AOKI Holdings

November 10, 2016

Summary of Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2017 (Six Months Ended September 30, 2016)

[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: November 11, 2016
Scheduled date of payment of dividend: December 5, 2016
Preparation of supplementary materials for quarterly financial results: Yes
Holding of quarterly financial results meeting: Yes (for institutional investors and analysts)
Note: The original disclosure in Japanese was released on November 10, 2016 at 14:15 (GMT +9).

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

1. Consolidated Financial Results for the Six Months Ended September 30, 2016 (April 1, 2016 – September 30, 2016)

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

	Sales		Operating profit		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended Sep. 30, 2016	82,656	1.2	660	(82.1)	508	(86.0)	152	(92.9)
Six months ended Sep. 30, 2015	81,704	4.5	3,681	46.4	3,620	44.6	2,157	48.8

Note: Comprehensive income (million yen) Six months ended Sep. 30, 2016: 132 (down 93.8%)
Six months ended Sep. 30, 2015: 2,135 (up 4.0%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Sep. 30, 2016	1.72	-
Six months ended Sep. 30, 2015	23.80	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Sep. 30, 2016	221,473	139,526	63.0
As of Mar. 31, 2016	230,363	142,926	62.0

Reference: Shareholders' equity (million yen) As of Sep. 30, 2016: 139,438 As of Mar. 31, 2016: 142,838

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY3/16	-	20.00	-	20.00	40.00
FY3/17	-	21.00			
FY3/17 (forecasts)			-	22.00	43.00

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

3. Consolidated Forecast for the Fiscal Year Ending March 31, 2017 (April 1, 2016 – March 31, 2017)

(Percentages represent year-on-year changes)

	Sales		Operating profit		Ordinary income		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	196,270	4.1	15,800	(11.2)	15,500	(12.1)	8,800	(9.4)	99.48

Note: Revisions to the most recently announced consolidated forecast: Yes
Please refer to "(3) Explanation of Consolidated Forecast and Other Forward-looking Statements" on page 4 for further information.

*** Notes**

(1) Changes in consolidated subsidiaries during the period (changes in scope of consolidation): 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:	Yes
2) Changes in accounting policies other than 1) above:	None
3) Changes in accounting-based estimates:	None
4) Restatements:	None

Note: Please refer to “2. Matters Related to Summary Information (Notes)” on page 5 for further information.

(4) Number of shares outstanding (common shares)

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

As of Sep. 30, 2016:	90,649,504 shares	As of Mar. 31, 2016:	90,649,504 shares

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

As of Sep. 30, 2016:	2,617,204 shares	As of Mar. 31, 2016:	984,762 shares

3) Average number of shares outstanding during the period

Six months ended Sep. 30, 2016:	88,824,724 shares	Six months ended Sep. 30, 2015:	90,635,763 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 Act. 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 4 of the attachments regarding preconditions or other related matters for the forecast shown above.

Disclosure of the financial results meeting materials

The Company plans to hold a financial results meeting for institutional investors and analysts on Friday, November 18, 2016. Materials to be distributed at this event will be available on the Company’s website immediately thereafter.

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the first half of the current fiscal year, the Japanese economy remained lackluster due mainly to yen appreciation, lower share prices and overseas economic downturn although there were improvements in the employment and income situation. Consumer spending was sluggish as higher food prices made consumers more budget-minded.

During the first half, the AOKI Group implemented various measures in all business segments as discussed below. Sales increased 1.2% year-on-year to 82,656 million yen, but operating profit decreased 82.1% to 660 million yen. Ordinary income decreased 86.0% to 508 million yen and profit attributable to owners of parent decreased 92.9% to 152 million yen.

Operating results by segment are as follows.

Fashion Business

AOKI strengthened to offer ideas for functional apparel, including the lines of Truly Washable Suits and High-Spec No-Iron Shirts with greater design variations. There were also measures to further enlarge the selection of women's apparel, such as expanding a line of office-casual items for working women. Moreover, about 100 stores were extensively refurbished, in order to improve the store environment from the standpoint of medium to long-term growth. Three new stores were opened, including at shopping centers, while five stores were closed for relocation and other reasons. As a result, there were 565 stores at the end of the second quarter compared with 567 stores at the end of the previous fiscal year.

