

Bridge Report INTERTRADE Co., Ltd. (3747)

 Takahiro Ozaki, President	Company	INTERTRADE Co., Ltd.	
	Code No.	3747	
	Exchange	TSE, Second Section	
	Industry	Information, Communications	
	President	Takahiro Ozaki	
	HQ Address	Kayabacho First Building, 1-17-21 Shinkawa, Chuo-ku, Tokyo	
	Business Description	The Company is specialized in development and maintenance of FX systems and off-exchange transaction systems, with a focus on securities dealing systems. New endeavors include group management system development and healthcare business.	
	Year End	September	
	URL	http://www.itrade.co.jp/	

— Stock Information —

Share Price	Number of shares issued (excluding treasury shares)		Total market cap	ROE (Actual)	Trading Unit
¥294	7,185,600 shares		¥2,112 million	-	100 shares
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (actual)	PBR (actual)
-	-	¥1.67	176.0x	¥194.91	1.5x

* Share price as of closing on January 5, 2018. Number of shares outstanding as of most recent quarter end, excluding treasury shares. ROE and BPS are the values for the previous term.

— Consolidated Earnings Trends —

(Units: Million Yen)

Fiscal Year	Sales	Operating Profit	Current Profit	Parent Net Profit	EPS (¥)	Dividend (¥)
September 2014	2,463	-107	-103	-119	-16.67	3.00
September 2015	2,459	-165	-164	-331	-46.08	0.00
September 2016	2,358	11	14	7	0.98	0.00
September 2017	2,017	-458	-459	-334	-	0.00
September 2018 Est.	2,400	20	17	12	1.67	0.00

* Estimates are those of the Company. From the fiscal year ended September 2016, the definition for net profit has been changed to net profit attributable to parent company shareholders (Abbreviated as parent net profit).

This Bridge Report reports earnings results of INTERTRADE Co., Ltd. for the fiscal year ended September 2017 and the outlook for earnings estimates for the fiscal year ending September 2018.

1. Company Overview
2. Achievements in "IT-Sparassis Crispa Project" (Healthcare Business)
3. Fiscal Year September 2017 Earnings Results
4. Fiscal Year September 2018 Earnings Estimates
5. Conclusions

Key Points

•During the FY September 2017, sales declined 14.5% from the previous fiscal year, and the operating profit of 11 million yen in the previous fiscal year turned to an operating loss of 458 million yen. Although the expansion of sales channels and sale of raw materials and OEM products that the Company started in the previous fiscal year contributed to a year-on-year sales growth of 13.4% in the healthcare business, sales from the financial solutions business shrank 19.4% from the previous fiscal year. With regard to profit and loss, while sales from the highly profitable financial solutions business decreased, a valuation loss on inventory and prior investment in the healthcare business imposed burdens.

•For the FY September 2018, sales are estimated to rise 19.0% from the previous fiscal year, and an operating profit of 20 million yen is expected. Although the Company will reach a plateau regarding the financial solutions business while striving to expand its businesses to new fields, the repeat projects of “GroupMAN@IT e²,” for which orders were placed in the previous fiscal year, will make contributions to doubling sales in the business solutions business. Sales growth in the healthcare business is also expected thanks to the effects of the sales channel expansion. It is predicted that operating profit and loss will go into the black by offsetting research and development investment in the financial solutions and healthcare businesses.

•As symbolized by “Fintech,” the services of financial instruments transactions are being developed in an ever-progressing manner; therefore, the Company believes that “use of the blockchain technology will eliminate the barriers between financial institutions and business firms in the future.” This will allow the Company, whose major clients have been securities companies, to broaden its customer base to business firms, and accordingly, the synergy between the financial solutions business and the business solutions business targeted at general business firms can be expected. Meanwhile, in the healthcare business, the discovery of a new physiologically active substance, “silent estrogen,” seems to be increasing interest in *sparassis crispa* among food manufacturers, cosmetics manufacturers, and pharmaceutical companies. The business of pharmaceutical manufacturing of *sparassis crispa* will be fully launched in Bangladesh, starting in 2018.

1. Company Overview

INTERTRADE mainly operates the financial solutions business with a focus on development and maintenance services for securities dealing systems. It also operates the business solution business including development of group management packaged software, health care business including manufacturing and sales of supplements and cosmetic products using *sparassis crispa*, and the complimentary proprietary fund management business within the financial solutions business.

The INTERTRADE Group consists of the Company, the following 4 consolidated subsidiaries: 1) BSJ Co., Ltd. (66.7% ownership) which develops and maintains the integrated business management platform called “GroupMAN@IT e²” (the business solutions business); 2) Laboag Co., Ltd. (100% ownership) which manufactures and processes *sparassis crispa*; 3) Kenko Plaza Pal Co., Ltd. (100% ownership) which sells *sparassis crispa*-related products via the Internet and catalog mail orders; and 4) TRADEX Co., Ltd. (100% ownership) which operates the proprietary fund management business, and Iter Corporation (21% ownership) which develops and sells solutions, products, and services using the Fintech-related technology. Laboarg was merged into Kenko Plaza Pal, and accordingly, the company name was changed to INTERTRADE HEALTHCARE Co., Ltd. on January 1, 2018.

【Corporate History】

In 1998, the Acts for the Financial System Reform was established under the administration of Prime Minister Hashimoto. In the same year, Internet securities such as E-Trade and Charles Shwab emerged in the U.S. It was also the time when terms such as “Financial Big Ban” and “Net-venture” began to be used more commonly. Under these circumstances, based on the belief that the stock trading method would drastically change as a result of the Internet and further liberalization of financial services (e.g. transition to e-trade), INTERTRADE was established in January 1999 by Takahiro Ozaki, current President, and Kazuya Nishimoto, current vice-President, together with the members who previously worked at Nihon Kangyo Kakumaru Securities (Currently Mizuho Investors Securities Co., Ltd.).

