

Translation

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FY2016, the year ended March 31, 2017

Flash Report on the Consolidated Results for the Year Ended March 31, 2017
[JGAAP]

May 25, 2017

Company Name: **DAIICHIKOSHO CO., LTD.**
 Stock Exchange Listing: Tokyo Stock Exchange
 Code Number: 7458
 URL: <http://www.dkkaraoke.co.jp>
 Representative: Saburo Hayashi, President
 Contact: Shigeki Kobayashi,
 Corporate Officer and General Manager, Accounting Department
 Phone: +81-3-3280-2151
 Date of the Ordinary General Meeting of Shareholders: June 23, 2017
 Start Date for Dividend Payment: June 26, 2017
 Scheduled Date to Submit the Securities Report: June 27, 2017
 Availability of Supplementary Briefing Material on Financial Results: Available
 Schedule of Financial Results Briefing Session: None

(Amounts below one million yen are truncated.)

1. Consolidated Performance for the Year Ended March 31, 2017 (From April 1, 2016, to March 31, 2017)

(1) Consolidated operating results (Percentage figures indicate increase/decrease from a year earlier.)

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended March 31, 2017	140,640	(0.5)	20,694	4.1	22,539	6.7
Year ended March 31, 2016	141,310	6.2	19,886	4.5	21,127	0.2

	Net income attributable to owners of parent		Basic earnings per share	Fully diluted net income per share
	Millions of yen	%	Yen	Yen
Year ended March 31, 2017	11,115	(11.8)	193.53	193.38
Year ended March 31, 2016	12,599	(7.7)	218.25	218.19

(Note) Comprehensive income:

Year ended March 31, 2017: 14,385 million yen 41.9 %

Year ended March 31, 2016: 10,134 million yen (22.6) %

	Return on equity	Ordinary income to total assets	Operating income to net sales
	%	%	%
Year ended March 31, 2017	9.7	12.3	14.7
Year ended March 31, 2016	11.4	11.7	14.1

(Reference) Equity in net income of unconsolidated subsidiaries and affiliates:

Year ended March 31, 2017: — million yen

Year ended March 31, 2016: — million yen

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of March 31, 2017	186,954	119,069	62.9	2,057.98
As of March 31, 2016	179,641	112,754	62.0	1,933.03

(Reference) Shareholders' equity:

As of March 31, 2017:	117,574 million yen
As of March 31, 2016:	111,402 million yen

(3) Consolidated cash flows

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Year ended March 31, 2017	33,076	(16,331)	(8,546)	61,254
Year ended March 31, 2016	27,100	(27,434)	(7,299)	52,247

2. Dividend

	Annual dividend				
	First Quarter	Second Quarter	Third Quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2016	—	54.00	—	54.00	108.00
Year ended March 31, 2017	—	54.00	—	55.00	109.00
Year ending March 31, 2018 (forecast)	—	55.00	—	55.00	110.00

	Aggregate amount of dividend (total)	Payout ratio (consolidated)	Ratio of dividends to net assets (consolidated)
	Millions of yen	%	%
Year ended March 31, 2016	6,224	49.5	5.7
Year ended March 31, 2017	6,243	56.3	5.5
Year ending March 31, 2018 (forecast)		48.0	

3. Forecast Consolidated Performance for FY2017, the Year Ending March 31, 2018 (From April 1, 2017, to March 31, 2018)

(Percentage figures indicate increase/decrease from a year earlier.)

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ending September 30, 2017	68,900	0.1	9,300	(4.5)	9,500	(5.1)
Year ending March 31, 2018 (full year)	141,200	0.4	20,800	0.5	21,300	(5.5)

	Net income attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Yen
Six months ending September 30, 2017	5,800	38.0	101.52
Year ending March 31, 2018 (full year)	13,100	17.9	229.30

*Notes

- (1) Significant changes in subsidiaries during the period under review (changes to specific subsidiaries resulting from changes in scope of consolidation): None
- (2) Changes in accounting standard, accounting estimation change and error correction
- 1) Changes due to changes in accounting standard: Yes
 - 2) Changes due to changes in accounting standard except (2) 1): None
 - 3) Changes due to accounting estimation change: None
 - 4) Error correction: None

