

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

5-Apr.-16

Important disclosures  
and disclaimers appear  
at the end of this document.FISCO Ltd. Analyst  
Ken Segawa**■ Completed Group restructuring and shifting to a growth strategy**

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 were ¥27bn in FY12/09, making it the largest business. 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. In the past, it has posted ordinary losses and net losses due to factors such as the recording of an increase in interest paid, the provision of an allowance for doubtful accounts, bad debt loss, and an impairment loss. Aiming to streamline its balance sheet, Apple International transferred the shares it held in its China business-related consolidated subsidiary and also reduced its shareholding ratios, thereby improving its financial stability. By greatly reducing the extent of interest-bearing debt, the equity ratio at the end of December 2015 had risen to 63.5%. In January and February 2016, the Company sold all of its shares of a China business-related subsidiary that became an equity-method affiliate and 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 as the Company achieved profitability compared to the previous year's operating loss, posting its highest result in 12 fiscal years.

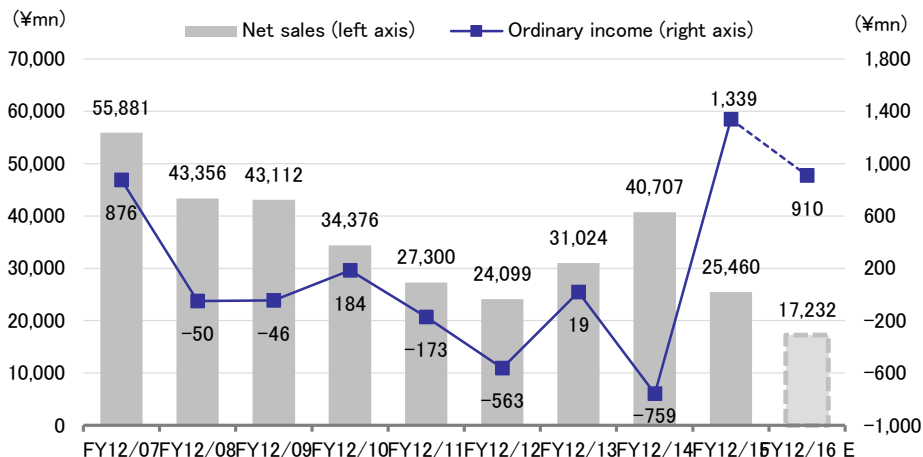
The forecasts for FY12/16 are for net sales to decrease 32.3% YoY to ¥17,232mn and ordinary income to fall 32.1% to ¥910mn. In FY12/15, Apple International performed so much better than expected that the results forecasts were upwardly revised twice in 2H. In FY12/16, the used vehicles purchase and sale business in Japan is expected to trend strongly, but the budget has been set assuming that results in the used vehicles export business will be kept down. This is because the Company is taking into account the effects on Southeast Asian countries of the end of the yen's depreciation and the slowdown of economic growth in China. The forecasts for FY12/16 are for higher sales and profits than the initial forecasts in FY12/15, and it would seem the Company intends to maintain its medium- to long-term profit growth trend.

In terms of the growth strategy for the future, the plan is to expand the used vehicles exports business from the hub of Thailand, which is known as the Detroit of Asia. 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 and market for the one-ton pickup truck, and the Company is focusing on the export of used vehicles that are not only “made in Japan,” but also “made by Japan” (namely, made by Japanese manufacturers at overseas production bases). In addition, “Apple Auto Auction,” which is managed by a Thai joint-venture company, has the second largest share (22.5%) of Thailand's auction market. The Company plans to utilize the assets it has built in Thailand and deploy the same business model in neighboring countries also.

## Check Point

- Aiming to eliminate risk factors and recover financial stability through the Group restructuring
- In FY12/15, recorded the highest ordinary income in 12 fiscal years
- Growth strategy is to develop its business with Thailand as a hub base

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 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.



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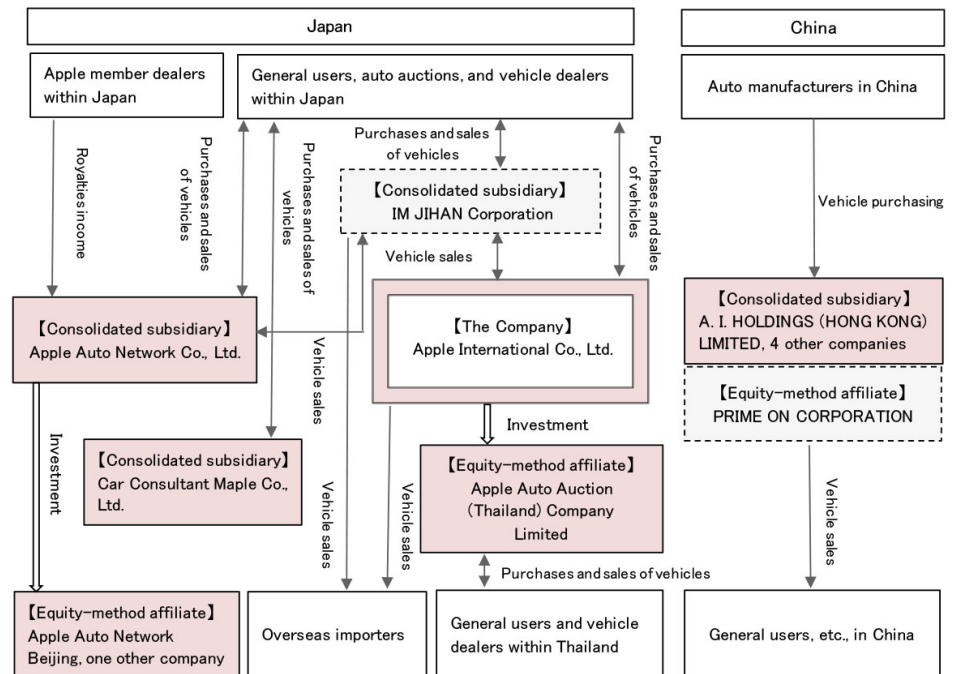
At the end of December 2015, there were nine consolidated subsidiaries and seven equity-method affiliates within the Company Group. On entering 2016, the Company sold all its shareholdings in IM JIHAN Corporation, which carries out a used vehicles export business from Japan, and of PRIME ON CORPORATION 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 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

