

Summary of Consolidated Financial Results
for the Third Quarter of the Fiscal Year Ending March 31, 2018
(Nine Months Ended December 31, 2017)

[Japanese GAAP]

Company name: AOKI Holdings Inc.

Stock code: 8214

Representative: Akihiro Aoki, President

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Scheduled date of filing of Quarterly Report:

Scheduled date of payment of dividend:

Preparation of supplementary materials for quarterly financial results: Yes

Holding of quarterly financial results meeting:

Note: The original disclosure in Japanese was released on February 8, 2018 at 15:30 (GMT +9).

Listings: TSE First Section

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February 9, 2018

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None

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

1. Consolidated Financial Results for the Nine Months Ended December 31, 2017**(April 1, 2017 – December 31, 2017)**

(1) Consolidated results of operations

(Percentages represent year-on-year changes)

	Sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended Dec. 31, 2017	137,088	2.8	5,182	21.6	4,557	14.7	2,237	(1.5)
Nine months ended Dec. 31, 2016	133,404	1.8	4,259	(48.7)	3,972	(51.3)	2,271	(51.9)

Note: Comprehensive income (million yen) Nine months ended Dec. 31, 2017: 2,543 (up 0.2%)

Nine months ended Dec. 31, 2016: 2,538 (down 46.5%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Dec. 31, 2017	25.72	-
Nine months ended Dec. 31, 2016	25.67	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Dec. 31, 2017	231,731	142,100	61.3
As of Mar. 31, 2017	234,681	143,906	61.3

Reference: Shareholders' equity (million yen) As of Dec. 31, 2017: 142,012 As of Mar. 31, 2017: 143,818

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY3/17	-	21.00	-	22.00	43.00
FY3/18	-	22.00	-	-	-
FY3/18 (forecasts)	-	-	-	22.00	44.00

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

3. Consolidated Forecast for the Fiscal Year Ending March 31, 2018 (April 1, 2017 – March 31, 2018)

(Percentages represent year-on-year changes)

	Sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	199,850	3.0	14,500	0.4	14,000	0.8	7,600	3.3	87.40

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

*** 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: | None |
| 2) Changes in accounting policies other than 1) above: | None |
| 3) Changes in accounting-based estimates: | None |
| 4) Restatements: | None |

(4) Number of shares outstanding (common shares)

1) Number of shares outstanding (including treasury stock) at the end of the period			
As of Dec. 31, 2017:	90,649,504 shares	As of Mar. 31, 2017:	90,649,504 shares
2) Number of shares of treasury stock at the end of the period			
As of Dec. 31, 2017:	3,768,614 shares	As of Mar. 31, 2017:	3,404,290 shares
3) Average number of shares outstanding during the period			
Nine months ended Dec. 31, 2017:	86,977,232 shares	Nine months ended Dec. 31, 2016:	88,461,871 shares

Note 1: The current quarterly summary report is not subject to quarterly review procedures.

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

	Pages
1. Qualitative Information on Quarterly Consolidated Financial Performance	2
(1) Explanation of Results of Operations	2
(2) Explanation of Financial Position	3
(3) Explanation of Consolidated Forecast and Other Forward-looking Statements	3
2. Quarterly Consolidated Financial Statements and Notes	4
(1) Quarterly Consolidated Balance Sheet	4
(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income	6
Quarterly Consolidated Statement of Income	6
Quarterly Consolidated Statement of Comprehensive Income	7
(3) Notes to Quarterly Consolidated Financial Statements	8
Going Concern Assumption	8
Significant Changes in Shareholders' Equity	8
Segment and Other Information	8
Subsequent Events	9

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the first nine months of the current fiscal year, the Japanese economy continued to recover slowly with improvements in corporate earnings and employment conditions. Consumer spending is remaining sluggish because of a strong desire to hold down spending even though the stock market rally and other events are causing consumer sentiment to improve. This environment, along with uncertainty about overseas events, makes the outlook for the Japanese economy unclear.

