services that can enhance the lives of elderly individuals.

Overseas Business

Review of Operations

Developing hotel operations in Malaysia

The Daito Group owns Le Méridien Kuala Lumpur, a five-star hotel in the Malaysian capital. The 35-story hotel, located right in front of Kuala Lumpur Sentral Railway Station, has 420 guest rooms and is ideally situated for both business travelers and tourists. Hotel management is contracted out to Méridien SA., which has a well established reputation.

At present, the hotel's guest rooms are being refurbished floor-by-floor, in order to increase revenues further.



Le Méridien Kuala Lumpur – a hotel in Malaysia

Initiatives

Launching real estate investment operations in the United States

While focusing on Japan's strong rental housing market, the Daito Group hopes to take the experience and know-how accumulated from this business and develop the business in overseas markets. In November 2013, the Group began investing in U.S.-based real estate funds, and in June 2015, Daito Trust invested US\$35.5 million (approximately ¥4.4 billion) in a major real estate business managed by NFL owner company Comstock Partners, LC.

The Group has identified the United States as an important market in its efforts to develop an overseas real estate investment business. It will continue to consider business opportunities in countries around the world.



BLVD | RESTON STATION, which Daito participated in as a joint investment

Other Businesses (Finance, etc.)

Review of Operations

Financial services closely related to core businesses

Daito Finance Co., Ltd.'s primary business involves offering short-term loans for contract fees, but also offers services for landowners such as an Inheritance Tax Payment Loan Service to help property owners obtain financing when they inherit real estate.

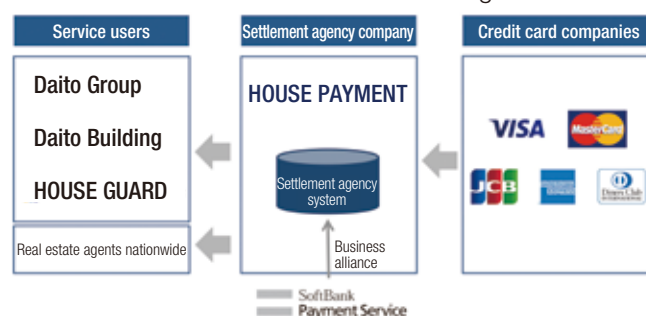
In September 2014, the Group established HOUSE GUARD S.S. Insurance Co., Ltd., which offers an insurance product called Owners Guard, to compensate rental property owners for unpaid rents, and Live-Up Guard, which covers tenants for liability or property damage claims.

Daito Mirai Trust Co., Ltd. provides asset management support services that employ property trusts to facilitate full, smooth asset succession to one's beneficiaries. The trust structure performs the same function as a will or pre-death transfer of assets to relatives, ensuring that property is transferred to beneficiaries in exactly the way that the owner intended.

Initiatives

Establishing a credit card settlement agency

In October 2015, the Group established House Payment Co., Ltd., a company operating credit card settlement services specializing in rental housing. The service enables rent and other payments to be settled using the customer's credit card and is provided not only to whole-building leases for buildings managed by the Daito Group, but also properties handled by cooperating real estate agents nationwide. By popularizing credit card settlement options to the rental real estate industry as a whole, the Group aims to increase convenience to a multitude of rental housing residents.



Corporate Governance

Basic Policy for Corporate Governance

**We will strengthen corporate governance,
aiming to grow as a company together with our stakeholders**

We make it our basic policy to maximize corporate value for all of our stakeholders—including shareholders—while making our management transparent and efficient. To this end, we have separated decision-making functions from business execution functions, established a speedy and efficient management/execution organization, and appointed outside directors—all in an effort to achieve management with a high level of transparency.

Features of the Daito Group's Corporate Governance

Highly effective and transparent management

The Board of Directors has three independent outside directors who express their opinions from the viewpoints of shareholders and other stakeholders. This ensures a highly effective framework for the supervision of management. Moreover, all four of our Audit and Supervisory Board members are outside Audit and Supervisory Board members, and they audit the appropriateness of the directors' work execution from an independent viewpoint.

Results-linked incentive compensation aimed at improving medium- and long-term business performance

The basic compensation of the directors, Audit and Supervisory Board members, and other executives of the Daito Group takes into consideration company performance, the compensation of executives in other companies in the industry, employee pay raises, and years worked, as well as the executives' management skills, successes, and level of contribution to the Company. To boost executives' desire to contribute to medium- and long-term performance and corporate value and to promote a sense of shared value with shareholders we introduced stock options for executives in FY2011. A lump sum for the bonuses of all executives is calculated based on a fixed rate—which is decided at the Board of Directors meeting—and paid out of the Company's consolidated net income for the current fiscal year. How much each executive receives in bonuses takes into consideration factors like an executive's level of contribution to the Company. (Note: Does not apply to outside directors.)

Select independent outside directors and Audit and Supervisory Board members of good caliber

We have formulated the appointment guidelines to clarify the qualities specified for outside directors and Audit and Supervisory Board members, and the independence criteria to clarify the criteria for selecting independent directors and Audit and Supervisory Board members. The appointment criteria identify individuals who have the ability to directly supervise the deliberations and decision-making of Board of Directors meetings, for example, as regards issues related to management, corporate law, and governance. Selection of outside directors and Audit and Supervisory Board members also reflects their ability to offer knowledge, expertise, and experience in making proposals regarding strategy, in creating measures related to medium-term plans, and in handling other issues related to company management.

Appointment and assessment of directors through fair and highly transparent procedures

Directors perform a mutual quantitative assessment of their business execution and management supervision function each year. Based on the results, the final assessment and proposal for the director candidates for the next fiscal year is made by the Governance Committee, which comprises seven outside directors and Audit and Supervisory Board members (three outside directors and four outside Audit and Supervisory Board members) and is chaired by an outside director.

System that directors should retire at the age of 60

Directors retire from the execution of business at the end of March of the fiscal year in which they become 60 years old. At the end of the General Shareholders' Meeting held in the following June, they retire. After retirement, they may not remain connected with the Daito Group as an advisor or assume similar roles, through a framework designed to encourage the rejuvenation of management.

TOPICS

Ensuring timely and appropriate information disclosure and transparency

The Company recognizes information disclosure as an important management responsibility, and strives to make timely and appropriate information disclosure to all stakeholders. The Company also actively discloses information other than disclosures based on laws and regulations, if it seems important, through various means such as the corporate website and this integrated report. When disclosing information, we coordinate with relevant departments such as the Audit and Supervisory Board and accounting departments to ensure

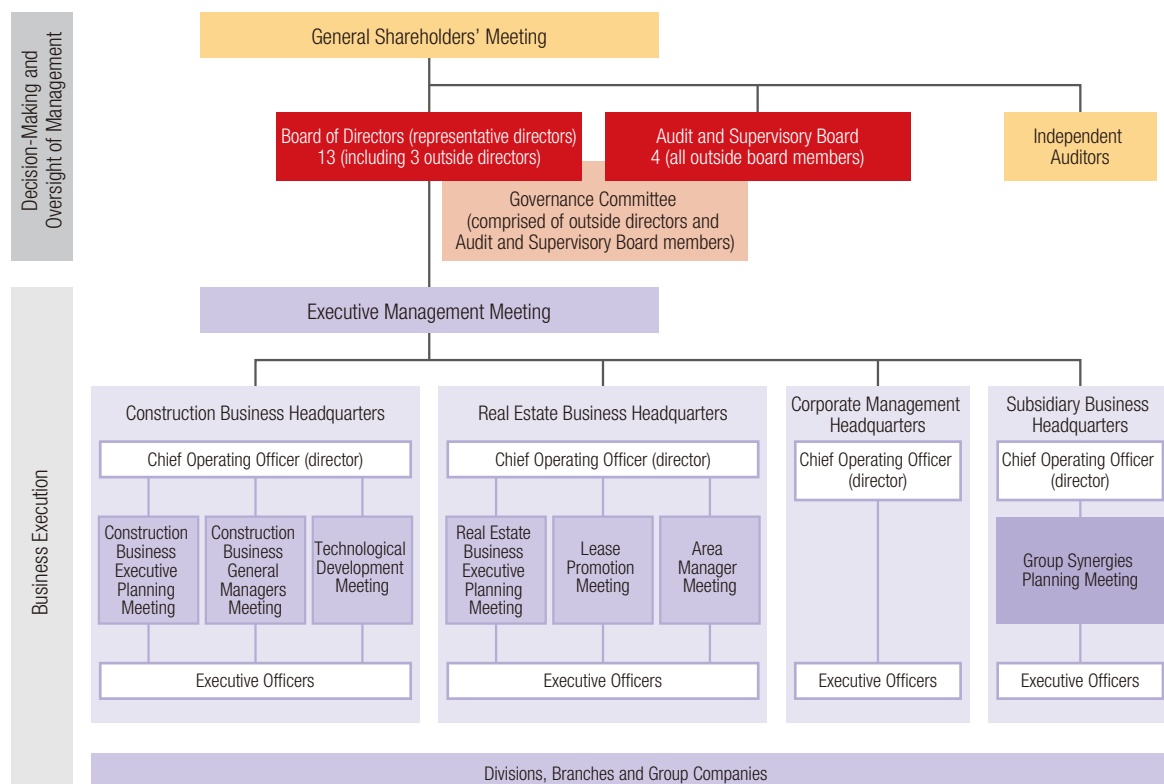
the audit schedule and audit structure, and ensure appropriate audits by the external independent auditor.

These efforts have been rewarded with the Group's selection as the top-ranking company in the construction, housing and real estate category in the 2015 Awards for Excellence in Corporate Disclosure for a seventh time (sixth consecutive time) by the Securities Analysts Association of Japan.

Management Structure

With the aim of improving management efficiency and ensuring transparency by means of a system for rapid business execution, the Daito Group harnesses its outside director system and internal control system to function as the twin wheels of a system of checks and controls. In this manner, the Daito Group carries out objective, prompt, and accurate decision-making.

Furthermore, the Daito Group has established the Executive Management Meeting and enabled dynamic decision-making by delegating decision-making authority for business execution as necessary, thereby enabling the Board of Directors to concentrate on deciding important matters regarding management.



As of July 2016

Board of Directors

The Board of Directors is responsible for management decision-making and supervision. It conducts discussions with the participation of outside directors and Audit and Supervisory Board members based on the free exchange of opinions regarding the Company's basic policies such as management strategies and management plans. Furthermore, how to respond to social issues that should be addressed in the implementation of the Company's business is also studied.

The Company has introduced an executive officer system for the purpose of separating the Board of Directors as the management decision-making and supervision organization and the business execution function based on this decision-making. In addition, the Company has enabled flexible decision-making by dividing its business areas into the Construction Business Headquarters, the Real Estate Business Headquarters, the Corporate Management Headquarters, and the Subsidiary Business Headquarters and assigning the Chief Operating Officer with the highest level of authority in each business area from among the Board of Directors, by entrusting the Executive Management Meeting with decision-making authority over business execution as necessary, and by having the Board of Directors decide on important management issues.

Audit and Supervisory Board

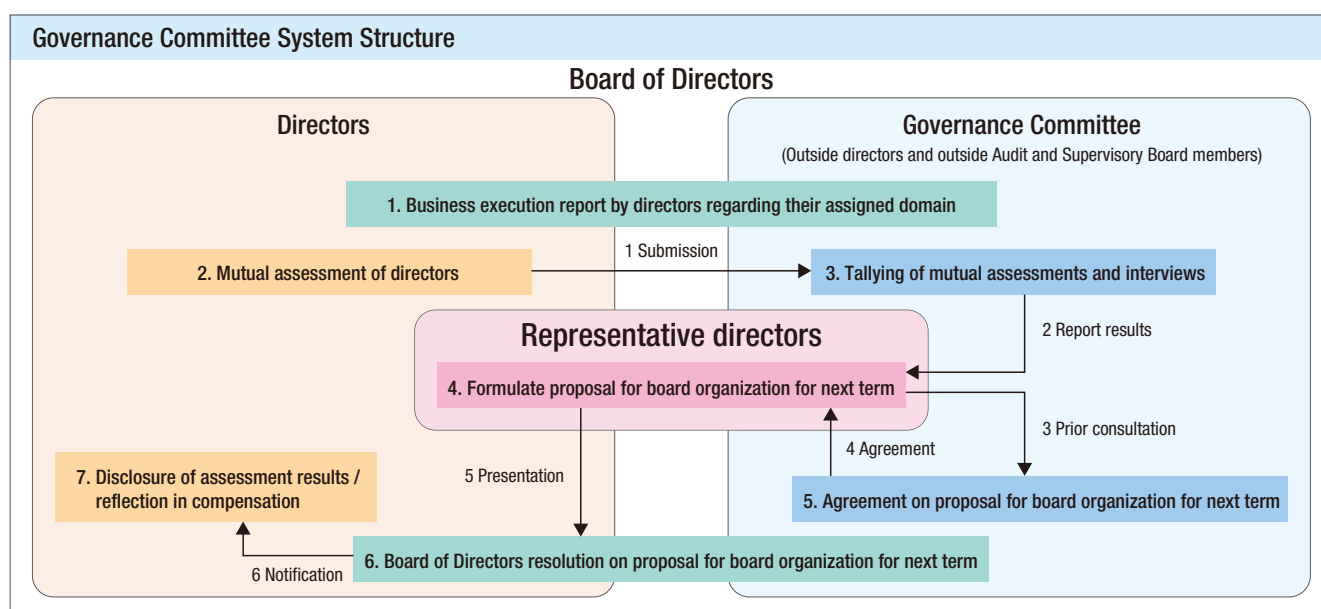
The Company has adopted the Audit and Supervisory Board system to audit the appropriateness of the directors' execution of business. The standing Audit and Supervisory Board member attends all manner of meetings regarding business execution as necessary, exceeding the level of attendance mandated under the Companies Act and aiming to understand the status of business execution for the entire Company from a perspective that is closer to the front lines. The Audit and Supervisory Board members all select the outside Audit and Supervisory Board members to construct a highly independent auditing system for the directors' execution of business.

History of Daito Trust's Corporate Governance Structure

1974	Foundation of the Company	2011	Appointed two outside directors
1989	Listed on the Second Section of the Nagoya Stock Exchange, introduced mandatory retirement age of 60 for directors	2012	Introduced the Evaluation Committee System by outside directors and outside Audit and Supervisory Board members
1999	Changed to a system with all four Audit and Supervisory Board members as outside members	2013	Introduced a dual management structure to achieve flexible management suited to varying company operations and types of business
2000	Introduced the executive officer system to separate decision-making from business execution	2013	Appointed three outside directors
2005	Appointed an outside director to add a multifaceted perspective to management and to strengthen oversight of management	2015	Appointed a female outside director
2011	Acquired and cancelled the shares held by the founder in a TOB	2016	Reorganized from Evaluation Committee to Governance Committee

Director Evaluation System (Governance Committee)

Evaluation of executive directors and nomination of candidates for executive directors is carried out mainly by the Governance Committee, which comprises outside directors and outside Audit and Supervisory Board members and is chaired by an outside director, based on the results of mutual evaluation by executive directors.



