APPLE INTERNATIONAL CO., LTD.

2788 Tokyo Stock Exchange Second Section

25-Oct.-16

FISCO Ltd. Analyst
Ken Segawa

Steadily moving “FORWARD THE FUTURE”

Apple International <2788> (hereafter, also “the Company”), as a pioneer in the export of used vehicles, launched a business to export used vehicles to Southeast Asian countries in 1996. Since then, through local overseas dealers in these Southeast Asian countries, it has contributed to the development of the car society and built trust widely across society. The Company listed on the Tokyo Stock Exchange (TSE) Mothers market in December 2003, and then in May 2015, transferred to the TSE Second Section.

Currently, Apple International’s business is comprised of two main pillars: a business for the export of used vehicles, and a business for the purchase and sale of used vehicles within Japan. At the end of December 2015, there were 238 member dealers in its “Apple” franchise chain of dealers specializing in vehicle purchases. In the 2015 Oricon Japan customer satisfaction rankings, Apple was awarded the first place for the second consecutive year in the “Vehicle purchasing companies” category.

In 2004, the Company launched a new vehicle dealer business in China, mainly for European vehicles. In its China business, net sales grew to ¥27bn in FY12/09. But since then, the business environment has greatly changed, due to the Lehman Shock in 2008 and other factors. Chairman of the Board and President Yoshinobu Kubo returned to the frontline of management in 2013 after being on sick leave since 2008. The Company worked to convert its structure from the pursuit of sales volume to the pursuit of profits. It sold and withdrew from its China business and then in February 2016, it sold all its shares in a Japanese subsidiary whose debt the Company had guaranteed, essentially completing the Group restructuring. Apple International has set “FORWARD THE FUTURE” as its corporate slogan.

In the FY12/15 results, the China business was excluded from the scope of consolidation, and therefore consolidated net sales fell 37.5% year on year (YoY) to ¥25,460mn. As a result of the enhancement of added value in the used vehicles export business, including by providing a maintenance guarantee, operating income increased 2.4 times to ¥1,322mn. Ordinary income was ¥1,339mn and the Company achieved profitability compared to the previous year’s operating loss, posting its highest result in 12 fiscal years.

During FY12/16 Q2, in June the yen strengthened to less than ¥100 to US$1, which was the strongest it had been since November 2013, dealing a blow to the overseas export business. In the main export destination of Thailand, the vehicle excise tax was increased at the start of the year and its market has been in turmoil. In the Q2 results, net sales decreased 37.9% YoY to ¥6,878mn and ordinary income declined 52.2% to ¥203mn, which compared to the initial forecasts, were down 29.0% and 62.9% respectively. However, the Company has left the full-year forecasts unchanged as the regulations at the export destinations currently remain unclear, and they are likely to be reviewed at the point in time when the situation has become clearer.

In terms of the growth strategy for the future, the plan is to expand the used vehicles exports business from the hub of Thailand. The establishment and launch of the ASEAN Economic Community (AEC) at the end of 2015 is expected to stimulate the movement of goods, money, people, and services within the region. Thailand has become a major production base for the one-ton pickup truck, and the Company is focusing on the export of used vehicles that are “made by Japan” (namely, made by Japanese manufacturers at overseas production bases). In addition, “Apple Auto Auction,” the Thai joint-venture company, has the leading share of Thailand’s auction market, and the Company plans to utilize the assets it has built in Thailand and deploy the same business model in neighboring countries also.

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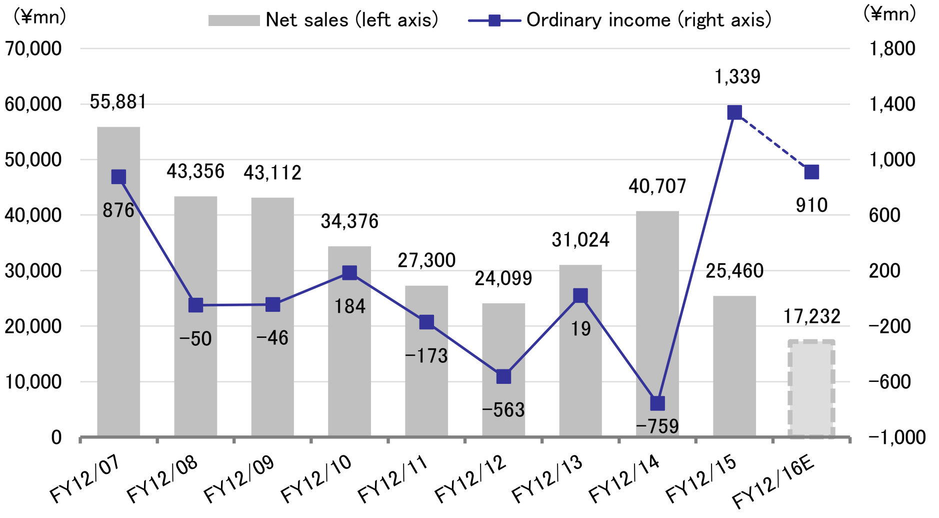
Check Point

- Eliminated risk and recovered financial stability by withdrawing from the China business
- Growth strategy is to develop its business with Thailand as the hub base
- Major declines in sales and profits in FY12/16 Q2 due to temporary factors

Trends in net sales and ordinary income



Business overview

The two business pillars are the used vehicles export business and the franchise chain headquarters for dealers specializing in vehicle purchases

The main business of the Company itself in the Company Group is the export of used vehicles from Japan, while a subsidiary serves as the franchise chain headquarters in the used vehicles purchase and sale business within Japan, and a Group company also directly manages franchise dealers. Apple International listed on the TSE Mothers Market in December 2003, and then in May 2015 it was transferred to the TSE Second Section.

The Company was founded in Yokkaichi City, Mie Prefecture, in January 1996 for the purchase and sale of used vehicles within Japan. Subsequently, in order to respond to the needs of overseas importers following the boom in motorization in Southeast Asian countries, in December of the same year it launched a business to export used vehicles to Thailand and Hong Kong. Currently, the Company itself operates the used vehicles export business from Japan, mainly for Thailand, Hong Kong, Malaysia, Singapore, and Indonesia.

The subsidiary, Apple Auto Network Co., Ltd., is the franchise chain headquarters for the 238 member dealers within Japan (as of the end of December 2015). Apple Auto Network member dealers are provided with various information ranging from used vehicles' successful bid price information at auctions in Japan and inventory information to appropriate price information at the time of purchase. Through sales promotions activities utilizing the Apple brand, Apple Auto Network provides its member dealers with integrated management and in return collects royalties from them.

In Thailand, the equity-method affiliate Apple Auto Auction (Thailand) Company Limited manages auction sites.

At the end of December 2015, there were nine consolidated subsidiaries and seven equity-method affiliates within the Company Group. On entering 2016, the Company sold all its shareholdings in IM JIHAN Corporation, which carries out a used vehicles export business from Japan, and of PRIME ON CORPORATION LIMITED, an equity-method affiliate that sells new Mercedes-Benz vehicles in China. As a result, as previously stated, its current business is now concentrated on the used vehicles export business conducted by the Company itself and the franchise business of dealers specializing in vehicle purchases conducted by its subsidiary.