The Company started as a consulting company for front systems and expanded its business to sell packaged software for dealing/trading. In

September 2000, it began sales of “Trade Office-SX”, a packaged dealing system software for securities companies. At that time, the technology for e-trading was still under development, and there were only a handful of vendors that were specialized in the front systems for stock trading for financial instructions. Because of its affordable front system with excellent operability and functionality, “Trade Office-SX” was sought after by many security companies’ equity department. The “Information distribution service” (distributing trade information of major stock exchanges such as Tokyo Stock Exchange), commenced in March 2003, grew steadily. In September 2004, the Company was listed on the Mothers Section of the Tokyo Stock Exchange. Its market share further increased by the sales of “TIGER Trading System”, the successor of “Trade Office-SX” launched in August 2007. Aiming to offer comprehensive solutions for securities companies, the Company also achieved strong business results in the realm of back office systems for securities companies (Client information and account reserves management systems) and middle office systems (Risk management systems to measure risks of contract positions). In January 2005, it launched “ITMonster”, the world’s only auction-style private trading system (PTS).

From 2012 onwards, the Company diversified its businesses. The management solutions development company BSJ Co., Ltd. was turned into a subsidiary in October 2012. In order to grow the healthcare business (previously known as the food service business), the company renamed and restructured its subsidiary INTERTRADE Asset Management Co., Ltd. to Laboag Co., Ltd. In 2013, Pal Co., Ltd. (Currently known as Kenko Plaza Pal Co., Ltd.) was turned into a subsidiary to secure sales channels for the healthcare business,

【Business Contents】

The Company’s businesses are composed of the following: the financial solutions business which designs, develops, and sells packaged front systems for securities businesses with securities companies as clients; the business solutions business that designs, develops, and sells corporation-oriented packaged systems with general business firms as clients; the healthcare business which develops and sells healthcare products, such as supplements, and cosmetics, and procures and sells health-related products, to consumers; and the proprietary fund management business which focuses on the investment education business which is aimed at educating individual investors through various approaches, such as holding investment education seminars and disseminating trade information. The sales composition ratio of each business segment for the FY September 2017 was as follows: 76.4% for the financial solutions business; 10.0% for the business solutions business; 13.5% for the healthcare business; and 0.1% for the proprietary fund management business.

Financial Solutions Business

In addition to the securities dealing system “Prospect,” the retail foreign exchange trading system “fortissimo,” and the off-exchange transaction system “ITMonster,” which have been introduced to the general trading participants of Tokyo Stock Exchange, the Company designs, develops, and sells “J1” that is a system for connection with systems used in various stock exchanges, including arrowhead, ToSTNeT, and J-GATE, “MEX&MSR III” which can perform purchase and selling simulations and tuning, such as algorithm programs, and “DPSS” which provides various kinds of information necessary for intelligence trading on trading systems in real-time, chart, and historical-analysis formats. The Company also engages in design, development, and sale of middleware and communications software.

Lately, the Company has been propelling development of “Spider,” a library-type solution that componentizes necessary processes and application functions and provides only system functions that are well suited to users’ tasks, by using the knowhow acquired from the aforementioned products (“Spider” will be offered as a cloud-based ASP).

Business Solutions Business

The Company aims to secure stable sales and profit based on the following 3 pillars: 1) the packaged services with a focus on internally developed integrated business management platforms “GroupMAN@IT e²” (or “e²”) and “Gadics MAN@IT”; 2) the system engineering services (SES) which mainly provides maintenance and operation; and 3) the support center services that offer system design, development, and establishment, and to provide comprehensive multi-vendor, multi-product, and multi-business system support services. BSJ Co., Ltd. one of the Company’s consolidated subsidiaries, engages in development and maintenance of “e².”

Companies often use multiple operational systems for accounting, human resources, payroll, facilities, and materials, and, in many instances, each system is sold by different vendors for each task, or a parent company and its subsidiaries use different systems sold by different vendors for similar tasks, which is making it difficult to control management information, or in other words, business analysis of the entire corporate group through data sharing of each system, in an integrated manner within a company or a corporate group. This is why many companies invest a great amount in constructing a separate system for coordination (major system companies are extremely negative about connecting their own

systems with other companies' systems). In contrast, as "GroupMAN@IT e" is equipped with a highly flexible interface called "FLEX I/O," it is possible to connect various data of different vendors or systems. On the other hand, "Gadics MAN@IT" is not offered as a function, but, as a "virtual engineer," it supports operation and management of personal computers at low cost on a cloud basis from 4 aspects, including "collection," "decision making," "implementation," and "confirmation."

Healthcare Business

In the healthcare business, the Company engages in various activities, ranging from cultivation of *sparassis crispa* to sale of *sparassis crispa*-related products (i.e., supplements, health food products, and cosmetic products) under its own brand name, OEM supply, and sale of raw materials for use in cosmetic products that are manufactured using ingredients derived from *sparassis crispa*, both in and outside of Japan. With INTERTRADE taking charge of managing the overall healthcare business, including marketing, Laboarg Co., Ltd. manufactures and processes *sparassis crispa*, and Kenko Plaza Pal Co., Ltd. sells *sparassis crispa*-related products via the Internet and catalog mail orders. Furthermore, the Company is currently endeavoring to obtain scientific evidence concerning immune-stimulating functions of the components derived from *sparassis crispa* through industry-government-academia collaborative research (to be described later in this report). The human clinical trials carried out in 2013 have confirmed not only that the *sparassis crispa*-derived component "LB-Scr" is effective against type-II diabetes, Type-I allergic diseases, and liver function indicators (γ -GTP, GOT, and GPT), and changes in skin type, but also that, through studies of adverse events, it is safe and causes no side effect.

