

Disclaimer:

This financial report is solely a translation of the “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.

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

[Japanese GAAP]

February 10, 2017

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Listing: Tokyo Stock Exchange (Mothers)
 URL: <http://www.marketenterprise.co.jp/>

Scheduled date of filing of Quarterly Report:

February 14, 2017

Scheduled date of payment of dividend:

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Preparation of supplementary materials for quarterly financial results: None

Holding of quarterly financial results meeting:

Yes (for securities analysts and institutional investors)

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

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending June 30, 2017

(July 1, 2016 to December 31, 2016)

(1) Consolidated results of operations

(Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended Dec. 31, 2016	2,595	-	(71)	-	(67)	-	(54)	-
Six months ended Dec. 31, 2015	-	-	-	-	-	-	-	-

Note: Comprehensive income (millions of yen)

Six months ended Dec. 31, 2016: (57)

(-%)

Six months ended Dec. 31, 2015: -

(-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Dec. 31, 2016	(10.68)	-
Six months ended Dec. 31, 2015	-	-

Note: Figures for the six months ended December 31, 2015 and year-on-year changes are not presented because

MarketEnterprise began to prepare the quarterly consolidated financial statements from the second quarter of the fiscal year ending June 30, 2017.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Dec. 31, 2016	1,603	881	54.8
As of Jun. 30, 2016	-	-	-

Reference: Shareholders' equity (millions of yen)

As of Dec. 31, 2016: 877

As of Jun. 30, 2016: -

Note: Figures as of June 30, 2016 are not presented because MarketEnterprise began to prepare the quarterly consolidated financial statements from the second quarter of the fiscal year ending June 30, 2017.

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Jun. 30, 2016	-	0.00	-	0.00	0.00
Fiscal year ending Jun. 30, 2017	-	0.00	-	0.00	0.00
Fiscal year ending Jun. 30, 2017 (forecasts)	-	-	-	0.00	0.00

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

3. Consolidated Forecast for the Fiscal Year Ending June 30, 2017 (July 1, 2016 to June 30, 2017)

(Percentages represent year-on-year changes)

	Net sales		Operating income		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
Full year	5,970	-	5	-	17	-	6	-	1.18

Note: Revisions to the most recently announced earnings forecast: Yes

Year-on-year changes are not presented because MarketEnterprise began to prepare the quarterly consolidated financial statements from the second quarter of the fiscal year ending June 30, 2017.

Regarding revisions to the earnings forecast, please refer to the press release “Notice of Announcement of Consolidated Forecast Due to Change to Consolidated Financial Statements” that was announced today (February 10, 2017).

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in scope of consolidation): None

Newly added: -

Excluded: -

(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 as of the end of the period (including treasury shares)

As of Dec. 31, 2016:	5,076,000 shares	As of Jun. 30, 2016:	5,069,000 shares
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2) Number of treasury shares as of the end of the period

As of Dec. 31, 2016:	174 shares	As of Jun. 30, 2016:	174 shares
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3) Average number of shares outstanding during the period

Six months ended Dec. 31, 2016:	5,073,434 shares	Six months ended Dec. 31, 2015:	5,068,994 shares
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Note: MarketEnterprise conducted a 2-for-1 common stock split effective on January 1, 2016. The average number of shares outstanding during the period is calculated as if this stock split had taken place at the beginning of the previous fiscal year.

* Information regarding the implementation of quarterly review procedures

This summary report is not subject to the quarterly review procedures based on the Financial Instruments and Exchange Act. At the time when this report was released, the review procedures for the quarterly financial statements have not been completed.

* Explanation of appropriate use of earnings forecast, and other special items

Forecasts of future performance in these materials are based on assumptions judged to be valid and information available to MarketEnterprise's management at the time these materials were prepared, but are not promises by MarketEnterprise regarding future performance. Actual results may differ significantly from these forecasts for a number of reasons. Please refer to "1. (3) Explanation of Consolidated Forecast and Other Forward-looking Statements" on page 3 for forecast assumptions and notes of caution for usage.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

Forward-looking statements are based on the decisions of the MarketEnterprise Group's management as of December 31, 2016.

No comparisons with figures for the same quarter of the previous fiscal year and at the end of the previous fiscal year are included because this is the first year that MarketEnterprise has prepared consolidated financial statements.