(3) Number of common shares issued

- 1) Number of shares issued (including treasury shares)
- 2) Number of shares of treasury shares
- 3) Average number of shares during the period

As of March 31, 2017	57,434,200 shares	As of March 31, 2016	57,634,200 shares
As of March 31, 2017	303,168 shares	As of March 31, 2016	3,070 shares
Year ended March 31, 2017	57,436,068 shares	Year ended March 31, 2016	57,728,772 shares

(Reference) Outline of Nonconsolidated Financial Results

1. Nonconsolidated Performance for the Year Ended March 31, 2017 (From April 1, 2016, to March 31, 2017)

(1) Nonconsolidated operating results

(Percentage figures indicate increase/decrease from a year earlier.)

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended March 31, 2017	101,348	(1.8)	15,499	8.2	18,371	9.2
Year ended March 31, 2016	103,167	10.3	14,323	2.8	16,817	2.2

	Net income		Basic earnings per share	Fully diluted net income per share
	Millions of yen	%	Yen	Yen
Year ended March 31, 2017	9,617	(8.6)	167.45	167.32
Year ended March 31, 2016	10,518	(8.2)	182.20	182.15

(2) Nonconsolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of March 31, 2017	137,934	75,085	54.3	1,311.15
As of March 31, 2016	130,942	70,641	53.9	1,224.33

(Reference) Shareholders' equity:

As of March 31, 2017: 74,907 million yen

As of March 31, 2016: 70,559 million yen

* These consolidated financial results are outside the scope of audit.

* Explanation for the appropriate use of performance forecasts and other special notes:

The statements regarding forecast of financial results in this report are based on the information that is available, as well as estimates, assumptions and projections that are believed to be reasonable at the time of publication. Therefore, there might be cases in which actual results greatly differ from forecast values.

Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheets

	(Millions of yen)	
	FY2015	FY2016
	(As of March 31, 2016)	(As of March 31, 2017)
Assets		
Current assets		
Cash and deposits	51,478	62,019
Notes and accounts receivable-trade	7,113	6,792
Securities	1,007	—
Inventories	6,243	6,158
Deferred tax assets	1,110	1,076
Other	5,153	4,808
Allowance for doubtful accounts	(149)	(181)
Total current assets	71,956	80,673
Non-current assets		
Property, plant and equipment		
Buildings and structures	13,941	15,103
Accumulated depreciation	(8,802)	(8,949)
Buildings and structures, net	5,138	6,154
Karaoke equipment for rental	41,774	44,182
Accumulated depreciation	(30,830)	(33,473)
Karaoke equipment for rental, net	10,943	10,708
Karaoke cabin and restaurant facilities	45,087	46,328
Accumulated depreciation	(25,975)	(27,872)
Karaoke cabin and restaurant facilities, net	19,112	18,456
Land	31,595	36,714
Other	5,244	5,472
Accumulated depreciation	(4,387)	(4,352)
Other, net	856	1,119
Total property, plant and equipment	67,646	73,153
Intangible assets		
Goodwill	1,882	1,321
Other	5,971	5,807
Total intangible assets	7,853	7,129
Investments and other assets		
Investment securities	9,997	4,959
Long-term loans receivable	502	456
Deferred tax assets	5,547	4,480
Lease and guarantee deposits	14,250	14,267
Other	1,922	1,871
Allowance for doubtful accounts	(36)	(37)
Total investments and other assets	32,184	25,998
Total non-current assets	107,684	106,280
Total assets	179,641	186,954

DAIICHIKOSHO CO., LTD.

(Millions of yen)

	FY2015 (As of March 31, 2016)	FY2016 (As of March 31, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	4,048	3,343
Short-term loans payable	4,201	14,163
Current portion of bonds	—	3,500
Accounts payable-other	7,375	9,315
Income taxes payable	3,237	3,206
Provision for bonuses	1,086	1,096
Other	3,770	3,566
Total current liabilities	23,718	38,191
Non-current liabilities		
Bonds payable	10,000	6,500
Long-term loans payable	23,362	13,268
Deferred tax liabilities	74	75
Provision for directors' retirement benefits	1,263	1,053
Net defined benefit liability	5,398	5,775
Other	3,069	3,021
Total non-current liabilities	43,168	29,693
Total liabilities	66,886	67,884
Net assets		
Shareholders' equity		
Capital stock	12,350	12,350
Capital surplus	4,001	4,003
Retained earnings	98,329	102,649
Treasury shares	(13)	(1,368)
Total shareholders' equity	114,668	117,634
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(2,074)	1,033
Revaluation reserve for land	(733)	(733)
Foreign currency translation adjustment	108	80
Remeasurements of defined benefits plans	(566)	(440)
Total accumulated other comprehensive income	(3,265)	(60)
Subscription rights to shares	81	178
Non-controlling interests	1,270	1,316
Total net assets	112,754	119,069
Total liabilities and net assets	179,641	186,954

