AOKI Holdings

August 7, 2013

Summary of Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2014 (Three Months Ended June 30, 2013)

[Japanese GAAP]

Company name: AOKI Holdings Inc. Listings: TSE First Section
Stock code: 8214 URL: http://www.aoki-hd.co.jp/
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Scheduled date of filing of Quarterly Report: August 9, 2013
Scheduled date of payment of dividend: -
Preparation of supplementary materials for quarterly financial results: None
Holding of quarterly financial results meeting: None

Note: The original disclosure in Japanese was released on August 7, 2013 at 15:30 (GMT +9).

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Three Months Ended June 30, 2013 (April 1, 2013 – June 30, 2013)

(1) Consolidated results of operations (Percentages represent year-on-year changes)

	Sales		Operating profit		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended Jun. 30, 2013	41,758	8.6	3,031	(4.2)	3,305	(4.1)	1,793	(11.3)
Three months ended Jun. 30, 2012	38,459	8.4	3,163	15.3	3,446	16.6	2,022	12.6

Note: Comprehensive income (million yen) Three months ended Jun. 30, 2013: 1,898 (up 4.7%)
Three months ended Jun. 30, 2012: 1,814 (up 5.3%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended Jun. 30, 2013	43.29	-
Three months ended Jun. 30, 2012	48.53	48.50

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Jun. 30, 2013	187,931	112,796	60.0
As of Mar. 31, 2013	193,664	111,484	57.5

Reference: Shareholders' equity (million yen) As of Jun. 30, 2013: 112,796 As of Mar. 31, 2013: 111,405

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY3/13	-	20.00	-	25.00	45.00
FY3/14	-				
FY3/14 (forecasts)		30.00	-	30.00	60.00

Note: Revisions to the most recently announced dividend forecast: None

3. Consolidated Forecast for the Fiscal Year Ending March 31, 2014 (April 1, 2013 – March 31, 2014)

(Percentages represent year-on-year changes)

	Sales		Operating profit		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	73,290	8.7	2,500	(18.9)	2,950	(9.6)	1,650	(13.2)	39.77
Full year	175,800	9.5	18,600	8.9	19,100	8.6	10,300	4.8	248.04

Note: Revisions to the most recently announced consolidated forecast: None

*** Notes**

(1) Changes in consolidated subsidiaries during the period: None

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others:	None
2) Changes in accounting policies other than 1) above:	Yes
3) Changes in accounting-based estimates:	Yes
4) Restatements:	None

Note: Subject to "changes in accounting policies that are difficult to distinguish from changes in accounting-based estimates" since the Company has revised its depreciation method from the first quarter. Please refer to "2. Matters Related to Summary Information (Notes)" on page 4 of the attachments for further information.

(4) Number of shares outstanding (common shares)

1) Number of shares outstanding (including treasury stock) at end of period

As of Jun. 30, 2013:	45,624,752 shares	As of Mar. 31, 2013:	45,624,752 shares

2) Number of shares of treasury stock at end of period

As of Jun. 30, 2013:	4,056,033 shares	As of Mar. 31, 2013:	4,347,870 shares

3) Average number of shares outstanding during the period

Three months ended Jun. 30, 2013:	41,430,447 shares	Three months ended Jun. 30, 2012:	41,670,933 shares

Note 1: Information regarding the implementation of quarterly review procedures

The current quarterly summary report is not subject to the quarterly review procedures based on the Financial Instruments and Exchange Law. At the time of disclosure, the review procedures for the quarterly consolidated financial statements have not been completed.

Note 2: Cautionary statement with respect to forecasts and other matters

Cautionary statement with respect to forecasts

Forecasts regarding future performance in these materials are based on assumptions judged to be valid and information available to the Company at the time the materials were created. These materials are not promises by the Company regarding future performance. Actual performance may differ significantly from these forecasts for a number of reasons. Please refer to "(3) Explanation of Consolidated Forecast and Other Forward-looking Statements" on page 3 of the attachments regarding preconditions or other related matters for the forecast shown above.

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the first quarter, the Japanese economy remained on a recovery path thanks to the yen's depreciation and higher share prices triggered by the government's economic policies introduced around the end of last year. However, the outlook for personal consumption remained uncertain overall despite a pick up in some areas particularly for high-end items.

In this environment, the AOKI Group implemented various measures in each business segment as discussed below and recorded higher sales and lower profits. Sales increased 8.6% year-on-year to 41,758 million yen, but operating profit decreased 4.2% to 3,031 million yen mainly due to increases in expenses related to aggressive new store openings and leading expenses for future facility-opening. Ordinary income decreased 4.1% to 3,305 million yen, and net income decreased 11.3% to 1,793 million yen. However, sales and profits trended generally in line with plans.

Operating results by segment are as follows.