**Business schematic diagram**



Source: prepared by FISCO from Company materials

## ■ Group restructuring

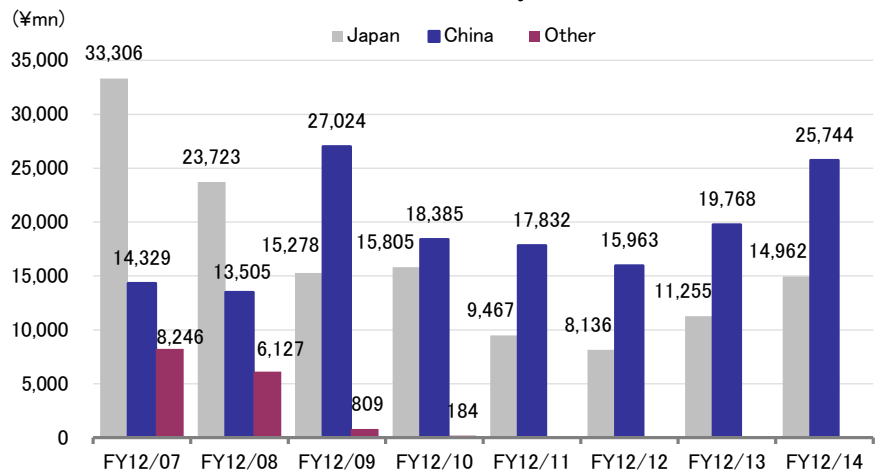
### Aiming to eliminate risk factors and recover financial stability through a Group restructuring

#### ○ 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 since then he and management have been working to restructure the Group. The objective of this Group restructuring is 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.

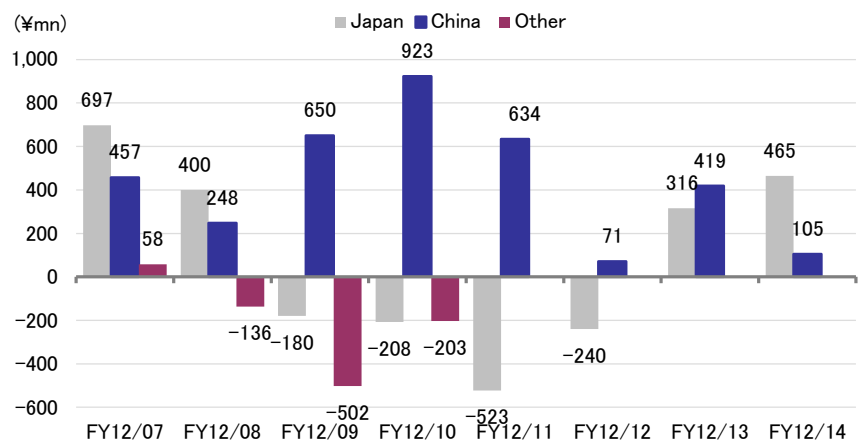
The dealers specializing in purchases of used vehicles within Japan display Apple signs. In contrast, in the used vehicles export business, President Kubo's individual brand is used. During the period that President Kubo was on sick leave, the export of used vehicles from Japan declined and sales of new vehicles, mainly from Europe, grew in China. Following the change of a consolidated subsidiary into an equity-method affiliate in 2015 Q1, in FY12/15 the China business segment was eliminated and the Japan business was unified.

Trends in net sales by business



Source: prepared by FISCO from Company materials

Trends in operating income by business



Source: prepared by FISCO from Company materials

○ **Recorded China- and Malaysia-related extraordinary losses after the Lehman Shock**

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

In PRIME ON CORPORATION LIMITED, which was within the scope of consolidation up to FY12/13, the cost of procuring funds for purchases was heavy, and although it was achieving a profit at the operating income stage, in ordinary income it recorded a loss for two consecutive fiscal years from FY12/14. The Company's equity stake in this subsidiary was below 50%, and as the personnel-relations condition had been eliminated by no longer having directors serving on the boards of both companies, PRIME ON CORPORATION LIMITED was changed from a consolidated subsidiary to an equity-method affiliate in FY12/15.

**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

○ **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.

The Company reduced its shareholding ratio in BEST VENTURE (HK) LIMITED, which conducts sales of new BMW vehicles in China, then changed it from within the scope of consolidation to an equity-method affiliate in April 2010, and then additionally sold all its remaining shares in May 2014. 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 January 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.