Company history

January 1996	Founded Apple International Co., Ltd. and started purchasing used vehicles
December 1996	Launched exports to Thailand and Singapore
July 1997	Launched exports to Hong Kong
September 1998	Launched exports to Malaysia, and then sequentially started exporting to Indonesia and other Southeast Asia countries
December 2003	Founded A.I.HOLDINGS (HONG KONG) LIMITED (A.I.H) in Hong Kong
December 2003	Listed on the TSE Mothers market
August 2004	A.I.H established a subsidiary and started dealer operations in China
April 2007	Founded a local joint-venture company in order to launch an auction business in Thailand
August 2008	Launched an auction business in Thailand
December 2013	The subsidiary Apple Auto Network Co., Ltd. launched a life-insurance sales business
May 2014	Sold a Chinese subsidiary BMW dealer
January 2015	Changed PRIME ON CORPORATION LIMITED and four other companies from consolidated subsidiaries to equity-method affiliates
May 2015	Transferred from TSE Mothers market to TSE Second Section
January 2016	Transferred all shares held in consolidated subsidiary IM JIHAN Corporation
March 2016	Transferred all shares held in PRIME ON CORPORATION LIMITED

Source: prepared by FISCO from Company materials

Group restructuring

Eliminated risk factors and recovered financial stability by withdrawing from business in China

(1) Return of the founder

President Yoshinobu Kubo, founder of the Company and the largest shareholder (shareholding ratio, 32.1%) went on sick leave from 2007 and withdrew from the frontline of the Group's management. But his health recovered and in 2013 he returned to the management frontline as the Chairman and President, and from that time he and management worked to restructure the Group. The objective of this Group restructuring was to eliminate risk factors and restore financial stability. By withdrawing from the China business, currency risk, market risk, and country risk relating to China have been eliminated. The Company has also improved its financial stability by ending the debt guarantee it provided to a subsidiary.

(2) Recorded China- and Malaysia-related extraordinary losses after the Lehman Shock

In net sales by region, sales in China (excluding the Hong Kong Special Administrative Region) grew from ¥17,529mn in FY12/07 to ¥27,194mn in FY12/09. After the Lehman Shock in September 2008, Japan suffered a major economic recession, while China implemented an economic stimulus package worth 4 trillion yuan (around ¥56 trillion). Inevitably, sales in China trended downward from FY12/10, but in FY12/14 they rose to ¥25,727mn. Conversely, sales in Asia contracted rapidly, declining from ¥26,517mn in FY12/07 to ¥ 5,275mn in FY12/12. At the same time as withdrawing from its China business, the Company has reinforced its businesses in Asia and Japan. Asia net sales recovered to ¥19,714mn in FY12/15, while in Japan, net sales declined from ¥9,531mn in FY12/07 to ¥2,854mn in FY12/12, and then recovered to ¥5,745mn in FY12/15. At its peak, the China business provided 66.3% of total sales. But from the fact that these sales had basically disappeared by FY12/15, total net sales, which previously had exceeded ¥50bn, shrunk to less than half that amount. However, the Company has recovered its profitability, eliminated business risks, and improved its financial stability.

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Interest payments were a heavy burden on the China business. The main reason for the ordinary loss was that interest paid exceeded operating income. The business environment changed after the Lehman Shock of September 2008, and in FY12/09, FY12/10, FY12/13, and FY12/14, the Company frequently recorded large extraordinary losses. These were mainly for the China- and Malaysia-related processing of long-term accounts receivable and the provision of an allowance for doubtful accounts, and for the impairment loss of goodwill on an overseas subsidiary. The main reasons for the enormous extraordinary loss (¥3,522mn) recorded in FY12/09 were an impairment loss on the goodwill of an overseas subsidiary of ¥905mn and the provision of an allowance for doubtful accounts for Malaysia receivables of ¥1,101mn. In FY12/14, compared to consolidated operating income of ¥589mn, the Company recorded interest paid for non-operating expenses of ¥762mn and the provision of an allowance for doubtful accounts for the Chinese subsidiary and Malaysia receivables of ¥771mn, resulting in an ordinary loss. The extraordinary loss in the same period (¥834mn) included a loss on the sale of shares held in a subsidiary (¥310mn), and a provision for a loss from the Chinese subsidiary business (¥434mn).

Trends in the Company's consolidated results

(unit: ¥mn)

	FY12/07	FY12/08	FY12/09	FY12/10	FY12/11	FY12/12	FY12/13	FY12/14	FY12/15
Net sales	55,881	43,356	43,112	34,376	27,300	24,099	31,024	40,707	25,460
Operating income	1,217	407	-52	498	110	-169	747	589	1,322
Interest paid	359	261	278	201	285	342	633	762	67
Ordinary income	876	-50	-46	184	-173	-563	19	-759	1,339
Extraordinary loss	133	507	3,522	1,199	141	309	64	834	2
Net income	334	-288	-3,715	-1,604	-708	-295	50	-1,030	1,273

Source: prepared by FISCO from Company materials

Trends in the results of PRIME ON CORPORATION LIMITED

(unit: ¥mn)

	FY12/10	FY12/11	FY12/12	FY12/13	FY12/14	FY12/15
Net sales	17,505	24,810	22,665	23,385	28,020	24,615
Operating income	840	1,095	435	660	195	54
Interest paid	90	285	345	615	750	705
Ordinary income	1,050	885	120	90	-465	-690

Source: prepared by FISCO from Company materials

(3) Transfer of shares in the high-risk, China-related subsidiary

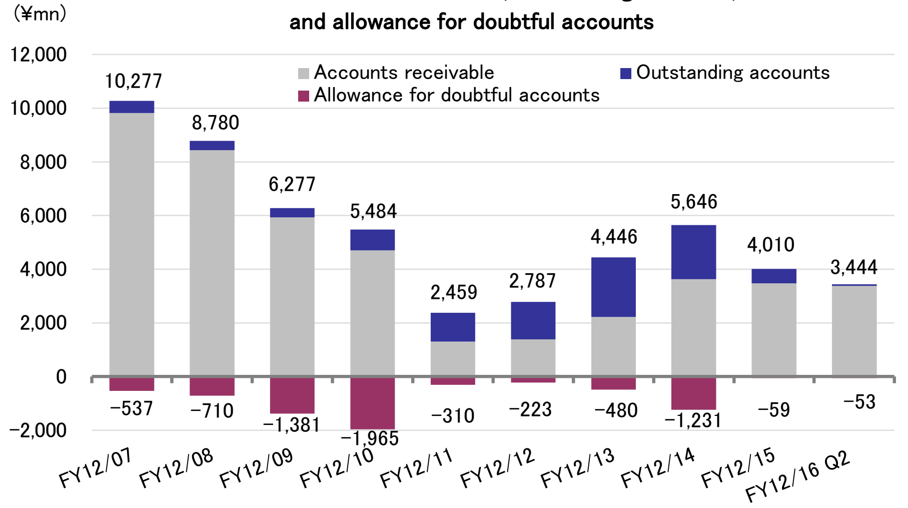
Apple International reduced its shareholding ratios in subsidiaries and next moved onto the stage of selling all its shareholdings, thereby progressing the selection and concentration of Group businesses and the streamlining of its balance sheet. The number of consolidated subsidiaries in FY12/09 was 28 companies and at the most, there were also 11 equity-method affiliates. By the end of December 2016, these numbers are expected to have been reduced to eight consolidated subsidiaries and three equity-method affiliates.

PRIME ON CORPORATION LIMITED, which sells Mercedes-Benz vehicles, was changed from within the scope of consolidation to an equity-method affiliate in January 2015, and then the Company transferred all its shares in it in March 2016. Apple International also released all of its shares in Japanese subsidiary IM JIHAN Corporation in January 2016. This meant the Company no longer had to provide a debt guarantee (¥410mn) for this subsidiary's debt. This basically completed the series of steps taken in the Group restructuring.