Sparassis Crispa

Sparassis crispa thrives naturally in Japan, Europe and America in coniferous forests at an altitude of 1,000 meters in which edible mushrooms typically does not grow under ordinary circumstances, which makes it very rare to find naturally grown *sparassis crispa*; therefore, it is called "rare mushroom." In addition, although typical mushrooms are in brown, *sparassis crispa* is in beautiful white to pale yellow, as if fluffy white flowers are blooming. *Sparassis crispa* has over 35% of the β -glucan content, which plays a particularly important role in maintaining good health (compared to *agaricus* mushrooms which has 12.5% of the β -glucan content), and besides, it is rich in myriad effective components, such as amino acids and trehalose. Moreover, *sparassis crispa* is edible.

2. Achievements in "IT-Sparassis Crispa Project" (Healthcare Business)

The Company will endeavor to obtain scientific evidence concerning the components derived from *sparassis crispa*, and increase the sales volume of its original products (such as health food products, and countermeasure products to deal with lifestyle diseases, which are manufactured using effective components) backed by scientific evidence, OEM products, and raw materials both inside and outside Japan. In Japan, in addition to sale via the Internet and catalog mail orders, the Company sells such products directly at various places, including supermarkets, department stores, beauty salons, retailers, pharmacies, and veterinary clinics, and supplies OEM products and sells raw materials for use in cosmetic products. Meanwhile, in the overseas markets, the Company not only engages in wholesale of such products to mail-order companies and retailers in Russia and Dubai but also is propelling a project to pharmaceutically manufacture *sparassis crispa* in People's Republic of Bangladesh.

In Russia, the Company's products are sold, through RegMed Prof. (a distributor), by 4 companies, including "36.6," the largest retailer of medical and cosmetic products, "SUPRAMED," a retailer of medical and cosmetic products, "Beauty Health," one of the major online shopping companies, and "Studio Modema," a large home shopping company mainly in Eastern Europe, while the Company sells wholesale supplements of *sparassis crispa* to retailers in Dubai.



It is difficult to grow *sparassis crispa*, due to which the annual production is 100 tons compared with the production of 150,000 tons of *Enoki* mushrooms. The Company, therefore, started in-house cultivation of *sparassis crispa* with the aim of developing techniques and knowhow of artificial cultivation. Seeing the light at the end of the tunnel regarding artificial cultivation, the Company launched human clinical trials for examining safety and functionality for about a year, starting in January 2013. It has been confirmed, through the trials, that the components derived from *sparassis crispa* effectively reduce the blood concentration of HbA1c (Hemoglobin A1c) which is closely related to diabetes (secondary effectiveness against skin-type changes, such as chromatosis, has also been confirmed).

【IT-Sparassis Crispa Project: Research conducted jointly with National Institute of Advanced Industrial Science and Technology (AIST) and Tokyo Women's Medical University (TWMU)】

Regardless of a number of physiological activities, such as anti-tumor, hypoglycemic, and immunoreactive effects, it has often been reported that the useful component of *sparassis crispa* is β -glucan, a macromolecular polysaccharide (although β -glucan is not digested or absorbed in the human body, it shows a multitude of physiological activity, such as activation of the immune system by affecting the intestinal immunity), and other useful components have not been elucidated; however, the results of the human clinical trials conducted by the Company in 2013 have revealed several phenomena that cannot be explained only with β -glucan.

The Company, thus, launched a project named “IT-Sparassis Crispa Project” jointly with Tokyo Women's Medical University (TWMU) and National Institute of Advanced Industrial Science and Technology (AIST), which can carry out cellular- and molecular-level studies, in order to search for active ingredients of *sparassis crispa* on a cellular and molecular scale and discover the mechanism that makes such ingredients effective. The research includes the following 5 items: (1) safety tests of *sparassis crispa* extract, (2) activity tests of *sparassis crispa* extract, (3) various kinds of molecular-level analysis of *sparassis crispa*, (4) exploration of effective components of *sparassis crispa*, and (5) genome analysis of *sparassis crispa*. The Company supplies components derived from *sparassis crispa*, TWMU takes charge of clinical trials to assess safety and functionality, and AIST shares the role of research and component analysis at the cellular and molecular level using gene chips. Collaboratively, the 3 organizations are making efforts to prove the hypothesis and obtain an international patent together.

Achievements in the Research of “IT-Sparassis Crispa Project” as of March 22, 2017

The organizations have not only successfully standardized *sparassis crispa* but also discovered a new physiologically active component derived from *sparassis crispa* extract (it has been revealed that *sparassis crispa* contains “silent estrogen,” a compound that can be alternative to a female hormone). They have applied for a patent related to the research results and continued to study the effectiveness.

Key Points

(1) Determination of the whole genome (the genetic sequence) of *sparassis crispa*

The whole genome (the genetic sequence) of *sparassis crispa* has been determined, which has enabled establishment of *sparassis crispa* supplied by the Company as a type strain and use of it in future for search after effective components of *sparassis crispa* and quality control.