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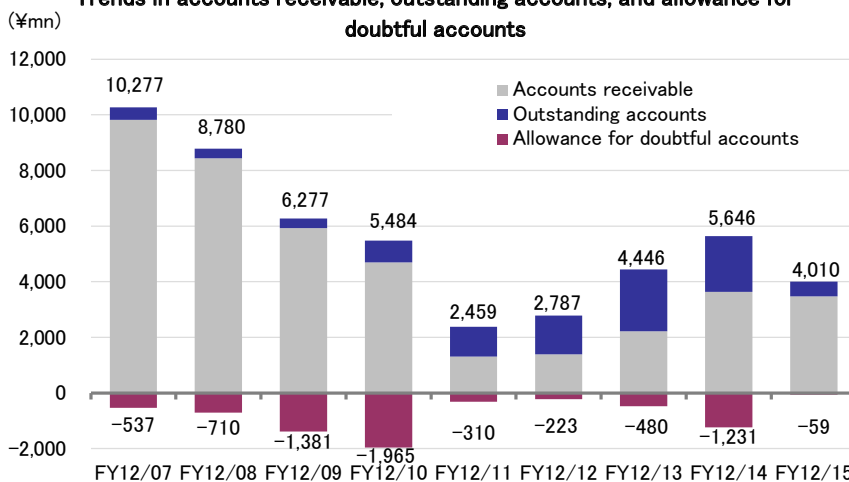
Trends in the numbers of consolidated subsidiaries and equity-method affiliates

Company name	FY12/09	FY12/10	FY12/11	FY12/12	FY12/13	FY12/14	FY12/15	FY12/06 (E)
Number of consolidated subsidiaries	28	20	17	17	17	14	9	8
Japan	3	3	3	3	3	3	3	2
Hong Kong	10	8	7	7	7	6	4	4
Mainland China	10	4	4	4	4	4	1	1
British Virgin Islands	4	4	3	3	3	1	1	1
Thailand	1	1	-	-	-	-	-	-
Number of equity-method affiliates	4	11	10	8	8	3	7	3
Hong Kong	-	2	2	2	2	-	2	-
Mainland China	3	8	8	6	5	2	4	2
Thailand	1	1	1	1	1	1	1	1

Source: prepared by FISCO from Company materials

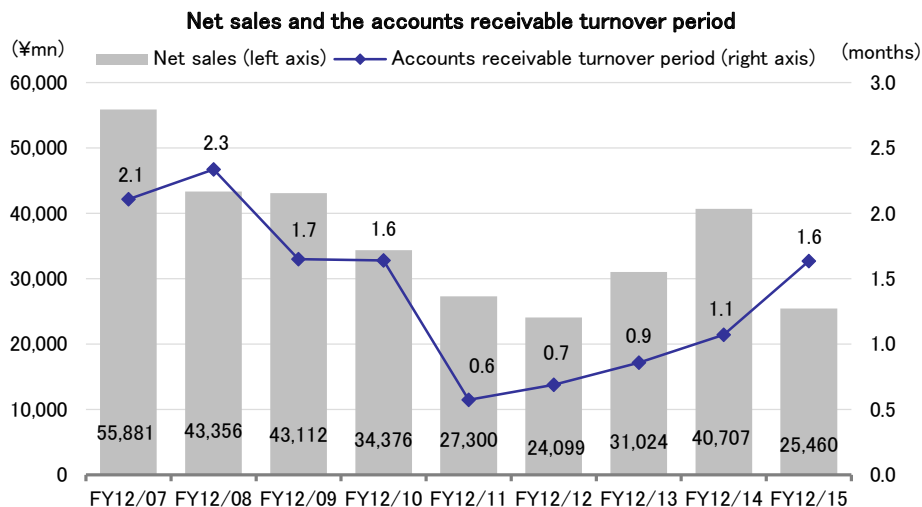
○ **Significance decreases and recovers in the allowance for doubtful accounts and in accounts receivable**  
 Within current assets at the end of FY12/08, accounts receivable and outstanding accounts was ¥10,859mn, but by the end of FY12/11, this had decreased significantly to ¥2,459mn. In FY12/09 and FY12/10, extraordinary losses of ¥3,522mn and ¥1,199mn and net losses of ¥3,715mn and ¥1,604mn were respectively recorded. In the same two fiscal years, the extraordinary losses from the provision of an allowance for doubtful accounts were ¥1,101mn and ¥414mn respectively, which spurred the decrease in accounts receivable at the end of the next fiscal year of FY12/11.

