

**Consolidated Financial Results**  
**for the Nine Months Ended November 30, 2016**  
**[Japanese GAAP]**

January 10, 2017

Company name: PAL GROUP Holdings CO., LTD.

Stock exchange listing: Tokyo Stock Exchange

Code number: 2726

URL: <http://www.palgroup.holdings>

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Scheduled date of filing quarterly securities report: January 13, 2017

Scheduled date of commencing dividend payments: —

Availability of supplementary briefing material on quarterly financial results: Not available

Schedule of quarterly financial results briefing session: Not scheduled

(Amounts of less than one million yen are rounded down.)

**1. Consolidated Financial Results for the Nine Months Ended November 30, 2016 (March 1, 2016 to November 30, 2016)**

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
Nine months ended November 30, 2016	86,810	2.8	5,046	0.2	4,953	(0.4)	2,755	(4.9)
Nine months ended November 30, 2015	84,409	6.6	5,036	(23.3)	4,974	(23.7)	2,896	(18.9)

(Note) Comprehensive income: Nine Months ended November 30, 2016: ¥2,723 million [(4.7)%]

Nine Months ended November 30, 2015: ¥2,858 million [(20.2)%]

	Basic earnings per share	Diluted earnings per share
	yen	yen
Nine months ended November 30, 2016	125.25	—
Nine months ended November 30, 2015	131.28	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	million yen	million yen	%
As of November 30, 2016	81,384	37,236	45.8
As of February 29, 2016	76,918	36,053	46.9

(Reference) Equity: As of November 30, 2016: ¥37,236 million

As of February 29, 2016: ¥36,053 million

## 2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	yen	yen	yen	yen	yen
Fiscal year ended February 29, 2016	—	0.00	—	70.00	70.00
Fiscal year ending February 28, 2017	—	0.00	—		
Fiscal year ending February 28, 2017 (Forecast)				70.00	70.00

(Note) Revision of dividend forecast: No

## 3. Consolidated Financial Results Forecast for the Fiscal Year Ending February 28, 2017 (March 1, 2016 to February 28, 2017)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full year	121,490	6.2	7,940	36.2	7,650	33.3	4,420	34.4	200.92

(Note) Revision of consolidated financial results forecast: No

### \* Notes

(1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Adoption of special accounting methods for preparing quarterly consolidated financial statement: No

(3) Changes in accounting policies, changes in accounting estimates and corrections of errors

1) Changes in accounting policies due to the revision of accounting standards: Yes

2) Any changes other than 1) above: No

3) Changes in accounting estimates: No

4) Corrections of errors: No

(4) Total number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):

As of November 30, 2016	23,136,000 shares
As of February 29, 2016	23,136,000 shares

2) Total number of treasury shares at the end of the period:

As of November 30, 2016	1,136,843 shares
As of February 29, 2016	1,136,731 shares

3) Average number of shares during the period:

Nine months ended November 30, 2016	21,999,191 shares
Nine months ended November 30, 2015	22,064,623 shares

\* Presentation regarding the implementation status of the quarterly review process

These consolidated financial results for the nine months ended November 30, 2016 are not covered by the quarterly review procedure stipulated in the Financial Instruments and Exchange Act. At the time of the publication of these financial results, the review procedure for quarterly consolidated financial statements is in progress.

\* Explanation of the proper use of financial results forecast and other notes

The statements regarding financial results forecast in this report are based on the information that is available, as well as estimates, assumptions and projections that are believed to be reasonable at the time of publication. Therefore, there might be cases in which actual results differ from forecast values. For the premises of financial results forecast and the notes concerning the use of financial results forecast, please refer to “Explanation of Consolidated Financial Results Forecast and Other Future Projections” on page 3 of the Appendix to this report.

(Reference)

**1. Non-consolidated Financial Results for the Nine Months Ended November 30, 2016 (March 1, 2016 to November 30, 2016)**

(1) Non-consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
Nine months ended November 30, 2016	49,143	(30.1)	3,531	(31.4)	3,492	(31.7)	2,077	(25.0)
Nine months ended November 30, 2015	70,295	5.9	5,151	(19.7)	5,110	(19.9)	2,771	(22.8)

(Note) The Company transitioned to a holding company structure on September 1, 2016 and transferred its Apparel Business and Miscellaneous Goods/Accessories Business to the newly incorporated PAL CO., LTD. (the trade name was changed from PAL Split Preparation Company CO., LTD. on September 1, 2016). As a result, net sales from September 2016 onward were mainly consisted of business consignment income, consulting fee income and dividend income received from its subsidiaries.

**2. Non-consolidated Financial Results Forecast for the Fiscal Year Ending February 28, 2017 (March 1, 2016 to February 28, 2017)**

(% indicates changes from the previous corresponding period.)

	Net sales		Ordinary income		Net income		Basic earnings per share	
	million yen	%	million yen	%	million yen	%	yen	
Full year	50,020	(47.5)	3,770	(38.0)	2,250	(32.7)	102.28	

(Notes) 1. Revision of non-consolidated financial results forecast: No

2. The Company transitioned to a holding company structure on September 1, 2016, changed its trade name to "PAL GROUP Holdings CO., LTD." and transferred its Apparel Business and Miscellaneous Goods/Accessories Business to the newly incorporated PAL CO., LTD. (the trade name was changed from PAL Split Preparation Company CO., LTD. on September 1, 2016).