During the first nine months, the AOKI Group implemented various measures in all business segments as discussed below. Sales increased 2.8% year-on-year to 137,088 million yen, operating profit increased 21.6% to 5,182 million yen, ordinary profit increased 14.7% to 4,557 million yen and profit attributable to owners of parent decreased 1.5% to 2,237 million yen.

Operating results by segment are as follows.

Fashion Business

AOKI continued to concentrate on activities aimed at improving the performance of existing stores. One step is the line of Rakudo Suits and Rakudo Coats that were developed jointly with Shinshu University. This apparel combines stretchable fabric with three-dimensional sewing to achieve outstanding ease of movement and comfort. AOKI also expanded the lineup of Hatarakufuku working clothes for women. This highly functional apparel is easy to wash, wrinkle resistant and stretches easily. During the first nine months, AOKI opened 13 stores including stand-alone Size MAX stores, which specialize in plus-size apparel, and stores specializing in apparel for job interviews. Ten stores were closed or relocated to improve the efficiency of AOKI's operations. As a result, there were 576 stores at the end of the third quarter compared with 573 stores at the end of the previous fiscal year.

ORIHICA increased activities to create new ideas for business and business-to-casual apparel. Two examples are a larger selection of Super No-Iron Shirts and the addition of women's fashions to apparel using THE 3rd SUITS brand. Six new stores were opened including Ginza Store in central Tokyo, and six were closed to improve the efficiency of operations during the first nine months. As a result, there were 145 stores at the end of the third quarter compared with 145 stores at the end of the previous fiscal year.

As a result, sales increased 0.3% to 76,381 million yen and operating profit was 525 million yen, compared with a loss of 513 million yen in the same period of the previous fiscal year when there were major remodeling projects.

Anniversaire and Bridal Business

ANNIVERSAIRE INC. operates guesthouse-style wedding and reception facilities. This company continued to strengthen the Proposal Plan in order to create a new channel for attracting customers. There were also new ideas for innovative wedding reception formats in order to reflect the increasingly diverse needs of customers. In addition, the company conducted marketing and other promotional activities that utilize the powerful public image of the ANNIVERSAIRE brand.

Sales increased 0.8% to 21,078 million yen and operating profit decreased 2.0% to 2,324 million yen.

Karaoke Facility Operations Business

The karaoke business of VALIC Co., Ltd. offered a wide variety of party packages for the year-end party season, and conducted a marketing campaign using tie-ups with popular characters. Furthermore, the most advanced karaoke equipment was installed to reinvigorate existing karaoke facilities. During the first nine months, the number of locations decreased by one to 184 as we opened five karaoke facilities and closed six to improve operating efficiency.

As a result, sales increased 0.8% to 14,082 million yen. Due to an increase in the cost of sales caused by higher personnel and other expenses, operating profit decreased 18.2% to 483 million yen.

Café Complex Operations Business

In the café complex business, VALIC Co., Ltd. concentrated on invigorating existing locations. Major activities were the remodeling of cafés, mainly by adding more sections exclusively for women and improving the configuration of booths, and upgrading the selection of content and food. VALIC opened 22 locations and closed four locations during the first nine months. As a result, there were 364 café complexes at the end of the third quarter compared with 346 at the end of the previous fiscal year.

Sales increased 14.2% to 25,573 million yen due to contributions from new cafés, but operating profit decreased 2.3% to 1,349 million yen because of higher cost of sales including depreciation, personnel and other expenses.

(2) Explanation of Financial Position

Balance sheet position

Assets

Total assets at the end of the third quarter under review decreased 2,949 million yen from the end of the previous fiscal year to 231,731 million yen.

Current assets decreased 4,110 million yen from the end of the previous fiscal year. There were decreases of 3,739 million yen in cash in hand and in banks mainly due to capital expenditures and payment of income taxes, and 4,141 million yen in accounts receivable-trade due to seasonal reasons, while there were increases of 1,226 million yen in inventories due to seasonal reasons, and 2,543 million yen in other current assets which include income taxes receivable. Fixed assets increased 1,160 million yen from the end of the previous fiscal year as tangible fixed assets increased 2,269 million yen due to new store openings, renewals and other factors.