ORIHIKA strengthened the lineup of offerings in THE 3rd SUITS and the Super No-Iron Shirt brands, by introducing business and business casual styles in the Cool Biz category. In the ladies' category, ORIHIKA launched the selection of pants & skirts and shirts & blouses for mixing and matching, ideal wear at turn of seasons and matching. During the first half, the number of stores remained at 144 because ORIHICA opened one store and closed one store.

Sales benefited from the strong existing store sales and increased 2.5% to 45,811 million yen. Operating loss was 1,816 million yen, compared with 137 million yen loss in the same period of the previous fiscal year, mainly because of a lower gross profit margin resulting from a sale associated with store remodeling as well as a sharp increase in selling, general and administrative expenses due to the remodeling.

Anniversaire and Bridal Business

ANNIVERSAIRE INC., the operator of guesthouse-style wedding and reception facilities, refurbished two of its facilities to cope with diversifying wedding needs and emerging new trends and to give full play to the unique features of each of the facilities in sales promotion and advertising activities. Despite all these activities, affected in part by adverse market conditions, the number of couples married at ANNIVERSAIRE wedding facilities decreased.

Sales decreased 13.8% to 12,908 million yen and operating profit decreased 54.9% to 831 million yen.

Karaoke Facility Operations Business

VALIC Co., Ltd., which operates karaoke facilities, continued marketing campaigns using tie-ups with popular artists and characters. Furthermore, there were investments to reinvigorate existing locations. For example, the selection of seasonal menu items was expanded and 16 locations were remodeled to add more "concept rooms" and make other improvements. During the first half, the number of locations increased by five to 188 as we opened six locations and closed one location.

Although the new locations contributed to sales, intense competition impacted the performance of existing karaoke facilities. As a result, sales increased 1.4% to 8,856 million yen and operating profit decreased 92.1% to 38 million yen.

Café Complex Operations Business

VALIC Co., Ltd., which also operates café complexes, continued to work on improving the performance of existing locations. 12 facilities were renovated with the efforts to increase the selection of seasonal menu items, expand the selection of amusement content, add sections exclusively for women, and make other upgrades. Moreover, to enhance safety and convenience, the operating systems of all personal computers at its facilities were upgraded to Windows 10, a first in the industry. We actively opened 21 facilities, and closed one location due to termination of contract during the first half, raising the number of facilities from 295 to 315 at the end of the second quarter.

Sales increased 13.3% to 15,094 million yen and operating profit decreased 5.7% to 1,274 million yen due mainly to an increase in personnel expenses for securing store staffs.

(2) Explanation of Financial Position

1) Balance sheet position

Assets

Total assets at the end of the second quarter under review decreased 8,889 million yen from the end of the previous fiscal year to 221,473 million yen.

Current assets decreased 10,442 million yen from the end of the previous fiscal year. Although inventories increased 812 million yen due to new store openings, cash in hand and in banks decreased 5,123 million yen mainly due to capital expenditures and payment of income taxes, accounts receivable-trade decreased 6,179 million yen due to seasonal reasons and other factors. Fixed assets increased 1,552 million yen from the end of the previous fiscal year as tangible fixed assets increased 3,092 million yen due to new store openings, renewals and other factors, while other investments and other assets decreased 1,619 million yen due mainly to sales of investment securities.

Liabilities

Current liabilities decreased 2,224 million yen from the end of the previous fiscal year. Although there was an increase of 2,800 million yen in current portion of long-term debt, there was a 3,899 million yen decrease in accounts payable-trade due to seasonal reasons and other factors, as well as a 1,511 million yen decrease in accrued income taxes due to the payment of income taxes among other reasons. Long-term liabilities decreased 3,265 million yen due mainly to a decrease of 3,825 million yen in long-term debt due to its scheduled repayment and other factors.

Net assets

Net assets decreased 3,399 million yen from the end of the previous fiscal year. There was a decrease of 1,529 million yen in retained earnings due to a profit attributable to owners of parent and dividend from surplus, and an increase of 1,848 million yen in treasury stock due to the purchase.

2) Cash flow position

Cash and cash equivalents (hereafter “net cash”) at the end of the second quarter under review decreased 5,123 million yen over the end of the previous fiscal year to 22,436 million yen.

Cash flows from operating activities

Net cash provided by operating activities was 2,375 million yen (compared with net cash used of 2,113 million yen one year earlier). The principal factors include depreciation and amortization of 3,898 million yen and a decrease of 6,179 million yen in accounts receivable-trade, while there was a decrease of 3,899 million yen in accounts payable-trade and income taxes paid of 3,706 million yen.