(1) Explanation of Results of Operations

In the first half of the fiscal year ending in June 2017 (July 1, 2016 to December 31, 2016), the Japanese economy continued to recover slowly due to the government's economic stimulus measures and monetary easing by the Bank of Japan. However, in Japan TPP and related bills have been passed by the Diet, while there are concerns about the economic slowdown in emerging countries, mainly China, the unstable European situation, and the transition to the new administration in the United States, which have resulted in the stock market and the exchange rate fluctuating wildly. As a result, the economic outlook remains uncertain.

Japanese companies face challenges such as innovation, globalization, reform of work styles and productivity improvement, which requires the utilization of artificial intelligence, IoT and other new technologies. Given that the social environment is changing drastically, companies need to re-examine the very essence of the manner of their operations.

The MarketEnterprise Group primarily operates an e-commerce reuse business (buying and selling reuse merchandise by using only the Internet and operating no brick-and-mortar stores). The Group is positioning the current fiscal year and the next fiscal year as the two years of its strategic investment period for its medium to long-term growth, and is making substantial upfront investments for the expansion of personnel and facilities and the introduction of new technologies, in order to establish a new earnings base.

There were several significant accomplishments during the first half:

- More contact points with customers in merchandise purchasing
We increased employee numbers at the Tokushima Contact Center, which opened at the end of the previous fiscal year.
- New sources of earnings that takes advantage of the Group's existing know-how
We expanded the services and facilities for the mobile virtual network operator (MVNO) business that is being deployed.
We have begun handling agricultural machinery and commodities in markets and areas in which scarcely any forerunners exist.
We undertook systems development for the deployment of new services.
- Trials for the active utilization of technology
We actively recruited IT engineers to expand web service.
We undertook upfront investment in the marketing automation aimed at achieving efficient business development.

In the first half, sales were strong and amounted to 2,595 million yen. However, there was an operating loss of 71 million yen because of an increase in selling, general and administrative expenses. Ordinary loss totaled 67 million yen, and there was a loss attributable to owners of parent was 54 million yen.

(2) Explanation of Financial Position

Assets

Total assets at the end of the second quarter of the current fiscal year were 1,603 million yen.

Current assets were 1,428 million yen. The main components were cash and deposits of 810 million yen and merchandise of 415 million yen.

Non-current assets were 174 million yen. The main components were property, plant and equipment of 62 million yen and investments and other assets of 106 million yen.

Liabilities

Total liabilities amounted to 721 million yen. The main components were current portion of long-term loans payable of 152 million yen, accounts payable-other of 166 million yen and long-term loans payable of 283 million yen.

Net assets

Net assets totaled 881 million yen. The main components were capital stock of 304 million yen, capital surplus of 284 million yen and retained earnings of 288 million yen.

Cash Flows

Cash and cash equivalents (hereinafter, "cash") at the end of the second quarter of the current fiscal year were 810 million yen. The cash flow components and the main reasons for changes are as described below.

Cash flows from operating activities

Net cash used in operating activities was 78 million yen. Main negative factors include loss before income taxes of 75 million yen and an increase in inventories of 49 million yen due to the growth in purchases.

Cash flows from investing activities

Net cash used in investing activities was 5 million yen. Main factors include purchase of property, plant and equipment of 6 million yen mainly due to opening of new business sites, proceeds from sales of property, plant and equipment of 6 million yen due to sales of vehicles, and purchase of intangible assets of 3 million yen due to purchase of software.

Cash flows from financing activities

Net cash provided by financing activities was 150 million yen. Main factors include proceeds from long-term loans payable of 200 million yen.

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

In the current fiscal year, MarketEnterprise established subsidiary MEmobile Co., Ltd. to conduct the MVNO business specializing in used phones and tablets. Due to the increasing significance of this company, the decision was made to start preparing consolidated financial statements in the second quarter of the current fiscal year in order to provide investors with more useful information.

Regarding consolidated forecast, please refer to the Summary Information "3. Consolidated Forecast for the Fiscal Year Ending June 30, 2017 (July 1, 2016 to June 30, 2017).

2. Matters Related to Summary Information (Notes)

(1) Changes in Significant Subsidiaries during the Period

There were no changes in specified subsidiaries resulting in changes in scope of consolidation.