Liabilities

Current liabilities decreased 1,529 million yen from the end of the previous fiscal year. There were decreases of 1,923 million yen in accounts payable-trade due to seasonal reasons, 1,500 million yen in current portion of long-term debt, 1,306 million yen in accrued income taxes due to the payment of income taxes among other reasons, and 637 million yen in accrued bonuses for employees due to the payment of bonuses to employees among other reasons, while there was an increase of 4,500 million yen in short-term debt. Long-term liabilities increased 386 million yen due to an increase in other long-term liabilities including long-term lease obligations.

Net assets

Net assets decreased 1,805 million yen from the end of the previous fiscal year. There was a decrease of 1,593 million yen in retained earnings due to a profit attributable to owners of parent and dividend from surplus, and an increase of 518 million yen in treasury stock due to the purchase.

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

We have maintained the forecast that was announced on November 9, 2017, because the results of operations in the first nine months under review were generally in line with the forecast.

2. Quarterly Consolidated Financial Statements and Notes**(1) Quarterly Consolidated Balance Sheet**

	(Millions of yen)	
	FY3/17 (As of Mar. 31, 2017)	Third quarter of FY3/18 (As of Dec. 31, 2017)
Assets		
Current assets		
Cash in hand and in banks	28,608	24,868
Accounts receivable-trade	10,508	6,366
Inventories	26,905	28,131
Other current assets	8,974	11,517
Allowance for doubtful accounts	(32)	(31)
Total current assets	74,963	70,852
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	61,568	62,115
Land	36,953	36,952
Other tangible fixed assets, net	13,164	14,887
Total tangible fixed assets	111,686	113,955
Intangible fixed assets	6,301	5,815
Investments and other assets		
Guarantee deposits	8,259	8,075
Leasehold deposit	21,066	20,818
Other investments and other assets	12,444	12,254
Allowance for doubtful accounts	(40)	(40)
Total investments and other assets	41,730	41,107
Total fixed assets	159,718	160,878
Total assets	234,681	231,731
Liabilities		
Current liabilities		
Accounts payable-trade	19,159	17,236
Short-term debt	-	4,500
Current portion of long-term debt	4,150	2,650
Accrued income taxes	1,603	296
Accrued bonuses for employees	1,647	1,010
Accrued bonuses for directors and statutory auditors	89	85
Other current liabilities	12,546	11,888
Total current liabilities	39,197	37,667
Long-term liabilities		
Long-term debt	37,125	36,800
Accrued retirement benefits for directors and statutory auditors	1,949	1,991
Accrued costs for customer point program	1,069	985
Net defined benefit liability	976	1,049
Asset retirement obligations	5,513	5,641
Other long-term liabilities	4,943	5,495
Total long-term liabilities	51,577	51,963
Total liabilities	90,774	89,631

	(Millions of yen)	
	FY3/17 (As of Mar. 31, 2017)	Third quarter of FY3/18 (As of Dec. 31, 2017)
Net assets		
Shareholders' equity		
Common stock	23,282	23,282
Capital surplus	27,833	27,833
Retained earnings	96,753	95,159
Treasury stock	(4,325)	(4,843)
Total shareholders' equity	143,544	141,433
Accumulated other comprehensive income		
Unrealized gain on securities	576	803
Remeasurements of defined benefit plans	(302)	(223)
Total accumulated other comprehensive income	274	579
Stock acquisition rights	87	87
Total net assets	143,906	142,100
Total liabilities and net assets	234,681	231,731

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income**Quarterly Consolidated Statement of Income
(For the Nine-month Period)**