(2) Discovery of a new physiologically active compound in *sparassis crispa*

A compound called “silent estrogen” (an estrogen-like compound: a chemical compound which is recognized that it functions in a similar manner to estrogen), which displays estrogenic activity (to be described later in this report) but does not proliferate cells, has been discovered in the extract from the type strain of *sparassis crispa*. “Silent estrogen” does not exhibit any weaknesses of estrogen (a female hormone) while having advantages of estrogen. Estrogen formulation that uses the components of estrogen are employed in medical treatment of menopausal disorders and arteriosclerosis in women, which are allegedly caused by hormonal imbalance attributed to a decline in estrogen; however, as estrogen has a function of cell proliferation, there is a risk that it may activate tumor cells of the breast, endometrial, and other cancers. In contrast, while “silent estrogen” has estrogen-like physiologically active functions, it does not facilitate the proliferation of cancer cells.

Research Results

(1) Establishment of the type strain of *sparassis crispa* through whole genome analysis

The first whole genome analysis of *sparassis crispa* was carried out, and the whole genome sequence was determined. Specifically, it has uncovered that the total genome length is about 34Mb (mega base pair) and the genome information contains about 10,000 genes, and the data of the whole genome obtained through the analysis have been registered to National Institution of Genetics (DNA Data Bank of Japan (DDBJ)). As it is not easy to distinguish strains of *sparassis crispa*, two or more taxa are confused in some cases; however, the determination of the whole genome sequence and establishment of the type strain will make it easier to stably supply *sparassis crispa* and to perform quality control regarding the effectiveness and amount of the useful components. In addition, information on effective genes contained in the analytical data of the whole genome will become available.

(2) Estrogenic effects of *sparassis crispa*

AIST has developed a new method for measuring hormonal activity using DNA chips (an instrument for analyzing gene expression) and

assessed multifarious chemicals and natural active ingredients. The strengths of AIST's hormonal activity measurement method include measurement results with higher sensitivity than those of the traditional cellular activity assessment method and the ability to detect estrogen-like compounds that exhibit no cell proliferation activity, which was not detectable in the past.

Using ASIT's hormonal activity measurement technique, it has been confirmed that *sparassis crispa* has effects on genes that are similar to those of estrogen (confirmed at the protein level) and it does not have any cell proliferation activity that estrogen displays. Consequently, it has been found out that *sparassis crispa* extract can be used in estrogen therapy and drug discovery, and new types of hormone drugs (estrogen formulation) which pose no risk of cancer can be developed using *sparassis crispa* extract.

Estrogen is a female hormone whose physiological functions (estrogenic activity) include stimulation of growth of mammary glandular cells, ovulation control in the ovary, feminization of the central nervous system (consciousness), and prevention of arteriosclerosis, and is characterized by a rapid reduction before the menopause. An insufficient amount of estrogen causes menopause and arteriosclerosis. Although estrogenic formulation manufactured using estrogen and estrogen-like compounds are used for medical treatment of such symptoms, there is a risk that development of tumor cells of the breast, endometrial, and other cancers may be facilitated because estrogen proliferates cells. In contrast, the estrogen-like compound contained in *sparassis crispa* is a chemical, called "silent estrogen," which has all or part of the effects that estrogen shows, exhibiting no cell proliferation effects while displaying physiological activity similar to that of estrogen (which means that it does not encourage proliferation of cancerous cells); therefore, in addition to estrogenic formulation, anti-estrogen agents, and anti-arteriosclerosis agents, it is expected that silent estrogen can be used for anti-cancer agents and health food products.

(3) Effects of *sparassis crispa* on lipid metabolism improvement

The incubated and dried matter derived from *sparassis crispa* was administered orally to mice every day for 10 consecutive weeks and then their lipid metabolism was assessed through biochemical examination of blood. The results indicate that the values of both total cholesterol and free fatty acids showed a tendency for being low, meaning that *sparassis crispa* is expected to improve lipid metabolism.

(4) Safety analysis of *sparassis crispa*

In order to assess the biological safety, the incubated and dried matter derived from *sparassis crispa* and hot water extract from *sparassis crispa* SCE (dried extract) were administered orally to mice once, and then the acute toxicity was assessed. No change attributable to the incubated and dried matter derived from *sparassis crispa* and hot water extract from *sparassis crispa* SCE (dried extract) was recognized in terms of the general conditions after administration, weight changes, and autopsy findings.

Future Outlook

The possibility that *sparassis crispa* can be used as safer estrogenic formulation has been made clear. The Company plans to perform human clinical trials with the aim of more profoundly examining the effectiveness and safety of *sparassis crispa* in human beings, as well as continue search for active ingredients and study of their use. In addition, it will put forth further efforts to develop products by taking advantage of the estrogenic activity of *sparassis crispa*, and to use *sparassis crispa* extract and components in health food products, drug discovery and diagnoses.