Fashion Business

In addition to the popular "Premium Wash Suits" targeting Cool Biz demand, AOKI offered new products including "Ultra Cross Suits" which allow for unlimited mix-and-matching of jackets and slacks; "BIZ-TECH Pants" which combine stretchability, thanks to three-dimensional sewing techniques developed in collaboration with universities, with washability; and "AOKI Air-cooled Shirts" which were developed to be cool using proprietary specifications. Also, AOKI expanded its lineup of ladies' products, which remain popular, to revitalize sales at existing stores. Regarding AOKI stores, it aggressively opened 23 new stores, including two new stores in Kagoshima Prefecture, a prefecture where it previously had no stores. It closed four stores for relocation purposes. As a result, the AOKI store network consisted of 479 stores at the end of the first quarter, up from 460 at the end of the previous fiscal year.

ORIHICA strengthened its proposals of mix-and-matching jackets and slacks targeting Cool Biz demand, opened seven new stores in popular shopping centers, and worked to establish a dominant presence in core areas. The ORIHICA store network consisted of 113 stores at the end of the first quarter, up from 106 at the end of the previous fiscal year.

Overall sales in the Fashion Business rose 7.9% year-on-year to 27,093 million yen thanks to new store openings, strong sales of jackets, slacks, dress shirts and other Cool Biz products, and strong sales of ladies' products. However, operating profit declined 9.5% to 1,958 million yen mainly due to an increase in expenses for new store openings.

Anniversaire and Bridal Business

ANNIVERSAIRE INC., which runs guesthouse-style wedding and reception facilities, renovated ANNIVERSAIRE NAGANO to meet diversifying wedding needs/trends and ultimately to revitalize sales at existing facilities. It also launched a new service offering original engagement and marriage rings. Finally, it continued to focus on strengthening sales of food and drinks, and sharing the know-how of skilled staff.

Sales increased 2.5% year-on-year to 6,280 million yen mainly due to increases in the number of couples married and average sales per couple, but operating profit decreased 33.9% to 600 million yen due to preparation expenses for scheduled opening of ANNIVERSAIRE MINATO MIRAI YOKOHAMA in February 2014.

Karaoke Facility Operations Business

VALIC Co., Ltd., in charge of karaoke facility operations, focused on revitalizing sales at existing facilities by conducting campaigns in collaboration with famous artists and popular characters, by strengthening proposals for seasonal menus including new spring menus, and by refurbishing nine facilities. Regarding the network of karaoke facilities, it opened three new facilities mostly close to train stations. As a result, the network of karaoke facilities was 146 at the end of the first quarter, up from 143 at the end of the previous fiscal year.

Sales at existing karaoke facilities were solid as VALIC moved up their opening hours, boosting customer traffic from families, housewives, and seniors. This, together with benefits from the opening of new karaoke facilities, drove a 9.7% year-on-year increase in sales to 3,717 million yen, and a 55.6% year-on-year increase in operating profit to 156 million yen.

Café Complex Operations Business

VALIC Co., Ltd., which is also in charge of café complex operations, refurbished 13 café complexes to introduce online darts and other amusement content, and collaborated with various game companies to increase customer traffic. Regarding the network of café complexes, VALIC opened six new café complexes including its Ikebukuro Higashiguchi-ekimae Store which was its first complex in metropolitan area near a train station and its first complex to offer an exclusive area for women. As a result, the network of café complexes was 217 at the end of the first quarter, up from 211 at the end of the previous fiscal year.

Sales increased 21.3% year-on-year to 4,668 million yen thanks to benefits from the opening of new café complexes and ongoing strong sales at existing ones. Also, operating profit rose 210.6% to 260 million yen.

(2) Explanation of Financial Position

Balance sheet position

Assets

Total assets at the end of the first quarter under review decreased 5,732 million yen over the end of the previous fiscal year to 187,931 million yen.

Current assets decreased 8,593 million yen over the end of the previous fiscal year. Although inventories increased 788 million yen due to new store openings among other factors, accounts receivable-trade decreased 2,239 million yen due to seasonal reasons and other factors, and cash in hand and in banks decreased 7,898 million yen mainly due to capital investments and the payment of income taxes. Fixed assets increased 2,860 million yen over the end of the previous fiscal year as tangible fixed assets increased 2,107 million yen due to new store openings and other items.

Liabilities

Current liabilities decreased 10,429 million yen over the end of the previous fiscal year. It was mainly due to decreases in short-term debt of 3,000 million yen and accrued income taxes of 6,156 million yen due to the payment of income taxes. Long-term liabilities increased 3,384 million yen over the end of the previous fiscal year. It was mainly due to an increase in long-term debt of 3,288 million yen because the scheduled repayment and other items were offset by fund procurement for capital investments.

Net assets

Net assets increased 1,311 million yen over the end of the previous fiscal year. There was an increase in retained earnings of 761 million yen from net income and dividends from surplus.

