COMPANY RESEARCH AND ANALYSIS REPORT

APPLE INTERNATIONAL CO., LTD.

2788

Tokyo Stock Exchange Second Section

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Index

Summary

Growth strategy: leveraging IT to make Thailand an operations hub

Currently, APPLE INTERNATIONAL CO., LTD. <2788> (hereafter, "Apple International," also "the Company") has two main business pillars: a business for the export of used vehicles, and a business for the franchise chain headquarters for dealers of the purchase and sale of used vehicles within Japan.

1. Earnings deteriorated in FY12/16, but forecasts 15% rise in net sales, 40% increase in ordinary income

In FY12/16, net sales declined 41.8% and ordinary income fell by 61.4% year on year (YoY) due to a revision to the Thai automobile tax system at the beginning of the year, yen appreciation midyear, and a mood of self-restraint in Thailand in autumn owing to the passing of the Thai King. As the Company expects none of these negative factors to recur in FY12/17, it forecasts net sales of ¥17,014mn (up 14.9% YoY), ordinary income of ¥728mn (up 40.8%), and profit attributable to owners of parent of ¥576mn (up 48.3%). In addition, the Company may post extraordinary gains from the reversal of an allowance for doubtful overseas accounts and/or from the liquidation of a Chinese subsidiary, resulting in earnings surpassing its forecast.

2. In Japan, focus on expanding into ancillary businesses rather than increasing volume in existing businesses

In domestic business, merely pursuing expansion of scale in existing businesses results in added future risk due to aging populations and population decline trends in regional cities and consumers focusing less on ownership and more on use and sharing of vehicles. The Company is therefore seeking to establish businesses in related fields. Regarding new dealer launches, the Company is shifting from its previous focus on roadside dealers located alongside national highways to increasing the number of shop-in-shop format dealers located in shopping centers. In FY12/17, the Company will launch a used car leasing business and plans to achieve differentiation from existing businesses in the market by adding new options in terms of leasing periods. The Company also plans to launch a sharing economy business that makes use of underused cars owned by people on long-term overseas business postings, etc.

3. Evolution of the ASEAN Economic Community (AEC) presents business opportunities overseas

The Company is leveraging its operations hub in Thailand by exporting cars made in Thailand by Japanese automakers to ASEAN countries and also expanding sales channels to include Africa and South America. In the auto auctions business, in addition to expanding operations in Thailand, the Company is also developing a business in Malaysia. The Company has made it possible for customers around the world, even those using mobile phones, to participate in auctions via the Internet.

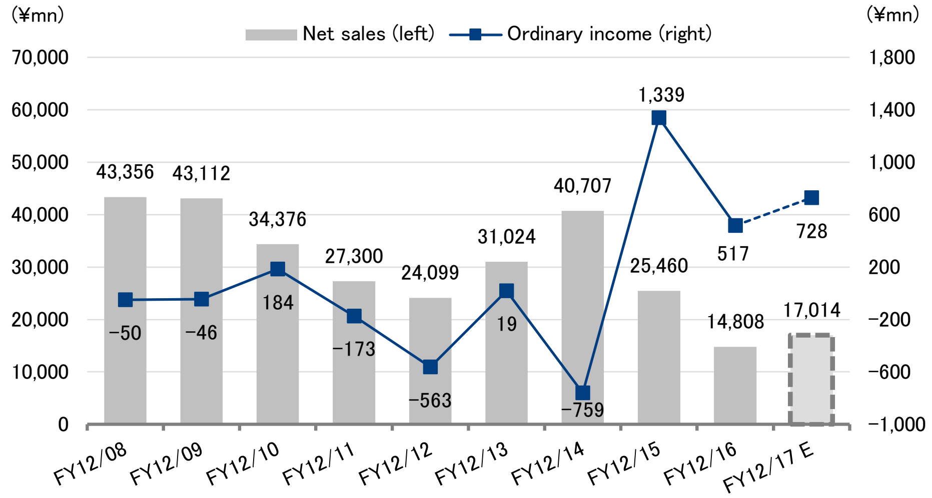
4. Finished shoring up financial base in order to resume dividends

The Company has completed restructuring of its Group companies, including withdrawal from its business in China and selling off consolidated subsidiaries. In FY12/16, the equity ratio rose to 90.9% and consolidated retained earnings entered positive territory, reaching ¥1,209mn, but parent retained earnings remained negative. At the General Meeting of Shareholders held in March 2017, the Company decided to reduce capital reserves by ¥694mn and appropriate this amount to write off negative retained earnings at the parent, thus completing measures to shore up the Company's financial base in order to resume dividends.

Key Points

- Developing new businesses in Japan in response to consumer trends
- Growth strategy aims to take advantage of business opportunities presented by the evolution of the AEC
- Finished shoring up financial base in order to resume dividends

Net sales and ordinary income



Source: Prepared by FISCO from the Company's financial results

Company and business profile

Completed restructuring of Group Companies

1. Company profile

Apple International, as a pioneer in the export of used vehicles, launched a business to export used vehicles to Southeast Asian countries in 1996. Since then, the Company has played an important part in the automobile distribution market, not only in the buying and selling of used cars, but also establishing auto auction businesses. Overseas, the Company has continually developed new businesses based on the trust it has earned and the expanding network of human connections it has established. 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 vehicle purchase and sale business within Japan, and a Group company also directly manages franchise dealers.

2. History

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 Company is expanding the scale and range of its operations through M&A. In November, 2001, the Company acquired shares of Car Consultant Maple Co., Ltd., which buys and sells cars, and in May 2004, it acquired shares of franchise chain headquarters Apple Auto Network Co., Ltd. (formerly Japan Automobile Distribution Network Co., Ltd.). Both of these companies are now consolidated subsidiaries.

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.

In November 2016, the Company established a dual-headquarters structure, setting up a second headquarters in Tokyo's Chuo Ward.