3. Fiscal Year September 2017 Earnings Results

(1) Consolidated Earnings

(Units: Million Yen)

	FY9/16	Share	FY9/17	Share	YY Change	Revised Est. at 3Q	Divergence
Sales	2,358	100.0%	2,017	100.0%	-14.5%	2,033	-0.8%
Gross Profit	903	38.3%	467	23.1%	-48.3%	-	-
SG&A	892	37.8%	925	45.9%	+3.7%	-	-
Operating Profit	11	0.5%	-458	-	-	-410	-
Current Profit	14	0.6%	-459	-	-	-410	-
Net Profit	7	0.3%	-334	-	-	-280	-

* Figures include reference figures calculated by Investment Bridge Co., Ltd. Actual results may differ (applies to all tables in this report)

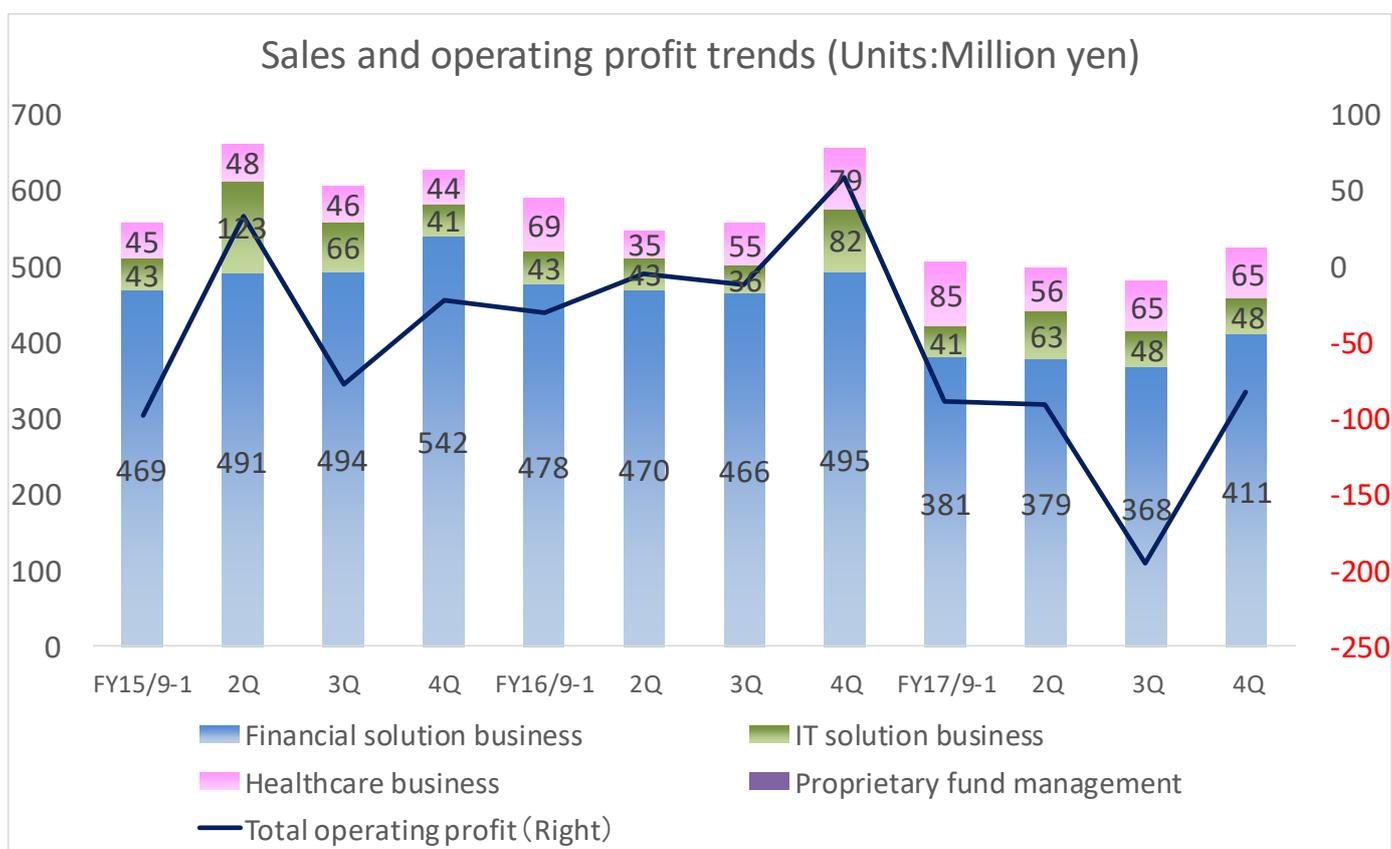
Bridge Report



Sales declined 14.5% from the previous year, while the operating profit of 11 million yen in the previous year turned to an operating loss of 458 million yen

Sales were 2,017 million yen, down 14.5% from the previous fiscal year. Although the expansion of sales channels, and the sale of raw materials and OEM products that the Company started in the previous fiscal year contributed to a year-on-year sales growth of 13.4% in the healthcare business, sales from the financial solutions business shrank 19.4% from the previous fiscal year due to the influence of contract cancellation.

With regard to operating profit and loss, a loss of 458 million yen was recorded. While a decline in sales from the highly profitable license business and customer support (both in the financial solutions business) and recording of a valuation loss on inventory (in the healthcare business) reduced the gross profit, the prior investment related to *sparassis crispa* increased selling, general and administrative (SG&A) expenses, resulting in an operating loss of 458 million yen; however, as a gain on sale of investment securities of 139 million yen was recorded as extraordinary income, the net loss stood at 334 million yen.



(2) Segment Sales, Profits Trends

(Units: Million Yen)

	FY9/16	Share	FY9/17	Share	YY Change
Financial Solutions	1,911	81.0%	1,541	76.4%	-19.4%
Business Solutions	206	8.8%	201	10.0%	-2.6%
Healthcare	240	10.2%	272	13.5%	+13.4%
Proprietary Fund Management	0	0.0%	2	0.1%	+1085.4%
Total Sales	2,358	100.0%	2,017	100.0%	-14.5%
Financial Solutions	568	-	367	-	-35.4%
Business Solutions	-44	-	-58	-	-
Healthcare	-185	-	-424	-	-
Proprietary Fund Management	-15	-	-41	-	-
Adjustments	-311	-	-300	-	-
Total Operating Profit	11	-	-458	-	-

Financial Solutions Business

Sales were 1,541 million yen (down 19.4% from the previous fiscal year), and profit for the segment was 367 million yen (down 35.4% from the previous fiscal year). The Company got several results toward business development for the next and subsequent fiscal years, such as the operation, started in the fourth quarter (July – September), of the new system, “Spider,” which has been adopted by a major general trading company; however, the shrunken sales were attributed to the reduction in sales from highly profitable license business (down from 1,158 million yen to 1,057 million yen) and customer support (down from 543 million yen to 369 million yen) due to contract cancellation of securities dealing systems and exchanges-related systems by major clients.