MEmobile was included in the scope of consolidation in the second quarter of the current fiscal year due to the increasing significance of this company. However, MEmobile does not qualify as a specified subsidiary.

3. Quarterly Consolidated Financial Statements**(1) Quarterly Consolidated Balance Sheet**

	(Thousands of yen)
	Second quarter of FY6/17 (As of Dec. 31, 2016)
Assets	
Current assets	
Cash and deposits	810,845
Accounts receivable-trade	79,281
Merchandise	415,159
Other	123,503
Total current assets	<u>1,428,790</u>
Non-current assets	
Property, plant and equipment	62,833
Intangible assets	4,621
Investments and other assets	106,759
Total non-current assets	<u>174,214</u>
Total assets	<u>1,603,005</u>
Liabilities	
Current liabilities	
Current portion of long-term loans payable	152,523
Accounts payable-other	166,838
Income taxes payable	6,207
Other	112,721
Total current liabilities	<u>438,290</u>
Non-current liabilities	
Long-term loans payable	283,295
Total non-current liabilities	<u>283,295</u>
Total liabilities	<u>721,585</u>
Net assets	
Shareholders' equity	
Capital stock	304,907
Capital surplus	284,547
Retained earnings	288,663
Treasury shares	(221)
Total shareholders' equity	<u>877,896</u>
Non-controlling interests	<u>3,524</u>
Total net assets	<u>881,420</u>
Total liabilities and net assets	<u>1,603,005</u>

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

	(Thousands of yen)
	First six months of FY6/17 (Jul. 1, 2016 – Dec. 31, 2016)
Net sales	2,595,251
Cost of sales	1,454,531
Gross profit	1,140,720
Selling, general and administrative expenses	1,212,568
Operating loss	(71,848)
Non-operating income	
Foreign exchange gains	4,490
Insurance income	650
Vending machine income	211
Other	853
Total non-operating income	6,205
Non-operating expenses	
Interest expenses	895
Compensation expenses	1,181
Other	33
Total non-operating expenses	2,110
Ordinary loss	(67,753)
Extraordinary losses	
Loss on theft	7,394
Total extraordinary losses	7,394
Loss before income taxes	(75,148)
Income taxes-current	1,827
Income taxes-deferred	(19,315)
Total income taxes	(17,488)
Loss	(57,660)
Loss attributable to non-controlling interests	(3,475)
Loss attributable to owners of parent	(54,184)

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

	(Thousands of yen)
	First six months of FY6/17 (Jul. 1, 2016 – Dec. 31, 2016)
Loss	(57,660)
Comprehensive income	(57,660)
Comprehensive income attributable to:	
Comprehensive income attributable to owners of parent	(54,184)
Comprehensive income attributable to non-controlling interests	(3,475)

(3) Quarterly Consolidated Statement of Cash Flows

	(Thousands of yen)
	First six months of FY6/17 (Jul. 1, 2016 – Dec. 31, 2016)
Cash flows from operating activities	
Loss before income taxes	(75,148)
Depreciation	9,831
Decrease (increase) in notes and accounts receivable-trade	35,568
Decrease (increase) in inventories	(49,407)
Decrease (increase) in deposits paid	(23,071)
Increase (decrease) in accounts payable-other	28,695
Other, net	(3,512)
Subtotal	<u>(77,044)</u>
Interest and dividend income received	20
Interest expenses paid	(895)
Income taxes paid	(3,467)
Income taxes refund	2,937
Net cash provided by (used in) operating activities	<u>(78,449)</u>
Cash flows from investing activities	
Purchase of property, plant and equipment	(6,295)
Proceeds from sales of property, plant and equipment	6,007
Purchase of intangible assets	(3,800)
Other, net	(1,205)
Net cash provided by (used in) investing activities	<u>(5,293)</u>
Cash flows from financing activities	
Proceeds from long-term loans payable	200,000
Repayments of long-term loans payable	(56,950)
Proceeds from share issuance to non-controlling shareholders	7,000
Other, net	84
Net cash provided by (used in) financing activities	<u>150,134</u>
Net increase (decrease) in cash and cash equivalents	<u>66,390</u>
Cash and cash equivalents at beginning of period	<u>744,455</u>
Cash and cash equivalents at end of period	<u>810,845</u>

(4) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Segment and Other Information

Segment information is omitted due to its immateriality since the Group has only a single business segment, which is the e-commerce reuse business.