1. Business execution report

Directors report on the status of business execution in their assigned areas to the Board of Directors.

2. Mutual assessment

Directors assess one another's business execution and management supervision function.

3. Tallying and interviews

The Governance Committee chairperson (an outside director) tallies up the mutual assessment results and holds individual interviews, then reports the results to the representative directors.

4. Formulate proposal for board organization for next term

Based on the results of the mutual assessments, the representative directors create a proposal for board organization for next term and conduct a prior consultation with the Governance Committee.

5. Agreement on proposal for board organization for next term

The Governance Committee agrees on the proposal for board organization for next term after confirming there are no inconsistencies with the mutual assessment results.

6. Resolution on board organization for next term

The Board of Directors passes a resolution on the board organization for next term.

7. Disclosure of assessment results / reflection in compensation

The assessment results are disclosed to the executive directors and reflected in their compensation.

➤ Evaluation Standard for Outside Independent Auditors

In regard to proper evaluation and appropriate selection of outside independent auditor candidates, the implementation status of duties is assessed and evaluated through the implementation status of audits by the outside independent auditors, audits reports, etc.

➤ Compensation System

The Company conducts mutual assessments each year of the business execution and management supervision of its directors mainly through the Governance Committee, which comprises all outside directors and Audit and Supervisory Board members. The results of these assessments are reflected in the management structure and the basic compensation, bonuses and stock options as stock-linked compensation of the directors (excluding outside directors) for the following fiscal year.

A. Basic compensation

Basic compensation shall be determined in consideration of quantitative factors such as company performance, the compensation of executives in other companies in the industry, the rate of employee pay raises, and years of employment, as well as qualitative factors such as management capability, achievement, and contribution of each director and Audit and Supervisory Board member. The amount of basic compensation is ¥1.0 billion per year (of which, up to ¥50 million per year for outside directors).

B. Stock options

At the 37th Ordinary General Shareholders Meeting held on June 28, 2011, the Company introduced stock-linked compensation for the purpose of raising directors' willingness to contribute to the medium- to long-term improvement in the financial performance and enhancement of the corporate value of the Company by clarifying the link between the financial performance and the value of shares of the Company and sharing a common value with shareholders.

- Plan A, which serves as a substitute for retirement benefit plans and aims to improve financial performance of the Company during the term of office of directors
 - Plan B, which aims to improve medium-term financial performance of the Company
- The Plan B is subject to separate performance achievement criteria.

The amount for stock option plans is up to ¥530.0 million per year.

C. Bonuses

Bonuses shall be determined in consideration of the achievement during the fiscal year, contribution, etc., of each director and be paid from the total amount of bonuses which is determined by multiplying consolidated profit attributable to owners of the parent by a certain ratio determined by the Board of Directors. However, outside directors are not entitled to receive any bonuses. The amount for bonuses shall be up to an amount equivalent to the consolidated profit attributable to owners of the parent for the current fiscal year multiplied by 1.5% (up to ¥1.0 billion, not paid if the consolidated profit attributable to owners of the parent for the current fiscal year is ¥20.0 billion or less).

D. Method of determining specific amounts of compensation

The total amount of directors' compensation shall be limited to the aggregate amount of directors' compensation approved by the General Shareholders Meeting and specific amounts of compensation for each director shall be determined by allocating the aggregate amount pursuant to the resolution of the Board of Directors. The total amount of Audit and Supervisory Board members' compensation shall be limited to the aggregate amount of Audit and Supervisory Board members' compensation approved by the General Shareholders Meeting and specific amounts of compensation for each Audit and Supervisory Board member shall be determined by allocating the aggregate amount based on consultation among Audit and Supervisory Board members.

Breakdown of Executive Compensation

(For FY2015, the fiscal year from April 1, 2015 to March 31, 2016)

Category	Number of persons	Total amount of compensation by type (Millions of yen)			Total amount of compensation (Millions of yen)
		Basic compensation	Stock options	Bonuses	
Directors (not including outside directors)	10	391	135	703	1,230
Outside directors and Audit and Supervisory Board members	8	87	—	45	132
Total	18	478	135	748	1,362

➤ Monitoring Effectiveness and Efficiency of Internal Controls

As regards the execution of business, the Internal Auditing Office conducts work audits and reports the audit results to top management. At the same time, in addition to providing guidance and instruction, it interviews employees of the departments audited, and through such interviews, confirms the details of business execution and achieves understanding of any problems and conducts highly effective audits.

Furthermore, within the Internal Auditing Office we have established the Compliance Promotion Department to conduct compliance-related risk management of our business activities, and the J-SOX Promotion Office to help ensure the reliability of our financial reporting of organizations.

➤ Business Risks

The following are factors that could have a major impact on the decisions that investors make with regard to the Daito Group's performance in terms of its management results, financial situation, and cash flow. (As of March 31, 2016)

- ◆ Rise in unit cost and drop in profit ratio due to sharp rise in raw material costs
- ◆ Effect on performance due to tax law amendment
- ◆ Sudden cancellations due to sharp rises in interest rates
- ◆ Increased expenses due to new laws and law amendment
- ◆ Risk of personal information leaks
- ◆ Risk of natural disasters

Appointment Guidelines for Outside Directors and Audit and Supervisory Board Members

Daito Group's outside directors and Audit and Supervisory Board members, and candidates for those positions, shall satisfy the following criteria:

1. Be able to directly supervise the deliberations and decision-making of the Board of Directors on key issues—for example, issues related to management, corporate law, and governance.
2. Be able to reflect their own knowledge and expertise to formulate growth strategies, determine management strategies, and achieve medium-term management plans.
3. Be able to offer advice and leadership based on their own knowledge, expertise and experience as regards other issues related to corporate management.

Standards for the Independence of Outside Directors and Audit and Supervisory Board Members

To ensure the independence of outside directors and Audit and Supervisory Board members (or candidates for those positions), those persons must not fall under any of the following categories. The periods for which these criteria apply are: 1) from the unlimited past to the present for Category 1 and 2) from the past 10 years to the present for Categories 2 to 5.

1 Daito Group affiliate

The individual is not a director (unless an outside director), a member of the Audit and Supervisory Board (unless an outside board member), an accounting advisor, an executive officer, or an employee of Daito Trust, one of its subsidiaries, or an affiliated company.

2 Holder of voting shares

- 1) The individual is not a major shareholder (holding a 10% or greater share) of Daito Trust or an executive or employee of any of its major shareholders.
- 2) The individual is not an executive or employee of a company for which the Daito Group is a major shareholder (holding a 10% or greater share).

3 Business partner affiliate

- 1) The individual is not an executive or employee of a business partner whose transactions with the Daito Group account for 2% or more of consolidated net sales.
- 2) The individual is not an executive or employee of a financial institution from which the Daito Group borrows capital amounting to 2% or more of Daito Trust's consolidated gross assets.
- 3) The individual is not an executive or employee of the Daito Group's main securities company.

4 Provider of specialized services (lawyer, certified public accountant, consultant, etc.)

- 1) The individual is not an employee or a partner of the Daito Group's certified public accountant's firm or of an auditing firm that acts as the independent auditor.
- 2) The individual does not receive ¥10 million or more a year from the Daito Group (apart from director or board member compensation) for his/her services as a lawyer, certified public accountant, tax accountant, or consultant.

5 Others

- 1) The individual is not a relative within two degrees of kinship of persons falling under the Categories 1 to 4 above.
- 2) The individual is not an executive or employee of a company that has one or more directors holding a post in the Daito Group.
- 3) The individual is not an executive or employee of a company that holds shares in the Daito Group.

Outside Directors

Name	Expected role	Activities (fiscal year ended March 2016)
Yujiro Sasamoto	Mr. Sasamoto is expected to offer opinions and supervise from the standpoint of an expert in compliance, internal control, and CSR.	Board of Directors meetings: 100% (Attended 14 times/14 meetings)
Toshiaki Yamaguchi	Mr. Yamaguchi is expected to offer opinions and supervise from the standpoint of a lawyer with expertise in corporate legal affairs, compliance, and internal control.	Board of Directors meetings: 92.9% (Attended 13 times/14 meetings)
Mami Sasaki	Ms. Sasaki is expected to supervise management from the standpoint of a globally experienced woman, and offer opinions and supervise the promotion of diversity management.	Board of Directors meetings: 90.9% (Attended 10 times/11 meetings)

Outside Audit and Supervisory Board Members

Name	Expected role	Activities (fiscal year ended March 2016)
Masayasu Uno	Mr. Uno is expected to audit Daito's management from the standpoint as an expert in finance and accounting through his work as a certified public accountant, together with his experience in running his own business.	Board of Directors meetings: 100% (Attended 14 times/14 meetings) Audit and Supervisory Board meeting: 100% (Attended 13 times/13 meetings)
Hideo Hachiya	Mr. Hachiya is expected to audit Daito's management from the standpoint as an expert who has a wealth of experience as a lawyer together with being an expert in corporate legal affairs.	Board of Directors meetings: 92.9% (Attended 13 times/14 meetings) Audit and Supervisory Board meeting: 100% (Attended 13 times/13 meetings)
Kazumitsu Futami	Mr. Futami is expected to audit Daito's management from the standpoint of having a wealth of knowledge and experience in rental housing management and in the loan guarantee business.	Board of Directors meetings: 100% (Attended 14 times/14 meetings) Audit and Supervisory Board meeting: 100% (Attended 13 times/13 meetings)
Kazuo Fujimaki	Mr. Fujimaki is expected to audit Daito's management from the standpoint as an expert in specialized knowledge of international accounting through his work as a U.S. CPA together with his experience in management.	Board of Directors meetings: 100% (Attended 14 times/14 meetings) Audit and Supervisory Board meeting: 100% (Attended 13 times/13 meetings)

Interview with an Outside Director

I work with the executive management team to think about the future of the Daito Group by stating my opinions clearly from an external perspective, considering the position of customers, employees, and shareholders.



Yujiro Sasamoto
Outside Director
Chair of the Governance Committee

Fair and Transparent Board of Directors Meetings with Open and Natural Discussion

The key is outstanding imaginative capacity and execution capabilities

I have been the lead outside director of the Company since fiscal 2015. My job is to understand the matters being deliberated by the Executive Officers Committee and also to secure points of contact with employees in order to share information from the actual front lines with the outside director team.

The Company's Board of Directors spend plenty of time on each matter for discussion, engage in natural and open discussion, and listen carefully to opposing and additional opinions. Nobody deliberately conceals matters that need to be brought up for discussion, and I consider the meetings to be run in a fair and transparent manner.

If I were to raise one issue regarding the current management, it is that I don't sense much imagination and energy with regard to breaking out of the existing business model, and that with the current design of the board meetings the discussion has a tendency to go back and forth. This might be a reaction to the support received from many customers and shareholders, partly because the current Lease Management Trust System thrives extremely well in the current operating environment and because of the constant efforts of the employees. Now that management is faced with an era of uncertainty, I believe that they must be prepared to demonstrate excellent imaginative capacity and execution capabilities.

The Courage to Change and the Wisdom to Retain Strengths

Growing in step with the changes in the times

Since the announcement of the Company's Corporate Governance Code Report in June 2015, the Company's corporate governance initiatives have received increasing recognition. Even so, I believe the Company's real strength lies in the sales approach it has maintained since its foundation, which involves the humble approach of visiting

landowners in person and spending time to build trust with them, then creating satisfaction for both generations of the customer's family. Like anything else, however, this kind of approach is not set in stone. While retaining this strength, the Company will need to modify its style if it is to achieve sustainable growth. For example, it should adopt a business strategy of expanding the Tokyo metropolitan area market and new businesses, while building on the concept of a diverse labor force and working styles.

Currently, the Company is conducting in-house simulations to gauge the impact on its business from the falling birthrate and aging population, provincial population decline, and interest rate trends. Just as the food service industry has suffered from the rise of convenience stores, the Company may also see the emergence of a fearsome category killer. I believe that the Daito Group's continued relevance in society will depend on serious thought to questions such as how the Company might leverage its scale as a strength to reinforce its earnings foundation, how it can pick up on hidden needs in society to take the lead in the industry, and what kind of value it can create for society.

The Kind of Outside Director Sought by the Daito Group My Idea of an Outside Director

Thinking about it this way, I think the Company needs various talented people to join us as outside directors such as management professionals with proven track records, experts with highly developed aesthetic sense, and people who can represent the younger generation and consumers, so that we can incorporate diverse viewpoints to enhance the Company's value creation.

As I am a specialist in governance and risk management, the scope of my contribution is limited. However, just like my wife who sits in the passenger seat as I drive, I aim to be an outside director who says what people may not wish to hear, but whose presence is welcome.

List of Officers

Directors

**Naomi Kumakiri**

President and Representative Director (CEO)
In charge of Construction Business Headquarters and
Corporate Management Headquarters

Apr. 1984 Joined the Company
Apr. 2001 Executive Officer, General Manager of Housing Sales Department
Jun. 2004 Director, General Manager of Tenant Recruiting Management
Headquarters
Apr. 2006 Managing Director, General Manager of Administration Headquarters,
General Manager of Legal Affairs Headquarters
Apr. 2011 Senior Managing Director, Executive Officer,
General Manager of East Japan Construction Sales Headquarters
Apr. 2013 Representative Director and Chief Executive Officer,
in charge of Construction Business Headquarters
and Corporate Management Headquarters
Apr. 2016 President and Representative Director (CEO)
in charge of Construction Business Headquarters
and Corporate Management Headquarters (current position)

**Hitoshi Kadouchi**

Vice President and Representative Director
In charge of Real Estate Business Headquarters and Subsidiary
Business Headquarters, Representative Director and President of Daito
Building Management Co., Ltd.