Business Solutions Business

Sales were 201 million yen (down 2.6% from the previous fiscal year), and the loss for the segment was 58 million yen (44 million yen in the previous year). Although various IT support businesses through the SES and support center showed a healthy growth, the delay in business negotiations over “GroupMAN@IT e²,” the Company’s internally developed integrated business management platform, for which orders were expected to be placed in this fiscal year, caused a downturn in sales. The Company has succeeded in receiving additional orders from the existing users for “GroupMAN@IT e²,” whose sales are expected to be recorded in the FY September 2018, together with the aforementioned projects on which negotiations are behind the schedule.

Healthcare Business

Sales were 272 million yen (up 13.4% from the previous fiscal year), and loss for the segment was 424 million yen (185 million yen in the previous fiscal year). Not only the growth in sales of sparassis crispa products realized by the expanded sales channels, such as adoption of such products by the sales department specializing in beauty cosmetics of Laox Co., Ltd., but also sale of raw materials and OEM products that the Company started in the previous fiscal year, made contributions throughout this fiscal year. Furthermore, following the announcement about the research results of the “IT-Sparassis Crispa Project,” an industry-government-academia collaborative research launched in 2014 with the aim of clarifying the effectiveness and efficacy of sparassis crispa, RIZAP Group, Inc., one of the major cosmetics and health-related business firm, has adopted “IT Sparassis Crispa,” which is sparassis crispa produced by the Company, to its new businesses. This is one of the greatest achievements in the joint research.

Meanwhile, regarding profit and loss, loss for the segment rose due to the recorded valuation loss on inventory because not only of the increasing prior investment, including research and development expenses for the joint research and pharmaceutical manufacturing of sparassis crispa in People’s Republic of Bangladesh but also of sale of raw materials that did not proceed as initially planned.

(3) Financial Conditions and Cash Flow**Summarized Balance Sheet**

(Units: Million Yen)

	9/16	9/17		9/16	9/17
Cash, Equivalents	1,230	1,177	Payables	82	58
Receivables	271	195	Short term interest bearing liabilities (including lease obligations)	182	159
Inventories	162	49	Current Liabilities	371	310
Current Assets	1,843	1,519	Long term interest bearing liabilities (including lease obligations)	70	71
Tangible Assets	49	49	Noncurrent Liabilities	72	74
Intangible Assets	19	10	Net Assets	1,755	1,400
Investments, Others	286	205	Total Liabilities, Net Assets	2,199	1,784
Noncurrent Assets	355	265	Interest Bearing Liabilities	252(3)	230(1)

The total assets at the end of this fiscal year were 1,784 million yen, down by 414 million yen from the end of the previous fiscal year. Although operating loss was recorded, the balance of cash and equivalents remained at a nearly equal level to that of the previous fiscal year due to sale of investment securities. The equity ratio was 78.5% and the quick ratio (liquid assets / current liabilities) stood at 442.9%. The Company’s financial structure is highly stable and liquid, but its financial base is not solid enough. The Company plans to strengthen its financial base by expanding its businesses and boosting its profitability.

Summarized Cash Flow Statement

(Units: Million Yen)

	FY9/16	FY9/17	YY Change	
Operating Cash Flow (A)	4	-318	-322	-
Investing Cash Flow (B)	-7	186	+193	-
Free Cash Flow (A+B)	-3	-132	-128	-
Financing Cash Flow	-102	-21	+80	-
Cash and Equivalents at Term End	1,331	1,177	-153	-11.5%

Although operating capital increased as a result of expanding the healthcare business and increasing tax expenses, operating CF maintained the positive figures thanks to drastic improvement in profit/loss before tax. The negative amount of investment CF also decreased as a result of decreasing facility investment. The negative amount of financing CF is caused by decrease in interest-bearing debt.

4. Fiscal Year September 2017 Earnings Estimates**(1) Consolidated Earnings**

(Units: Million Yen)

	FY9/17	Share	FY9/18 Est.	Share	YY Change
Sales	2,017	100.0%	2,400	100.0%	+19.0%
Operating Profit	-458	-	20	0.8%	-
Current Profit	-459	-	17	0.7%	-
Net Profit	-334	-	12	0.5%	-

Sales are expected to grow 19.0% from the previous year and operating profit is estimated to stand at 20 million yen

Although the Company will reach a plateau regarding the financial solutions business while striving to expand its businesses to new fields, the repeat projects of “GroupMAN@IT e²,” for which orders were placed in the previous fiscal year, will make contributions to doubling sales in the business solutions business. Sales growth in the healthcare business is also expected thanks to the effects of the sales channel expansion. It is predicted that operating profit and loss will go into the black by offsetting the amount of ongoing research and development investment in the financial solutions and healthcare businesses through the sales growth effects.

Aiming to integrate management resources and accelerate management, Laboarg Co., Ltd. was merged into Kenko Plaza Pal Co., Ltd., and accordingly, the company name was changed to INTERTRADE HEALTHCARE Co., Ltd. as of January 1, 2018.