History

Month and year	Major event
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
November 2001	Acquired shares in Car Consultant Maple Co., Ltd. and converted the company into a subsidiary
December 2003	Founded A.I.HOLDINGS (HONG KONG) LIMITED (A.I.H) in Hong Kong
December 2003	Listed on the TSE Mothers market
May 2004	Acquired shares in franchise chain headquarters Apple Auto Network Co., Ltd. and converted the company into a subsidiary
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 consolidated subsidiary IM JIHAN Corporation
November 2016	Established dual-headquarters structure by setting up a Tokyo Headquarters in Chuo Ward, Tokyo

Source: Prepared by FISCO from the Company materials

3. Business content

Currently, the two business pillars are the used vehicles export business run by the parent company and the franchise chain headquarters in the vehicle purchase and sale business run by a subsidiary. The Group includes the parent company, five consolidated subsidiaries, and three equity-method affiliates. In FY12/16, 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. In addition, the Company's vehicle sales holding company in Hong Kong is currently inactive.

Affiliated Companies

Name	Location	Capital/amount invested (¥mn)		Main business activities	Ownership ratio (%)	Comments
Apple Auto Network Co., Ltd.	Yokkaichi City, Mie Prefecture	347	Consolidated	Used vehicle purchasing and overall management of franchise chain network	74.3	Transactions with parent
Car Consultant Maple	Nakakoma District, Yamanashi Prefecture	10	Consolidated	Used vehicle purchasing and sales	100.0	Transactions with parent
A. I. HOLDINGS (HONG KONG) LIMITED	People's Republic of China (Hong Kong)	1,135	Consolidated	Holding company engaging vehicle sales	58.1	Inactive
Apple Auto Auction (Thailand) Co. Ltd.	Kingdom of Thailand	287	Equity-method	Management of auto auction sites	34.4	Dual directorship

Source: Prepared by FISCO from the Company materials

In the 2016 Oricon Japan customer satisfaction rankings, Apple was awarded first place for the third consecutive year in the "Vehicle purchasing companies" category. At the end of December 2016, there were 238 member dealers (including directly managed dealers) in its "Apple" franchise chain of dealers. Apple Auto Network member dealers are provided with information to help them determine appropriate price at the time of purchase including used vehicles' successful bid price information at auctions in Japan and inventory information. 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 addition, the Company is also focusing on its property and casualty insurance counter, online insurance, and car rental businesses, all offering speedy contract completion. In the insurance business, the Company has developed a smartphone app through which users can use the Apple Store and Google Play to save their insurance policies for easy reference.

In Thailand, subsidiary and joint venture with MBK Public Company Limited, Apple Auto Auction (Thailand) Co. Ltd. manages auto auction sites. Owing to foreign ownership restrictions at the time of establishment, Apple's ownership is only 34.4% and the company is therefore an equity-method affiliate. The management of auction sites is a business involving the collection of exhibition fees, successful bid fees, and contract completion fees, so it is a business model in which high profits can be stably obtained if a certain level of auction volume is maintained. This subsidiary has the second highest market share (25% in 2016) in terms of dealing volumes of the auction market in Thailand. We note, however, that motorcycle sales are not included in the Company's sales volume figures, although they are included in the sales volume figures of the company with the top market share (40%).

Finalizing business restructuring measures and strengthening of financial base in order to resume dividends

4. Business trends

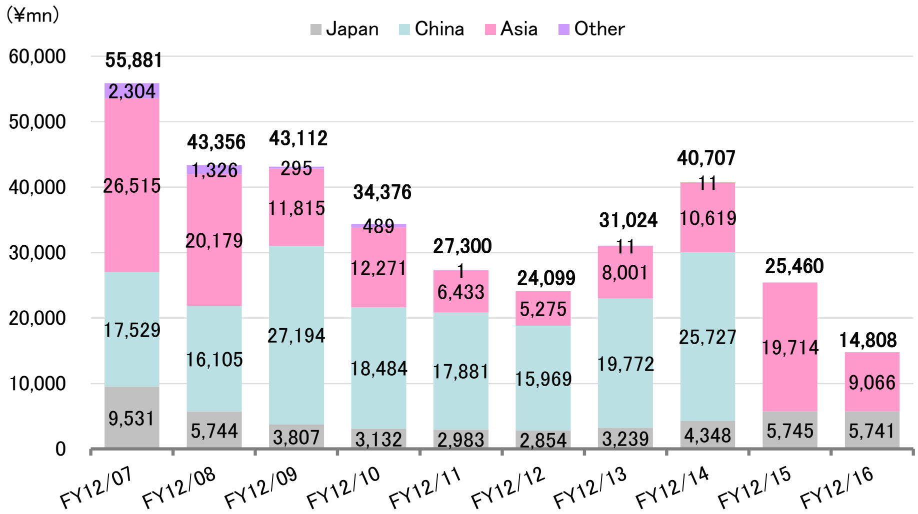
(1) Return of the founder, restructuring of Group companies

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. After his return, concerns emerged regarding the rapid expansion of operations in Asia, particularly in China, undertaken during his absence. Thereafter, he and management worked to restructure the Group. The objective of this Group restructuring was to eliminate risk factors and restore financial stability. The number of consolidated subsidiaries in FY12/09 was 28 companies and at the most, there were also 11 equity-method affiliates. This was reduced to five consolidated subsidiaries and three equity-method affiliates. The Hong Kong subsidiary and its two subsidiaries are currently inactive.

(2) Withdrawal from China business

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. The Company sold its new vehicle dealer business subsidiary in China and withdrew from the market. From FY12/15, sales from the China business were no longer included in consolidated net sales.

Net sales by region



Source: Prepared by FISCO from the Company materials

Following the global financial crisis triggered by Lehman Brothers bankruptcy in September 2008, Japan suffered a major economic recession, while China implemented an economic stimulus package worth 4 trillion yuan (around ¥56 trillion), which resulted in a temporary increase in economic activity in the Chinese market. In FY12/09, the Company's sales in Japan declined 33.7% YoY to ¥3,807mn and sales in Asia ex. China and Japan fell 41.4% to ¥11,815mn, but sales in China rose 68.9% to ¥27,194mn, with China providing a sizable 63.1% of total sales. However, expansion of the Company's business in China did not result in higher earnings. Interest payments were a heavy burden on the China business and the main reason it posted an ordinary loss was that interest paid exceeded operating income.