Cash flows from investing activities

Net cash used in investing activities was 2,424 million yen (a decrease of 628 million yen from one year earlier). This was mainly due to the payments of 3,907 million yen for the acquisition of tangible fixed assets related to new store openings and renewals, while there were proceeds of 2,068 million yen from the sales of investment securities.

Cash flows from financing activities

Net cash used in financing activities was 5,074 million yen (an increase of 3,307 million yen from one year earlier). The principal factors were scheduled repayment of long-term debt of 1,025 million yen, payments for the purchase of treasury stock of 1,848 million yen, and dividends paid of 1,795 million yen.

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

The results of operations in the first half under review were generally in line with the forecast.

We have revised the fiscal year sales and ordinary income forecasts announced on May 12, 2016. There are several reasons for this revision: current performance trends, economic and market conditions in Japan, and a reexamination of the fiscal year store opening plan and expense plan in each business. We have changed the store-opening plans from 13 at the beginning of the fiscal year to 18 stores for the Fashion Business and from 44 to 52 facilities for the Café Complex Operations Business.

Consolidated forecast for the fiscal year ending March 31, 2017 (April 1, 2016 – March 31, 2017)

	Sales	Operating profit	Ordinary income	Profit attributable to owners of parent	Net income per share
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Yen)
Previous forecast (A) (announced on May 12, 2016)	194,600	15,800	15,700	8,800	98.92
Revised forecast (B)	196,270	15,800	15,500	8,800	99.48
Change (B - A)	1,670	-	(200)	-	
Percentage change (%)	0.9	-	(1.3)	-	
Previous fiscal year (ended Mar. 31, 2016)	188,594	17,789	17,627	9,711	107.55

Our business segment forecasts were also revised as follows.

Forecast by business segment for the fiscal year ending March 31, 2017

	Fashion	Anniversaire and Bridal	Karaoke Facility Operations	Café Complex Operations	Consolidated
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Sales	119,100	27,400	18,900	30,900	196,270
YoY change (%)	104.5	93.4	103.6	114.2	104.1
Segment profit	9,000	2,800	1,060	2,240	15,800
YoY change (%)	91.7	78.0	71.2	97.8	88.8

Note: Segment profit is operating profit. The total segment profits differ from consolidated operating profit because of consolidation adjustments.

* Above forecasts are based on judgments made in accordance with information available to the management at the time this release was prepared, and actual results may differ substantially from these forecasts for a number of reasons.

2. Matters Related to Summary Information (Notes)

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

Changes in Accounting Policies

The Company has adopted the “Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan (ASBJ) Statement No. 26, March 28, 2016) starting with the first quarter of the current fiscal year and partially revised its accounting method for determining the recoverability of deferred tax assets.

The Company has applied this implementation guidance in accordance with the transitional accounting treatments set forth in Paragraph 49 (4) of this implementation guidance. Accordingly, the differences between deferred tax assets and deferred tax liabilities determined by applying the applicable provisions of Paragraph 49 (3), Items 1 through 3 of the implementation guidance at the beginning of the first quarter of the current fiscal year and deferred tax assets and deferred tax liabilities at the end of the previous fiscal year are added to retained earnings at the beginning of the first quarter of the current fiscal year.

The result was an increase of 110 million yen each in deferred tax assets (investments and other assets) and retained earnings at the beginning of the first quarter of the current fiscal year.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Millions of yen)