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



Source: prepared by FISCO from Company materials

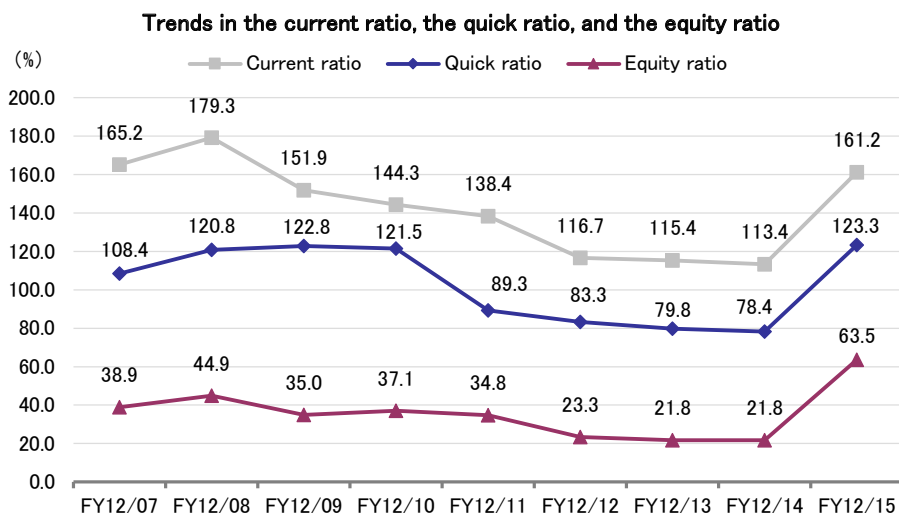
Looking at the accounts receivable turnover period, in FY12/06 it was 2.4 months, but by FY12/11 it had shrunk to 0.6 months. Subsequently, net sales in the Japan and China businesses returned to a growth track. In FY12/15, the Chinese subsidiary was removed from the scope of consolidation and it became 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.



Source: prepared by FISCO from Company materials

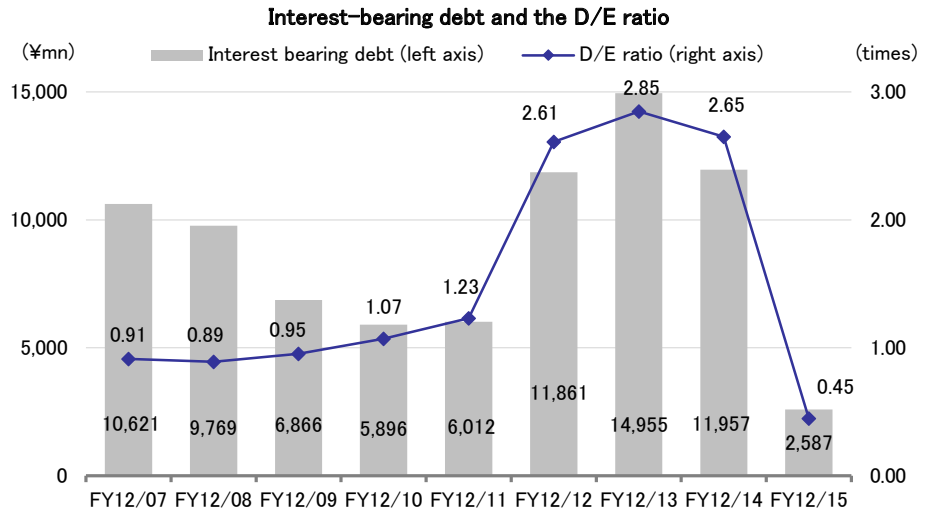
#### ○ Improvement in financial stability

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 had risen significantly to 63.5%.



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.



Source: prepared by FISCO from Company materials

## ■ The medium-term management strategy

### An emphasis on balance, with ROE an important management indicator

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. At the FY12/15 financial results briefing, Chairman and President Kubo gave his first briefing since his return to top management.

#### 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 and is recognized throughout the world
2013-2016	A wonderful company	A company that fulfills the dreams of all its stakeholders

Source: prepared by FISCO from Company materials

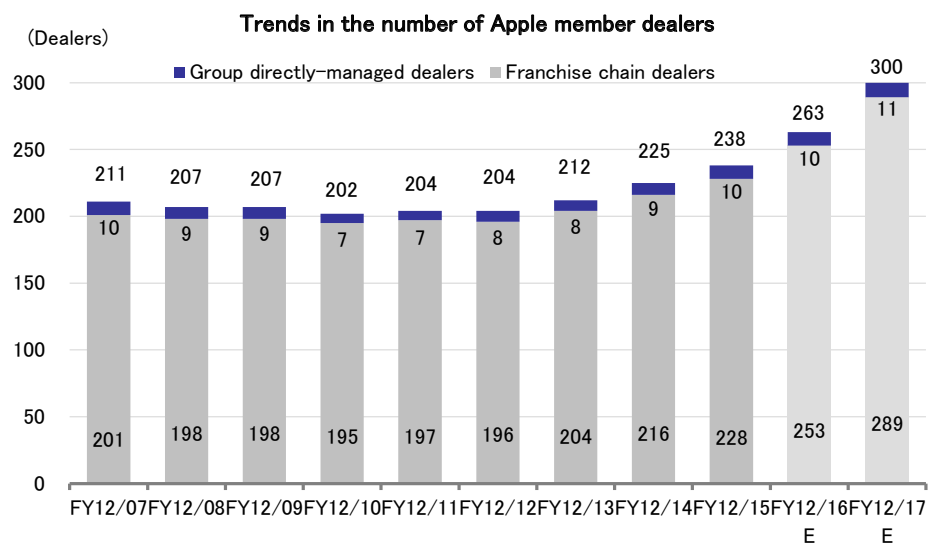
On the completion of the Group restructuring, the current management policy is to shift from the pursuit of sales to the pursuit of profits. The Company’s corporate slogan is “FORWARD THE FUTURE.” To manage its businesses with the objective of continuously and stably securing profits, it is implementing 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 comprised of the elements of profitability (net income margin), turnover (total assets turnover ratio), and financial position (financial leverage: the reciprocal of the equity ratio), it is probably the indicator that will receive the most attention from investors.