The main reasons for the enormous extraordinary loss (¥3,522mn) recorded in FY12/09 following the global financial crisis of 2008 were an impairment loss on the goodwill of an overseas subsidiary of ¥905mn and the provision of 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 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 sales of shares of subsidiary (¥310mn), and provision for loss on business of the Chinese subsidiary (¥434mn). After the Company completed the painful process of rebuilding its financial base, extraordinary losses fell to ¥2mn in FY12/15 and ¥9mn in FY12/16.

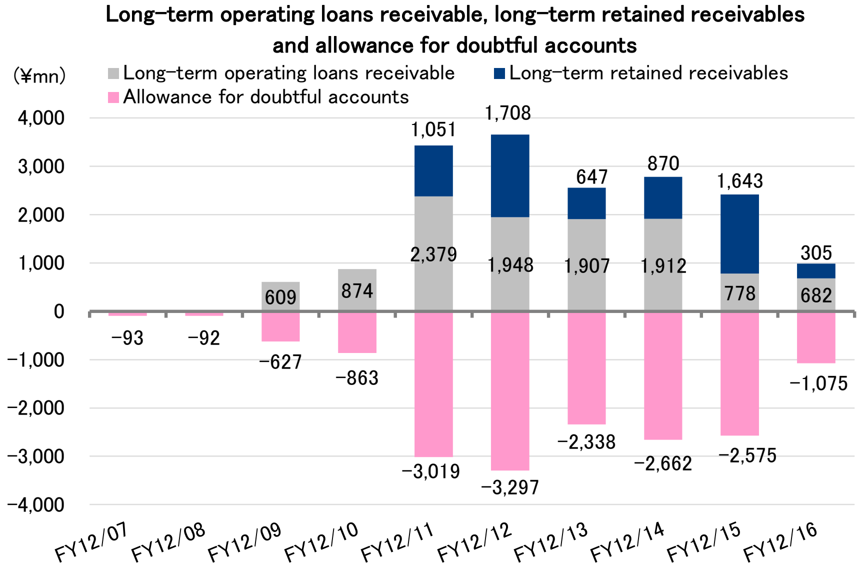
Consolidated results of APPLE INTERNATIONAL

(\mn)

	FY12/07	FY12/08	FY12/09	FY12/10	FY12/11	FY12/12	FY12/13	FY12/14	FY12/15	FY12/16
Net sales	55,881	43,356	43,112	34,376	27,300	24,099	31,024	40,707	25,460	14,808
Operating income	1,217	407	-52	498	110	-169	747	589	1,322	489
Interest paid	359	261	278	201	285	326	633	762	67	30
Ordinary income	876	-50	-46	184	-173	-563	19	-759	1,339	517
Extraordinary loss	133	507	3,522	1,199	141	64	64	834	2	9
Net profit*	334	-288	-3,715	-1,604	-708	-295	50	-1,030	1,273	388

*Profit attributable to owners of parent
Source: Prepared by FISCO from the Company materials

Accounts receivable at end-FY12/07 were ¥9,817mn, but by end-FY12/11, this had declined to ¥1,306mn. At end-FY12/11, long-term operating loans receivable were ¥2,379mn, long-term retained receivables were ¥1,051mn, and the allowance for doubtful accounts was ¥3,019mn, but by end-FY12/16, these had fallen to ¥682mn, ¥305mn, and ¥1,075mn, respectively. Total assets also declined from ¥29,938mn in FY12/07 to ¥7,593mn in FY12/16.



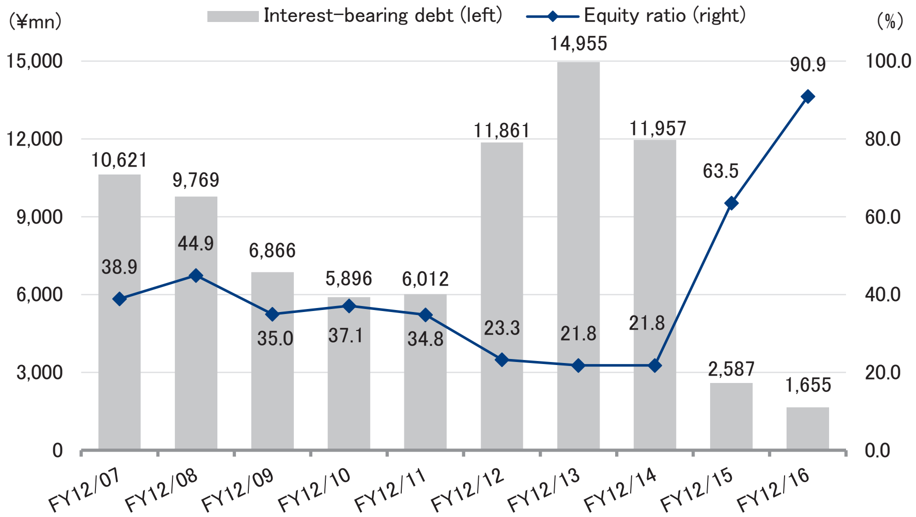
Source: Prepared by FISCO from the Company materials

(3) Significant improvement in financial position

The Company posted net losses for five consecutive years (FY12/08-FY12/12) totaling ¥6,601mn and interest-bearing debt rose to ¥14,955mn in FY12/13. Of the Company's ¥11,735mn in short-term borrowing as of end-FY12/14, China-related borrowing accounted for ¥10,513mn, and in terms of financing, this business had become a factor hampering the development of other businesses. The D/E ratio (=interest-bearing debt ÷ shareholders' equity), an important indicator considered in the rating of corporate bonds, etc., had risen to as high as 2.85 by end-FY12/13. As China-related borrowing was eliminated by end-FY12/15, interest-bearing debt declined greatly, from ¥11,957mn at end-FY12/15 to ¥2,587mn, and as a result the D/E ratio rapidly improved, falling significantly to 0.45, 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.

Looking at ratios related to financial stability, the current ratio, which indicates a company's ability to pay its short-term debts, rose from 115.4% in FY12/13 to 617.2% in FY12/16, well above 200%, the level considered ideal. Over the same period of time, the equity ratio, which indicates a company's ability to pay its long-term debts, rose from 21.8% to 90.9%, above the ideal level of 70%.