(4) Significance decreases and recoveries in the allowance for doubtful accounts and in accounts receivable

Within current assets at the end of FY12/08, accounts receivable and outstanding accounts were ¥10,859mn, but by the end of FY12/11, this had decreased significantly to ¥2,459mn. In FY12/09 and FY12/10, extraordinary losses from the provision of an allowance for doubtful accounts of ¥1,101mn and ¥414mn respectively were recorded, which spurred the decrease in accounts receivable at the end of the next fiscal year of FY12/11. Looking at the accounts receivable turnover period, in FY12/06 it was 2.4 months, but by FY12/11 it had shrunk to 0.6 months. Subsequently, net sales in the Japan and China businesses returned to a growth track. In FY12/15, the Chinese subsidiary was removed from the scope of consolidation and it became an equity-method affiliate, and as a result net sales decreased 37.5% YoY, but the accounts receivable turnover period increased from 1.1 months to 1.6 months.

Trends in accounts receivable, outstanding accounts, and allowance for doubtful accounts

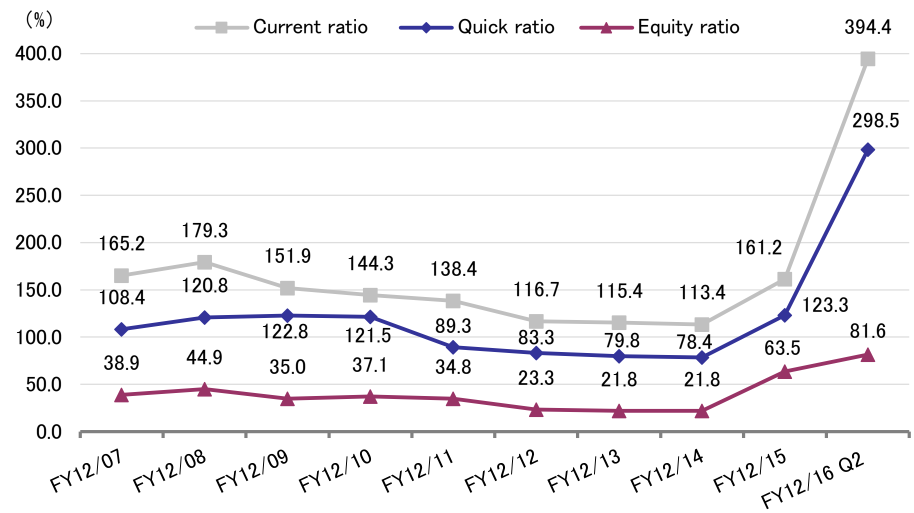


Source: prepared by FISCO from Company materials

(5) Improvement in financial stability

The current ratio (=current assets ÷ current liabilities), which indicates the ability to pay in the short term, fell from 179.3% at the end of FY12/08 to as low as 113.4% at the end of FY12/14. But by the end of December 2015, it had recovered to 161.2%. Further, the quick ratio (=quick assets ÷ current liabilities), which is calculated using highly cashable assets like cash and deposits and quick assets such as accounts receivable within current assets, fell from 120.8% at the end of FY12/08 to 78.4% at the end of FY12/14. However, by the end of December 2015, it had risen to 123.3%, exceeding 100% that is considered to indicate a high level of stability. In addition, the equity ratio (=shareholders' equity ÷ total assets), which indicates the ability to pay in the long term, declined from 44.9% to 21.8% during the same period, but by the end of December 2015, it had risen significantly to 63.5%. In FY12/16 Q2, the Company's financial stability improved further.

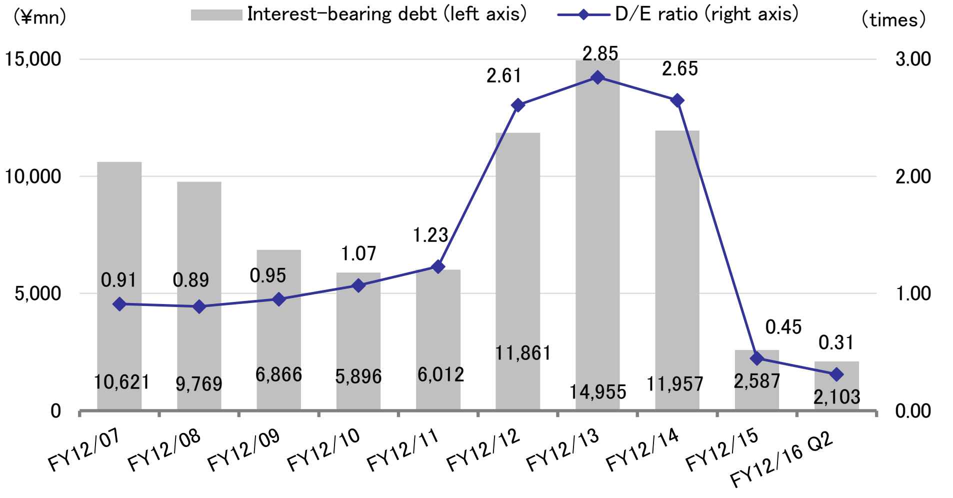
Trends in the current ratio, the quick ratio, and the equity ratio



Source: prepared by FISCO from Company materials

Within the short-term borrowing of ¥11,735mn at the end of FY12/14, China-related borrowing constituted ¥10,513mn, and in terms of financing, this businesses had become a factor pressurizing the development of the other businesses. The D/E ratio (=interest-bearing debt ÷ shareholders' equity), which is given importance as an indicator, for example, in the rating of corporate bonds, had risen to as high as 2.85 times by the end of FY12/13. As China-related borrowing was eliminated by the end of December 2015, interest-bearing debt declined greatly, from ¥11,957mn at the end of FY12/15 to ¥2,587mn, and as a result the D/E ratio rapidly improved, falling significantly to 0.45 times, well below 1. In FY12/16 Q2, interest-bearing debt was reduced and moreover, short-term borrowing was repaid and replaced with long-term borrowing.

Interest-bearing debt and the D/E ratio



Source: prepared by FISCO from Company materials

The medium-term management strategy

Steady development, step-by-step

In its medium-term management plan, which covers the four years from FY12/13 to FY12/16, the Company states its corporate concept is to be "A wonderful company–a company that fulfills the dreams of all its stakeholders–." The plan's priority measures are improving business performance to increase shareholder value and actively promoting IR. It is steadily developing its business step-by-step and is not pursuing expansion of scale and is avoiding risk.

The Company's medium- to long-term management strategy

Period	Corporate concept	
1996 to 2006	Leading company	The leading company in the used vehicles export industry
2007 to 2009	Hyper company	A company with a strong financial position that takes internal controls A company in which employees can feel pride and a sense of responsibility in their work
2010 to 2012	Global company	A company that establishes the Apple brand that is recognized throughout the world
2013 to 2016	A wonderful company	A company that fulfills the dreams of all its stakeholders

Source: prepared by FISCO from Company materials

On the completion of the Group restructuring, the current management policy is to shift from the pursuit of sales to the pursuit of profits. The Company's corporate slogan is "FORWARD THE FUTURE." To manage its businesses with the objective of continuously and stably securing profits, it is implementing a "balanced expansion policy," of aiming to increase profits through maintaining a balance between profits from existing businesses and investment in new businesses. Toward this, the Company's priority management indicators are the revenue growth rate as an indicator of growth potential, the ordinary income margin as an indicator of profitability, and ROE (return on equity) as an indicator of efficiency. As ROE is a comprehensive management indicator, it is probably the indicator that will receive the most attention from investors.