(3) Explanation of Consolidated Forecast and Other Forward-looking Statements

Consolidated sales in the first quarter under review were generally in line with our plan and operating profit in each business segment trended slightly above plan.

Regarding our outlook for the full fiscal year, we have decided not to revise the earnings forecasts that we released on May 10, 2013 given uncertainty over the outlook for the economy from the second quarter including employment, income, and the possibility of a consumption tax rate hike.

2. Matters Related to Summary Information (Notes)

Changes in Accounting Policies and Accounting-based Estimates, and Restatements

Changes in accounting policies that are difficult to distinguish from changes in accounting-based estimates

The Company and its consolidated subsidiaries changed the depreciation method for tangible fixed assets (excluding lease assets), but not for buildings (excluding attached structures), acquired on or after April 1, 1998, from the declining-balance method to the straight-line method beginning from the first quarter of the current fiscal year.

The Company reviewed the future usage of tangible fixed assets in light of the increase in store openings by subsidiaries, the format of stores opened, and changes in the business environment surrounding the Group including regions where the Group operates stores. As it now expects investment benefits to materialize stably over the long term, the switch in the depreciation method to the straight-line method will evenly distribute the acquisition costs of tangible fixed assets over the usage period, thereby optimizing the calculation of profits in each fiscal year.

The effect of this change was to increase operating profit by 282 million yen, and increase ordinary income and net income before income taxes by 283 million yen each in the first quarter of the current fiscal year, compared with the previous method.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	FY3/13 (As of Mar. 31, 2013)	First quarter of FY3/14 (As of Jun. 30, 2013)
Assets		
Current assets		
Cash in hand and in banks	22,396	14,497
Accounts receivable-trade	8,235	5,996
Inventories	18,908	19,696
Other current assets	8,739	9,500
Allowance for doubtful accounts	(11)	(16)
Total current assets	58,267	49,674
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	44,087	46,395
Land	31,419	31,419
Other, net	15,584	15,384
Total tangible fixed assets	91,091	93,199
Intangible fixed assets	6,497	6,833
Investments and other assets		
Guarantee deposits	8,399	8,426
Leasehold deposit	18,327	18,572
Other investments and other assets	11,123	11,269
Allowance for doubtful accounts	(44)	(43)
Total investments and other assets	37,807	38,224
Total fixed assets	135,396	138,256
Total assets	193,664	187,931
Liabilities		
Current liabilities		
Accounts payable-trade	16,273	16,079
Short-term debt	3,000	-
Current portion of long-term debt	5,696	4,896
Accrued income taxes	6,403	247
Accrued bonuses for employees	1,936	803
Accrued bonuses for directors and statutory auditors	200	32
Other current liabilities	11,697	12,718
Total current liabilities	45,207	34,777
Long-term liabilities		
Long-term debt	25,361	28,649
Accrued retirement benefits for employees	849	917
Accrued retirement benefits for directors and statutory auditors	1,640	1,663
Accrued costs for customer point program	768	796
Asset retirement obligations	3,707	3,847
Negative goodwill	694	454
Other long-term liabilities	3,949	4,028
Total long-term liabilities	36,972	40,357
Total liabilities	82,179	75,134

(Millions of yen)

	FY3/13 (As of Mar. 31, 2013)	First quarter of FY3/14 (As of Jun. 30, 2013)
Net assets		
Shareholders’ equity		
Common stock	23,282	23,282
Capital surplus	22,586	22,724
Retained earnings	70,624	71,385
Treasury stock	(5,767)	(5,381)
Total shareholders’ equity	110,725	112,011
Accumulated other comprehensive income		
Unrealized gain on securities	680	785
Total accumulated other comprehensive income	680	785
Stock acquisition rights	79	-
Total net assets	111,484	112,796
Total liabilities and net assets	193,664	187,931

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

Quarterly Consolidated Statements of Income
(For the Three-month Period)

(Millions of yen)

	First three months of FY3/13 (Apr. 1, 2012 – Jun. 30, 2012)	First three months of FY3/14 (Apr. 1, 2013 – Jun. 30, 2013)
Sales	38,459	41,758
Cost of sales	20,277	21,852
Gross profit	18,182	19,906
Selling, general and administrative expenses	15,018	16,874
Operating profit	3,163	3,031
Non-operating profit		
Interest income	19	25
Dividend income	19	66
Rental income on real estate	199	169
Amortization of negative goodwill	243	243
Other	120	46
Total non-operating profit	602	551
Non-operating expenses		
Interest expenses	76	73
Expenses on sub-leased real estate	185	162
Other	57	41
Total non-operating expenses	319	277
Ordinary income	3,446	3,305
Extraordinary gains		
Gain on reversal of stock acquisition rights	-	5
Total extraordinary gains	-	5
Extraordinary losses		
Impairment loss	29	285
Other	1	-
Total extraordinary losses	31	285
Net income before income taxes	3,414	3,025
Current income taxes	723	237
Deferred income taxes	669	994
Total income taxes	1,392	1,232
Income before minority interests	2,022	1,793
Net income	2,022	1,793