Interest-bearing debt and equity ratio



Source: Prepared by FISCO from the Company materials

(4) Finalizing business restructuring measures and strengthening of financial base in order to resume dividends

In FY12/16, consolidated retained earnings had improved from negative ¥292mn at the end of the previous fiscal period to positive ¥1,209mn, erasing accumulated losses. However, parent retained earnings remained in deficit, which was an obstacle to the resumption of dividends. Therefore, at the General Meeting of Shareholders held in March 2017, the Company decided to reduce capital reserves by ¥694mn and appropriate this amount to write off negative retained earnings as the final step in its restructuring program. We therefore believe the Company has strengthened its financial base enough to resume dividend distributions in FY12/17.

Results trends

Three factors resulted in earnings deterioration

1. Overview of FY12/16 results

(1) FY12/15 results: Strong profit growth partly owing to rush demand in Thailand

In FY12/15, the Company performed so much better than expected that it upwardly revised its forecasts twice in 2H. Net sales surpassed initial forecasts by 58.9%, operating income outperformed by 144.0%, and ordinary income was 294.1% above target. Looking at FY12/15 results, net sales were down 37.5% YoY to ¥25,460mn, operating income rose 124.2% to ¥1,322mn, ordinary income was ¥1,339mn, and profit attributable to owners of parent 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. The Company carried out measures to increase profitability and rush demand in Thailand ahead of the implementation of the change in the vehicle tax system in January 2016 also boosted earnings.

(2) FY12/16 results: fell short of initial forecast owing to three negative factors

FY12/16 results fell short of the Company's initial forecast owing to three negative factors. The first factor was an increase in the vehicle tax in Thailand, the largest export destination for the Company's used vehicles. The second factor was yen appreciation around midyear. The third was the mood of self-restraint in Thailand regarding leisure activities and consumption owing to the passing of the Thai King in October.

The Company's initial forecast was for declines in sales and income owing to the temporary bringing forward of demand in the previous fiscal year. The initial forecasts were for net sales to fall 32.3% YoY to ¥17,232mn, ordinary income to decrease 32.1% to ¥910mn, and profit attributable to owners of parent to fall 44.9% to ¥702mn. The sales decline was expected owing to the sale of all of the Company's shareholdings in IM JIHAN Corporation in January 2016 and in PRIME ON CORPORATION LIMITED (Hong Kong) in March. The Company posted an extraordinary gain from the sale of shares in its affiliated companies of ¥97mn.

In FY12/16, net sales declined 41.8% YoY to ¥14,808mn, operating income fell 63.0% to ¥489mn, ordinary income fell 61.4% to ¥517mn, and profit attributable to owners of parent fell 69.5% to ¥388mn. Sales fell short of the Company's initial estimate by 14.1%, ordinary income fell short by 43.2%, and profit attributable to owners of parent was 44.7% below forecast.

FY12/16 results

(\mn)

	FY12/15		Initial forecast				
	Results	% of sales	FY12/16	Results	% of sales	YoY	vs. target
Net sales	25,460	-	17,232	14,808	-	-41.8%	-14.1%
Gross profit	3,246	12.8%	-	2,059	13.9%	-36.6%	-
SG&A expenses	1,924	7.6%	-	1,570	10.6%	-18.4%	-
Operating income	1,322	5.2%	863	489	3.3%	-63.0%	-43.3%
Ordinary income	1,339	5.3%	910	517	3.5%	-61.4%	-43.2%
Profit attributable to owners of parent	1,273	5.0%	702	388	2.6%	-69.5%	-44.6%

Source: Prepared by FISCO from the Company materials

a) Revisions to the vehicle excise tax system in Thailand

Starting in January 2016, Thailand began determining the vehicle tax rate based on CO2 emissions rather than engine displacement volume. This triggered demand at the end of 2015 in advance of the implementation of the revision to the tax system, and as a reaction to this, sales declined YoY during the 1Q FY12/16. Unexpectedly, it took time to clarify standards for imported vehicles and this had the accelerated negative impact on 1H results. While the tax rate was reduced for eco-cars, in general, it was raised for all other cars.

Revisions to the Thai vehicle excise tax

<table>
<tr><th rowspan="3">Vehicle type</th><th colspan="4">Previous system</th><th colspan="4">New system</th></tr>
<tr><th rowspan="2">Displacement volume</th><th colspan="3">Tax rate</th><th rowspan="2">CO_2 emission volume</th><th colspan="3">Tax rate</th></tr>
<tr><th>E10</th><th>E20</th><th>E85</th><th>E10/E20</th><th>E85/NGV</th><th>Hybrids</th></tr>
<tr><td rowspan="2">Eco-car E85</td><td rowspan="2">1,300/1,400cc</td><td colspan="3" rowspan="2">17</td><td>Less than 100g/km</td><td colspan="3">14/12</td></tr>
<tr><td>101-120g/km</td><td colspan="3">17/17</td></tr>
<tr><td rowspan="5">Passenger vehicles</td><td>2,000cc or lower</td><td>30</td><td>25</td><td>22</td><td>100g/km or lower</td><td rowspan="2">30</td><td rowspan="2">25</td><td>10</td></tr>
<tr><td>2,001-2,500cc</td><td>35</td><td>30</td><td>27</td><td>101-150g/km</td><td>20</td></tr>
<tr><td>2,501-3,000cc</td><td>40</td><td>35</td><td>32</td><td>151-200g/km</td><td>35</td><td>30</td><td>25</td></tr>
<tr><td rowspan="2">3,001cc or higher</td><td rowspan="2">50</td><td rowspan="2">50</td><td rowspan="2">50</td><td>201g/km or higher</td><td>40</td><td>35</td><td>30</td></tr>
<tr><td>3,000cc or higher</td><td>50</td><td>50</td><td>50</td></tr>
<tr><td rowspan="3">Pickup trucks</td><td rowspan="2">3,250cc or lower</td><td colspan="3" rowspan="2">3, 18</td><td>200g/km or lower</td><td colspan="3">3, 18</td></tr>
<tr><td>201g/km or higher</td><td colspan="3">5, 18</td></tr>
<tr><td>3,251cc or higher</td><td colspan="3">50</td><td>3,251cc or higher</td><td colspan="3">50</td></tr>
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Source: Prepared by FISCO from various materials