Going forward, the used vehicle export business and the used vehicles purchase and sale business will be the two main business pillars. The business strategy for used vehicle export sales is to concentrate management resources in Southeast Asian countries, pursue convenience for local dealers who have been missed up to the present time and for users, and to aim to stably secure profits.

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(1) The used vehicles purchase and sale business within Japan

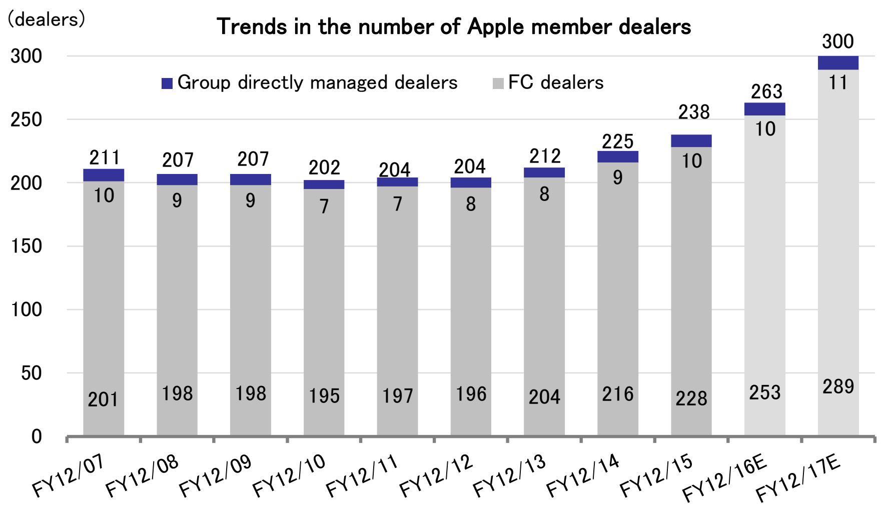
The FY12/15 consolidated net sales of the used vehicles purchase and sale business increased 18.0% YoY to ¥4,648mn. At the end of the fiscal year, there were 238 Apple member dealers, including the directly managed dealers, which is an increase of 13 (5.8%) YoY. The plan is to increase this number by a further 13 dealers in FY12/16 and to reach 300 by FY12/17. Within the 47 prefectures nationwide, the Company has yet to enter into nine prefectures in West Japan but plans to establish operations in these during FY12/16 and achieve nationwide dominance. If the Company cannot recruit franchise chain member dealers, it will also consider opening directly-managed dealers. With these new dealers serving as bases, it intends to recruit new member dealers in neighboring areas. The number of assessments increased 8.1% YoY to 159,700, and the number of vehicles sold rose 8.0% to 81,400, of which, retail sales grew 8.7% to 10,000 vehicles. The remaining 71,400 vehicles were sold at auction (up 7.9%).

The used vehicles purchase and sale business

(Unit: vehicles)

	FY12/14	FY12/15	YoY	
			Increase	Growth rate
No. of FC dealers (dealers)	225	238	13	5.8%
No. of assessments	147,800	159,700	11,900	8.1%
No. of vehicles purchased	72,800	77,200	4,400	6.0%
No. of vehicles sold	75,400	81,400	6,000	8.0%
Of which, no. of vehicles sold at auction	66,200	71,400	5,200	7.9%
Of which, no. of retail-sales vehicles	9,200	10,000	800	8.7%

Source: prepared by FISCO from Company materials



Source: prepared by FISCO from Company materials

The Company is aiming to expand its business area beyond its conventional purchase and sale business by developing incidental businesses. In the Oricon Japan customer satisfaction rankings, Apple was ranked first for the second consecutive year in the “Vehicle purchasing companies” category. In addition, characterized by speedy contracts, it is also focusing on its property and casualty insurance counter, online insurance, and car rental businesses. In the insurance business, the Company has developed a smartphone app through which users can use the Apple Store and Google Play to store and carry their insurance policies. In the car rental business, the Company faces a problem of business funding. While it could respond to this through directly-managed dealers, it is taking the approach of advancing a scheme for franchise chain dealers incorporating lease companies.

(2) Relocation of Tokyo head office – pursuing the agility required of the Internet age

While there is a sense of stagnation with regard to traditional business activities, business using the Internet is spreading and moreover changing rapidly. The Company relocated its Tokyo head office in November and by gathering its employees into one place, it is aiming to improve internal communication, to strengthen its ability to collect information, and to pursue agility in its business activities. In addition, the Apple Auto Network, which manages the franchise chain headquarters for the nationwide chain of dealers, and the Company, which conducts the export business, will cooperate closely.

(3) Ideas competition – utilizing the free thinking of young employees

The Company holds an ideas competition among its employees. In this year's competition held in June, it received 112 ideas from around 80 employees. The management team is receptive to the flexible ways of thinking of its young employees born from around 1990 onwards, and first allow employees to try out their ideas. In the case of a small budget, they can be tried out with the President's approval, and then at the stage when the effects can be measured, the employees give a presentation in front of executives. An example of one such idea is a method of attracting customers through advertising without using ads by utilizing social media.

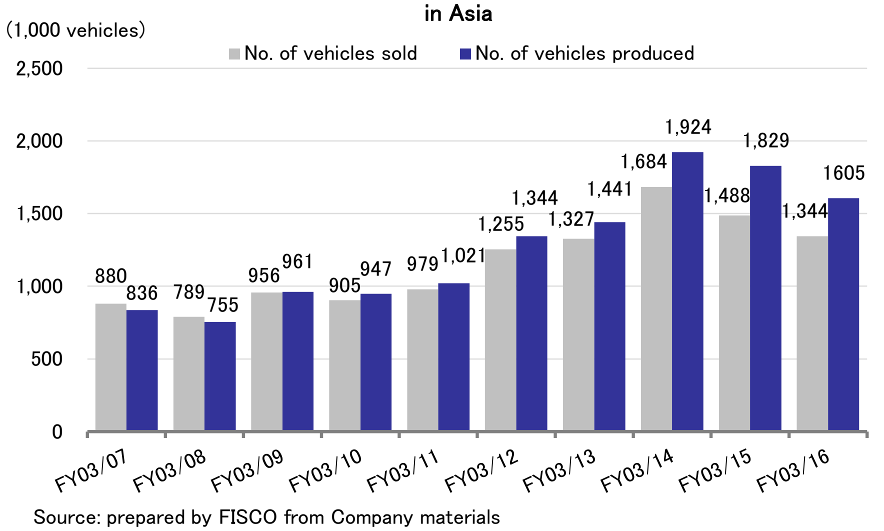
The growth strategy is to develop its business with Thailand as a hub base

(4) The automotive market in Thailand

Thailand is called the Detroit of Asia, and within it are concentrated not only finished car manufacturers, but also many automotive parts companies. In 2015, 1,913,000 vehicles were produced in Thailand, an increase of 1.8% YoY. The number of vehicles sold within Thailand was down 9.3%, to 799,000 vehicles. But in contrast, the number of exports increased 6.8% to 1,204,000, greatly exceeding the number of domestic sales, making Thailand a base for automotive exports.