Quarterly Consolidated Statements of Comprehensive Income
(For the Three-month Period)

(Millions of yen)

	First three months of FY3/13 (Apr. 1, 2012 – Jun. 30, 2012)	First three months of FY3/14 (Apr. 1, 2013 – Jun. 30, 2013)
Income before minority interests	2,022	1,793
Other comprehensive income		
Unrealized gain on securities	(208)	105
Total other comprehensive income	(208)	105
Comprehensive income	1,814	1,898
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	1,814	1,898
Comprehensive income attributable to minority interests	-	-

(3) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

No reportable information.

Significant Changes in Shareholders' Equity

First three months of FY3/14 (Apr. 1, 2013 – Jun. 30, 2013)

No reportable information.

Segment and Other Information

First three months of FY3/13 (Apr. 1, 2012 – Jun. 30, 2012)

1) Information related to sales and profit/loss for each reportable segment

(Millions of yen)

	Reportable segment					Adjustment (Note 1)	Amounts shown on quarterly consolidated statements of income (Note 2)
	Fashion	Anniversaire and Bridal	Karaoke Facility Operations	Café Complex Operations	Total		
Sales							
External sales	25,104	6,118	3,387	3,848	38,459	-	38,459
Inter-segment sales and transfers	0	8	2	-	11	(11)	-
Total	25,104	6,127	3,390	3,848	38,471	(11)	38,459
Segment profit	2,165	908	100	84	3,258	(95)	3,163

Notes: 1. The -95 million yen adjustment to segment profit includes 829 million yen in elimination for inter-segment transactions, goodwill amortization of -133 million yen, and -791 million yen in company-wide costs that cannot be allocated to reportable segments. Company-wide costs mainly include administration expenses of the Company that cannot be attributed to any specific reportable segments.

2. Segment profit is adjusted to be consistent with operating profit on the quarterly consolidated statements of income.

2) Information related to impairment losses on fixed assets, or goodwill, etc. for each reportable segment

Material impairment losses related to fixed assets

In the Fashion Business segment, impairment losses were mainly recognized for stores set to be relocated for which there is little expectation of recovery; impairment losses of 26 million yen were booked in the first three months of the current fiscal year.

First three months of FY3/14 (Apr. 1, 2013 – Jun. 30, 2013)

1) Information related to sales and profit/loss for each reportable segment

(Millions of yen)

	Reportable segment					Others (Note 1)	Total	Adjustment (Note 2)	Amounts shown on quarterly consolidated statements of income (Note 3)
	Fashion	Anniversaire and Bridal	Karaoke Facility Operations	Café Complex Operations	Subtotal				
Sales									
External sales	27,092	6,272	3,716	4,668	41,750	7	41,758	-	41,758
Inter-segment sales and transfers	1	8	0	-	10	-	10	(10)	-
Total	27,093	6,280	3,717	4,668	41,761	7	41,768	(10)	41,758
Segment profit	1,958	600	156	260	2,976	(17)	2,959	72	3,031

Notes: 1. The "others" classification refers to businesses not included in reportable segments such as electricity sales and the fitness-related business.

2. The 72 million yen adjustment to segment profit includes 1,013 million yen in elimination for inter-segment transactions and -941million yen in company-wide costs that cannot be allocated to reportable segments. Company-wide costs mainly include administration expenses of the Company that cannot be attributed to any specific reportable segments.

3. Segment profit is adjusted to be consistent with operating profit on the quarterly consolidated statements of income.

2) Information related to impairment losses on fixed assets, or goodwill, etc. for each reportable segment

Material impairment losses related to fixed assets

In the Fashion and Karaoke Facility Operations Business segments, impairment losses were mainly recognized for idle assets whose recoverable value had fallen below book value and operating stores expected to remain in the red; impairment losses of 232 million yen and 52 million yen were booked respectively in the first three months of the current fiscal year.

3) Revisions to reportable segments

As noted in the section on “2. Matters Related to Summary Information (Notes), Changes in Accounting Policies and Accounting-based Estimates, and Restatements,” the Company has changed the method of depreciation of tangible fixed assets from the declining-balance method to the straight-line method beginning from the first quarter of the current fiscal year.

The effect of this change was to increase segment profits for the Fashion Business, the ANNIVERSAIRE and Bridal Business, the Karaoke Facility Operations Business, and the Café Complex Operations Business by 149 million yen, 10 million yen, 33 million yen, and 58 million yen, respectively in the first three months of the current fiscal year, compared with the previous method.

** This financial report is solely a translation of “Kessan Tanshin” (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.*