	(Millions of yen)	
	First nine months of FY3/17 (Apr. 1, 2016 – Dec. 31, 2016)	First nine months of FY3/18 (Apr. 1, 2017 – Dec. 31, 2017)
Sales	133,404	137,088
Cost of sales	76,374	79,557
Gross profit	57,030	57,531
Selling, general and administrative expenses	52,770	52,349
Operating profit	4,259	5,182
Non-operating profit		
Interest income	74	71
Dividend income	91	59
Rental income on real estate	458	422
Other	209	126
Total non-operating profit	834	680
Non-operating expenses		
Interest expenses	237	252
Expenses on sub-leased real estate	382	366
Other	501	685
Total non-operating expenses	1,121	1,305
Ordinary profit	3,972	4,557
Extraordinary gains		
Gain on sales of investment securities	545	-
Total extraordinary gains	545	-
Extraordinary losses		
Impairment loss	471	593
Loss on sales of fixed assets	-	38
Loss on disaster	102	-
Total extraordinary losses	574	632
Profit before income taxes	3,944	3,925
Current income taxes	1,783	1,298
Deferred income taxes	(110)	389
Total income taxes	1,673	1,687
Profit	2,271	2,237
Profit attributable to owners of parent	2,271	2,237

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

	(Millions of yen)	
	First nine months of FY3/17 (Apr. 1, 2016 – Dec. 31, 2016)	First nine months of FY3/18 (Apr. 1, 2017 – Dec. 31, 2017)
Profit	2,271	2,237
Other comprehensive income		
Unrealized gain on securities	179	227
Remeasurements of defined benefit plans, net of tax	87	78
Total other comprehensive income	267	305
Comprehensive income	2,538	2,543
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,538	2,543
Comprehensive income attributable to non-controlling interests	-	-

(3) Notes to Quarterly Consolidated Financial Statements**Going Concern Assumption**

No reportable information.

Significant Changes in Shareholders' Equity

First nine months of FY3/18 (Apr. 1, 2017 – Dec. 31, 2017)

Purchase of treasury stock

The Company has purchased 363,000 shares of its treasury stock pursuant to the resolution of the Board of Directors on February 9, 2017. As a result, treasury stock increased 516 million yen during the first nine months of FY3/18 to 4,843 million yen at the end of the third quarter of FY3/18.

Segment and Other Information

First nine months of FY3/17 (Apr. 1, 2016 – Dec. 31, 2016)

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

	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	76,157	20,892	13,965	22,389	133,404	-	133,404
Inter-segment sales and transfers	1	9	4	-	15	(15)	-
Total	76,158	20,901	13,969	22,389	133,420	(15)	133,404
Segment profit (loss)	(513)	2,371	591	1,381	3,831	428	4,259

(Millions of yen)

Notes: 1. The 428 million yen adjustment to segment profit (loss) includes 3,268 million yen in elimination for inter-segment transactions, and -2,840 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 or rebuilt for which there is little expectation of recovery and had remained in the red; impairment losses of 192 million yen, 206 million yen and 72 million yen were booked respectively in the first nine months of FY3/17.

First nine months of FY3/18 (Apr. 1, 2017 – Dec. 31, 2017)

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	76,368	21,067	14,077	25,573	137,088	-	137,088
Inter-segment sales and transfers	12	10	4	-	27	(27)	-
Total	76,381	21,078	14,082	25,573	137,116	(27)	137,088
Segment profit	525	2,324	483	1,349	4,683	498	5,182

Notes: 1. The 498 million yen adjustment to segment profit includes 3,187 million yen in elimination for inter-segment transactions, and -2,688 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 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 ANNIVERSAIRE and Bridal Business, the Karaoke Facility Operations Business and the Café Complex Operations Business, impairment losses were recognized for operating stores set to be closed or rebuilt for which there is little expectation of recovery; impairment losses of 198 million yen, 10 million yen, 291 million yen and 92 million yen were booked respectively in the first nine months of FY3/18.

Subsequent Events

At the Board of Directors meeting held on January 31, 2018, a solution was adopted that the Company will acquire treasury stock pursuant to Article 156 which is applicable in lieu of Article 165, Paragraph 3 of the Companies Act.

- Reason for the acquisition of treasury stock: The Company will purchase treasury stock in order to adopt timely and flexible financial strategies in response to changes in the operating environment and to increase shareholder value.
- Type of shares to be acquired: Common stock of AOKI Holdings
- Total number of shares to be acquired: Up to 1 million shares
(1.15% of total shares outstanding, excluding treasury stock)
- Total value of shares to be acquired: Up to 2 billion yen
- Acquisition schedule: From February 13, 2018 to December 28, 2018
- Method of acquisition: Purchase on the Market

** 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.*