In 2002, Toyota Motor <7203> announced a global vehicles project, targeting emerging countries. Based on this global strategy, it would not only transfer to overseas the production of models it had previously produced in Japan, it would also produce in regions outside of Japan those models developed specifically for markets such as Asia, Central and South America, and Africa. In this Innovative International Multi-purpose Vehicle (IMV) project, from a single shared platform, Toyota produces pickup trucks, minivans, and SUVs, with pickup trucks being further divided into three variations. The Toyota Group's local vehicle sales and production numbers in Asia show a reverse phenomenon where the number of vehicles produced exceeds the number of vehicles sold.

The number of vehicles sold and produced locally by the Toyota Group in Asia



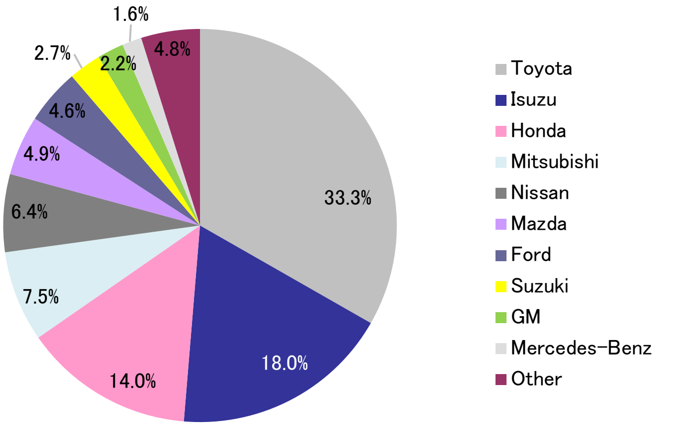
Source: prepared by FISCO from Company materials

Pickup trucks produced in Thailand have become a global vehicle for Toyota. The sixth generation of Hilux, Toyota's pickup truck for the Japanese market, came to an end in 2004. The seventh generation was developed in the IMV project as a model emphasizing power and low price, targeting the markets of emerging countries. Production was launched in Thailand and was subsequently increased in Argentina and South Africa. In other countries, such as Malaysia, it implemented knock-down production. The eighth generation was market launched in 2015, with greatly improved safety and durability compared to the previous models. For the suspension, which influences the comfort of the ride, Toyota has prepared three types of specifications; standard, heavy duty for heavy loads, and comfort that is equivalent to a passenger car.

A feature of Thailand's automotive market is that the demand for commercial vehicles exceeds that for passenger vehicles. Among all the vehicles sold in 2015, 62.6% were commercial vehicles and 37.4% were passenger vehicles. The one-ton pickup truck constituted 77.7% of commercial vehicles and 48.6% of all vehicles sold. In Thailand's new vehicle market, the one-ton pickup truck plays the leading role.

Toyota's share of the Thailand market (including the sales of Lexus) is 33.3%, greatly exceeding that of the second-place manufacturer. Second after Toyota is Isuzu Motors <7202>, which does not sell passenger vehicles. In the 2015 market share by manufacturer, Japanese companies occupied the first to sixth places. The share of the 7 Japanese companies in the top 10 exceeded 80%, and Japanese manufacturers dominate the Thai market.

Share of vehicles sales by manufacturer in Thailand (2015)



Source: prepared by FISCO from data from the Federation of Thai Industries

Within total sales, the percentages of sales provided by one ton pickup trucks are 55.2% for Toyota and 89.7% for Isuzu. The same percentages for the U.S. manufacturers in the top 10 are both high, at 77.3% for Ford and 74.6% for GM (Chevrolet).

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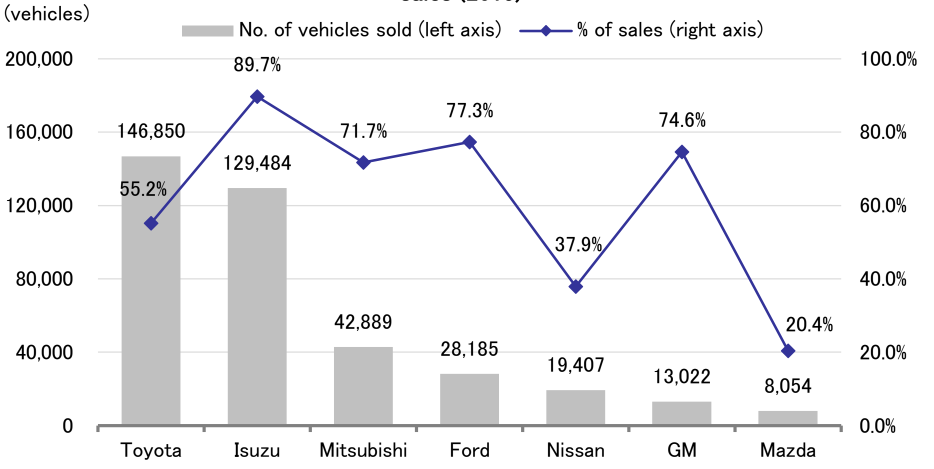
No. of one ton pickup trucks sold by brand and their percentage of total sales (2015)



Source: prepared by FISCO from data from the Federation of Thai Industries

(5) The Company's management strategy in Thailand

The Company's growth strategy, centered on Thailand, is to expand vehicle exports from Thailand and to grow its auction business.

As Thailand has become a hub base for the production of vehicles in Southeast Asia, the Company will develop its used vehicles export business centered on this country. Tariffs within AEC have been abolished, so it will sell from Thailand to its neighboring countries. Consumers evaluate Japanese vehicles of being high quality not only when they are "made in Japan," but also when they are "made by Japan," so the Company aims to grow exports of used vehicles made in Thailand by Japanese manufacturers. The pickup truck is the best-selling vehicle in both Africa and South America, and as the Company has built a sales route to the markets in Africa and South America from exports from Thailand, it will utilize this channel for the export of used vehicles from Japan also.

(6) Thailand's auction business

In Thailand, Apple Auto Auction (Thailand) Company Limited operates the auction business. The main auction site is in the capital of Bangkok, while it has satellite sites in 11 regional locations, so it manages a total of 12 auction sites.

The total number of vehicles shipped from auctions in Thailand in 2015 was 290,000 vehicles, and Apple Auto Auction handled 65,000 vehicles, given it the leading market share of 22.5%. The auction method is the same as in Japan, but the number of items auctioned in one day in Thailand is only around 600 items, which is much fewer than Japan, which auctions over 10,000 items a day. A communications network is not fully in place in Thailand and the majority of people participate in the auction using their smartphones. Reflecting the local conditions, the speed of the bidding is slow and in places it is still done by hand. If the communication infrastructure is developed and it becomes customary to use it in auctions, it seems likely that the speed of bidding will increase.