Sep. 1980 Joined the Company
Apr. 2001 Executive Officer, General Manager of Subsidiary Business
Headquarters
Jun. 2009 Director, General Manager of Corporate Management Department
Apr. 2011 Director, Executive Officer, General Manager of Building Management
Department, Representative Director and President of Daito Building
Management Co., Ltd. (current position)
Apr. 2012 Senior Managing Director, General Manager of Management Service
Department
Apr. 2013 Representative Director and Executive Vice President,
General Manager of Management Service Department
Apr. 2014 Representative Director, Executive Vice President, in charge of Real
Estate Business Headquarters and Subsidiary Business Headquarters
Apr. 2016 Vice President and Representative Director, in charge of Real Estate
Business Headquarters and Subsidiary Business Headquarters (current
position)

**Katsuma Kobayashi**

Managing Director
General Manager of Sales Management Department

Feb. 1986 Joined the Company
Apr. 2011 Executive Officer, General Manager of Sales Management Department
Apr. 2012 Managing Executive Officer, General Manager of Sales Management
Department
Jun. 2012 Director, Managing Executive Officer, General Manager of Sales
Management Department
Apr. 2016 Managing Director, General Manager of Sales Management
Department (current position)

**Shuji Kawai**

Managing Director
General Manager of Corporate Management Headquarters

Apr. 1989 Joined the Company
Apr. 2012 Executive Officer, General Manager of Corporate Planning Division
Jun. 2012 Director, Executive Officer, General Manager of Corporate Planning
Division
Apr. 2013 Director, Executive Officer, General Manager of Subsidiaries Business
Headquarters, General Manager of Corporate Planning Division
Apr. 2014 Director, Managing Executive Officer, General Manager of Corporate
Management Headquarters
Apr. 2016 Managing Director, General Manager of Corporate Management
Headquarters (current position)

**Kanitsu Uchida**

Director
General Manager of Design Management Department

Aug. 1987 Joined the Company
Apr. 2011 General Manager of Management Strategy Division and Administration
Department
Apr. 2012 Executive Officer, General Manager of Cost Management Department
Apr. 2013 Executive Officer, General Manager of Design Management Department
Jun. 2014 Director, Executive Officer, General Manager of Design Management
Department
Apr. 2016 Director, General Manager of Design Management Department (current
position)

**Kei Takeuchi**

Director
General Manager of Central Japan Construction Business Headquarters

Apr. 1989 Joined the Company
Apr. 2007 General Manager of Metropolitan Area Construction Sales Department
Apr. 2010 General Manager of Tokai Construction Sales Department
Apr. 2012 Executive Officer, General Manager of Tenant Recruiting Management
Department
Jun. 2014 Director, Executive Officer, General Manager of Tenant Recruiting
Management Department
Apr. 2015 Director, Executive Officer, General Manager of Central Japan
Construction Business Headquarters
Apr. 2016 Director, General Manager of Central Japan Construction Business
Headquarters (current position)

**Yukio Daimon**

Director
General Manager of Construction Management Department

Mar. 1984 Joined the Company
Apr. 2003 Representative Director and President of Daito Steel Co., Ltd.
Apr. 2009 General Manager of Technological Development Department
Apr. 2011 Executive Officer, General Manager of Construction Management
Department
Jun. 2015 Director, Executive Officer, General Manager of Construction
Management Department
Apr. 2016 Director, General Manager of Construction Management Department
(current position)

**Kazuhiko Saito**

Director
General Manager of East Japan Construction Business Headquarters

Mar. 1992 Joined the Company
Apr. 2009 Executive Officer, General Manager of Chu-Shikoku Construction Sales
Department
Apr. 2011 General Manager of Tohoku Construction Sales Department
Apr. 2013 Executive Officer, General Manager of Tohoku Construction Business
Department, Officer Responsible for Local Post-Quake Restoration
Apr. 2015 Executive Officer, General Manager of East Japan Construction Sales
Headquarters, Officer Responsible for Post-Quake Restoration Company
Jun. 2015 Director, Executive Officer, General Manager of East Japan
Construction Business Headquarters
Apr. 2016 Director, General Manager of East Japan Construction Business
Headquarters (current position)

**Shinichi Marukawa**

Director
General Manager of Leasing and Sales Department

Jul. 1992 Joined the Company
Sep. 2011 General Manager of Planning and Management Department
Apr. 2014 Executive Officer, General Manager of Tenant Recruiting Planning and
Management Department
Apr. 2015 Executive Officer, General Manager of Tenant Recruiting Management
Department
Jun. 2015 Director, Executive Officer, General Manager of Tenant Recruiting
Management Department
Apr. 2016 Director, General Manager of Leasing and Sales Department (current
position)

**Takeshi Nakagawa**

Director
Representative Director and President of Gaspal Co., Ltd.

Nov. 1989 Joined the Company
Nov. 2002 Director of Daito Building Management Co., Ltd.
Apr. 2006 Senior Managing Director of Gaspal Co., Ltd.
Apr. 2009 Representative Director and President of Gaspal Co., Ltd.
(current position)
Apr. 2010 Executive Officer
Apr. 2013 Managing Executive Officer
Apr. 2016 Senior Executive Officer, General Manager of Subsidiary Business
Headquarters
Jun. 2016 Director (current position)



Yujiro Sasamoto

Outside Director
Chairman of the Company's Governance Committee

Apr. 1984 Joined Fuji Xerox Co., Ltd.
Mar. 2005 Established Makoru Co., Ltd., Director of Makoru Co., Ltd. (current position)
Apr. 2006 Part-time lecturer of Department of Humanities and Social Sciences, Jissen Women's University (current position)
Apr. 2008 Part-time lecturer of Graduate School of Law, Aoyama Gakuin University (current position)
Apr. 2011 Director of Japan CSR Promotion Association (current position)
Jun. 2011 Outside Director of the Company (current position)



Toshiaki Yamaguchi

Outside Director
Member of the Company's Governance Committee

Mar. 1990 Registered with the Osaka Bar Association, joined Takeuchi and Inoue Law Office
Apr. 1995 Established Yamaguchi Law Office, Representative Attorney at Yamaguchi Law Office (current position)
Apr. 2008 Elected Member of the Legal Practice Reform Committee, Osaka Bar Association (current position)
Jul. 2008 Head of the Corporate Compliance Project Team of the Legal Practice Innovation Committee, Japan Federation of Bar Associations (current position)
Oct. 2008 Director of Japan Internal Control Association (current position)
Jul. 2010 Director of Association of Certified Fraud Examiners (current position)
Jul. 2012 Leader of Outside Director Guidelines Study Team of the Judicial System Research Board, Japan Federation of Bar Associations (current position)
Mar. 2013 Outside Director of Nissen Holdings Co., Ltd. (current position)
Jun. 2013 Outside Director of the Company (current position)
Aug. 2014 Director of Japan Corporate Governance Network (current position)
Dec. 2014 Outside Audit & Supervisory Board Member of Osaka University Venture Capital Co., Ltd. (current position)
Feb. 2015 Audit & Supervisory Board Member of Osaka Municipal Transportation Bureau (current position)
Jun. 2015 Elected Member of the Committee on Whistleblower Protection System, Consumer Affairs Agency (current position)



Mami Sasaki

Outside Director
Member of the Company's Governance Committee

Apr. 1983 Joined The Fuji Bank, Limited (currently Mizuho Bank, Ltd.)
Mar. 1985 Joined Morgan Stanley Securities Co., Ltd. (currently Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.)
Jan. 1991 Vice President of the company
Feb. 1994 Executive Director of the company
Dec. 2000 Managing Director of the company
Apr. 2004 Managing Director and Head of Sales of Fixed Income Division of Credit Suisse First Boston Securities (Japan) Ltd. (currently Credit Suisse Securities (Japan) Limited)
Jun. 2015 Outside Director of the Company (current position)

Audit and Supervisory Board Members



Masayasu Uno

Standing Audit and Supervisory Board Member (Outside)
Member of the Company's Governance Committee

Aug. 1981 Joined Chuo Accounting Office
Sep. 1984 Joined Integrin, Inc.
Oct. 1996 Representative Director and President of US Robotics Co., Ltd.
Nov. 1997 Representative Director and Vice President of 3COM Japan
Oct. 1998 Director and General Manager of Sales Division of Lucent Technologies, Japan
Oct. 2000 Representative Director and President of Avaya Japan, Ltd.
Mar. 2005 Representative Director and President of NetIndex Inc.
Nov. 2007 Director of Index Holdings
Jun. 2009 Audit & Supervisory Board Member of the Company (current position)



Hideo Hachiya

Audit and Supervisory Board Member (Outside)
Member of the Company's Governance Committee

Apr. 1968 Joined Honda Motor Co., Ltd.
Apr. 1981 Registered as an attorney with the Daini Tokyo Bar Association, established Hachiya Law Office, Representative Attorney of Hachiya Law Office (current position)
Jun. 1991 Audit & Supervisory Board Member of the Company
Jun. 1995 Resigned as Audit & Supervisory Board Member
Jun. 1999 Audit & Supervisory Board Member of the Company (current position)



Kazumitsu Futami

Audit and Supervisory Board Member (Outside)
Member of the Company's Governance Committee

Apr. 1964 Joined the Ministry of Construction (currently the Ministry of Land, Infrastructure, Transport and Tourism)
May 1998 General Manager of Land Department, Chugoku Region Construction Bureau, Ministry of Construction
Jun. 1999 General Manager of Loan Guarantee Department 1, Incorporated Foundation of Housing Improvement Development Public Corporation (currently General Incorporated Foundation of Housing Improvement Development Public Corporation)
Dec. 2003 Director of Incorporated Foundation of Housing Improvement Development Public Corporation
Jul. 2009 Representative Director and President of Jei Kei Kikaku Co., Ltd. (current position)
Jun. 2012 Audit & Supervisory Board Member of the Company (current position)



Kazuo Fujimaki

Audit and Supervisory Board Member (Outside)
Member of the Company's Governance Committee

Apr. 1976 Joined Hazama Corporation (currently Hazama Ando Corporation)
Apr. 1979 Joined Mitsubishi Motors Corporation
Nov. 1989 Joined Nikko Securities Inc. (currently SMBC Nikko Securities Inc.)
Apr. 1999 Joined Ohta Showa Audit Corporation (currently Ernst & Young ShinNihon LLC)
Apr. 2002 Established Fujimaki Sogo Consulting, Representative of Fujimaki Sogo Consulting (current position)
Dec. 2006 Outside Audit & Supervisory Board Member, Yumeshin Holdings Co., Ltd.
Jun. 2013 Audit & Supervisory Board Member of the Company (current position)

Executive Officers

Shuichi Ogawa

Senior Executive Officer, General Manager of West Japan Construction Business Headquarters

Takuya Ishii

Senior Executive Officer, General Manager of Chugoku Construction Business Department

Shoji Yamada

Senior Executive Officer, General Manager of North Metropolitan Area Construction Business Department

Masayoshi Tanaka

Executive Officer, General Manager of Information Technology Department

Hiromichi Ono

Executive Officer, General Manager of Asset Succession Consulting Department

Sachio Washi

Executive Officer, General Manager of Human Resources Department

Takashi Suzuki

Executive Officer, General Manager of Central Metropolitan Area Construction Business Department

Eiji Okamoto

Executive Officer, General Manager of Minami Kansai Construction Business Department

Kazunori Fukuda Fumiaki Nakagami

Executive Officer, General Manager of Corporate Planning Division
Executive Officer, General Manager of Safety and Quality Control Department

Yoshihiro Mori

Executive Officer, Managing Director, General Manager of Screening Department, Daito Building Management Co., Ltd.

Eiji Kawahara

Executive Officer, General Manager of Tenant Recruiting Development Department

Masafumi Tate Masayuki Koishikawa

Executive Officer, General Manager of Design Department
Executive Officer, General Manager of Construction Sales Management Department

Kouichi Nakamura

Executive Officer, General Manager of Technological Development Department, in charge of Central Japan Region

Consolidated Financial Statements

Consolidated Balance Sheet

(Millions of yen)

	Year Ended March 31, 2015	Year Ended March 31, 2016
Assets		
Current assets		
Cash and deposits	255,551	233,631
Money held in trust	32,505	26,505
Notes and accounts receivable from completed construction contracts and other	36,643	38,627
Short-term investment securities	7,001	9,617
Costs on uncompleted construction contracts	13,420	13,328
Other inventories	4,893	4,768
Prepaid expenses	57,197	59,688
Deferred tax assets	19,235	19,955
Operating loans	54,671	60,489
Other	13,577	13,262
Allowance for doubtful accounts	(305)	(253)
Total current assets	494,393	479,621
Non-current assets		
Property, plant and equipment		
Buildings and structures	35,051	34,302
Machinery and equipment	20,648	32,520
Tools, furniture and fixtures	1,535	1,772
Land	42,451	43,169
Lease assets	1,490	1,308
Other	440	883
Total buildings and structures	101,618	113,957
Intangible assets	5,257	10,664
Investments and other assets		
Investment securities	27,311	45,509
Subordinated bonds and subordinated trust beneficiary rights	12,865	12,857
Deferred tax assets	20,345	26,030
Other	42,191	42,922
Allowance for doubtful accounts	(2,862)	(3,014)
Total investments and other assets	99,851	124,304
Total non-current assets	206,726	248,927
Total assets	701,119	728,548
Liabilities		
Current liabilities		
Accounts payable for construction contracts	42,242	37,509
Current portion of long-term loans payable	16,690	16,690
Lease obligations	271	241
Income taxes payable	23,216	25,671
Advances received on uncompleted construction contracts	49,411	47,274
Advances received	64,482	68,922
Provision for bonuses	20,532	21,586
Provision for warranties for completed construction	1,080	1,136
Deposits received	6,879	7,631
Other	42,624	55,216
Total current liabilities	267,432	281,883
Non-current liabilities		
Long-term loans payable	63,278	54,942
Lease liabilities	1,008	907
Deferred tax liabilities	—	84
Provision for repairs on whole-building leases	65,154	80,704
Net defined benefit liability	9,518	10,698
Long-term guarantee deposits	51,309	45,183
Other	6,622	5,620
Total non-current liabilities	196,892	198,143
Total liabilities	464,325	480,026
Net assets		
Shareholders' equity		
Capital stock	29,060	29,060
Capital surplus	34,540	34,540
Retained earnings	184,661	206,509
Treasury stock	(13,485)	(16,857)
Total shareholders' equity	234,777	253,254
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	6,156	3,202
Deferred gains or losses on hedges	603	(943)
Revaluation reserve for land	(7,584)	(7,584)
Foreign currency translation adjustment	1,278	(229)
Remeasurements of defined benefit plans	(599)	(1,596)
Total accumulated other comprehensive income	(145)	(7,151)
Subscription rights to shares	312	353
Non-controlling interests	1,850	2,065
Total net assets	236,794	248,522
Total liabilities and net assets	701,119	728,548

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Consolidated Statement of Income

	(Millions of yen)	
	Year Ended March 31, 2015	Year Ended March 31, 2016
Net sales		
Net sales of completed construction contracts	589,170	595,364
Sales on real estate business	723,817	774,807
Sales on other business revenue	40,167	41,471
Total net sales	1,353,155	1,411,643
Cost of sales		
Cost of sales of completed construction contracts	416,636	419,094
Cost of sales on real estate business	671,531	712,196
Cost of sales on other business	26,041	25,925
Total cost of sales	1,114,209	1,157,216
Gross profit		
Gross profit on completed construction contracts	172,533	176,269
Gross profit – real estate business	52,286	62,611
Gross profit – other business	14,126	15,545
Total gross profit	238,946	254,427
Selling, general and administrative expenses	147,425	153,426
Operating income	91,520	101,001
Non-operating income		
Interest income	601	589
Dividends income	176	192
Commission fee	3,653	3,656
Miscellaneous income	1,161	1,241
Total non-operating income	5,592	5,680
Non-operating expenses		
Interest expenses	709	573
Provision of allowance for doubtful accounts	87	48
Miscellaneous expenses	427	500
Total non-operating expenses	1,225	1,122
Ordinary income	95,887	105,558
Extraordinary income		
Gain on sales of non-current assets	5	3
Gain on sales of investment securities	—	151
Total extraordinary income	5	154
Extraordinary loss		
Loss on sales and retirement of non-current assets	199	354
Impairment loss	145	92
Total extraordinary loss	345	447
Income before income taxes and non-controlling interests	95,547	105,266
Income taxes – current	40,583	41,335
Income taxes – deferred	(1,374)	(3,654)
Total income taxes	39,208	37,680
Net income	56,339	67,585
Profit attributable to non-controlling interests	229	305
Profit attributable to owners of the parent	56,109	67,279