**(2) Consolidated Statements of Income and Comprehensive Income
(Consolidated Statements of Income)**

	(Millions of yen)	
	FY2015 (From April 1, 2015, to March 31, 2016)	FY2016 (From April 1, 2016, to March 31, 2017)
Net sales	141,310	140,640
Cost of sales	86,918	86,210
Gross profit	54,392	54,430
Selling, general and administrative expenses		
Advertising expenses	2,285	2,005
Promotion expenses	1,850	1,455
Packing and freight expenses	982	875
Directors' compensations	1,587	1,494
Provision for directors' retirement benefits	201	158
Salaries and bonuses	13,712	13,596
Provision for bonuses	863	844
Retirement benefit expenses	579	604
Rent expenses	1,273	1,254
Depreciation	648	611
Other	10,520	10,835
Total selling, general and administrative expenses	34,505	33,736
Operating income	19,886	20,694
Non-operating income		
Interest income	746	264
Cooperative monetary aid received	335	373
Foreign exchange gains	—	766
Other	937	968
Total non-operating income	2,018	2,372
Non-operating expenses		
Interest expenses	339	331
Foreign exchange losses	228	—
Other	209	196
Total non-operating expenses	777	528
Ordinary income	21,127	22,539
Extraordinary income		
Gain on sales of non-current assets	25	34
Gain on acquisition of non-current assets	—	370
Gain on sales of investment securities	—	4
Total extraordinary income	25	408
Extraordinary losses		
Loss on disposal of non-current assets	306	417
Impairment loss	603	1,431
Loss on sales of investment securities	—	8
Loss on valuation of investment securities	—	3,365
Total extraordinary losses	910	5,224
Income before income taxes and minority interests	20,242	17,723
Income taxes-current	7,515	6,627
Income taxes-deferred	61	(84)
Total income taxes	7,576	6,542
Net income	12,666	11,180
Net income attributable to non-controlling interests	66	65
Net income attributable to owners of parent	12,599	11,115

(Consolidated Statements of Comprehensive Income)

	(Millions of yen)	
	FY2015 (From April 1, 2015, to March 31, 2016)	FY2016 (From April 1, 2016, to March 31, 2017)
Net income	12,666	11,180
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,392)	3,107
Foreign currency translation adjustment	(101)	(28)
Remeasurements of defined benefit plans	(37)	125
Total other comprehensive income	(2,531)	3,204
Comprehensive income	10,134	14,385
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	10,067	14,320
Comprehensive income attributable to non-controlling interests	66	65

(3) Consolidated Statements of Changes in Net Assets
FY2015 (from April 1, 2015, to March 31, 2016)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	12,350	4,001	93,439	(8)	109,782
Cumulative effects of changes in accounting policies					—
Restated balance	12,350	4,001	93,439	(8)	109,782
Changes of items during period					
Dividends of surplus			(6,013)		(6,013)
Net income attributable to owners of parent			12,599		12,599
Purchase of treasury shares				(1,700)	(1,700)
Retirement of treasury shares			(1,696)	1,696	—
Purchase of shares of consolidated subsidiaries					—
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	4,890	(4)	4,885
Balance at end of current period	12,350	4,001	98,329	(13)	114,668

	Accumulated other comprehensive income					Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefits plans	Total accumulated other comprehensive income			
Balance at beginning of current period	318	(733)	210	(528)	(733)	—	1,215	110,264
Cumulative effects of changes in accounting policies								—
Restated balance	318	(733)	210	(528)	(733)	—	1,215	110,264
Changes of items during period								
Dividends of surplus								(6,013)
Net income attributable to owners of parent								12,599
Purchase of treasury shares								(1,700)
Retirement of treasury shares								—
Purchase of shares of consolidated subsidiaries								—
Net changes of items other than shareholders' equity	(2,392)	—	(101)	(37)	(2,531)	81	54	(2,394)
Total changes of items during period	(2,392)	—	(101)	(37)	(2,531)	81	54	2,490
Balance at end of current period	(2,074)	(733)	108	(566)	(3,265)	81	1,270	112,754