Going forward, the used vehicles export business and the used vehicles purchase and sale business will be the two main business pillars. The business strategy for sales of exported used vehicles 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.



○ **The used vehicles purchase and sale business within Japan**

Reflecting factors such as Japan's declining birthrate, aging population, and the reduction in car ownership among the young, the used vehicle market within Japan is shrinking. Therefore, the Company is aiming for a steady annual growth rate, of 5% to 8%. The FY12/15 consolidated net sales of consolidated subsidiary Apple Auto Network, which is responsible for 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 10 directly managed dealers, which is an increase of 13 dealers YoY. The plan is to increase this number by 13 dealers in FY12/16 and to reach 300 dealers 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.

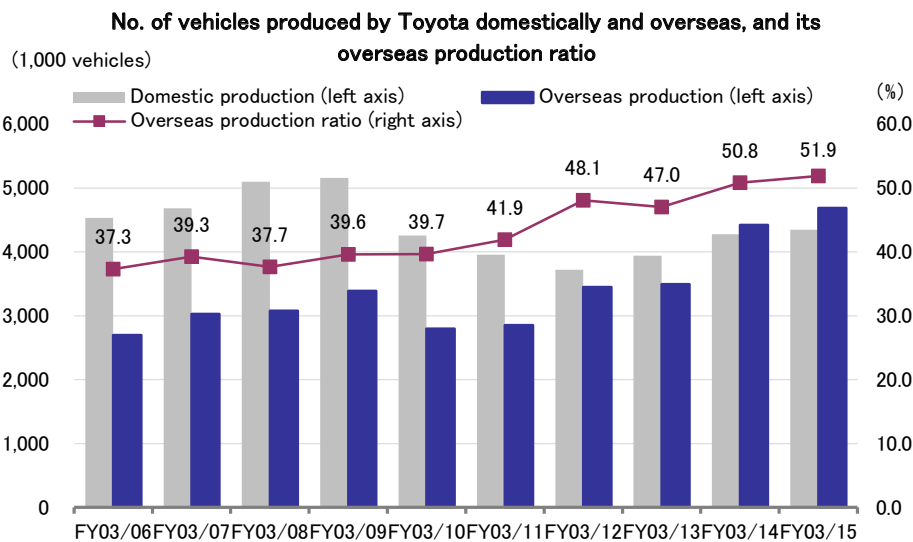


The Company is aiming to expand its business area beyond its conventional purchase and sale business by developing incidental businesses. In the Oricon Japan customer satisfaction rankings, Apple was ranked first for the second consecutive year in the "Vehicle purchasing companies" category. In addition, characterized by speedy contracts, it is also focusing on its property and casualty insurance counter, online insurance, and car rental business. 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.

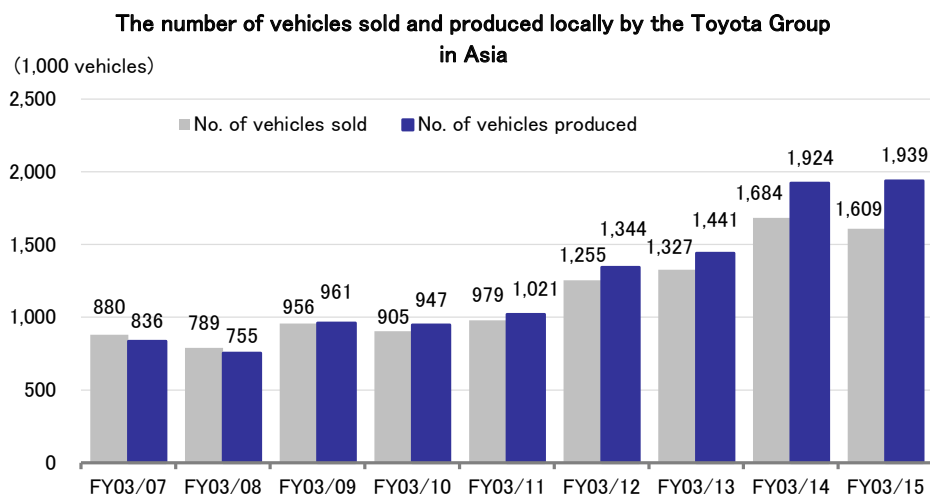
○ **The automotive market in Thailand**

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.

Toyota Motor <7203>, the world's largest auto manufacturer, increased the overseas production rate in its Group (on a number-of-vehicles basis) from 39.3% in FY03/07 to 51.9% in FY03/15. This was because in addition to transferring production overseas to mitigate currency risk, it has been pursuing a policy of globally optimal production.



In 2002, Toyota 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.