	FY3/16 (As of Mar. 31, 2016)	Second quarter of FY3/17 (As of Sep. 30, 2016)
Assets		
Current assets		
Cash in hand and in banks	27,560	22,436
Accounts receivable-trade	9,437	3,257
Inventories	27,835	28,647
Other current assets	9,111	9,155
Allowance for doubtful accounts	(45)	(41)
Total current assets	73,899	63,456
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	58,900	60,092
Land	36,934	36,953
Other tangible fixed assets, net	12,010	13,892
Total tangible fixed assets	107,846	110,938
Intangible fixed assets	6,680	6,451
Investments and other assets		
Guarantee deposits	8,307	8,311
Leasehold deposit	20,576	20,880
Other investments and other assets	13,093	11,474
Allowance for doubtful accounts	(40)	(40)
Total investments and other assets	41,936	40,626
Total fixed assets	156,464	158,016
Total assets	230,363	221,473
Liabilities		
Current liabilities		
Accounts payable-trade	18,021	14,121
Current portion of long-term debt	4,050	6,850
Accrued income taxes	2,669	1,158
Accrued bonuses for employees	1,708	1,810
Accrued bonuses for directors and statutory auditors	98	61
Other current liabilities	11,700	12,022
Total current liabilities	38,248	36,024
Long-term liabilities		
Long-term debt	36,275	32,450
Accrued retirement benefits for directors and statutory auditors	1,845	1,882
Accrued costs for customer point program	1,014	945
Net defined benefit liability	853	877
Asset retirement obligations	5,109	5,279
Other long-term liabilities	4,090	4,487
Total long-term liabilities	49,187	45,922
Total liabilities	87,436	81,947

(Millions of yen)

	FY3/16 (As of Mar. 31, 2016)	Second quarter of FY3/17 (As of Sep. 30, 2016)
Net assets		
Shareholders' equity		
Common stock	23,282	23,282
Capital surplus	27,833	27,833
Retained earnings	92,929	91,399
Treasury stock	(1,436)	(3,285)
Total shareholders' equity	142,609	139,230
Accumulated other comprehensive income		
Unrealized gain on securities	612	533
Remeasurements of defined benefit plans	(383)	(325)
Total accumulated other comprehensive income	229	208
Stock acquisition rights	87	87
Total net assets	142,926	139,526
Total liabilities and net assets	230,363	221,473

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

Quarterly Consolidated Statement of Income
(For the Six-month Period)

(Millions of yen)

	First six months of FY3/16 (Apr. 1, 2015 – Sep. 30, 2015)	First six months of FY3/17 (Apr. 1, 2016 – Sep. 30, 2016)
Sales	81,704	82,656
Cost of sales	45,517	48,313
Gross profit	36,187	34,342
Selling, general and administrative expenses	32,505	33,681
Operating profit	3,681	660
Non-operating profit		
Interest income	52	49
Dividend income	103	71
Rental income on real estate	305	305
Other	158	150
Total non-operating profit	620	576
Non-operating expenses		
Interest expenses	166	158
Expenses on sub-leased real estate	277	256
Other	237	314
Total non-operating expenses	681	728
Ordinary income	3,620	508
Extraordinary gains		
Gain on sales of investment securities	-	542
Total extraordinary gains	-	542
Extraordinary losses		
Impairment loss	347	391
Loss on disaster	-	102
Total extraordinary losses	347	494
Profit before income taxes	3,272	556
Current income taxes	1,176	1,097
Deferred income taxes	(61)	(693)
Total income taxes	1,115	403
Profit	2,157	152
Profit attributable to owners of parent	2,157	152

Quarterly Consolidated Statement of Comprehensive Income
(For the Six-month Period)

(Millions of yen)

	First six months of FY3/16 (Apr. 1, 2015 – Sep. 30, 2015)	First six months of FY3/17 (Apr. 1, 2016 – Sep. 30, 2016)
Profit	2,157	152
Other comprehensive income		
Unrealized gain on securities	(66)	(79)
Remeasurements of defined benefit plans, net of tax	44	58
Total other comprehensive income	(22)	(20)
Comprehensive income	2,135	132
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,135	132
Comprehensive income attributable to non-controlling interests	-	-

(3) Quarterly Consolidated Statement of Cash Flows

(Millions of yen)