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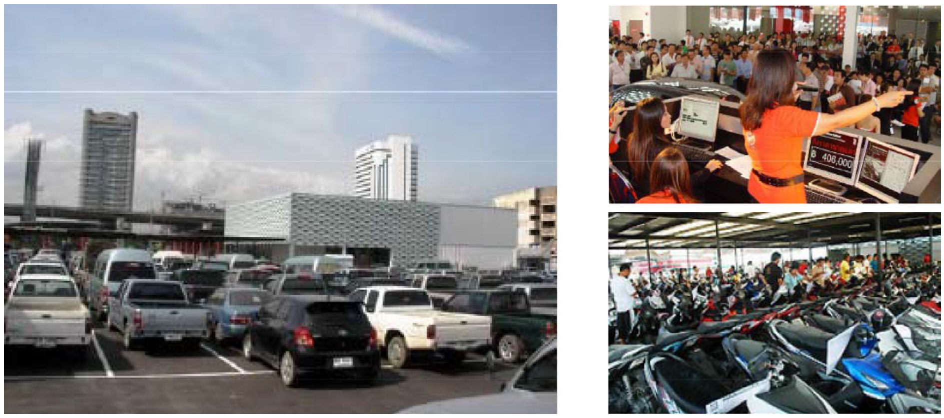
Vehicles exhibited in the Apple Auto Auction, an auction site, and exhibited motorbike



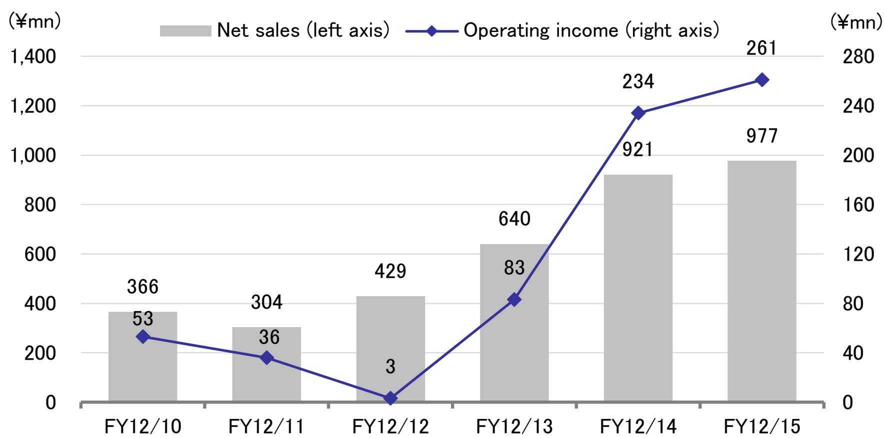
Source: reprinted from Company materials

The percentages of the exhibitors by the numbers of vehicles exhibited in the Apple Auto Auctions are 85.2% by financial institutions, 11.4% by car rental companies, 1.4% by used vehicles dealers, 1.3% by insurance companies, 0.2% by end users, and 0.5% by others. So the weight of financial institutions in the auctions is extremely high.

Apple Auto Auction (Thailand) Company Limited is a joint-venture company with the Thanachart Bank Group. Due to the restrictions on foreign investment at the time it was established, the Company's shareholding ratio is only 34.4%, and it is an equity-method affiliate. Two years ago, it received the agreement for the transfer of the shares held by the partner company and it applied to make the joint venture a wholly owned subsidiary. But at the present time, the application remains frozen following the change to the interim military government in May 2014.

The Thai auction company's results in FY12/15, when translated into yen (1THB=approx. ¥3.3), were net sales of ¥977mn and operating income of ¥261mn, giving an operating income margin of 26.7%. Its contribution to consolidated profits in FY12/15 was slightly less than ¥100mn, due to the Company's shareholding ratio.

Trends in the results of Apple Auto Auction (Thailand) Company Limited



Source: prepared by FISCO from Company materials
Note: based on an exchange rate of 1THB=approx. ¥ 3.3

The management of auction sites is a business involving the collection of exhibition fees, successful bid fees, and fees on the conclusion of a contract, so it is a business model in which high profits can be stably obtained if a certain level of auction volume is maintained. The Company has developed its business to become the leading company in Thailand. The materials used by the board of directors in Thailand are 78 pages long and include a detailed data analysis. In the future, the Company plans to develop the same business in neighboring countries, such as Indonesia. As it will be able to utilize the IT system it has already built in Thailand, it may be able to keep down the initial costs and shorten the preparation periods in these countries.

(7) Exports from Thailand

The export of used one-ton pickup trucks to emerging countries is difficult to do from Japan due to the commercial allowance, so exporting them from Thailand is more suitable. Thailand is a member of ASEAN (Association of Southeast Asian Nations), and at the end of 2015, the ASEAN Economic Community (AEC) was launched. The population of the AEC region exceeds that of the European Union (EU), at 620 million people, and total production within it is worth 2.5 trillion dollars. The six countries of Singapore, Malaysia, Thailand, Indonesia, the Philippines, and Brunei have abolished more than 98% of tariffs within the region on a products basis. The plan is to expand the free-trade region to CLMV (Cambodia, Laos, Myanmar, and Vietnam) in 2018. Trade within the AEC region in 2014 was worth 608.3 billion dollars, which is an increase of 2.3 times in 10 years. Currently, infrastructure projects for the transportation network, including for railways and a transnational highway, are being progressed.

Thailand, like Japan, is a right-hand drive country. The other right-hand drive countries within AEC are Indonesia, Singapore, Brunei, and Malaysia. These countries are appropriate destinations for the export of used vehicles from Thailand.

Right-hand drive countries

Region	Country
Asia	Macau, Hong Kong, Japan
Southeast Asia	Indonesia, Singapore, Thailand, Brunei, Malaysia, East Timor
South Asia	India, Sri Lanka, Nepal, Bangladesh, Pakistan, Bhutan, Maldives
Oceania	Australia, Kiribati, the Cook Islands, the Solomon Islands, Tuvalu, Nauru, Niue, New Zealand, Papua New Guinea, Fiji, American Samoa
Africa	Uganda, Kenya, Zambia, Zimbabwe, Swaziland, Seychelles, Tanzania, Namibia, Botswana, Malawi, Mozambique, Mauritius, Lesotho, South Africa
The Middle East	Cyprus
Europe	Ireland, United Kingdom, Malta
South America	Guyana, Suriname

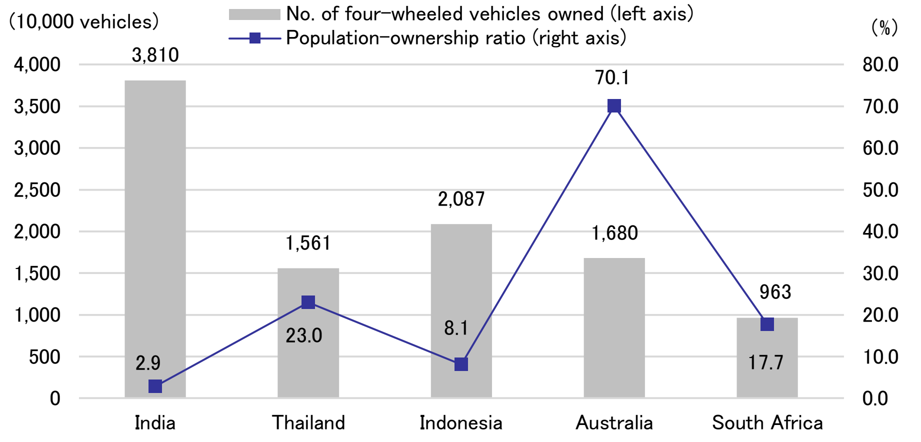
Source: prepared by FISCO from various materials

(8) Developing business in Asia with Thailand as the advanced model

Looking at the ownership of four-wheeled vehicles and population-ownership ratios in right-hand-drive countries at the end 2014, we see that while the number of vehicles owned in India was large, at 38,100,000 million, this is still a low level on a per capita basis. Conversely, while the population-ownership ratio in Australia, which is a car society, is high at 70%, the number of vehicles owned is not even half that of India. However, salaries are high in Australia and by 2017, all car manufacturers will have withdrawn from production, including assembly, in this country, so it is suitable as an export destination. In Thailand, the number of vehicles owned is 15,610,000, and they are owned by more than 20% of the population. This is a high level compared to other emerging countries and its market is becoming mature.