FY2016 (from April 1, 2016, to March 31, 2017)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	12,350	4,001	98,329	(13)	114,668
Cumulative effects of changes in accounting policies			228		228
Restated balance	12,350	4,001	98,557	(13)	114,896
Changes of items during period					
Dividends of surplus			(6,213)		(6,213)
Net income attributable to owners of parent			11,115		11,115
Purchase of treasury shares				(2,166)	(2,166)
Retirement of treasury shares			(811)	811	—
Purchase of shares of consolidated subsidiaries		2			2
Net changes of items other than shareholders' equity					
Total changes of items during period	—	2	4,091	(1,355)	2,738
Balance at end of current period	12,350	4,003	102,649	(1,368)	117,634

	Accumulated other comprehensive income					Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefits plans	Total accumulated other comprehensive income			
Balance at beginning of current period	(2,074)	(733)	108	(566)	(3,265)	81	1,270	112,754
Cumulative effects of changes in accounting policies								228
Restated balance	(2,074)	(733)	108	(566)	(3,265)	81	1,270	112,983
Changes of items during period								
Dividends of surplus								(6,213)
Net income attributable to owners of parent								11,115
Purchase of treasury shares								(2,166)
Retirement of treasury shares								—
Purchase of shares of consolidated subsidiaries								2
Net changes of items other than shareholders' equity	3,107	—	(28)	125	3,204	96	46	3,347
Total changes of items during period	3,107	—	(28)	125	3,204	96	46	6,086
Balance at end of current period	1,033	(733)	80	(440)	(60)	178	1,316	119,069

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	FY2015 (From April 1, 2015, to March 31, 2016)	FY2016 (From April 1, 2016, to March 31, 2017)
Cash flows from operating activities		
Income before income taxes	20,242	17,723
Depreciation	15,901	16,187
Impairment loss	603	1,431
Increase (decrease) in provision for directors' retirement benefits	(1,163)	(210)
Interest and dividend income	(869)	(389)
Interest expenses	339	331
Foreign exchange losses (gains)	65	(815)
Gain on acquisition of non-current assets	—	(370)
Loss (gain) on sales of investment securities	—	4
Loss (gain) on valuation of investment securities	—	3,365
Loss (gain) on disposal of non-current assets	280	383
Decrease (increase) in notes and accounts receivable-trade	(113)	318
Decrease (increase) in inventories	655	41
Transfer of cost of sales on karaoke equipment for rental	141	105
Increase (decrease) in notes and accounts payable-trade	(651)	(680)
Increase (decrease) in accounts payable-other	(928)	1,252
Other, net	1,371	950
Subtotal	35,877	39,631
Interest and dividend income received	901	521
Interest expenses paid	(340)	(278)
Income taxes paid	(9,337)	(6,885)
Other, net	—	87
Net cash provided by (used in) operating activities	27,100	33,076
Cash flows from investing activities		
Payments into time deposits	(149)	(594)
Proceeds from withdrawal of time deposits	93	69
Purchase of property, plant and equipment	(19,674)	(16,831)
Proceeds from sales of property, plant and equipment	113	75
Purchase of intangible assets	(3,519)	(3,592)
Payments for acquisition of video licenses	(2,264)	(1,764)
Purchase of investment securities	(159)	—
Proceeds from sales of investment securities	0	6,135
Payments for transfer of business	(1,577)	—
Payments of loans receivable	(604)	(450)
Collection of loans receivable	632	509
Payments for lease and guarantee deposits	(740)	(465)
Proceeds from collection of lease and guarantee deposits	632	548
Other, net	(216)	30
Net cash provided by (used in) investing activities	(27,434)	(16,331)

DAIICHIKOSHO CO., LTD.