Consolidated Statement of Comprehensive Income

	(Millions of yen)	
	Year Ended March 31, 2015	Year Ended March 31, 2016
Net income	56,339	67,585
Other comprehensive income		
Valuation difference on available-for-sale securities	1,467	(2,953)
Deferred gains or losses on hedges	553	(1,546)
Revaluation reserve for land	(2,703)	—
Foreign currency translation adjustment	3,243	(1,507)
Remeasurements of defined benefit plans	(41)	(998)
Total other comprehensive income	2,520	(7,007)
Comprehensive Income	58,859	60,578
(Breakdown)		
Profit attributable to owners of the parent	58,649	60,273
Profit attributable to non-controlling interests	209	304

Consolidated Financial Statements

Consolidated Statement of Changes in Equity

Year ended March 31, 2015

(Millions of yen)

	Shareholders' equity				Total shareholders' equity
	Capital stock	Capital surplus	Retained earnings	Treasury stock	
BALANCE, APRIL 1, 2014	29,060	34,549	169,293	(10,124)	222,779
Cumulative effect of accounting change			(247)		(247)
Restated balance	29,060	34,549	169,046	(10,124)	222,532
Change in the year					
Cash dividends			(28,638)		(28,638)
Profit attributable to owners of the parent			56,109		56,109
Purchase of treasury stock				(19,145)	(19,145)
Disposal of treasury stock		1,316		2,603	3,919
Retirement of treasury stock		(1,325)	(11,856)	13,181	—
Change in treasury shares of the parent arising from transactions with non-controlling shareholders					—
Net changes of items other than shareholders' equity					
Net change in the year	—	(8)	15,614	(3,361)	12,244
BALANCE, MARCH 31, 2015	29,060	34,540	184,661	(13,485)	234,777

	Accumulated other comprehensive income					Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans				
BALANCE, APRIL 1, 2014	4,688	49	(4,881)	(1,965)	(577)	(2,685)	186	1,724	222,005
Cumulative effect of accounting change								(2)	(249)
Restated balance	4,688	49	(4,881)	(1,965)	(577)	(2,685)	186	1,721	221,755
Change in the year									
Cash dividends									(28,638)
Profit attributable to owners of the parent									56,109
Purchase of treasury stock									(19,145)
Disposal of treasury stock									3,919
Retirement of treasury stock									—
Change in treasury shares of the parent arising from transactions with non-controlling shareholders									—
Net changes of items other than shareholders' equity	1,467	553	(2,703)	3,243	(22)	2,540	125	128	2,794
Net change in the year	1,467	553	(2,703)	3,243	(22)	2,540	125	128	15,038
BALANCE, MARCH 31, 2015	6,156	603	(7,584)	1,278	(599)	(145)	312	1,850	236,794

Year ended March 31, 2016

(Millions of yen)

	Shareholders' equity				Total shareholders' equity
	Capital stock	Capital surplus	Retained earnings	Treasury stock	
BALANCE, APRIL 1, 2015	29,060	34,540	184,661	(13,485)	234,777
Cumulative effect of accounting change					—
Restated balance	29,060	34,540	184,661	(13,485)	234,777
Change in the year					
Cash dividends			(30,439)		(30,439)
Profit attributable to owners of the parent			67,279		67,279
Purchase of treasury stock				(25,758)	(25,758)
Disposal of treasury stock		480		6,917	7,397
Retirement of treasury stock		(480)	(14,990)	15,470	—
Change in treasury shares of the parent arising from transactions with non-controlling shareholders			(1)		(1)
Net changes of items other than shareholders' equity					
Net change in the year	—	—	21,848	(3,371)	18,476
BALANCE, MARCH 31, 2016	29,060	34,540	206,509	(16,857)	253,254

	Accumulated other comprehensive income					Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans				
BALANCE, APRIL 1, 2015	6,156	603	(7,584)	1,278	(599)	(145)	312	1,850	236,794
Cumulative effect of accounting change									—
Restated balance	6,156	603	(7,584)	1,278	(599)	(145)	312	1,850	236,794
Change in the year									
Cash dividends									(30,439)
Profit attributable to owners of the parent									67,279
Purchase of treasury stock									(25,758)
Disposal of treasury stock									7,397
Retirement of treasury stock									—
Change in treasury shares of the parent arising from transactions with non-controlling shareholders									(1)
Net changes of items other than shareholders' equity	(2,953)	(1,546)	—	(1,507)	(997)	(7,005)	41	215	(6,749)
Net change in the year	(2,953)	(1,546)	—	(1,507)	(997)	(7,005)	41	215	11,727
BALANCE, MARCH 31, 2016	3,202	(943)	(7,584)	(229)	(1,596)	(7,151)	353	2,065	248,522

Consolidated Financial Statements

Consolidated Statement of Cash Flows

	Year Ended March 31, 2015	(Millions of yen) Year Ended March 31, 2016
Cash flows from operating activities		
Income before income taxes and minority interests	95,547	105,266
Depreciation and amortization	4,851	6,026
Impairment loss	145	92
Increase (decrease) in allowance for doubtful accounts	87	100
Increase (decrease) in provision for bonuses	311	1,054
Increase (decrease) in provision for repairs on whole-building leases	15,448	15,550
Increase (decrease) in net defined benefit liability	(843)	(237)
Interest and dividends income	(777)	(782)
Interest expenses	709	573
Loss (gain) on sales of short-term and long-term investment securities	—	(151)
Decrease (increase) in notes and accounts receivable – trade	(2,157)	(2,005)
Decrease (increase) in costs on uncompleted construction contracts	(1,820)	91
Decrease (increase) in other inventories	457	117
Decrease (increase) in prepaid expenses	(3,106)	(695)
Decrease (increase) in operating loans	(9,510)	(5,818)
Increase (decrease) in notes and accounts payable – trade	(1,756)	(4,709)
Increase (decrease) in accounts payable – other	237	2,413
Increase (decrease) in advances received	7,311	4,440
Increase (decrease) in advances received on uncompleted construction contracts	5,206	(2,136)
Increase (decrease) in long-term guarantee deposits	(8,343)	(6,125)
Other	1,645	7,250
Subtotal	103,646	120,314
Interest and dividend income received	781	636
Interest expenses paid	(710)	(573)
Income taxes paid	(44,316)	(41,554)
Net cash provided by (used in) operating activities	59,401	78,822
Cash flows from investing activities		
Payments into time deposits	—	(51,000)
Proceeds from decrease in money held in trust	8,500	6,000
Purchase of securities	(4,200)	(4,500)
Proceeds from sales and redemption of securities	10,530	8,000
Purchase of property, plant and equipment	(14,690)	(18,346)
Purchase of intangible assets	(2,294)	(6,241)
Purchase of investment securities	(1,862)	(25,474)
Other	4,948	(1,993)
Net cash provided by (used in) investing activities	930	(93,555)
Cash flows from financing activities		
Decrease in short-term loans payable	(300)	—
Proceeds from long-term loans payable	—	9,000
Repayments of long-term loans payable	(16,690)	(17,335)
Repayments of lease liabilities	(281)	(325)
Cash dividends paid	(28,638)	(30,439)
Purchase of treasury stock	(19,145)	(25,758)
Disposal of treasury stock	4,330	7,026
Dividends paid to non-controlling interests	(66)	(80)
Other	(16)	(10)
Net cash provided by (used in) financing activities	(60,808)	(57,923)
Effect of exchange rate change on cash and cash equivalents	2,791	(263)
Net increase (decrease) in cash and cash equivalents	2,314	(72,920)
Cash and cash equivalents at beginning of period	253,236	255,551
Cash and cash equivalents at end of period	255,551	182,631

Stock Information

Stock Data

Number of shares

Number of shares authorized	329,541,100 shares
Number of shares outstanding	78,094,379 shares

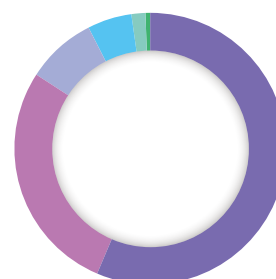
Information for shareholders

Share unit	100 shares
Fiscal year	April 1 to March 31
Record dates	Voting at general shareholders' meeting March 31
Year-end dividend	March 31
Interim dividend	September 30
Transfer agent	Mitsubishi UFJ Trust and Banking Corporation 1-4-5 Marunouchi, Chiyoda-ku, Tokyo, Japan
Transfer agent contact information	Stock Transfer Agency Division, Mitsubishi UFJ Trust and Banking Corporation 7-10-11 Higashisuna, Koto-ku, Tokyo 137-8081, Japan Tel: 0120-232-711 (toll-free number in Japan only)
Method of public notice	Public notices shall be posted on the Company's website. http://www.kentaku.co.jp/e/ir/index.html However, in the event that an electronic public notice is impracticable as a result of an accident or for other unavoidable reasons, the Company shall post its public notices in the Nihon Keizai Shimbun newspaper.
Stock exchange listing	Tokyo Stock Exchange (First Section) Nagoya Stock Exchange (First Section) Code: 1878

Shareholder Composition

Number of shareholders 15,230

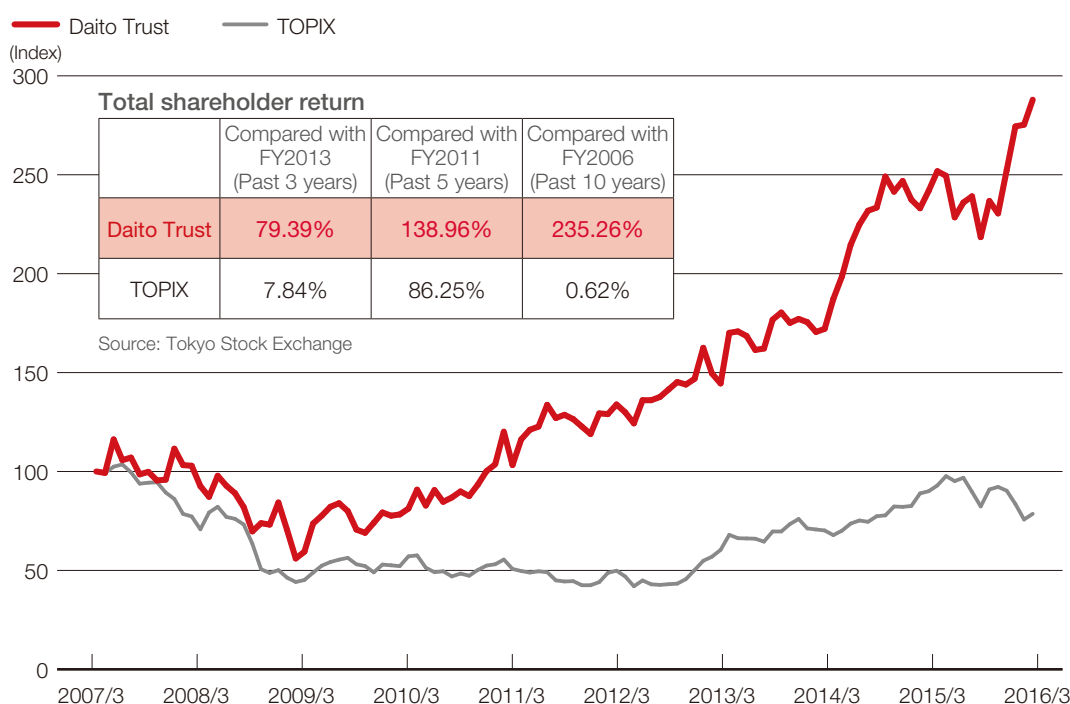
Breakdown of shareholders



Foreign corporations	44,122,539 shares (56.50%)
Financial institutions	21,653,009 shares (27.73%)
Individuals and others	6,471,262 shares (8.29%)
Domestic corporations	4,201,608 shares (5.38%)
Financial instruments firms	1,290,376 shares (1.65%)
Daito Trust	355,585 shares (0.46%)

(As of March 31, 2016)

Stock Price Trend



* Index created taking the closing price on March 31, 2007 as 100.

* Total Shareholder return holding period based on the closing price on March 31, 2016.



Daito Trust Construction Co., Ltd.
2-16-1, Konan, Minato-ku, Tokyo 108-8211 Japan
<http://www.kentaku.co.jp/e/index.html>



Capital: ¥29,060 million

Stock: Listed on the First Sections of the Tokyo Stock Exchange and Nagoya Stock Exchange (Code: 1878)

[Editing] Public Information & CSR Division

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Consolidated Financial Section 2016

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Note:

Consolidated Financial Section contains audited English-language financial statements in which certain items have been changed for the convenience of overseas readers.