b) Yen appreciation from midyear until summer

Yen appreciation also had a negative impact on earnings. In June-August, the yen strengthened to below ¥100/USD, which was the strongest it had been since November 2013. Comparing exchange rates at end-FY12/15 with end 2Q FY12/16 (end-June), the yen strengthened 13.2% against the US dollar, 11.5% against the Thai baht, and 9.9% against the Singapore dollar. As sales in Thailand slumped due to the revision to the tax system, the Company focused on exports to Singapore and these exports grew despite the strong yen. However, rapid exchange rate fluctuations can cause consumers to adopt a wait-and-see approach and to defer payments. Rather than pursue sales growth, the Company continued to focus on achieving stable earnings through sound business operations.

c) Passing of the Thai King

Thai King Bhumibol, deeply loved by the Thai people, passed away at age 88 in October 2016. In his reign of over 70 years, King Bhumibol became dear to the hearts of the Thai people and, after his passing, a mood of self-restraint pervaded in the country regarding leisure activities and consumption. In December 2016, Prince Vajiralongkorn officially ascended to the throne. After a one-year period of mourning, the new king will be crowned in the autumn of 2016. With Lunar New Year celebrations beginning on April 13, the focus of the people is shifting toward the coronation of the new monarch.

d) Domestic used auto purchase and sale business

In FY12/16, sales in the used auto purchase and sale business rose 14.8% YoY to ¥5,337mn. Average sales per directly managed dealership rose 5.2% to ¥245mn. The number of franchise dealerships remained steady YoY at 238. The total number of assessments conducted by chain dealers declined by 3.3% to 154,400 vehicles, the number of vehicles purchased declined by 4.7% to 73,600 units, and the number of vehicles sold fell by 3.1% to 78,900, with the number of retail sales down 1.0% to 9,900.

The used vehicles purchase and sale business

(Vehicles)

	FY12/14	FY12/15	FY12/16	YoY	
				Increase	Growth rate
No. of FC dealers (dealers)	225	238	238	0	0.0%
No. of assessments	147,800	159,700	154,400	-5,300	-3.3%
No. of vehicles purchased	72,800	77,200	73,600	-3,600	-4.7%
No. of vehicles sold	75,400	81,400	78,900	-2,500	-3.1%
Of which, no. of vehicles sold at auction	66,200	71,400	69,000	-2,400	-3.4%
Of which, no. of retail-sales vehicles	9,200	10,000	9,900	-100	-1.0%

Source: Prepared by FISCO from Company materials

2. Financial position and management indicators for FY12/16

(1) Assets, liabilities, and net assets

The Company slimmed down its balance sheet considerably, partly by selling off shares in consolidated subsidiaries and reducing its number of subsidiaries by four in FY12/16. Total assets declined ¥1,511mn from the end of the previous fiscal year to ¥7,593mn. Liabilities declined ¥2,780mn to ¥2,373mn and interest-bearing debt declined ¥931mn to ¥1,655mn. While short-term borrowing decreased ¥1,862mn, long-term borrowing increased ¥930mn. The current ratio rose from 161.2% at the end of the previous fiscal year to 617.2% and the equity ratio rose from 63.5% to 90.9%, meaning the Company's financial stability further improved.

Balance sheet summary

(\mn)

	FY12/13	FY12/14	FY12/15	FY12/16	Change
Cash and deposits	12,464	9,397	2,533	2,429	-104
Accounts receivable - trade	2,220	3,632	3,472	3,204	-267
Merchandise	3,809	3,583	733	869	136
Accounts receivable - other	2,226	2,013	538	3	-535
Allowance for doubtful accounts	(480)	(1,231)	(59)	(107)	-48
Current assets	21,221	18,853	7,856	6,905	-950
Property, plant and equipment	844	753	215	237	22
Intangible assets	26	29	42	40	-2
Investments and other assets	2,017	1,026	990	409	-581
Non-current assets	2,889	1,809	1,248	687	-561
Total assets	24,110	20,662	9,104	7,593	-1,511
Accounts payable - trade	1,216	768	203	50	-152
Short-term loans payable and other	14,760	11,851	2,438	576	-1,862
Current liabilities	18,397	16,629	4,872	1,118	-3,753
Long-term loans payable	194	105	149	1,079	930
Non-current liabilities	268	209	282	1,254	972
Total liabilities	18,666	16,838	5,154	2,373	-2,780
(Interest-bearing debt)	14,955	11,957	2,587	1,655	-931
Net assets	5,444	3,824	3,950	5,219	1,268
Total liabilities and net assets	24,110	20,662	9,104	7,593	-1,511
[Ratios of stability]					
Current ratio	115.4%	113.4%	161.2%	617.2%	
Equity ratio	21.8%	21.8%	63.5%	90.9%	

Source: Prepared by FISCO from the Company materials

(2) Cash flow statement

At end-FY12/16, cash and cash equivalents were ¥2,367mn, an increase of ¥188mn from the end of the previous fiscal year. Cash flow from operating activities was ¥8mn. Cash flow from investing activities was ¥356mn, with ¥263mn from the sales of shares of an affiliate. Cash used in financial activities was ¥181mn, mainly from spending to reduce short-term borrowing of ¥1,505mn and income from long-term borrowing of ¥1,600mn.