(2) Future Activities**Financial Solutions Business**

Aiming to contribute to business expansion of financial institutions and business firms that engage in financial-related businesses, the Company will expand its businesses to the Fintech field, with a focus on “Spider,” a library-type solution that can deal with every kind of transaction of financial instruments, and “Prospect,” an implementation solution targeted at the capital market. The operation of “Spider,” regarding which the Company is eyeing the possibility of use in business firms, was started in September, and at this moment, the Company is propelling the second-phase development. In the third phase, it plans to incorporate the blockchain technology (the Company believes that use of the blockchain technology will eliminate the barriers between financial institutions and business firms in the future). For the FY September 2018, as the development of “Spider” and “Prospect” will be continued with the aim of businesses expansion to new fields, it is expected that sales from the financial solutions business will remain nearly the same as those of the previous fiscal year.

Business Solutions Business

The Company will continue efforts to achieve the estimated introduction rate regarding “GroupMAN@IT e²,” an integrated business management platform. The existing users in major chains of restaurants, and large companies in the manufacturing industry are trying to introduce the platform to their respective corporate groups in order to integrate management data that are dispersed in each of their group companies. Furthermore, the Company has reached the final phase of business negotiations over some projects for the platform. These are expected to contribute to doubling sales in the FY September 2018. In addition, while “GroupMAN@IT e²” is a system that enables information sharing in group companies, the Company will put forth efforts to prospect for demand for “Spider” as it can be used for connecting information with external information.

Healthcare Business

The Company will make further efforts to develop products by taking advantage of the characteristics of estrogenic activity of *sparassis crispa*, and use *sparassis crispa* extract and the components in health food products and drug discovery, as well as continue search for active ingredients of *sparassis crispa* and study of their use.

Development as health food products

In September, RIZAP Group Inc. (hereinafter referred to as RIZAP) introduced “IT *sparassis crispa*” to “REzap” and “zapDELI,” its new business categories (in both businesses, RIZAP offers new delicatessens that it has developed based on nutrition). Furthermore, in November, “IT *sparassis crispa*” was certified by Japan Superfoods Association as a Japanese superfood for the first time for raw materials. Planning to develop *sparassis crispa*-related products also as a superfood, the Company will, as a first step, release furikake, or rice seasoning, produced using “IT *sparassis crispa*” in January. Moreover, according to the Company, not only has it been decided that the Company will provide raw materials to major companies and supply *sparassis crispa* supplements as OEM products to Senshukai Co., Ltd., which sells products through catalogs mail orders, but also the Company has received requests for quotations from food manufacturers, cosmetics manufacturers, and pharmaceutical companies.

Here, a superfood as defined by Japan Superfoods Association is a food that contains well-balanced nutrients and nutritional value higher than that of general foods, or a food that contains an exceptionally large amount of a particular nutrient or health component. Superfoods are something that have intermediate features between general foods and supplements, and can be used both as ingredients for cooking and as health food products. Japan Superfoods Association (established in January 2014) has engaged in activities for creating a society that maintains and enhances health and beauty through high-quality food, beauty, and exercise, and contributing to increasing superfood consumption.

Business of therapeutic agent for diabetes in Bangladesh

Pharmaceutical manufacturing tests conducted in Bangladesh are scheduled to be completed by the end of 2017. After the completion of the manufacturing tests, the Company will set up a joint venture company in Bangladesh where it will start to sell *sparassis crispa* products imported from Japan. The Company plans to begin manufacturing and sale of drugs in 2018.

(3) Shareholders' incentives

As a shareholder incentive program, the Company presents complimentary tickets, which can be used at the salon attached to its headquarters and the online shopping website, “Kenko Iimono online (<http://kenko-iimono.com/>),” operated by Kenko Plaza Pal, one of its subsidiaries, to its shareholders registered as of the end of September. “Kenko Iimono online,” in particular, sells a wide variety of products associated with health and beauty, such as *sparassis crispa*-related products.

Target shareholders	
Shareholders who hold shares for less than 3 years	12,000 yen worth of shareholder complimentary tickets (a set of six complimentary tickets, each of which is worth 2,000 yen, is issued)
Shareholders who hold shares for 3 years or longer	24,000 yen worth of shareholder complimentary tickets (a set of twelve complimentary tickets, each of which is worth 2,000 yen, is issued).

*Shareholders who hold at least 100 shares (1 share unit) as of the end of September are eligible to receive the complimentary tickets.

*A shareholder complimentary ticket is a gift code with which a shareholder can buy the Company's subject products at a discount of 2,000 yen, tax excluded. A complimentary ticket can be used for each purchase in which the amount paid is over 5,000 yen exclusive of tax.

5. Conclusions

• As symbolized by “Fintech,” the services of financial instruments transactions are being developed in an ever-progressing manner; therefore, the Company believes that “use of the blockchain technology will eliminate the barriers between financial institutions and business firms in the future.” This will allow the Company, whose major clients have been securities companies, to broaden its customer base to business firms, and accordingly, synergy between the financial solutions business and the business solutions business targeted at general business firms can be expected. With a focus on “Spider,” a library-type solution that can deal with every kind of financial instrument transaction, and “Prospect,” an

implementation solution for the capital market, the Company plans to prospect for demand not only from financial institutions but also from business firms through proactive development of services by making the most of “Fintech.”