The Company's business as a whole involves the franchise chain headquarters for the dealers specializing in vehicle purchases and the overseas export business in Japan, and the auction business and used vehicle distribution business in Thailand. As motorization progresses in the future, the Company is investigating a business model in which it will play a role in establishing systems and providing infrastructure functions in countries that require a distribution infrastructure to be built for used vehicles, including imported ones.

No. of vehicles owned and population-ownership ratios by country (end of 2014)



Source: prepared by FISCO from data from the Statistics Bureau, Ministry of Internal Affairs and Communications, and the WHO

Results trends

Major declines in sales and profits in FY12/16 Q2 due to temporary factors

(1) FY12/15 results

In FY12/15, the Company performed so much better than expected that the forecasts were upwardly revised twice in 2H. Compared to the initial forecasts, net sales increased 58.9%, operating income rose 144.0%, and ordinary income climbed 294.1%. In the results, net sales were down 37.5% YoY to ¥25,460mn, operating income increased 2.4 times to ¥1,322mn, ordinary income was ¥1,339mn, and net income was ¥1,273mn. The reason for the major decline in sales YoY was that the subsidiary in the China business was removed from the scope of consolidation and became an equity-method affiliate. Although measures to increase profitability were implemented, factors within the business environment were the major reason why results improved above the initial forecasts. In the current fiscal period, the results forecasts have been placed on a line extending from the targets in the medium-term management plan, so from the start the forecasts were for declines in sales and profits.

(2) FY12/16 Q2 results

The FY12/16 Q2 results fell below the initial forecasts. Compared to the initial forecasts, net sales were down 29.0%, operating income was down 50.1%, ordinary income was down 63.0%, and net income was down 77.7%. The initial forecasts were for net sales to decrease 12.6% YoY, operating income to fall 13.1%, ordinary income to increase 29.1%, and net income to rise 59.3%. In contrast to the expected decrease in operating income, ordinary income was expected to increase due to a reduction in interest paid, which is recorded in non-operating expenses, in addition to the elimination of the loss from equity in affiliates. In December 2015, the Company planned to transfer all its shares in the consolidated subsidiary IM JIHAN Corporation, but this was instead carried out in January, which resulted in the recording of extraordinary income on the transfer of shares of ¥102mn in the current Q2.

FISCO

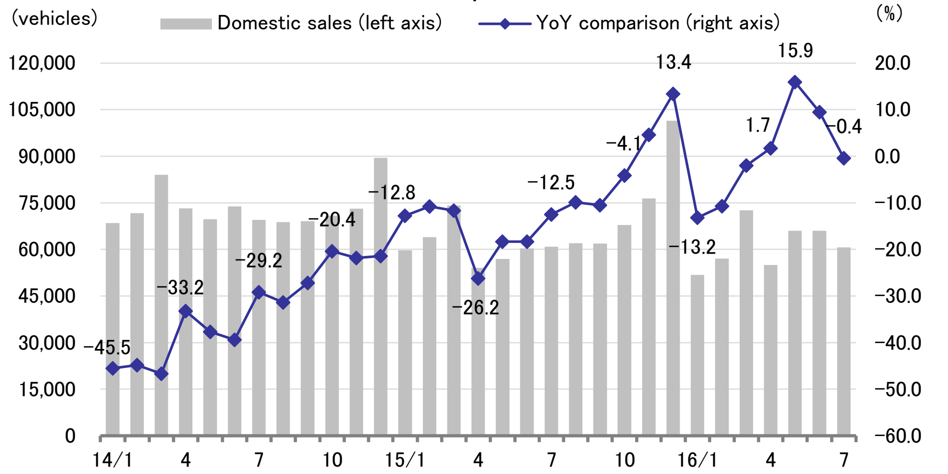
APPLE INTERNATIONAL CO., LTD.
2788 Tokyo Stock Exchange Second Section

25-Oct.-16

a) Revisions to the vehicle excise tax in Thailand caused a slump in sales in the first half of 2016

The main reason for the deterioration of results in this Q2 was the slump in the used vehicle export business due to the rapid strengthening of the yen in the short term. In addition, in January 2016, Thailand, which is the main purchasing destination, revised its vehicle excise tax, which temporarily resulted in market turmoil. Previously, Thailand determined the tax rate by the vehicle's model and displacement, but it newly added CO2 emissions to the criteria. As a result, while the tax rate was reduced for eco-cars, as a whole it was raised for all other cars. This triggered demand at the end of 2015 in advance of the tax hike's implementation, and as a reaction to this, sales declined YoY during the January to March 2016 period.

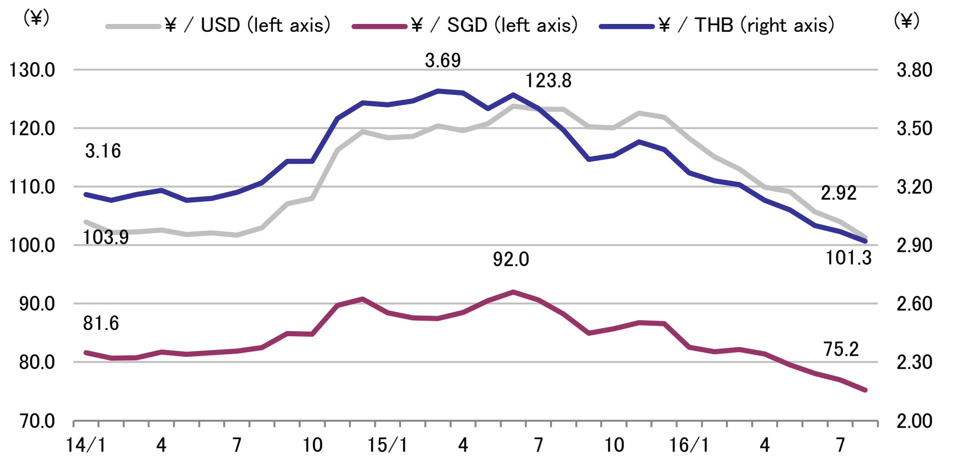
The number of four-wheel vehicles sold in Thailand and the YoY growth rate comparison



Source: prepared by FISCO from various materials

In terms of the exchange rate also, in the short term the strengthening of the yen has caused problems. In June, the yen strengthened to below ¥100 to US$1, which was the strongest it had been since November 2013. Comparing the exchange rates at the end of last year to the end of June in this year, the yen has strengthened 13.2% against the US dollar, 11.5% against the Thai baht, and 9.9% against the Singapore dollar. As sales in Thailand have slumped due to the revision to the tax system, the Company is focusing on exports to Singapore and these exports have grown despite the strong yen. Even when the yen is strong, as long as it maintains a certain level the situation can be dealt with, but rapid fluctuations can cause consumers to adopt a wait-and-see approach and to defer payments. Supposing that the US dollar-yen rate settles in the region of ¥105 to US$1, then it is possible that business will return to normal, even if the yen is stronger than in the previous year.