Cash flow statement

(\mn)

	FY12/15	FY12/16	Change
Cash flow from operating activities	-418	8	427
Cash flow from investing activities	-73	356	430
Cash flow from financing activities	1,137	-181	-1,319
Cash and cash equivalents at the end of the FY	2,178	2,367	188

Source: Prepared by FISCO from the Company materials

Outlook

Forecasts 15% sales growth and 40% growth in ordinary income in FY12/17

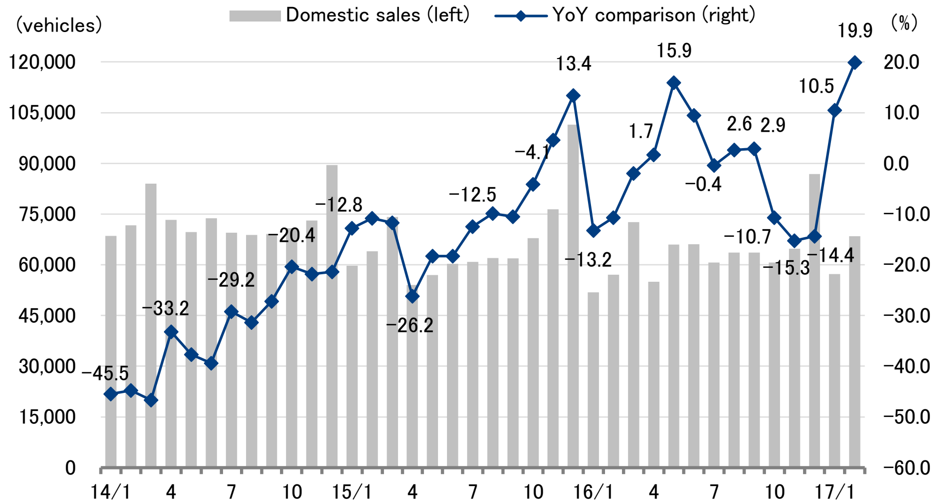
• FY12/17 earnings forecast

In FY12/17, the Company forecasts consolidated net sales of ¥17,014mn, up 14.9% YoY, operating income of ¥685mn, up 40.1%, ordinary income of ¥728mn, up 40.8%, and profit attributable to owners of parent of ¥576mn, up 48.3%. Negative factors impacting earnings in FY12/16 are expected to disappear or be reduced.

(1) Upturn in Thai market

Thai automobile sales volume showed double-digit YoY decline for three consecutive months starting in October 2016 when the former king passed away. We see signs of a recovery in 2017, with sales volume growing 10.5% YoY in January and 19.9% in February, partly owing to weak sales in January-February 2016 resulting from revisions to the vehicle tax system. Around the royal palace and in temples in the capital Bangkok, many people are still dressed in black to signify mourning, but people in resort areas have begun to wear plain colors. In addition, the Company believes the impact of the revision to the vehicle tax system has wound down.

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

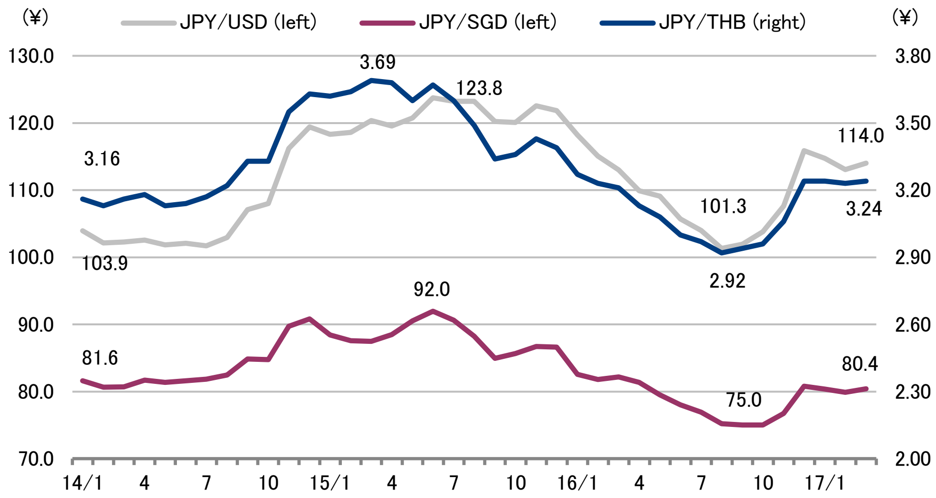


Source: prepared by FISCO from various materials

(2) Expect exchange rate to remain roughly the same as in FY12/16

The Company expects the exchange rate in FY12/17 to be roughly the same as in FY12/16 of ¥110/USD. In 1Q, the exchange rates between the Japanese yen and the U.S. dollar, Singapore dollar, and Thai baht all remained stable and basically unchanged from end-FY12/16 levels, resulting in a more favorable business environment than in FY12/16.

Exchange rates vs. yen for U.S. dollar, Singapore dollar, and Thai baht (monthly averages)



Source: Prepared by FISCO from the Company materials

(3) Extraordinary gains

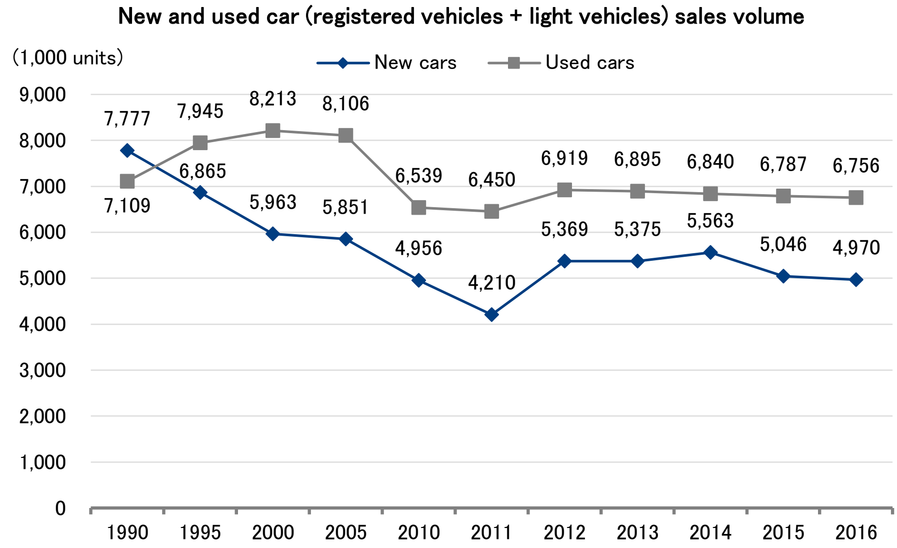
In the Company's initial FY12/17 forecast, net income is just under 80% of ordinary income. We expect the Company to post extraordinary gains on the reversal of an allowance for doubtful accounts in Southeast Asia and credit recovery related to the liquidation of the Company's Chinese subsidiary. While a portion of the credit recovery is currently pending in court, if all the Company's claims are recognized, it could post a larger-than-expected extraordinary gain and we therefore see the possibility that the Company could raise its forecast for net income.