Consolidated Balance Sheet

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries
March 31, 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 17)	¥233,631	¥255,552	\$2,073,403
Money held in Trust (Note 17)	26,506	32,505	235,233
Marketable securities (Notes 3, 5 and 17)	9,617	7,002	85,348
Notes and accounts receivable (Note 17):			
Construction contracts	27,412	25,774	243,273
Other	11,215	10,870	99,530
Total receivables	38,627	36,644	342,803
Operating loans (Note 17)	60,490	54,672	536,830
Inventories (Note 6)	18,098	18,314	160,614
Prepaid expenses—whole-building lease and other	59,688	57,197	529,712
Deferred tax assets (Note 12)	19,955	19,235	177,094
Other current assets	13,263	13,577	117,704
Allowance for doubtful accounts	(253)	(305)	(2,245)
Total current assets	479,622	494,393	4,256,496
PROPERTY, PLANT AND EQUIPMENT (Notes 7 and 16):			
Land	43,169	42,452	383,111
Buildings and structures	61,842	61,594	548,829
Machinery and equipment	35,576	21,885	315,726
Furniture and fixture	7,547	6,795	66,977
Lease assets (Note 16)	3,639	3,744	32,295
Total	151,773	136,470	1,346,938
Accumulated depreciation	(37,815)	(34,851)	(335,596)
Net property, plant and equipment	113,958	101,619	1,011,342
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3, 5 and 17)	26,610	27,199	236,155
Subordinated bonds and subordinated trust beneficiary right (Notes 4 and 17)	12,857	12,865	114,102
Investment in associated companies	18,900	113	167,732
Intangible assets	10,665	5,257	94,649
Guarantee deposit (Note 5)	24,118	21,537	214,040
Deferred tax assets (Note 12)	26,031	20,345	231,017
Other assets	18,803	20,655	166,870
Allowance for doubtful accounts (Note 4)	(3,015)	(2,863)	(26,757)
Total investment and other assets	134,969	105,108	1,197,808
TOTAL	¥728,549	¥701,120	\$6,465,646

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Current portion of long-term lease obligations (Note 16)	¥ 241	¥ 271	\$ 2,139
Current portion of long-term bank loans (Notes 8 and 17)	16,691	16,691	148,127
Accounts payable (Note 17)	37,510	42,242	332,890
Advances received—construction contracts	47,274	49,411	419,542
Income taxes payable (Notes 12 and 17)	25,672	23,217	227,831
Advances received—whole-building lease and other	68,923	64,482	611,670
Accrued employees' bonuses	21,587	20,532	191,578
Deposits received (Note 17)	7,632	6,880	67,732
Other current liabilities	56,353	43,706	500,115
Total current liabilities	281,883	267,432	2,501,624
LONG-TERM LIABILITIES:			
Long-term bank loans (Notes 8 and 17)	54,943	63,279	487,602
Long-term lease obligations (Note 16)	908	1,009	8,058
Liability for retirement benefit (Note 9)	10,699	9,519	94,950
Provision for repair of whole-building lease system	80,705	65,154	716,232
Deposits received for guarantee (Note 17)	45,184	51,309	400,994
Other long-term liabilities	5,705	6,623	50,631
Total long-term liabilities	198,144	196,893	1,758,467
EQUITY (Note 10):			
Common stock—authorized: 329,541 thousand shares; issued, 78,094 thousand shares in 2016 and 79,324 thousand shares in 2015	29,061	29,061	257,907
Capital surplus	34,541	34,541	306,541
Stock acquisition rights (Note 11)	354	312	3,142
Retained earnings	206,510	184,662	1,832,712
Treasury stock—at cost, 978 thousand shares in 2016 and 740 thousand shares in 2015	(16,857)	(13,486)	(149,601)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	3,203	6,157	28,426
Deferred gain (loss) on derivatives under hedge accounting	(944)	603	(8,378)
Land revaluation surplus	(7,584)	(7,584)	(67,306)
Foreign currency translation adjustments	(230)	1,278	(2,041)
Defined retirement benefit plans	(1,597)	(599)	(14,173)
Total	246,457	234,945	2,187,229
Noncontrolling interests	2,065	1,850	18,326
Total equity	248,522	236,795	2,205,555
TOTAL	¥728,549	¥701,120	\$6,465,646

See notes to consolidated financial statements.

Consolidated Statement of Income

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
NET SALES:			
Construction contracts (Note 13)	¥ 595,365	¥ 589,171	\$ 5,283,679
Real estate	774,808	723,817	6,876,180
Other	41,471	40,168	368,043
Total net sales	1,411,644	1,353,156	12,527,902
COST OF SALES:			
Construction contracts	419,095	416,637	3,719,338
Real estate	712,197	671,531	6,320,527
Other	25,925	26,042	230,076
Total cost of sales	1,157,217	1,114,210	10,269,941
Gross profit	254,427	238,946	2,257,961
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 14)	153,426	147,426	1,361,608
Operating income	101,001	91,520	896,353
OTHER INCOME (EXPENSES):			
Interest and dividend income	783	777	6,949
Interest expense (Note 8)	(573)	(710)	(5,085)
Other—net (Note 15)	4,055	3,961	35,986
Other income (expenses)—net	4,265	4,028	37,850
INCOME BEFORE INCOME TAXES	105,266	95,548	934,203
INCOME TAXES (Note 12):			
Current	41,335	40,583	366,835
Deferred	(3,654)	(1,374)	(32,428)
Total income taxes	37,681	39,209	334,407
NET INCOME	67,585	56,339	599,796
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	305	230	2,707
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 67,280	¥ 56,109	\$ 597,089

	Yen		U.S. dollars
PER SHARE OF COMMON STOCK (Note 20):			
Basic net income	¥ 863.11	¥ 710.19	\$ 7.66
Diluted net income	862.52	709.73	7.65
Cash dividends applicable to the year	432.00	375.00	3.83

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
NET INCOME	¥67,585	¥56,339	\$599,796
OTHER COMPREHENSIVE INCOME (Note 19):			
Unrealized gain on available-for-sale securities	(2,954)	1,468	(26,216)
Deferred gain (loss) on derivatives under hedge accounting	(1,547)	553	(13,729)
Land revaluation surplus	—	(2,703)	—
Foreign currency translation adjustments	(1,508)	3,244	(13,383)
Defined retirement benefit plans	(998)	(42)	(8,857)
Total other comprehensive income	(7,007)	2,520	(62,185)
COMPREHENSIVE INCOME	¥60,578	¥58,859	\$537,611
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥60,274	¥58,650	\$534,913
Noncontrolling interests	304	209	2,698

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2016

	Millions of yen													
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated other comprehensive income					Total	Noncontrolling Interests	Total Equity
							Unrealized Gain on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Land Revaluation Surplus	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans			
BALANCE, APRIL 1, 2014 (as previously reported)	80,610,279	¥29,061	¥34,550	¥187	¥169,294	¥(10,124)	¥4,689	¥ 50	¥(4,881)	¥(1,966)	¥ (577)	¥220,283	¥1,724	¥222,007
Cumulative effect of accounting change						(247)						(247)	(3)	(250)
BALANCE, APRIL 1, 2014 (as restated)	80,610,279	29,061	34,550	187	169,047	(10,124)	4,689	50	(4,881)	(1,966)	(577)	220,036	1,721	221,757
Net income attributable to owners of the parent					56,109							56,109		56,109
Cash dividends, ¥362 per share					(28,638)							(28,638)		(28,638)
Purchase of treasury stock						(19,146)						(19,146)		(19,146)
Disposal of treasury stock	(1,285,900)		1,316			2,603						3,919		3,919
Retirement of treasury stock			(1,325)		(11,856)	13,181						—		—
Net change in the year				125			1,468	553	(2,703)	3,244	(22)	2,665	129	2,794
BALANCE, MARCH 31, 2015	79,324,379	29,061	34,541	312	184,662	(13,486)	6,157	603	(7,584)	1,278	(599)	234,945	1,850	236,795
Net income attributable to owners of the parent					67,280							67,280		67,280
Cash dividends, ¥389 per share					(30,439)							(30,439)		(30,439)
Purchase of treasury stock						(25,759)						(25,759)		(25,759)
Disposal of treasury stock	(1,230,000)		480			6,917						7,397		7,397
Retirement of treasury stock			(480)		(14,991)	15,471						—		—
Changes in the parent's ownership interest due to transactions with noncontrolling interests						(2)						(2)		(2)
Net change in the year				42			(2,954)	(1,547)		(1,508)	(998)	(6,965)	215	(6,750)
BALANCE, MARCH 31, 2016	78,094,379	¥29,061	¥34,541	¥354	¥206,510	¥(16,857)	¥3,203	¥ (944)	¥(7,584)	¥ (230)	¥(1,597)	¥246,457	¥2,065	¥248,522

	Thousands of U.S. dollars (Note 1)												
	Accumulated other comprehensive income												
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Unrealized Gain on Available- for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Land Revaluation Surplus	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2015	\$257,907	\$306,541	\$2,769	\$1,638,818	\$(119,684)	\$ 54,642	\$ 5,351	\$(67,306)	\$ 11,342	\$ (5,316)	\$2,085,064	\$16,418	\$2,101,482
Net income attributable to owners of the parent				597,089							597,089		597,089
Cash dividends, \$3.45 per share				(270,137)							(270,137)		(270,137)
Purchase of treasury stock					(228,603)						(228,603)		(228,603)
Disposal of treasury stock		4,260			61,386						65,646		65,646
Retirement of treasury stock		(4,260)		(133,040)	137,300						—		—
Changes in the parent's ownership interest due to transactions with noncontrolling interests				(18)							(18)		(18)
Net change in the year			373			(26,216)	(13,729)		(13,383)	(8,857)	(61,812)	1,908	(59,904)
BALANCE, MARCH 31, 2016	\$257,907	\$306,541	\$3,142	\$1,832,712	\$(149,601)	\$ 28,426	\$ (8,378)	\$(67,306)	\$ (2,041)	\$ (14,173)	\$2,187,229	\$18,326	\$2,205,555

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
OPERATING ACTIVITIES:			
Income before income taxes	¥105,266	¥ 95,548	\$ 934,203
Adjustments for:			
Income taxes—paid	(41,555)	(44,317)	(368,788)
Depreciation and amortization	6,026	4,851	53,479
Impairment loss	92	145	816
Changes in operating assets and liabilities:			
Decrease (increase) in notes and accounts receivable	(2,006)	(2,158)	(17,803)
Decrease (increase) in inventories	210	(1,363)	1,864
Decrease (increase) in prepaid expenses— whole-building lease and other	(695)	(3,106)	(6,168)
Decrease (increase) in operating loans	(5,818)	(9,510)	(51,633)
Increase (decrease) in accounts payables	(4,710)	(1,756)	(41,800)
Increase (decrease) in advances received— whole-building lease and other	4,441	7,312	39,412
Increase (decrease) in advances received— construction contracts	(2,137)	5,206	(18,965)
Increase (decrease) in deposits received for guarantee	(6,126)	(8,343)	(54,366)
Increase (decrease) in deposits received	763	(145)	6,771
Increase (decrease) in allowance for doubtful accounts	101	87	896
Increase (decrease) in accrued employees' bonuses	1,054	312	9,354
Increase (decrease) in liability for retirement benefits	(238)	(843)	(2,112)
Increase (decrease) in provision for repair of whole-building lease system	15,550	15,449	138,001
Other—net	8,604	2,032	76,360
Total adjustments	(26,444)	(36,147)	(234,682)
Net cash provided by operating activities	78,822	59,401	699,521
INVESTING ACTIVITIES:			
Payments for time deposits	(51,000)	—	(452,609)
Proceeds from money held in trust	6,000	8,500	53,248
Purchases of marketable and investment securities	(29,974)	(6,062)	(266,010)
Proceeds from sales and redemption of marketable and investment securities	8,000	10,530	70,998
Payments for purchase of property, plant and equipment	(18,347)	(14,691)	(162,824)
Payments for purchase of intangible assets	(6,241)	(2,295)	(55,387)
Other—net	(1,994)	4,949	(17,696)
Net cash provided by (used in) investing activities	(93,556)	931	(830,280)
FINANCING ACTIVITIES:			
Repayment of short-term bank loan	—	(300)	—
Proceeds from long-term bank loan	9,000	—	79,872
Repayment of long-term bank loan	(17,336)	(16,691)	(153,852)
Dividends paid	(30,439)	(28,638)	(270,137)
Repurchase of treasury stock	(25,759)	(19,146)	(228,603)
Proceeds from disposal of treasury stock	7,026	4,330	62,354
Dividends paid to noncontrolling interests	(81)	(66)	(719)
Other—net	(335)	(298)	(2,973)
Net cash used in financing activities	(57,924)	(60,809)	(514,058)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(263)	2,792	(2,334)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(72,921)	2,315	(647,151)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	255,552	253,237	2,267,945
CASH AND CASH EQUIVALENTS, END OF YEAR	¥182,631	¥255,552	\$1,620,794

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2016

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2015 consolidated financial statements to conform them to the classifications used in 2016.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Daito Trust Construction Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥112.68 to \$1, the approximate rate of exchange at March 31, 2016. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements as of March 31, 2016, include the accounts of the Company and its 24 significant (21 in 2015) subsidiaries (together, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

Investments in 2 (— in 2015) associated companies are accounted for by the equity method, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investment in an associated company is stated at cost. If the equity method of accounting had been applied to the investment in this company, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

b. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits and certificates of deposit, both of which mature within three months of the date of acquisition.

c. Inventories—Construction projects in progress are stated at cost determined on the specific project basis. Materials and other inventories are mainly stated at the lower of cost determined by the moving-average method, or net selling value.

d. Marketable and Investment Securities—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:

(1) held-to-maturity debt securities, for which there is the positive intent and ability to hold to maturity are reported at amortized cost; and (2) available-for-sale securities, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. Property, Plant and Equipment—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed substantially by the declining-balance method based on the estimated useful lives of the assets, while the straight-line method is applied to buildings acquired after April 1, 1998, and all property and equipment of consolidated foreign subsidiaries. The range of useful lives is principally from 10 to 60 years for buildings and structures, from 3 to 22 years for machinery and equipment, and from 2 to 20 years for furniture and fixture. Lease assets are depreciated using the straight-line method over the estimated useful lives of assets which are the term of the respective leases.

f. Long-Lived Assets—The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

g. Land Revaluation—Under the "Law of Land Revaluation," the Company elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 2002. The resulting land revaluation difference represents the unrealized decline in value of land and is stated as a component of equity. There was no effect on the consolidated statement of income. Continuous readjustment is not permitted unless the land value subsequently declines significantly. The amount of the decline in value would be added to the land revaluation difference account.

h. Allowance for Doubtful Accounts—The allowance for doubtful accounts is stated at amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding. The allowance for doubtful accounts related to the subordinated bonds and subordinated trust beneficiary right issued by special-purpose entities (SPEs) is stated based on an evaluation of potential losses due to the worsening fiscal condition of the SPEs.

i. Accrued Employees' Bonuses—The Company and certain consolidated subsidiaries have provided for employees' bonuses to state the liability at the estimated amount payable to employees.

j. Retirement and Pension Plans—The Company and certain consolidated subsidiaries have contributory funded defined benefit pension plans and unfunded retirement benefit plans for employees. Other consolidated domestic subsidiaries have unfunded retirement benefit plans for their employees.

Expected benefits are attributed to periods on a benefit formula basis.

Unrecognized prior service liabilities are amortized over a certain period (mainly 8 years) using the straight-line method within the average remaining service period, commencing from the date on which they are incurred.

Unrecognized actuarial net gains or losses are amortized over a certain period (mainly 6 years and 8 years) using the declining-balance method within the average remaining service period, commencing from the date on which they are incurred. Certain consolidated subsidiaries are amortized from the following year in which they arise.

k. Provision for Repair of Whole-Building Lease System—Certain consolidated subsidiaries have provided for a provision for repair of whole-building lease systems to cover probable costs of restoration and repairs being borne in the future based on the whole-building lease contracts.

l. Stock Options—The accounting standard for stock options requires companies to measure the cost of employee stock options based on the fair value at the date of grant and recognize compensation expense over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

m. Employee Stockownership Plan—In December 2013, the ASBJ issued Practical Issues Task Force (PITF) No. 30, “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts.” This PITF is effective for the beginning of annual periods beginning on or after April 1, 2014, with earlier application permitted from the beginning of annual periods first ending after the date of issuance of this PITF, and applied retrospectively.

In accordance with the PITF, upon the transfer of treasury stock to the employee stockownership trust (the “Trust”) by the entity, any difference between the book value and fair value of the treasury stock shall be recorded in capital surplus. At year end, the entity shall record (1) the entity stock held by the Trust as treasury stock in equity, (2) all other assets and liabilities of the Trust on a line-by-line basis, and (3) a liability/asset for the net of (i) any gain or loss on delivery of the stock by the Trust to the employee shareholding association, (ii) dividends received from the entity for the stock held by the Trust, and (iii) any expenses relating to the Trust.