The yen's rates against the US dollar, the Singapore dollar, and the Thai baht (monthly)



Source: prepared by FISCO from various data

FY12/16 Q2 results

(unit: ¥mn)

	FY12/15Q2		FY12/16 Q2				
	Results	% of sales	Initial forecast	Results	% of sales	YoY	vs. target
Net sales	11,081	-	9,685	6,878	-	-37.9%	-29.0%
Overseas export business	9,305	84.0%	-	4,240	61.6%	-54.4%	-
Domestic business	2,419	21.8%	-	2,658	38.6%	9.9%	-
China business	0	0.0%	-	0	0.0%	-	-
Adjusted amount	-643	-5.8%	-	-20	-0.3%	-96.9%	-
Gross profit	1,459	13.2%	-	996	14.5%	-31.7%	-
SG&A expenses	870	7.9%	-	741	10.8%	-14.8%	-
Operating income	588	5.3%	512	255	3.7%	-56.6%	-50.0%
Overseas export business	412	4.4%	-	114	2.7%	-72.3%	-
Domestic business	176	7.3%	-	146	5.5%	-17.0%	-
China business	-19	-	-	-9	-	-52.6%	-
Adjusted amount	19	-	-	4	-	-78.9%	-
Ordinary income	425	3.8%	548	203	3.0%	-52.2%	-62.9%
Net income	295	2.7%	470	104	1.5%	-64.5%	-77.7%

Source: prepared by FISCO from Company materials

As the main Chinese subsidiary was removed from the scope of consolidation, there is no longer segment information divided according to the businesses in Japan and China. On dividing the Japanese business into the overseas export business by sales destination and the domestic business, in the FY12/16 Q2 net sales, the overseas export business contributed 61.6% and the domestic business 38.6%, and the adjusted amount was -0.3%. Domestic business sales increased 9.9% YoY, but overseas export business sales were down by 54.4%, or practically by half.

b) The balance sheet –the equity ratio rose to 81.6%

The balance sheet was greatly streamlined by the removal of the China-related subsidiary from the scope of consolidation. Total assets declined ¥902mn from the end of the previous fiscal year to ¥8,202mn. Interest-bearing debt declined ¥484mn to ¥2,103mn. While short-term borrowing decreased ¥1,854mn, long-term borrowing increased ¥1,102mn. Interest bearing debt on current liabilities, added to long-term borrowing scheduled to be repaid within the year, fell ¥1,587mn. The current ratio rose from 161.2% at the end of the previous fiscal year to 394.4%. Conversely, shareholders' equity increased ¥908mn to ¥6,690mn and the equity ratio rose from 63.5% to 81.6%, meaning the Company's financial stability further improved.

Balance sheet

(unit: ¥mn)

	FY12/15	FY12/16 Q2	Change
Cash and deposits	2,533	2,394	-139
Accounts receivable	3,472	3,384	-87
Products	731	1,275	543
Outstanding accounts	538	60	-478
Allowance for doubtful accounts	-59	-53	5
Current assets	7,856	7,636	-219
Tangible fixed assets	215	212	-2
Intangible fixed assets	42	38	-4
Investment, other	990	314	-675
Fixed assets	1,248	565	-683
Total assets	9,104	8,202	-902
Accounts payable	203	172	-30
Short-term borrowing, etc.	2,438	851	-1,587
Current liabilities	4,872	1,936	-2,935
Long-term borrowing	149	1,252	1,103
Fixed liabilities	282	1,402	1,102
Total liabilities	5,154	3,339	-1,814
Net assets	3,950	4,863	912
Total liabilities and net assets	9,104	8,202	-902
[Ratios of stability]			
Current ratio	161.2%	394.4%	
Equity ratio	63.5%	81.6%	

c) Cash flow statement

At the end of FY12/16 Q2, cash and cash equivalents were ¥2,337mn, an increase of ¥738mn on the end of the previous fiscal year. Net cash used in operating activities was ¥510mn, mainly due to an increase of ¥801mn for inventory assets. Cash flow from investing activities was ¥268mn from the sales of shares of an affiliate. Net cash provided by financial activities was ¥266mn, with the main factors being spending to reduce short-term borrowing of ¥1,230mn and income from long-term borrowing of ¥1,600mn.

Cash flow statement

(unit: ¥mn)

	FY12/15 Q2	FY12/16 Q2	Change
Cash flow from operating activities	-496	-510	-13
Cash flow from investing activities	11	423	412
Cash flow from financial activities	554	266	-288
Cash and cash equivalents at the end of the FY	1,598	2,337	738

Source: prepared by FISCO from Company materials

(3) FY12/16 full-year forecasts – the initial forecasts have been left unchanged

The FY12/16 full year forecasts have been left unchanged, despite Q2 results falling greatly below the initial forecasts. This is not because the Company is intending to overextend itself and will attempt to fill-in the shortfall in 1H in 2H, but rather because the downward-revision factors in 1H remain in place and at the current time it would be difficult to revise the budget.

The initial forecasts were for net sales to fall 32.3% YoY to ¥17,232mn, operating income to decline 34.7% to ¥863mn, ordinary income to decrease 32.1% to ¥910mn, and net income to fall 44.9% ¥702mn. In the forecasts for the current fiscal period, the Company is aiming to realize increases in sales and profits compared to the initial forecasts for the previous period (net sales of ¥16,018mn and operating income of ¥542mn).

The yen had weakened to as far as ¥123 to the US$1 dollar, but by June in this fiscal period, it had strengthened to below ¥100. In addition, Southeast Asian countries are being affected by the slowdown in economic growth in China, and a phenomenon can be seen of consumers choosing a vehicle model of one or two classes lower than normal. The biggest problem is that in conjunction with its revision to the vehicle excise tax, Thailand is reviewing its import tax but has not yet determined the regulations. Once this point becomes clear, the Company's business should start to move again.

The number of four-wheeled vehicles sold in Thailand was trending favorably up to the first half of 2013 due to the first purchase-support measures implemented in 2012. But in 2014, because of the decline as a reaction to the previous sales from first-car purchase support and the impact of the political confusion and the decline in agricultural prices, the annual number of vehicles sold fell 33.7% YoY to 881,832 vehicles. This declined further in 2015, by 9.3% to 799,592 vehicles. The slump in sales continued due to factors like the decline in purchasing power because of the drought and the fall in agricultural prices, and also the tightening of vehicle loan borrowing conditions by financial institutions. The Federation of Thai Industries (FTI) has forecast that, due to the revisions to the vehicle excise tax, the number of vehicles sold in Thailand in 2016 will decline in the region of 2.5% to 6.2% YoY, at 750,000 to 780,000 vehicles. This would be the fourth consecutive year of decline, although the extent of the decline would be smaller than previously.

FY12/16 forecasts

(unit: ¥mn)

	FY12/15		FY12/16 forecast		YoY	
	Results	% of sales	Initial forecast	% of sales	Change	YoY
Net sales	25,460	-	17,232	-	-8,228	-32.3%
Operating income	1,322	5.2%	863	5.0%	-459	-34.7%
Ordinary income	1,339	5.3%	910	5.3%	-429	-32.1%
Net income	1,273	5.0%	702	4.1%	-571	-44.9%

Source: prepared by FISCO from Company materials

■ The shareholder-returns policy

Aiming to resume dividend payments at an early stage

Since FY12/10, the Company has not paid a divided due to the worsening of its results. As it recorded net income of ¥1,273mn in FY12/15, the extent to which retained earnings were in deficit at the end of the fiscal year was greatly reduced. In FY12/16 Q2, retained earnings had improved from negative ¥292mn at the end of the previous fiscal period to positive ¥987mn. But on considering that retained earnings, which are the source of funds for dividends, were approximately ¥1.3bn in deficit at the end of FY12/15, it seems unlikely that a dividend will be paid in FY12/16. The Company's shareholder returns policy is to aim to resume dividend payments at an early stage, once the necessary conditions are in place.

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