	First six months of FY3/16 (Apr. 1, 2015 – Sep. 30, 2015)	First six months of FY3/17 (Apr. 1, 2016 – Sep. 30, 2016)
Cash flows from operating activities		
Profit before income taxes	3,272	556
Depreciation and amortization	3,803	3,898
Impairment loss	347	391
Increase (decrease) in accrued retirement benefits for directors and statutory auditors	(54)	37
Increase (decrease) in accrued costs for customer point program	(55)	(68)
Increase (decrease) in accrued retirement benefits for employees	107	112
Interest and dividend income	(156)	(120)
Interest expenses	166	158
Loss (gain) on sales of investment securities	-	(542)
Decrease (increase) in accounts receivable-trade	5,660	6,179
Decrease (increase) in inventories	(2,683)	(812)
Increase (decrease) in accounts payable-trade	(5,320)	(3,899)
Increase (decrease) in accrued consumption taxes	(2,610)	(646)
Other	(867)	(337)
Subtotal	1,616	4,906
Interest and dividend income received	131	97
Interests paid	(166)	(159)
Income taxes paid	(4,937)	(3,706)
Income taxes refund	1,243	1,236
Net cash provided by (used in) operating activities	(2,113)	2,375
Cash flows from investing activities		
Payments for acquisition of tangible fixed assets	(3,009)	(3,907)
Payments for acquisition of intangible fixed assets	(460)	(212)
Payments for leasehold and guarantee deposits	(417)	(865)
Proceeds from sales of investment securities	-	2,068
Net decrease (increase) in trust beneficiary rights	780	258
Other	52	234
Net cash used in investing activities	(3,053)	(2,424)
Cash flows from financing activities		
Net increase (decrease) in short-term debt	3,000	-
Proceeds from long-term debt	1,000	-
Repayments of long-term debt	(1,225)	(1,025)
Repayments of lease obligations	(995)	(894)
Payments for purchase of treasury stock	(1,905)	(1,848)
Dividends paid	(1,641)	(1,795)
Other	-	490
Net cash used in financing activities	(1,767)	(5,074)
Effect of exchange rate change on cash and cash equivalents	(0)	(0)
Increase (decrease) in cash and cash equivalents	(6,933)	(5,123)
Cash and cash equivalents at beginning of period	29,226	27,560
Cash and cash equivalents at end of period	22,292	22,436

(4) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

No reportable information.

Significant Changes in Shareholders' Equity

First six months of FY3/17 (Apr. 1, 2016 – Sep. 30, 2016)

Purchase of treasury stock

The Company has purchased 1,632,000 shares of its treasury stock pursuant to the resolution of the Board of Directors on February 15, 2016. As a result, treasury stock increased 1,848 million yen during the first six months of FY3/17 to 3,285 million yen.

Segment and Other Information

First six months of FY3/16 (Apr. 1, 2015 – Sep. 30, 2015)

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 statement of income (Note 2)
	Fashion	Anniversaire and Bridal	Karaoke Facility Operations	Café Complex Operations	Total		
Sales							
External sales	44,693	14,960	8,728	13,321	81,704	-	81,704
Inter-segment sales and transfers	4	17	1	0	23	(23)	-
Total	44,697	14,978	8,730	13,322	81,727	(23)	81,704
Segment profit (loss)	(137)	1,841	482	1,351	3,539	142	3,681

Notes: 1. The 142 million yen adjustment to segment profit (loss) includes 2,195 million yen in elimination for inter-segment transactions, and -2,052 million yen in company-wide costs that cannot be allocated to any specific reportable segments. Company-wide costs mainly include administration expenses of the Company that cannot be attributed to reportable segments.

2. Segment profit (loss) is adjusted with operating profit on the quarterly consolidated statement 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, the Karaoke Facility Operations Business and the Café Complex Operations Business, impairment losses were recognized for operating stores set to be closed for which there is little expectation of recovery and had remained in the red; impairment losses of 66 million yen, 133 million yen and 147 million yen were booked respectively in the first six months of FY3/16.

First six months of FY3/17 (Apr. 1, 2016 – Sep. 30, 2016)

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 statement of income (Note 2)
	Fashion	Anniversaire and Bridal	Karaoke Facility Operations	Café Complex Operations	Total		
Sales							
External sales	45,810	12,899	8,852	15,094	82,656	-	82,656
Inter-segment sales and transfers	1	8	4	-	14	(14)	-
Total	45,811	12,908	8,856	15,094	82,671	(14)	82,656
Segment profit (loss)	(1,816)	831	38	1,274	327	333	660

Notes: 1. The 333 million yen adjustment to segment profit (loss) includes 2,177 million yen in elimination for inter-segment transactions, and -1,844 million yen in company-wide costs that cannot be allocated to any specific reportable segments. Company-wide costs mainly include administration expenses of the Company that cannot be attributed to reportable segments.

2. Segment profit (loss) is adjusted with operating profit on the quarterly consolidated statement 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, the Karaoke Facility Operations Business and the Café Complex Operations Business, impairment losses were recognized for operating stores set to be closed for which there is little expectation of recovery and had remained in the red; impairment losses of 147 million yen, 172 million yen and 71 million yen were booked respectively in the first six months of FY3/17.

** 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.*