Source: prepared by FISCO from Company materials

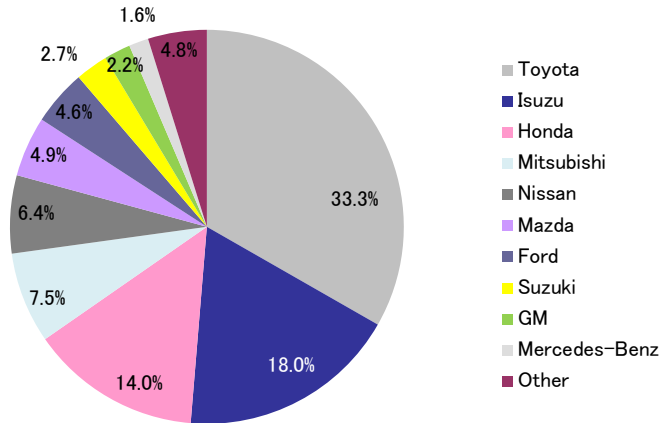
Pickup trucks produced in Thailand have become a global vehicle for Toyota. The sixth generation of Hilux, Toyota's pickup truck for the Japanese market, came to an end in 2004. The seventh generation was developed in the IMV project as a model emphasizing power and low price, targeting the markets of 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 launched in the market in 2015 and 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.

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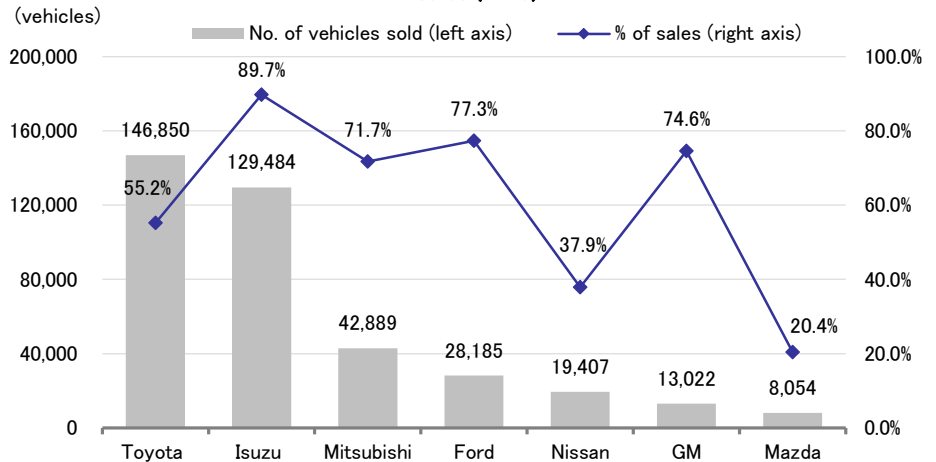
**Share of vehicles sales by manufacturer in Thailand (2015)**



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).

**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

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

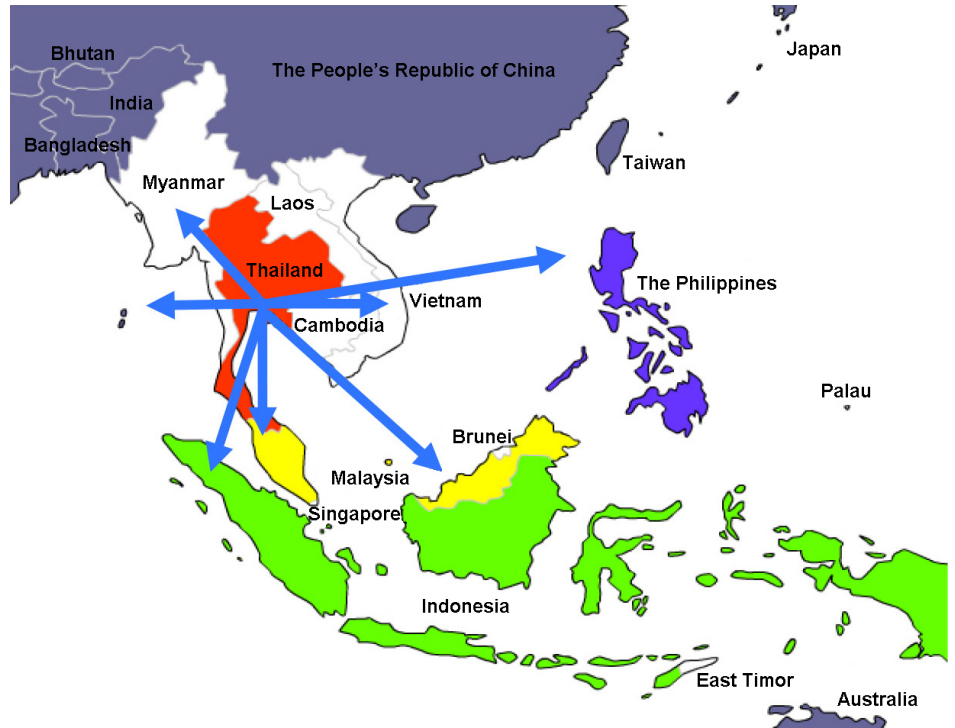
## The growth strategy is to develop business with Thailand as a hub base

### ○ 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' evaluations of Japanese vehicles of being high quality started to apply not only to "made in Japan," but also to "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.

Used vehicles export business with Thailand as the hub



Source: Reprinted from Company materials

○ **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 smartphone. 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.