Meanwhile, in the healthcare business, the discovery of a new physiologically active substance, “silent estrogen,” seems to be increasing interest in *sparassis crispa* among food manufacturers, cosmetics manufacturers, and pharmaceutical companies. The business of therapeutic agent for diabetes will be fully launched in Bangladesh. Pharmaceutical manufacturing tests of *sparassis crispa* as a therapeutic agent for diabetes are scheduled to be completed in Bangladesh by the end of 2017, and completion of the tests is equivalent to “acquisition of approval for sale” in Japan. As the amount of vegetables consumed is small in the Islamic nations, it is reported that the number of diabetic patients is large.

<Reference: Regarding Corporate Governance>

◎ Organization type, and the composition of directors and auditors

Organization type	Company with an audit and supervisory board
Directors	4 directors, including 1 outside one
Auditors	3 auditors, including 2 outside ones

◎ Corporate Governance Report

Updated on Dec. 25, 2017

Basic concept

The basic goal of the Company’s corporate governance is to maximize the Company Group’s corporate value. The Company will achieve the basic goal from the perspectives of “Management transparency”, “Legal compliance”, and “Efficient management”.

The management team, led by the President, plays a role to maintain good relationships with the Company Group’s stakeholders (e.g. shareholders, customers, business partners, employees). To fulfil this role, it is important to establish and operate a system to understand management situation and disclose information in a timely and appropriate manner in compliance with laws, ordinances, and regulations.

<Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

【Principle 3-1】 Enrichment of information disclosure

(3) The policies and procedure that are adopted by the board of directors for determining the remuneration paid to the senior management and directors

(4) The policies and procedure that are adopted by the board of directors for appointing the senior management and nominating candidates for directors and auditors

(5) Explanation given, based on the above (4), by the board of directors about individual appointments of the senior management and nominations of candidates for directors and auditors

With regard to (3), (4), and (5), although our Company has not released any specific contents at this moment, we have carried out the following internal proceedings or procedure:

(3) Regarding the policies and procedure adopted by the board of directors for determining the remuneration paid to the senior management and directors, the remuneration of our directors and executive officers will vary according to the performance indicator that has been internally determined in advance.

(4) Regarding the policies and procedure adopted by the board of directors for appointing the senior management and nominating candidates for directors and auditors, it has been stipulated in our internal regulations that employees with certain levels of in-house grades, or higher grades, which are given based on the abilities of organizational management and business execution, are eligible to be assigned as directors and executive officers. Although there is no clearly stated regulation with regard to auditors, our Company asks employees who have knowledge of managerial issues and extensive expertise to hold the position.

(5) Regarding explanations given, based on the above (4), by the board of directors about individual appointments of the senior management and nominations of candidates for directors and auditors, our Company describes appointments and nominations in the management meeting and the whole company meeting held, in principle, once every month.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

【Principle 1-4】 Strategically held shares

When the Company holds shares of other listed companies as strategically held shares, the shares should contribute to the growth of the Company through business partnership, etc. with the share-issuing companies. The board of directors regularly monitors the business performance of the share-issuing companies and their partnership status with the Company. The voting rights concerning strategically held shares are determined case by case because there are many items to take into consideration such as the management team's background, business performance, and external environment. In principle, the Company does not own strategically held shares.

【Principle 1-7】 Related party transactions

In our Company, regarding transactions with any of our directors, which are related parties, it is required to obtain approval of the board of directors for such related party transactions, and carry out surveys as to transactions between our corporate group and our directors or their relatives every year in order to check whether or not any transactions were conducted with related parties. In addition, we pay attention to transactions between our Company and any of our major shareholders so that such transactions do not threaten common interests of shareholders, and submit reports to the board of directors according to importance.

【Principle 3-1】 Enrichment of information disclosure

- (1) Our Company discloses our business principles, business plans, and other matters on our website and material of financial results.
- (2) Our basic views and guidelines regarding corporate governance are stated in **【Basic concept on corporate governance, capital composition, corporate attribute, and other basic information】** of this report.
- (3) Our Company has adopted a system where the remuneration paid to the management varies in connection with the business results of our Company as a whole and those of the business headquarters, aiming to support management in exerting entrepreneur spirits by giving appropriate incentives. The remuneration paid to directors are determined in connection with the net profit, and besides, it is stipulated in our internal regulations that our directors shall hold more than 10,000 shares in our Company or shares worth of the market value of 3 million yen.
- (4) Our Company's policy is to appoint persons, who have appropriate abilities to fulfill the responsibilities of directors, based on personality, knowledge, experience, and business performance, and the board of directors makes a decision. Our Company asks persons who possess knowledge of managerial issues and extensive expertise to serve as auditors.
- (5) Appointment of directors and auditors is as stated in the reference document of a notice on convocation of a general shareholders' meeting. In addition, matters as to outside directors are included in **【Matters Related to Directors】**of this report.

【Principle 5-1】Policy for Constructive Dialogue with Shareholders

The Company's Administration Department, led by the President, carries out IR tasks.

Once a year, the Company hosts a financial results briefing and shares a video of the briefing on the Company's website. It also hosts meetings for individual investors and organizes individual meetings as needed.

This report is intended solely for information purposes, and is not intended as a solicitation to invest in the shares of this company. The information and opinions contained within this report are based on data made publicly available by the Company, and comes from sources that we judge to be reliable. However, we cannot guarantee the accuracy or completeness of the data. This report is not a guarantee of the accuracy, completeness or validity of said information and or opinions, nor do we bear any responsibility for the same. All rights pertaining to this report belong to Investment Bridge Co., Ltd., which may change the contents thereof at any time without prior notice. All investment decisions are the responsibility of the individual and should be made only after proper consideration.

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