Medium-to-long-term growth strategy

Developing new businesses in Japan in response to changing consumer trends

1. Domestic businesses

In addition to the declining and aging population, the price of vehicles is rising owing to more demanding environmental and safety standards and volume growth in the Japanese new car and used car markets is therefore not likely. In the absence of growth in the auto market, many companies have adopted growth strategies involving expanding into ancillary business domains occupied by rivals. For example, companies in the used vehicle purchase business have moved into retail and used car sellers have launched foreign-made new car dealerships and dealerships specializing in auto purchasing.



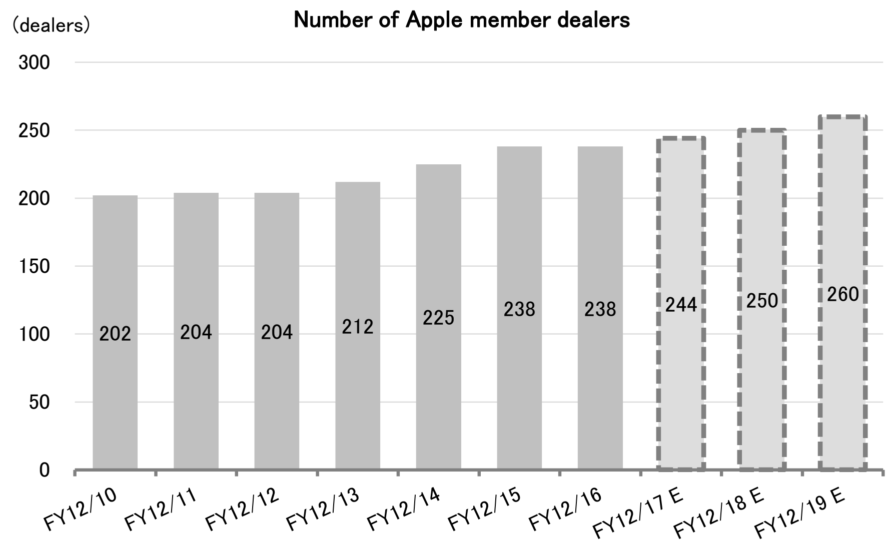
Source: Prepared by FISCO based on data from Japan Automobile Dealers Association and Japan Light Motor Vehicle and Motorcycle Association

(1) Changes in the business environment

Based on the changes the Company expects to see in the future business environment, it believes that it would be risky to merely pursue volume growth in its existing businesses. According to the Masuda Report published by private research organization Japan Policy Council in May 2014, in the thirty-year period starting in 2010, the population of Japanese women aged 20-39 will decline by over 50% in local governments in danger of disappearing because of declining birthrates and population decline. The report included a list of 896 municipalities, about half of the 1,800 municipalities in Japan. In March 2017, it was reported that over 300 cities, towns, and villages were planning to become “compact cities” by systematically downsizing while maintaining functionality as local governments. While there have been few successful transitions into compact cities, amid population decline and an increase in the number of municipalities experiencing the “doughnut effect” wherein the city center becomes “hollow”, it is becoming increasingly difficult to maintain local urban functionality including public services, medical, welfare, and commercial functions. Until recently, Japanese urban policy has focused on the development of suburbs, but the time has come for national and local governments to reconsider this focus.

(2) Revision of target number of dealerships

The number of Apple member dealers, including directly managed dealers, increased by 13 in FY12/15 and the plan was to increase the number by 13 again in FY12/16 and to reach 300 in FY12/17. In FY12/16, however, the total number of dealerships stayed the same because the same number of dealerships left the franchise association as joined it. The Company currently targets 260 dealerships by FY12/19. The original plan to increase the number of dealerships by establishing suburban roadside dealerships on national highways was changed because it was decided this type of expansion could cause problems in the future. However, the Company is looking into a number of other possibilities. For example, it plans to increase the number of shop-in-shop format dealerships which are tenants in shopping centers that attract high customer traffic. In December 2015, the Company opened a shop-in-shop format Kuruma Kaitori Hanbai Apple dealership in la Flore Hashimoto, a community based shopping center in Sagamihara City, Kanagawa Prefecture. If this format is successful, we expect the Company to once again target a total of 300 dealerships.



Source: Prepared by FISCO from the Company materials

(3) Expanding into rental car and car share businesses

Among the younger generation of Japanese people, consumption trends are shifting from a focus on products and physical objects to a focus on services and experiences and from possession (exclusive ownership) to sharing (communal use). In the cloud computing era, the focus has shifted from resource ownership to use of resources. In the US music industry, fixed-rate music distribution services now outsell music CDs and file download sales. In the auto market, the movement away from cars by younger people has evolved into a change in focus from car ownership to car usage.

In response to the evolution of the sharing economy, the Group has begun offering rental car packages and plans to integrate this business into its franchise chain with dealerships bearing the Apple brand name. While most rental car companies use only new cars, the Company will offer used rental cars. While most rental car companies offer hourly or daily rates, the Company plans to distinguish itself from competitors by offering monthly, half-yearly, and yearly rates. In addition to the Company's fleet of vehicles, it will also launch a sharing economy business that makes use of underused cars owned by people on long-term overseas postings. In cases like this, Apple Auto Network will lease vehicles from owners and provide car sharing or car leasing services to users. Rental fees will be paid out to car owners after subtracting maintenance fees and taxes. Maintenance will be carried out at the Group's maintenance facilities or partner facilities. The Company has already secured the vehicles for this business and submitted applications to the relevant district transport bureaus. The Company already has experience operating a used rental car business in Thailand.