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



Source: reprinted from Company materials



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Locations of auction sites of Apple Auto Auction in Thailand

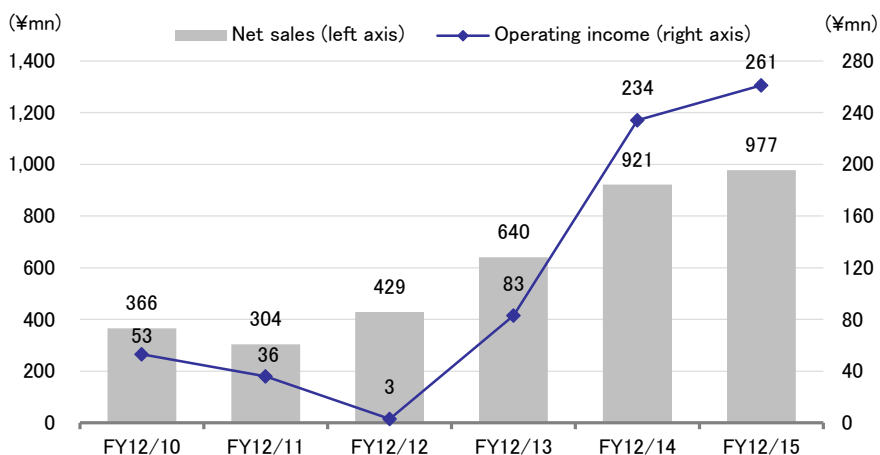


The percentages of the exhibitors by the numbers of vehicles exhibited in the Apple Auto Auctions are 85.2% by financial institutions, 11.4% by car rental companies, 1.4% by used vehicles dealers, 1.3% by insurance companies, 0.2% by end users, and 0.5% by others. So the weight of financial institutions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

Apple Auto Auction (Thailand) Company Limited'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.

## ■ Results trends

### In FY12/15, recorded the highest ordinary income in 12 fiscal years

#### (1) FY12/15 results

In FY12/15, net sales decreased 37.5% YoY to ¥25,460mn, operating income increased 2.4 times to ¥1,322mn, and ordinary income was ¥1,339mn and net income was ¥1,273mn, with both ordinary income and net income returning to profit. Compared to the initial forecasts, net sales increased 58.9%, operating income 144.0%, and ordinary income 294.1%, respectively. The reason for the major decline in sales compared to FY12/15 was that the China business-related subsidiary was removed from the scope of consolidation and became an equity method affiliate. The initial forecast for net sales was ¥16,018mn, but this was upwardly revised to ¥22,272mn when the Q3 financial results were announced, with the actual results even exceeding the revised forecast. In the used vehicles export business, the unit price was increased by adding a maintenance guarantee, which enhanced added value.

#### FY12/15 results

(unit: ¥mn)

	FY12/14		Initial forecast	FY12/15			
	Result	% of sales		Result	% of sales	YoY	vs. target
Net sales	40,707	-	16,018	25,460	-	-37.5%	58.9%
Gross profit	3,620	8.9%	-	3,246	12.8%	-10.3%	-
SG&A expenses	3,030	7.4%	-	1,924	7.6%	-36.5%	-
Operating income	589	1.4%	542	1,322	5.2%	124.2%	144.0%
Ordinary income	-759	-1.9%	340	1,339	5.3%	-	294.1%
Net income	-1,030	-2.5%	197	1,273	5.0%	-	546.3%

Source: prepared by FISCO from Company materials

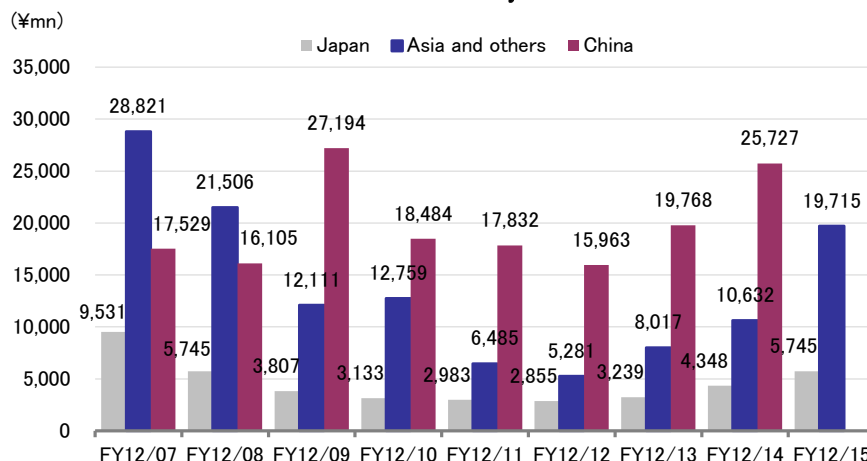
As the main Chinese subsidiary was removed from the scope of consolidation, there is no longer segment information divided according to the businesses in Japan and China. In net sales by destination, China, which had recorded ¥25,727mn in FY12/14, is no longer displayed in the results. Conversely, net sales from Japan increased 32.1% YoY to ¥5,745mn and from Asia and others rose 85.4% to ¥19,715mn.

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**Trends in net sales by destination**



Source: prepared by FISCO from Company materials

In the used vehicles purchase and sale business, net sales increased 18.0% YoY to ¥4,648mn. At the end of the fiscal year, there were 238 Apple member dealers, including dealers directly managed by the Group, which was an increase of 13 dealers (5.8%). The number of assessments grew 8.1% to 159,700 assessments. The number of vehicles sold increased 22.0% to 81,400 vehicles, within which retail sales rose 8.7% to 10,000 vehicles. The remaining 71,400 vehicles were sold at auction (up 7.9% YoY).