The Company applied this PITF effective April 1, 2014. As for the trust contracts concluded before April 1, 2014, the Company applied transitional accounting (as stipulated in this PITF) and continued the previous accounting treatment.

n. Research and Development Costs—Research and development costs are charged to income as incurred.

- o. Construction Contracts*—Under the accounting standard for construction contracts, construction revenue and construction costs should be recognized by the percentage-of-completion method if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract is deemed to be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on construction contracts.
- p. Income Taxes*—The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.
- q. Foreign Currency Transactions*—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.
- r. Foreign Currency Financial Statements*—The balance sheet accounts, revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as “Foreign currency translation adjustments” under accumulated other comprehensive income in a separate component of equity.
- s. Derivatives and Hedging Activities*—The Group uses derivative financial instruments to manage its exposure to fluctuations in foreign exchange. Foreign exchange forward contracts, currency options, and currency swaps are utilized by the Group to reduce foreign currency exchange risk. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows:

(1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income and (2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts, currency options, and currency swaps employed to hedge foreign exchange exposure for imports are measured at fair value and the unrealized gains/losses are recognized in income. Forward contracts applied for forecasted (or committed) transactions are also measured at fair value but the unrealized gains/losses are deferred until the underlying transactions are completed.

Accounts payable denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the foreign currency fluctuations are translated at the contracted rate if the forward contracts, currency option, and currency swaps qualify for hedge accounting.

t. **Consumption Tax**—Consumption tax is accounted for by the tax exclusion method.

u. **Per Share Information**—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding warrants at the beginning of the year (or at the time of issuance).

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years, including dividends to be paid after the end of the year.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2016 and 2015, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Current:			
Government and corporate bonds	¥ 8,316	¥ 5,803	\$ 73,802
Other	1,301	1,199	11,546
Total	¥ 9,617	¥ 7,002	\$ 85,348
Non-current:			
Marketable equity securities	¥17,730	¥22,303	\$157,348
Government and corporate bonds	7,946	4,866	70,518
Capital investment in LLC	904	—	8,023
Trust fund investments and other	30	30	266
Total	¥26,610	¥27,199	\$236,155

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2016 and 2015, were as follows:

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2016				
Securities classified as:				
Available-for-sale:				
Equity securities	¥13,115	¥4,667	¥52	¥17,730
Government and corporate bonds	16,165	12	45	16,132
Other	1,300	1	—	1,301
Held-to-maturity	130	4	—	134
March 31, 2015				
Securities classified as:				
Available-for-sale:				
Equity securities	¥13,199	¥9,104	¥—	¥22,303
Government and corporate bonds	10,443	6	11	10,438
Other	1,200	—	1	1,199
Held-to-maturity	230	6	—	236

March 31, 2016	Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 116,391	\$41,418	\$461	\$157,348
Government and corporate bonds	143,459	106	399	143,166
Other	11,537	9	—	11,546
Held-to-maturity	1,154	35	—	1,189

4. SUBORDINATED BONDS AND SUBORDINATED TRUST BENEFICIARY RIGHT

The Company mediates the extension of apartment loans to customers who order construction of rental housing.

As for these loans, financial institutions establish SPEs and the loans are securitized by SPEs.

When the customers use these loans, the Company is required to buy the subordinated bonds or subordinated trust beneficiary rights issued by the SPEs according to the agreement with certain financial institutions.

Details of the subordinated bonds and subordinated trust beneficiary right are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Subordinated bonds and subordinated trust beneficiary rights	¥12,857	¥12,865	\$114,102
Allowance for doubtful accounts	¥ (476)	¥ (650)	\$ (4,224)
Possession ratio of subordinated bonds and subordinated trust beneficiary rights	6.17%	6.17%	6.17%
Date of maturity	November 2034 – February 2043	November 2034 – February 2043	November 2034 – February 2043
Loan balance of SPEs	¥67,381	¥81,083	\$597,985
Outstanding bonds of SPEs	¥68,375	¥81,723	\$606,807
Number of SPEs	10	10	10

The possession ratio of the subordinated bonds and subordinated trust beneficiary rights is the ratio of the subordinated bonds and subordinated trust beneficiary rights balance of the Company to the total amount of bonds when issued.

5. PLEDGED ASSETS

The carrying amounts of assets pledged as collateral required by the Building Lots and Buildings Transaction Business Law, the Act for Secure Execution of Defect Warranty Liability and for the purpose of extending payment due dates for customs and consumption tax, the Trust Business Act and the Insurance Business Act and Settlement of Electricity Transaction at March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Investment securities	¥3,877	¥6,553	\$34,407
Other	3,865	530	34,301
Total	¥7,742	¥7,083	\$68,708

6. INVENTORIES

Inventories at March 31, 2016 and 2015, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Construction projects in progress	¥13,224	¥12,148	\$117,359
Materials	4,545	4,699	40,335
Real estate held for sale	105	1,273	932
Merchandise	224	194	1,988
Total	¥18,098	¥18,314	\$160,614

7. INVESTMENT PROPERTY

The Group owns certain rental properties such as office buildings, apartments and car parking spaces. The net of rental income and operating expenses for those rental properties was ¥3,542 million (\$31,434 thousand) and ¥3,270 million for the fiscal years ended March 31, 2016 and 2015, respectively.

In addition, the carrying amounts, changes in such balances and market prices of such properties are as follows:

Millions of yen			
Carrying Amount			Fair Value
April 1, 2015	Increase	March 31, 2016	March 31, 2016
¥56,997	¥107	¥57,104	¥121,556

Millions of yen			
Carrying Amount			Fair Value
April 1, 2014	Decrease	March 31, 2015	March 31, 2015
¥57,704	¥707	¥56,997	¥116,775

Thousands of U.S. dollars			
Carrying Amount			Fair Value
April 1, 2015	Increase	March 31, 2016	March 31, 2016
\$505,831	\$949	\$506,780	\$1,078,772

Notes:

1. Carrying amount recognized in the consolidated balance sheet is net of accumulated depreciation and accumulated impairment losses, if any.
2. Increase during the fiscal year ended March 31, 2016, primarily represents the acquisition of certain properties of ¥891 million (\$7,907 thousand), and decrease primarily represents the recognition of depreciation of ¥776 million (\$6,887 thousand).
3. Increase during the fiscal year ended March 31, 2015, primarily represents the acquisition of certain properties of ¥84 million, and decrease primarily represents the recognition of depreciation of ¥796 million.
4. Fair value of properties is measured by the Group in accordance with its Real-Estate Appraisal Standard.

8. LONG-TERM BANK LOANS

Long-term bank loans at March 31, 2016 and 2015, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Loans from banks due on various dates through 2020 with interest rates ranging from 0.37% to 0.80% (2016) and from 0.38% to 0.87% (2015)	¥ 71,634	¥ 79,970	\$ 635,729
Total	71,634	79,970	635,729
Less current portion	(16,691)	(16,691)	(148,127)
Long-term bank loans, less current portion	¥ 54,943	¥ 63,279	\$ 487,602

Annual maturities of long-term bank loans, excluding finance leases (see Note 16), at March 31, 2016, were as follows:

Year Ending March 31	Millions of yen	Thousands of U.S. dollars
2017	¥16,691	\$148,127
2018	44,075	391,152
2019	6,352	56,372
2020	1,816	16,116
2021	2,700	23,962
Total	¥71,634	\$635,729

As is customary in Japan, the Company maintains substantial deposit balances with banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal.

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Company has never been requested to provide any additional collateral.

In addition, the Company entered into committed loan facility agreements aggregating ¥99,025 million (\$878,816 thousand) with 12 Japanese banks. There was no balance under the committed loan facility agreements as of March 31, 2016.

9. RETIREMENT AND PENSION PLANS

The Company and certain consolidated subsidiaries have severance payment plans for employees. Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The liability for employees' retirement benefits at March 31, 2016 and 2015, consisted of the following:

1. The changes in defined benefit obligation for the years ended March 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at beginning of year (as previously reported)	¥29,171	¥26,699	\$258,884
Cumulative effect of accounting change	—	388	—
Balance at beginning of year (as restated)	29,171	27,087	258,884
Current service cost	2,429	2,218	21,557
Interest cost	47	69	417
Actuarial gains and losses	1,953	1,127	17,332
Benefits paid	(1,901)	(1,330)	(16,871)
Balance at end of year	¥31,699	¥29,171	\$281,319

2. The changes in plan assets for the years ended March 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at beginning of year	¥19,652	¥16,745	\$174,405
Expected return on plan assets	294	251	2,609
Actuarial gains and losses	(378)	767	(3,355)
Contributions from the employer	2,771	2,747	24,592
Benefits paid	(1,339)	(858)	(11,883)
Balance at end of year	¥21,000	¥19,652	\$186,368

3. Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets for the years ended March 31, 2016 and 2015, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Funded defined benefit obligation	¥23,039	¥21,138	\$204,463
Plan assets	21,000	19,652	186,368
	2,039	1,486	18,095
Unfunded defined benefit obligation	8,660	8,033	76,855
Net liability arising from benefit obligation	¥10,699	¥ 9,519	\$ 94,950

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Liability for retirement benefits	¥10,699	¥9,519	\$94,950
Asset for retirement benefits	—	—	—
Net liability arising from benefit obligation	¥10,699	¥9,519	\$94,950

4. The components of net periodic benefit costs for the years ended March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Service cost	¥2,429	¥2,218	\$21,557
Interest cost	47	69	417
Expected return on plan assets	(294)	(251)	(2,609)
Amortization of prior service cost	7	7	62
Recognized actuarial gains and losses	906	335	8,040
Net periodic benefit costs	¥3,095	¥2,378	\$27,467

5. Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2016 and 2015.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Prior service cost	¥ 7	¥ 7	\$ 63
Actuarial gains and losses	(1,424)	(27)	(12,638)
Total	¥(1,417)	¥(20)	\$(12,576)

6. Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2016 and 2015.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrecognized prior service cost	¥ (75)	¥ (82)	\$ (666)
Unrecognized actuarial gains and losses	(2,224)	(800)	(19,737)
Total	¥(2,299)	¥(882)	\$(20,403)

7. Plan assets

(1) Components of plan assets

Plan assets as of March 31, 2016 and 2015, consisted of the following:

	2016	2015
Debt investments	29.2%	17.3%
Equity investments	13.7%	18.6%
Cash and cash equivalents	6.1%	2.0%
General accounts	50.7%	61.3%
Others	0.3%	0.8%
Total	100.0%	100.0%

(2) Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

8. Assumptions used for the years ended March 31, 2016 and 2015, were set forth as follows:

	2016	2015
Discount rate	0.0%	0.2%
Expected rate of return on plan assets	1.5%	1.5%
Expected rate of future salary increases	1.5%	2.1%

10. EQUITY

Japanese companies are subject to the Companies Act of Japan (the “Companies Act”). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders’ meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-years term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

The Company has set up a “Trust under Employee Stock Ownership Plan” (the “ESOP trust”) and “Trust for employees receiving in-kind benefit by stock”(the “J-ESOP”) to improve employees’ benefit program, increase the corporate value by enhancing awareness of the Company’s results and stock price, and enhance employees’ motivation and morale.

The Trust Contracts Concluded Before April 1, 2014

ESOP trust

The implementation of an employee incentive plan ESOP trust was resolved at the board of directors' meeting held on June 17, 2011, aiming to increase the Company's corporate value over the medium- to long-term. The Company has set up a trust for employees that are members of "Daito Trust Construction Co., Ltd. Employee Stock Ownership" who are eligible under certain requirements to be beneficiaries. The ESOP trust acquired the number of shares of the Company's stock expected to be acquired by the Daito Trust Construction Co., Ltd. Employee Stock Ownership Plan over five years after its establishment during the designated acquisition period, July 1, 2011 to September 22, 2011. Since the acquisition, the ESOP trust has sold shares of the Company's stock to Daito Trust Construction Co., Ltd. Employee Stock Ownership on a certain day every month. As for the termination of the ESOP trust, where an increase in the stock price will have generated trust earnings, money held in trust will be distributed to the employees as beneficiaries based on their contribution ratio. When a decrease in the stock price will have caused losses on transfer and obligations related to trust assets remain, the employees will not be obligated to make additional contributions because the Company will settle those obligations in a lump sum with the bank in accordance with a guarantee clause in the loan agreement. The ESOP trust was terminated in November 2015.

J-ESOP

The implementation of a new employee incentive plan J-ESOP was resolved at the board of directors' meeting held on July 4, 2011. Under the J-ESOP, employees are granted shares of the Company's stock when they become vested in accordance with the Share-based Benefits Regulations established by the Company. The Company grants points to selected employees based on their performance and achievements. Employees who have met certain requirements will receive the number of shares of the Company's stock corresponding to their points obtained (one share to one point). Shares to be granted to employees are acquired for both current and future benefits with the money held in trust and separately managed as trust assets.

With the J-ESOP, the Company expects to enhance employees' morale and motivation to dedicate themselves to improving the Company's business performance and corporate value over the medium-term.

The Company's stock held by the above trusts at March 31, 2016 and 2015, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
ESOP trust	¥ —	¥ 839	\$ —
J-ESOP	4,059	5,064	36,022
Total	¥4,059	¥5,903	\$36,022

	Thousands of Shares	
	2016	2015
ESOP trust	—	117
J-ESOP	429	570
Total	429	687

The Company's stock held by the trusts is therefore presented as "Treasury Stock" and as a deduction to shareholders' equity in the consolidated balance sheet and consolidated shareholders' equity (or statement of changes in equity).

However, such Company's stock is excluded from treasury stock in calculating net income per share of common stock and fully diluted net income per share of common stock.

The Trust Contracts Concluded On or After April 1, 2014

ESOP trust

The implementation of an employee incentive plan ESOP trust was resolved at the board of directors' meeting held on November 24, 2015, aiming to increase the Company's corporate value over the medium- to long-term. The Company has set up a trust for employees that are members of "Daito Trust Construction Co., Ltd. Employee Stock Ownership" who are eligible under certain requirements to be beneficiaries. The ESOP trust acquired the number of shares of the Company's stock expected to be acquired by the Daito Trust Construction Co., Ltd. Employee Stock Ownership Plan over five years after its establishment during the designated acquisition period, December 16, 2015 to January 29, 2016. Since the acquisition, the ESOP trust has sold shares of the Company's stock to Daito Trust Construction Co., Ltd. Employee Stock Ownership on a certain day every month. As for the termination of the ESOP trust, where an increase in the stock price will have generated trust earnings, money held in trust will be distributed to the employees as beneficiaries based on their contribution ratio. When a decrease in the stock price will have caused losses on transfer and obligations related to trust assets remain, the employees will not be obligated to make additional contributions because the Company will settle those obligations in a lump sum with the bank in accordance with a guarantee clause in the loan agreement.