(Millions of yen)

	FY2015 (From April 1, 2015, to March 31, 2016)	FY2016 (From April 1, 2016, to March 31, 2017)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	355	(49)
Proceeds from long-term loans payable	2,670	2,385
Repayments of long-term loans payable	(2,573)	(2,467)
Cash dividends paid	(6,014)	(6,214)
Purchase of treasury shares	(1,700)	(2,166)
Other, net	(35)	(33)
Net cash provided by (used in) financing activities	(7,299)	(8,546)
Effect of exchange rate change on cash and cash equivalents	(127)	809
Net increase (decrease) in cash and cash equivalents	(7,760)	9,007
Cash and cash equivalents at beginning of period	60,007	52,247
Cash and cash equivalents at end of period	52,247	61,254

Notes to the Consolidated Financial Statements

(Segment Information)

FY2015 (From April 1, 2015, to March 31, 2016)

(Millions of yen)

	Reportable segments				Other	Total	Adjusted amount (Note)	Posted amount to the consolidated statements of income
	Commercial karaoke	Karaoke cabin and restaurant	Music software	Subtotal				
Sales								
Sales to third parties	68,557	56,759	9,027	134,344	6,966	141,310	—	141,310
Intersegment sales and transfers	—	—	—	—	—	—	—	—
Total	68,557	56,759	9,027	134,344	6,966	141,310	—	141,310
Segment income (Operating income)	14,145	7,158	189	21,492	1,517	23,010	(3,123)	19,886
Other items								
Depreciation and amortization	9,797	3,498	49	13,345	412	13,758	16	13,774
Amortization of goodwill	2	491	—	494	—	494	—	494

Note: The (3,123) million yen adjustment posted to segment income is primarily composed of general and administrative expenses incurred by the administrative department at the head office that are not attributable to any particular reportable segment.

FY2016 (From April 1, 2016, to March 31, 2017)

(Millions of yen)

	Reportable segments				Other	Total	Adjusted amount (Note)	Posted amount to the consolidated statements of income
	Commercial karaoke	Karaoke cabin and restaurant	Music software	Subtotal				
Sales								
Sales to third parties	67,076	57,227	8,718	133,022	7,618	140,640	—	140,640
Intersegment sales and transfers	—	—	—	—	—	—	—	—
Total	67,076	57,227	8,718	133,022	7,618	140,640	—	140,640
Segment income (Operating income)	14,860	7,536	20	22,417	1,426	23,843	(3,149)	20,694
Other items								
Depreciation and amortization	9,987	3,394	37	13,419	495	13,915	54	13,969
Amortization of goodwill	2	435	—	437	—	437	—	437

Note: The (3,149) million yen adjustment posted to segment income is primarily composed of general and administrative expenses incurred by the administrative department at the head office that are not attributable to any particular reportable segment.

(Changes to Accounting Policies)

(Revised Implementation Guidance on Recoverability of Deferred Tax Assets)

From the fiscal year under review, the Company has applied the “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan (ASBJ) Accounting Statement No.26 of March 28, 2016; hereinafter called the “Revised Implementation Guidance on Recoverability”), and has revised the part of accounting method regard to the recoverability of deferred tax assets.

The Revised Implementation Guidance on Recoverability has been applied following the transitional handling prescribed in the paragraph 49 (4) of the Implementation Guidance on Recoverability, and the difference between the amount of deferred tax assets in case where the paragraph 49 (3) 1 to 3 of the Implementation Guidance on Recoverability was applied as of the beginning of the fiscal year under review and the amount of deferred tax assets at the previous fiscal year-end has been added to retained earnings at the beginning of the fiscal year under review.

As a result, deferred tax assets (Investments and other assets) and retained earnings at the beginning of the fiscal year under review increased by 228 million yen respectively.

As the impact was reflected in net assets at the beginning of the fiscal year under review, the beginning balance of retained earnings increased by 228 million yen on the consolidated statements of changes in net assets.

(The change in depreciation method due to Tax Reform 2016)

Accompanying the revisions in Corporate Tax Law, the Company has applied the “Practical Solution on a change in depreciation method due to Tax Reform 2016” (Practical Issues Task Force No.32 of June 17, 2016) from the fiscal year under review.

Depreciation method pertaining to facilities attached to buildings and structures acquired on or after April 1, 2016 has changed to the straight - line method from the declining- balance method.

This change in accounting policy has minimal impact on profit and loss for the fiscal year under review.