**The used vehicles purchase and sale business**

	FY12/14	FY12/15	(unit: vehicles)	
			YoY Increase	YoY Growth rate
No. of franchise chain 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%
No. of retail-sales vehicles	9,200	10,000	800	8.7%

Source: prepared by FISCO from Company materials



○ **Balance sheet – a significant reduction in interest-bearing debt**

The balance sheet was greatly streamlined by the removal of the China-related subsidiary from the scope of consolidation. Total assets at the end of December declined ¥11,557mn YoY to ¥9,104mn. Thanks to the reduction in interest-bearing debt of ¥ 9,370mn, total liabilities fell ¥11,684mn. Conversely, shareholders' equity increased ¥ 1,278mn to ¥5,782mn due to the recording of net income of ¥ 1,273mn, and as a result, the equity ratio rose from 21.8% at the end of FY12/15 to 63.5%, and the Company's financial stability greatly improved.

**Balance sheet**

(unit: ¥mn)

	FY12/14	FY12/15	Change
Cash and deposits	9,397	2,533	-6,864
Accounts receivable	3,632	3,472	-160
Products	3,583	733	-2,850
Outstanding accounts	2,013	538	-1,475
Allowance for doubtful accounts	-1,231	-59	1,172
<b>Current assets</b>	<b>18,853</b>	<b>7,856</b>	<b>-10,997</b>
Tangible fixed assets	753	215	-537
Intangible fixed assets	29	42	13
Investment, other	1,026	990	-36
<b>Fixed assets</b>	<b>1,809</b>	<b>1,248</b>	<b>-560</b>
<b>Total assets</b>	<b>20,662</b>	<b>9,104</b>	<b>-11,557</b>
Accounts payable	768	203	-565
Short-term debt, etc.	11,852	2,438	-9,414
<b>Current liabilities</b>	<b>16,629</b>	<b>4,872</b>	<b>-11,757</b>
Long-term debt	105	149	44
<b>Fixed liabilities</b>	<b>209</b>	<b>282</b>	<b>72</b>
<b>Total liabilities</b>	<b>16,838</b>	<b>5,154</b>	<b>-11,684</b>
<b>Net assets</b>	<b>3,824</b>	<b>3,950</b>	<b>126</b>
<b>Total liabilities and net assets</b>	<b>20,662</b>	<b>9,104</b>	<b>-11,557</b>

Source: prepared by FISCO from Company materials

○ **Cash flow statement**

At the end of December 2015, cash and cash equivalents were ¥2,178mn, an increase of ¥117mn at the end of FY12/15. Cash flow used in operating activities was ¥418mn. Net income before taxes and other adjustments was ¥1,494mn, but it was exceeded by the increases in trade receivables (¥1,916mn) and inventory assets, (¥397mn), and the decrease in outstanding accounts (¥120mn). Cash flow from investing activities was slightly negative as the net change in fixed deposits became a decrease (-¥26mn) compared to an increase (¥3,170mn) in FY12/15. Cash flow from financial activities was positive at ¥1,137mn, due to the increase in short-term debt (¥1,133mn).

**Cash flow statement**

(unit: ¥mn)

	FY12/14	FY12/15	Change
Cash flow from operating activities	332	-418	-751
Cash flow from investment activities	3,149	-73	-3,223
Cash flow from financial activities	-4,219	1,137	5,357
Changes in cash and cash equivalents	-676	649	1,326
Cash and cash equivalents at the end of the FY	2,061	2,178	117

Source: prepared by FISCO from Company materials

## Forecasts for FY12/16 are for sales to decline 32.3% and ordinary income to fall 32.1%

### (2) FY12/16 forecasts

In FY12/16, net sales are forecast to decrease 32.3% YoY to ¥17,232mn, operating income to fall 34.7% to ¥863mn, ordinary income to decline 32.1% to ¥910mn, and net income to decrease ¥44.9% to ¥702mn. In FY12/15, the Company performed so much better than expected that the forecasts were upwardly revised twice in 2H. For FY12/16 forecasts, the Company is aiming for increases in sales and profits compared to the initial forecasts in FY12/15 (net sales of ¥16,018mn and operating income of ¥542mn). As the performance in the second half of FY12/15 exceeded expectations, in FY12/16, the plan is to maintain the medium- to long-term profit growth trend. While the forecasts were considerably upwardly revised in the previous fiscal year, the initial forecasts were frequently not achieved in earlier fiscal years. The Company announced firm forecasts and aims to develop its businesses to steadily achieve the target and ultimately exceed them.

On entering FY12/16, within Japan we have seen turmoil in the stock markets, falling gasoline prices, and the yen weakening to as far as ¥123 to the dollar, although it has subsequently strengthened to ¥113 and there is the sense that we are now in a lull. 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. Therefore, the Company has been operating its businesses cautiously in Q1, while creating mechanisms to realize a recovery in Q2 from the slump at the start of the fiscal year.

### FY12/16 forecasts

(unit: ¥mn)

	FY12/15		FY12/16 forecast		YoY	
	Result	% of sales	Amount	% of sales	Increase	Growth rate
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 dividend due to the worsening of its results. As it recorded a 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, from - ¥1,503mn at the end of FY12/15 to - ¥292mn. However, retained earnings are the source of funds for dividends, so as long as they remain in deficit, the Company will not be able to resume dividend payments. Retained earnings on a stand-alone basis at the end of FY12/15 were approximately ¥1.3bn in deficit, therefore it seems unlikely that they will have become a surplus on a stand-alone basis by the end of 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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