The Company's stock held by the above trust at March 31, 2016 and 2015, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
ESOP trust	¥8,326	¥—	\$73,891

	Thousands of Shares	
	2016	2015
ESOP trust	623	—

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Long-term debt	¥9,000	¥—	\$79,872

The Company's stock held by the above trusts also has the same rights as normal stock, e.g., voting and dividend claim rights, because the stock does not meet the definition of treasury stock under the Companies Act. To calculate the available amounts of dividends as stipulated under Clause 2 of Article 461 of the Companies Act, the Company's stock held by the trusts is not deducted because of the same reason.

11. STOCK OPTIONS

The Company

The stock options outstanding as of March 31, 2016, are as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2012 Stock Option (A)	10 directors	7,600 shares	2012.6.14	¥ 1 (\$0.01)	From June 15, 2012 to June 14, 2042
2012 Stock Option (B)	10 directors	17,500 shares	2012.6.14	¥ 1 (\$0.01)	From June 15, 2015 to June 14, 2020
2013 Stock Option (A)	11 directors	7,900 shares	2013.6.17	¥ 1 (\$0.01)	From June 18, 2013 to June 17, 2043
2013 Stock Option (B)	11 directors	14,300 shares	2013.6.17	¥ 1 (\$0.01)	From June 18, 2016 to June 17, 2021
2014 Stock Option (A)	6 directors	5,200 shares	2014.6.17	¥ 1 (\$0.01)	From June 18, 2014 to June 17, 2044
2014 Stock Option (B)	6 directors	11,600 shares	2014.6.17	¥ 1 (\$0.01)	From June 18, 2017 to June 17, 2022
2015 Stock Option (A)	7 directors	4,200 shares	2015.6.16	¥ 1 (\$0.01)	From June 17, 2015 to June 16, 2045
2015 Stock Option (B)	7 directors	8,200 shares	2015.6.16	¥ 1 (\$0.01)	From June 17, 2018 to June 16, 2023

The stock option activity for the years ended March 31, 2016 and 2015, is as follows:

	2012 Stock Option (A)	2012 Stock Option (B)	2013 Stock Option (A)	2013 Stock Option (B)	2014 Stock Option (A)	2014 Stock Option (B)
Year Ended March 31, 2016	(Shares)					
Non-vested						
March 31, 2015—Outstanding	—	17,500	—	14,300	—	11,600
Granted	—	—	—	—	—	—
Canceled	—	—	—	—	—	—
Vested	—	—	—	—	—	—
March 31, 2016—Outstanding	—	17,500	—	14,300	—	11,600
Vested						
March 31, 2015—Outstanding	2,300	—	3,200	—	4,600	—
Vested	—	17,500	—	—	—	—
Exercised	(1,000)	(13,600)	(900)	—	(800)	—
Canceled	—	—	—	—	—	—
March 31, 2016—Outstanding	1,300	3,900	2,300	—	3,800	—
Exercise price	¥ 1 (\$ 0.01)	¥ 1 (\$ 0.01)	¥ 1 (\$ 0.01)	¥ 1 (\$ 0.01)	¥ 1 (\$ 0.01)	¥ 1 (\$ 0.01)
Average stock price at exercise	¥13,481 (\$119.64)	¥13,400 (\$118.92)	¥13,481 (\$119.63)	¥ — (\$ —)	¥13,481 (\$119.64)	¥ — (\$ —)
Fair value price at grant date	¥ 5,821 (\$ 51.66)	¥5,474 (\$ 48.58)	¥ 7,444 (\$ 66.06)	¥7,304 (\$64.82)	¥ 9,361 (\$ 83.08)	¥9,741 (\$86.45)

	2015 Stock Option (A)	2015 Stock Option (B)
Year Ended March 31, 2016		
	(Shares)	
Non-vested		
March 31, 2015—Outstanding	—	—
Granted	4,200	8,200
Canceled	—	—
Vested	(4,200)	—
March 31, 2016—Outstanding	—	8,200
Vested		
March 31, 2015—Outstanding	—	—
Vested	4,200	—
Exercised	(700)	—
Canceled	—	—
March 31, 2016—Outstanding	3,500	—
Exercise price	¥ 1 (\$ 0.01)	¥ 1 (\$ 0.01)
Average stock price at exercise	¥12,578 (\$111.63)	¥ — (\$ —)
Fair value price at grant date	¥10,328 (\$ 91.66)	¥10,667 (\$ 94.67)

	2012 Stock Option (A)	2012 Stock Option (B)	2013 Stock Option (A)	2013 Stock Option (B)	2014 Stock Option (A)	2014 Stock Option (B)
Year Ended March 31, 2015						
	(Shares)					
Non-vested						
March 31, 2014—Outstanding	—	17,500	—	14,300	—	—
Granted	—	—	—	—	5,200	11,600
Canceled	—	—	—	—	—	—
Vested	—	—	—	—	(5,200)	—
March 31, 2015—Outstanding	—	17,500	—	14,300	—	11,600
Vested						
March 31, 2014—Outstanding	2,600	—	3,800	—	—	—
Vested	—	—	—	—	5,200	—
Exercised	(300)	—	(600)	—	(600)	—
Canceled	—	—	—	—	—	—
March 31, 2015—Outstanding	2,300	—	3,200	—	4,600	—

The Assumptions Used to Measure the Fair Value of the 2015 Stock Option (A)

Estimate method: Black-Scholes option pricing model

Volatility of stock price: 27.15%

Estimated remaining outstanding period: 6.64 years

Estimated dividend: ¥355 per share

Risk free interest rate: 0.217%

The Assumptions Used to Measure the Fair Value of the 2015 Stock Option (B)

Estimate method: Black-Scholes option pricing model

Volatility of stock price: 24.42%

Estimated remaining outstanding period: 5.50 years

Estimated dividend: ¥355 per share

Risk free interest rate: 0.143%

Consolidated subsidiary

The Housecom Corporation

The stock options outstanding as of March 31, 2016, are as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2014 Stock Option	1 director	15,500 shares	2014.5.30	¥ 1 (\$0.01)	From May 31, 2015 to May 30, 2044
2015 Stock Option	2 directors	5,600 shares	2015.6.5	¥ 1 (\$0.01)	From June 6, 2015 to June 5, 2045

The stock option activity for the years ended March 31 2016 and 2015, is as follows:

	2014 Stock Option	2015 Stock Option
Year Ended March 31, 2016	(Shares)	
Non-vested		
March 31, 2015—Outstanding	—	—
Granted	—	5,600
Canceled	—	—
Vested	—	(5,600)
March 31, 2016—Outstanding	—	—
Vested		
March 31, 2015—Outstanding	15,500	—
Vested	—	5,600
Exercised	—	—
Canceled	—	—
March 31, 2016—Outstanding	15,500	5,600
Exercise price	¥ 1 (\$0.01)	¥ 1 (\$ 0.01)
Average stock price at exercise	¥ — (\$ —)	¥ — (\$ —)
Fair value price at grant date	¥ 540 (\$4.79)	¥1,311 (\$11.63)

	2014 Stock Option
Year Ended March 31, 2015	(Shares)
Non-vested	
March 31, 2014—Outstanding	—
Granted	—
Canceled	—
Vested	—
March 31, 2015—Outstanding	—
Vested	
March 31, 2014—Outstanding	15,500
Vested	—
Exercised	—
Canceled	—
March 31, 2015—Outstanding	15,500

The Assumptions Used to Measure the Fair Value of the 2015 Stock Option

Estimate method: Black-Scholes option pricing model

Volatility of stock price: 29.35%

Estimated remaining outstanding period: 11.29 years

Estimated dividend: ¥37 per share

Risk free interest rate: 0.544%

12. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 33.1% and 35.6% for the years ended March 31, 2016 and 2015, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2016 and 2015, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Loss on devaluation of investment securities	¥ 312	¥ 254	\$ 2,769
Allowance for doubtful accounts	1,002	1,007	8,892
Unrealized profit of assets	4,373	4,169	38,809
Accrued expenses	2,458	2,318	21,814
Accrued enterprise taxes	1,626	1,743	14,430
Accrued employees' bonuses	6,644	6,798	58,963
Provision for warranties for completed construction	351	358	3,115
Retirement benefit for employees	3,260	3,050	28,931
Provision for repair of whole-building lease system	24,743	21,141	219,586
Deferred cleaning revenue	3,390	3,185	30,085
Tax loss carryforwards	176	202	1,562
Others	5,344	5,179	47,428
Less valuation allowance	(627)	(1,119)	(5,564)
Total	53,052	48,285	470,820
Deferred tax liabilities:			
Reserve for special depreciation	5,645	5,464	50,098
Unrealized gain on available-for-sale securities	1,414	2,943	12,549
Deferred gain (loss) on derivatives under accounting	—	298	—
Others	91	—	808
Total	7,150	8,705	63,455
Net deferred tax assets	¥45,902	¥39,580	\$407,365

Deferred tax assets and liabilities were included in the consolidated balance sheets as of March 31, 2016 and 2015 as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Current assets—Deferred tax assets	¥19,955	¥19,235	\$177,094
Non-current assets—Deferred tax assets	26,031	20,345	231,017
Current liabilities—Other	(84)	—	(746)

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2016, with the corresponding figures for 2015, is as follows:

	2016	2015
Normal effective statutory tax rate	33.1%	35.6%
Expenses not deductible for income tax purposes	1.3	1.4
Inhabitant tax on per capita basis	0.5	0.1
Valuation allowance	(0.4)	0.6
Decrease in deferred tax assets by change of tax rate	2.5	3.7
Others—net	(1.2)	(0.4)
Actual effective tax rate	35.8%	41.0%

New tax reform laws enacted in 2016 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2016, to approximately 30.9% and for the fiscal year beginning on or after April 1, 2018, to approximately 30.6%. The effect of these changes was to decrease deferred tax assets, net of deferred tax liabilities, by ¥2,604 million (\$23,110 thousand) and increase accumulated other comprehensive income for unrealized gain on available-for-sale securities by ¥79 million (\$701 thousand) and decrease accumulated other comprehensive income for deferred gain (loss) on derivatives under hedge accounting by ¥20 million (\$177 thousand), and defined retirement benefit plan by ¥40 million (\$355 thousand), in the consolidated balance sheet as of March 31, 2016, and to increase income taxes-deferred in the consolidated statement of income for the year then ended by ¥2,623 million (\$23,278 thousand).

At March 31, 2016, certain subsidiaries have tax loss carryforwards aggregating to approximately ¥557 million (\$4,943 thousand), which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of yen	Thousands of U.S. dollars
2017	¥ —	\$ —
2018	—	—
2019	25	222
2020	140	1,242
2021	39	346
2022	29	257
2023	64	568
2024	149	1,322
2025	111	986
Total	¥557	\$4,943

13. CONSTRUCTION CONTRACTS

Revenue recognized with respect to construction contracts, which is accounted for by the percentage-of-completion method at March 31, 2016 and 2015, is as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Revenue	¥589,827	¥582,596	\$5,234,531

14. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income for the years ended March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Research and development costs	¥1,387	¥1,448	\$12,309

15. OTHER INCOME—NET

Other income—net for the years ended March 31, 2016 and 2015, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Commission fee	¥3,656	¥3,653	\$32,446
Other	399	308	3,540
Other income—net	¥4,055	¥3,961	\$35,986

16. LEASES

Lessee

The minimum rental commitments under noncancelable operating leases at March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Due within one year	¥ 394,575	¥ 357,314	\$ 3,501,731
Due after one year	1,632,365	1,576,542	14,486,732
Total	¥2,026,940	¥1,933,856	\$17,988,463

Lease payments fixed by contract with regard to the whole-building lease system are included in the above-mentioned minimum rental commitments at March 31, 2016 and 2015, as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Due within one year	¥ 388,796	¥ 351,018	\$ 3,450,444
Due after one year	1,610,274	1,553,388	14,290,682
Total	¥1,999,070	¥1,904,406	\$17,741,126

Lessor

The minimum rental commitments under noncancelable operating leases at March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Due within one year	¥ 621	¥ 621	\$ 5,511
Due after one year	3,727	4,349	33,076
Total	¥4,348	¥4,970	\$38,587

17. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group uses financial instruments, mainly loans from banks, based on its capital financing plan for construction business. As a matter of policy, the Group only uses derivatives for actual operating requirements, not for speculative purposes.

(2) Nature and Extent of Risks Arising from Financial Instruments and the Risk Management for Financial Instruments

Money held in trust has been set up to separately manage tenancy deposits. The Group manages such trust assets as short-term deposits and highly secured securities. These are exposed to variable risks, including issuers' credit, interest rate, and market. However, the Group periodically monitors the financial condition of issuers and the market value of debt securities.

Receivables such as trade notes and accounts receivable are exposed to customer credit risk. The Group decreases the risk by starting construction after customer financing is fixed.

Marketable and investment securities, mainly held-to-maturity securities and equity instruments, are exposed to variable risks, including issuers' credit, interest rate, and market. The Group periodically monitors the financial condition of the issuers for marketable investment securities. An ongoing review of securities held, other than held-to-maturity securities, is performed by taking into consideration the market as well as the relationship with the trading counterparties.

Operating loans, mainly loans for customers' construction finance (i.e., bridge loans until financial institutions execute a long-term loan) are exposed to customer credit risk. The Group thoroughly enforces credit risk management, which includes periodic monitoring of the financial condition of customers to mitigate the risk of uncollectible loans.

Subordinated bonds and subordinated trust beneficiary rights are financial instruments issued by an SPE established by a financial institution. The financial institution securitized the apartment loans of customers who order the Company to construct an apartment building for rent using the SPE. Subordinated bonds and subordinated trust beneficiary rights are exposed to credit risk of the debtor of the apartment loan. The Group manages the credit risk by monitoring repayments of the loan.

Payment terms of payables, such as accounts payable, income taxes payable, and deposits received, are generally less than one year.

Loans from banks are exposed to market risk from changes in interest rates. The Group performs continuous monitoring of market fluctuations.

Long-term deposits received for guarantee are received from tenants in the real estate rental business by the whole-building lease system.

Derivatives are forward foreign currency contracts, which are used to manage exposure to market risks from changes in foreign currency exchange rate payables.

(3) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, another rational valuation technique is used instead.