(4) Appointment of outside directors

At the general meeting of shareholders held in March 2017, Mr. Yoshimasa Nishida, Special Advisor to Orient Corporation <8585> was appointed as an outside director. In addition, Mr. Shoji Kataoka, Advisor at AEON Bank, Ltd. also became outside director of the Company's subsidiary Apple Auto Network Co., Ltd. Orient Corporation and Tokyo Century Corporation <8439> have formed joint venture Orico Auto Leasing and the Group is consulting with them regarding its new rental car and car leasing businesses.

Growth strategy of taking advantage of business opportunities presented by the evolution of the ASEAN Economic Community (AEC)

2. Overseas businesses

(1) Auto auction business in Thailand

a) Strengthening relationship with Japanese car leasing companies in Thailand

The key to success in the auto auction business is to boost the number of successful sales by offering a large number of high-quality vehicles. Following the passage of the Thai king last autumn, the success rate at most auction companies fell to roughly 20%, approximately half the normal level. Thanks to a tie up with a Japanese leasing company, the Company reached a very high success rate of 97%. Because Japanese companies take good care of their vehicles, cars auctioned off after three years of service at a Japanese car leasing company are very popular in Thailand. Special marketing is conducted when a certain company auctions hundreds of vehicles at once, highlighting it, for example, as “TISCO Day”.

In March 2017, Tokyo Century Corporation established an automobile business in Thailand and agreed to acquire a part of business of ACS Capital Corporation Limited, a Thai subsidiary of AEON Financial Service Co., Ltd. <8570>. The parties are considering transferring the auto leasing business of TISCO Tokyo Leasing Co., Ltd. (TTL) operated in Thailand (another subsidiary of Tokyo Century Corporation) to the new company, TC Car Solutions (Thailand) Co., Ltd.. These two companies have a combined fleet of 5,000 vehicles. The Tokyo Century Group plans to continue to strengthen its businesses in ASEAN countries, where it expects economic growth.

b) Allowing individuals to participate in auctions via smartphones

While on-site bidders can actually view the vehicles, online bidders can view information on the vehicles on a website the day before the auction. As the auction is streamed live on the Internet, bidders from all over the world are able to participate. The Company is encouraging participation by individuals via the Internet as a means to increase success rates. As part of this effort, the Company developed a smartphone application allowing bidders to participate using smartphones.

c) Considering opening new auction site in Bangkok

Equity-method affiliate Apple Auto Auction (Thailand) is nearly finished development of 13 auction sites situated alongside major national highways in Thailand. The Company is outgrowing the back lot capacity of its main auction site in Bangkok and is considering building a new facility that is twice as large. In addition to auction sites, the company is also constructing adjacent commercial facilities including maintenance areas and food concession space so that not only commercial buyers, but also individuals can more easily participate in auctions. The land acquisition application process will be handled by MBK Public Company Limited (MBK), which is Apple Auto Auction’s largest shareholder and listed on the Thai stock market. MBK operates a wide range of businesses including shopping centers, hotel and travel companies, golf courses, real estate development and management, foods, and finance companies.

(2) Planning new auto auction business in Southeast Asia

The Company is also planning the development of an auto auction business in Southeast Asia, with Malaysia currently the strongest candidate. The most important factor determining the success of an auto auction business is a stable supply of vehicles for auction. Japanese auto leasing companies are active not only in Thailand, but also in Malaysia and Indonesia. The Company is negotiating with banks in order to secure financing.

(3) Development of new markets

a) Plan to establish new company to export new cars from Thailand

In December 2015, the countries of the ASEAN Free Trade Area (AFTA) agreed to strengthen the ASEAN Economic Community (AEC) and abolish import tariffs between member countries starting in 2016. Member countries include Thailand, which serves as a regional auto production hub, Singapore, Malaysia, Indonesia, The Philippines, Brunei, Vietnam, Myanmar, Laos, and Cambodia. The Company is planning to establish a new company to procure new cars from automakers and export them to other right-hand drive countries within the AEC, including Singapore, Indonesia, Brunei, and Malaysia.

Right-hand drive countries

Region	County
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	Oceania Australia, Kiribati, the Cook Islands, the Solomon Islands, Tuvalu, Nauru, Niue, New Zealand, Papua New Guinea, Fiji, American Samoa
Africa	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

b) Increasing exports of used cars made by Japanese automakers in Thailand

In 2016, Thai auto production rose by 1.6% YoY to 1.944mn units, but domestic auto sales fell by 3.9% to 768,000 and exports declined 1.4% to 1.188mn. Passenger vehicles accounted for 811,000 (up 5.6% YoY) of the cars produced in Thailand, while one-ton pickup trucks accounted for 1.1mn units (down 1.2%). A feature of Thailand's automotive market is that the demand for commercial vehicles exceeds that for passenger vehicles.

The two largest makers of one-ton pickup trucks in Thailand are Toyota Motor <7203> and Isuzu Motors <7202>. In 2016, Toyota had 37.7% of the Thai one-ton pickup sales and Isuzu had 32.7%. Pickup trucks produced in Thailand have become a global vehicle for Toyota. The sixth generation of Toyota's pickup truck for the Japanese market, came to an end in 2004. The seventh generation and onward 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.

Many one-ton pickup trucks are submitted to auctions in Thailand. Older models are exported to Africa or South America. The Company unloads the vehicles it exports to Africa in Durban, South Africa and transports them overland to Zimbabwe or Namibia or unloads to Dar es Salaam in Tanzania and onward to Uganda and Zambia. When exporting to South America, the Company uses marine transport to Lima, Peru and then sends them overland to Bolivia and Paraguay. The Company is considering forming a new company in Thailand to export used cars from Thailand.

3. Medium-term management plan

(1) 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 the 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.

We expect the Company to announce a new medium-term management plan after some new businesses and new subsidiaries are up and running.

(2) Relocation of Tokyo Head Office to keep up with the speed of business in 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 2016 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.

Shareholder return policy

Finished shoring up financial base in order to resume dividends

• Dividend policy

As mentioned above, the Company completed measures to shore up its financial base in order to resume dividends in FY12/17 by appropriating capital to write off negative retained earnings at the parent. The Company's initial forecast is for net income per share of ¥46.27, but we believe the possibility that the Company could post extraordinary gains should also be considered.

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