(a) Fair value of financial instruments

	Millions of yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
March 31, 2016			
Cash and cash equivalents	¥233,631	¥233,631	¥ —
Money held in trust	26,506	26,506	—
Notes and accounts receivable	38,627		
Allowance for doubtful accounts	(30)		
	38,597	38,597	—
Marketable and investment securities:			
Held-to-maturity securities	130	134	4
Available-for-sale securities	35,163	35,163	—
Operating loans	60,490		
Allowance for doubtful accounts	(122)		
	60,368	61,158	790
Total	¥394,395	¥395,189	¥794
Accounts payable	¥ 37,510	¥ 37,510	¥ —
Income taxes payable	25,672	25,672	—
Deposit received	7,632	7,632	—
Current portion of long-term bank loans and long-term bank loans	71,634	71,634	—
Deposits received for guarantee	45,184	45,091	(93)
Total	¥187,632	¥187,539	¥ (93)

	Millions of yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
March 31, 2015			
Cash and cash equivalents	¥255,552	¥255,552	¥ —
Money held in trust	32,505	32,505	—
Notes and accounts receivable	36,644		
Allowance for doubtful accounts	(43)		
	36,601	36,601	—
Marketable and investment securities:			
Held-to-maturity securities	230	236	6
Available-for-sale securities	33,941	33,941	—
Operating loans	54,672		
Allowance for doubtful accounts	(145)		
	54,527	54,756	229
Total	¥413,356	¥413,591	¥ 235
Accounts payable	¥ 42,242	¥ 42,242	¥ —
Income taxes payable	23,217	23,217	—
Deposit received	6,880	6,880	—
Current portion of long-term bank loans and long-term bank loans	79,970	79,970	—
Deposits received for guarantee	51,309	51,057	(252)
Total	¥203,618	¥203,366	¥(252)

March 31, 2016	Thousands of U.S. dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	\$2,073,403	\$2,073,403	\$ —
Money held in trust	235,233	235,233	—
Notes and accounts receivable	342,803		
Allowance for doubtful accounts	(267)		
	342,536	342,536	—
Marketable and investment securities:			
Held-to-maturity securities	1,154	1,189	35
Available-for-sale securities	312,060	312,060	—
Operating loans	536,830		
Allowance for doubtful accounts	(1,083)		
	535,747	542,758	7,011
Total	\$3,500,133	\$3,507,179	\$7,046
Accounts payable	\$ 332,890	\$ 332,890	\$ —
Income taxes payable	227,831	227,831	—
Deposit received	67,732	67,732	—
Current portion of long-term bank loans and long-term bank loans	635,729	635,729	—
Deposits received for guarantee	400,994	400,169	(825)
Total	\$1,665,176	\$1,664,351	\$ (825)

Cash and Cash Equivalents, Notes and Accounts Receivable

The carrying amount of the accounts mentioned above approximate fair value because of their short maturities.

Money Held in Trust

The fair value of money held in trust is measured based on financial instruments comprising the money held in trust. At the end of the fiscal year ended March 31, 2015, the financial instruments comprised of money held in trust were all deposits and since the carrying amount of such account approximates fair value, the carrying amount is treated as its fair value.

Marketable and Investment Securities

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. Fair value information for marketable and investment securities by classification is included in Note 3.

Operating Loans

The fair value of operating loans with floating-rates approximates carrying amount because the rate reflects market interest rates within a short period of time except for significant changes in credit conditions of debtors.

Loans with fixed rates consist of short-term bridge loans and long-term loans. The fair value of operating loans approximates carrying amount because the rate reflects market interest rates. The fair value of long-term loans is determined based on the present value calculated by using discount rates corresponding to the remaining period of the loan and credit risk.

Accounts Payable, Income Taxes Payable, and Deposits Received

The carrying amount of the accounts mentioned above approximate fair value because of their short maturities.

Current Portion of Long-Term Bank Loan and Long-Term Bank Loan

For the current portion of long-term bank loans and for long-term bank loans that have floating interest rates, the fair values approximate the carrying amount because the rates reflect market interest rates within a short period of time.

Deposits Received for Guarantee

The fair value of deposits received for guarantee is determined based on the present value calculated by using discount rates corresponding to credit risk and the remaining period of deposits received for guarantee.

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Subordinated bonds and subordinated trust beneficiary right	¥12,857	¥12,865	\$114,102
Capital investments in LLC	¥ 5,258	¥ —	\$ 46,663
Stocks of associated companies	¥14,546	¥ —	\$129 091

(4) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

March 31, 2016	Millions of yen					
	Due in 1 Year or Less	Due after 1 Year through 2 Years	Due after 2 Years through 3 Years	Due after 3 Years through 4 Years	Due after 4 Years through 5 Years	Due after 5 Years
Cash and cash equivalents	¥233,631	¥ —	¥ —	¥ —	¥ —	¥ —
Money held in trust	26,506	—	—	—	—	—
Notes and accounts receivable	38,627	—	—	—	—	—
Investment securities:						
Held-to-maturity securities	40	45	5	10	30	—
Available-for-sales securities with contractual maturities	9,570	7,860	—	—	—	—
Operating loans	28,698	3,859	3,369	2,875	2,521	19,164
Subordinated bonds and subordinated trust beneficiary right	—	—	—	—	—	13,091
Total	¥337,072	¥11,764	¥3,374	¥2,885	¥2,551	¥32,255

March 31, 2016	Thousands of U.S. dollars					
	Due in 1 Year or Less	Due after 1 Year through 2 Years	Due after 2 Years through 3 Years	Due after 3 Years through 4 Years	Due after 4 Years through 5 Years	Due after 5 Years
Cash and cash equivalents	\$2,073,403	\$ —	\$ —	\$ —	\$ —	\$ —
Money held in trust	235,233	—	—	—	—	—
Notes and accounts receivable	342,803	—	—	—	—	—
Investment securities:						
Held-to-maturity securities	355	400	44	89	266	—
Available-for-sales securities with contractual maturities	84,930	69,755	—	—	—	—
Operating loans	254,685	34,247	29,899	25,514	22,373	170,075
Subordinated bonds and subordinated trust beneficiary right	—	—	—	—	—	116,178
Total	\$2,991,409	\$104,402	\$29,943	\$25,603	\$22,639	\$286,253

Please see Note 8 for annual maturities of long-term bank loans.

18. DERIVATIVES

Derivative transactions to which hedge accounting is applied

		Millions of yen		
March 31, 2016	Hedged Item	Contract Amount	Contract Amount due after One Year	Fair Value
Foreign currency forward contract:				
Buying U.S.\$	Forecasted transactions	¥ 19,948	¥15,003	¥(1,365)
March 31, 2015				
Foreign currency forward contract:				
Buying U.S.\$	Forecasted transactions	¥17,231	¥3,110	¥ 901
		Thousands of U.S. dollars		
March 31, 2016	Hedged Item	Contract Amount	Contract Amount due after One Year	Fair Value
Foreign currency forward contract:				
Buying U.S.\$	Forecasted transactions	\$177,032	\$133,147	\$(12,114)

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

19. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥(4,331)	¥ 1,814	\$(38,436)
Reclassification adjustments to profit or loss	(152)	—	(1,349)
Amount before income tax effect	(4,483)	1,814	(39,785)
Income tax effect	1,529	(346)	13,569
Total	¥(2,954)	¥ 1,468	\$(26,216)
Deferred gain (loss) on derivatives under hedge accounting:			
Gains (losses) arising during the year	¥(2,266)	¥ 824	\$(20,110)
Reclassification adjustments to profit or loss	—	—	—
Amount before income tax effect	(2,266)	824	(20,110)
Income tax effect	719	(271)	6,381
Total	¥(1,547)	¥ 553	\$(13,729)
Land revaluation surplus:			
Reclassification adjustments to profit or loss	¥ —	¥ —	\$ —
Amount before income tax effect	—	—	—
Income tax effect	—	(2,703)	—
Total	¥ —	¥(2,703)	\$ —
Foreign currency translation adjustments:			
Adjustments arising during the year	¥(1,508)	¥ 3,244	\$(13,383)
Reclassification adjustments to profit or loss	—	—	—
Amount before income tax effect	(1,508)	3,244	(13,383)
Income tax effect	—	—	—
Total	¥(1,508)	¥ 3,244	\$(13,383)
Remeasurements of defined benefit plans:			
Adjustments arising during the year	¥(2,330)	¥ (362)	\$(20,678)
Reclassification adjustments to profit or loss	913	342	8,103
Amount before income tax effect	(1,417)	(20)	(12,575)
Income tax effect	419	(22)	3,718
Total	¥ (998)	¥ (42)	\$ (8,857)
Total other comprehensive income	¥(7,007)	¥ 2,520	\$(62,185)

20. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2016 and 2015, is as follows:

	Millions of yen	Thousands of Shares	Yen	U.S. dollars
	Net Income Attributable to Owners of the Parent	Weighted-Average Shares	EPS	
Year Ended March 31, 2016				
Basic EPS—Net income available to common shareholders	¥67,280	77,950	¥863.11	\$7.66
Effect of dilutive securities—Warrants		52		
Diluted EPS—Net income for computation	¥67,280	78,002	¥862.52	\$7.65

	Millions of yen	Thousands of Shares	Yen	U.S. dollars
	Net Income Attributable to Owners of the Parent	Weighted-Average Shares	EPS	
Year Ended March 31, 2015				
Basic EPS—Net income available to common shareholders	¥56,109	79,006	¥710.19	\$6.30
Effect of dilutive securities—Warrants		50		
Diluted EPS—Net income for computation	¥56,109	79,056	¥709.73	\$6.30

21. SUBSEQUENT EVENTS

(1) Purchase of Treasury Stock

At the board meeting held on April 28, 2016, a plan was approved to repurchase up to 1,300,000 shares of the Company's common stock (aggregated amount up to a ceiling of ¥20,200 million (\$179,269 thousand)) during May 2, 2016 through March 30, 2017 on the Tokyo Stock Exchange and retire the shares.

(2) Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2016, was approved at the Company's shareholders' meeting held on June 28, 2016:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥233 (\$2.07) per share	¥18,113	\$160,747

22. SEGMENT INFORMATION

Under the Accounting Standard for Segment Information Disclosures, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Description of Reportable Segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group.

The Company is engaged in the construction of apartments with the proposal of effective utilization of land by customers. Daito Building Management Co., Ltd., a consolidated subsidiary, enters into whole-building leases as a "Lease management trust system" whereby its subsidiary rents all apartments and subleases them to tenants. The Company plans strategies mainly for the business and develops business activities.

Therefore, the Group consists of three reportable segments as follows:

Construction: civil engineering, construction, and other related business

Real estate: whole-building lease, rent, agency, guarantee of tenant and management business

Finance: construction finance business for owner until financial institution executes long-term loan

(2) Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

(3) Information about Sales, Profit (Loss), Assets and Other Items

Millions of yen								
2016								
	Reportable Segment				Other	Total	Reconciliations	Consolidated
	Construction	Real Estate	Finance	Total				
Sales:								
Sales to external customers	¥595,365	¥774,808	¥ 5,579	¥1,375,752	¥35,892	¥1,411,644	¥ —	¥1,411,644
Intersegment sales or transfers	27	1,239	179	1,445	5,852	7,297	(7,297)	—
Total	¥595,392	¥776,047	¥ 5,758	¥1,377,197	¥41,744	¥1,418,941	¥ (7,297)	¥1,411,644
Segment profit (loss)	¥ 90,248	¥ 22,528	¥ 2,148	¥ 114,924	¥ 6,832	¥ 121,756	¥ (20,755)	¥ 101,001
Segment assets	105,611	266,560	65,233	437,404	54,699	492,103	236,446	728,549
Other:								
Depreciation	2,425	2,958	44	5,427	596	6,023	3	6,026
Impairment losses of assets	—	92	—	92	—	92	—	92
Increase in property, plant and equipment and intangible assets	6,972	17,208	241	24,421	1,988	26,409	6	26,415

Millions of yen								
2015								
	Reportable Segment				Other	Total	Reconciliations	Consolidated
	Construction	Real Estate	Finance	Total				
Sales:								
Sales to external customers	¥589,171	¥723,817	¥ 4,755	¥1,317,743	¥35,413	¥1,353,156	¥ —	¥1,353,156
Intersegment sales or transfers	1,484	1,069	13	2,566	6,360	8,926	(8,926)	—
Total	¥590,655	¥724,886	¥ 4,768	¥1,320,309	¥41,773	¥1,362,082	¥ (8,926)	¥1,353,156
Segment profit (loss)	¥ 85,305	¥ 15,552	¥ 1,957	¥ 102,814	¥ 6,389	¥ 109,203	¥ (17,683)	¥ 91,520
Segment assets	103,611	253,903	59,080	416,594	40,683	457,277	243,843	701,120
Other:								
Depreciation	1,053	3,244	12	4,309	540	4,849	2	4,851
Impairment losses of assets	—	145	-	145	-	145	—	145
Increase in property, plant and equipment and intangible assets	3,160	13,815	128	17,103	734	17,837	9	17,846

Thousands of U.S. dollars								
2016								
	Reportable Segment				Other	Total	Reconciliations	Consolidated
	Construction	Real Estate	Finance	Total				
Sales:								
Sales to external customers	\$5,283,679	\$6,876,180	\$ 49,513	\$12,209,372	\$318,530	\$12,527,902	\$ —	\$12,527,902
Intersegment sales or transfers	240	10,996	1,588	12,824	51,935	64,759	(64,759)	—
Total	\$5,283,919	\$6,687,176	\$ 51,101	\$12,222,196	\$370,465	\$12,592,661	\$ (64,759)	\$12,527,902
Segment profit (loss)	\$ 800,923	\$ 199,929	\$ 19,063	\$ 1,019,915	\$ 60,632	\$ 1,080,547	\$ (184,194)	\$ 896,353
Segment assets	937,265	2,365,637	578,923	3,881,825	485,436	4,367,261	2,098,385	6,465,646
Other:								
Depreciation	21,521	26,251	391	48,163	5,289	53,452	27	53,479
Impairment losses of assets	—	816	—	816	—	816	—	816
Increase in property, plant and equipment and intangible assets	61,874	152,716	2,139	216,729	17,643	234,372	53	234,425

Notes for the year ended March 31, 2016

- (1) The reconciliations in segment profit include elimination of intersegment trades of ¥338 million (\$3,000 thousand) and corporate expenses not allocated to a reportable segment of ¥21,093 million (\$187,194 thousand). Corporate expenses are mainly the Company's general administration expenses.
- (2) The reconciliations in segment assets include elimination of intersegment trades of ¥1,427 million (\$12,664 thousand) and corporate assets not allocated to a reportable segment of ¥237,872 million (\$2,111,040 thousand). Corporate assets are mainly short-term investments and investment securities held by the Company and other assets of administrative departments.
- (3) Consolidated segment profit is equal to operating income in the consolidated statement of income.

Notes for the year ended March 31, 2015

- (4) The reconciliations in segment profit include elimination of intersegment trades of ¥402 million and corporate expenses not allocated to a reportable segment of ¥18,085 million. Corporate expenses are mainly the Company's general administration expenses.
- (5) The reconciliations in segment assets include elimination of intersegment trades of ¥1,281 million and corporate assets not allocated to a reportable segment of ¥245,124 million. Corporate assets are mainly short-term investments and investment securities held by the Company and other assets of administrative departments.
- (6) Consolidated segment profit is equal to operating income in the consolidated statement of income.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Daito Trust Construction Co., Ltd.:

We have audited the accompanying consolidated balance sheet of Daito Trust Construction Co., Ltd. and its consolidated subsidiaries as of March 31, 2016, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daito Trust Construction Co., Ltd. and its consolidated subsidiaries as of March 31, 2016, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.


June 28, 2016