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## 1. Qualitative Information on Consolidated Financial Results for the Period under Review

### (1) Explanation of Operating Results

During the nine months ended November 30, 2016 (March 1, 2016 to November 30, 2016), the Japanese economy continued on a gradual recovery track thanks to improved corporate earnings and employment situation. However, the outlook of the economy remains uncertain, mainly due to stagnant consumer spending, sluggish world economy and yen appreciation.

Under such circumstances, the Company made preparation for the transition to a holding company structure, and on September 1, 2016, it changed its trade name to “PAL GROUP Holdings CO., LTD.,” while transferring its Apparel Business and Miscellaneous Goods/Accessories Business to the newly incorporated PAL CO., LTD. (the trade name was changed from PAL Split Preparation Company CO., LTD. on September 1, 2016).

Under such a business environment, the Corporate Group made every effort to expand its operations and improve management efficiency by proactively keeping its business conditions entrenched and promoting the opening of new stores, while at the same time revitalizing existing stores by switching businesses and withdrawing unprofitable stores.

In the Apparel Business, the Group conducted proactive brand promotions while further pressing ahead with the reform of merchandising (MD) and improving the freshness of merchandise through agile introduction of items in stores, as well as the opening of 41 new stores. However, net sales decreased by 0.9% year on year to ¥62,986 million. Additionally, in the Miscellaneous Goods/Accessories Business, we opened 19 new stores in response to robust demand for opening stores reflecting our rising visibility. As a result, net sales increased by 14.4% year on year to ¥23,711 million.

As a result of the above, net sales for the nine months ended November 30, 2016 increased by 2.8% year on year to ¥86,810 million.

In terms of profit, the gross profit margin increased by 0.5 points year on year to 56.7% as a result of efforts including the reform of merchandising (MD). Although operating income increased by ¥9 million year on year to ¥5,046 million, ordinary income decreased by ¥21 million year on year to ¥4,953 million. Profit before income taxes decreased by ¥290 million year on year to ¥4,678 million as gain on bargain purchase of ¥507 million was recorded under extraordinary income in the previous corresponding period. As a result, profit attributable to owners of parent decreased by ¥141 million year on year to ¥2,755 million.

### (2) Explanation of Financial Position

#### (Assets)

Current assets increased by ¥4,327 million compared with the end of the previous fiscal year, due mainly to increases in notes and accounts receivable - trade by ¥2,255 million, in merchandise and finished goods by ¥1,398 million, and in cash and deposits by ¥901 million.

Non-current assets increased by ¥137 million compared with the end of the previous fiscal year, due primarily to an increase in intangible assets by ¥166 million.

#### (Liabilities)

Current liabilities increased by ¥4,141 million compared with the end of the previous fiscal year, due mainly to increases in notes and accounts payable - trade by ¥1,504 million, in accrued expenses by ¥1,358 million, and in short-term loans payable by ¥760 million.

Non-current liabilities decreased by ¥859 million compared with the end of the previous fiscal year, due primarily to a decrease in long-term accounts payable - other by ¥789 million.

(Net assets)

Net assets increased by ¥1,183 million compared with the end of the previous fiscal year, due mainly to profit attributable to owners of parent of ¥2,755 million, despite the payment of year-end dividend of ¥1,539 million.

(3) Explanation of Consolidated Financial Results Forecast and Other Future Projections

There is no change to the consolidated financial results forecast announced on October 11, 2016.

## 2. Matters Related to Summary Information (Notes)

### (1) Changes in Significant Subsidiaries during the Period under Review

Not applicable.

### (2) Adoption of Special Accounting Methods for Preparing Quarterly Consolidated Financial Statements

Not applicable.

### (3) Changes in Accounting Policies, Changes in Accounting Estimates and Corrections of Errors

(Changes in accounting policies)

(Application of Accounting Standard for Business Combinations, etc.)

Effective the first quarter of the fiscal year ending February 28, 2017, the Company has applied the “Revised Accounting Standard for Business Combinations” (ASBJ Statement No.21 of September 13, 2013), “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22 of September 13, 2013), “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7 of September 13, 2013) and other standards. As a result, the method of recording the amount of difference caused by changes in the Company’s ownership interests in subsidiaries in the case of subsidiaries under ongoing control of the Company was changed to the one in which it is recorded as capital surplus, and the method of recording acquisition-related costs was changed to the one in which they are recognized as expenses for the consolidated fiscal year in which they are incurred. Furthermore, for business combinations carried out on or after the beginning of the first quarter of the fiscal year ending February 28, 2017, the accounting method was changed to the one in which the reviewed acquisition cost allocation resulting from the finalization of the provisional accounting treatment is reflected in the quarterly consolidated financial statements for the quarterly fiscal period to which the date of business combination belongs. In addition, the presentation method for net income and other related items has been changed, and the presentation of minority interests has been changed to non-controlling interests. To reflect these changes in presentation, the Company has reclassified the quarterly consolidated financial statements for the nine months ended November 30, 2015 and consolidated financial statements for the fiscal year ended February 29, 2016.

Application of the Accounting Standard for Business Combinations, etc. is in accordance with the transitional treatment stipulated by Paragraph 58-2 (4) of the Accounting Standard for Business Combinations, Paragraph 44-5 (4) of the Accounting Standard for Consolidated Financial Statements and Paragraph 57-4 (4) of the Accounting Standard for Business Divestitures. The Company applies the standards prospectively from the beginning of the fiscal year ending February 28, 2017.

These changes have no impact on the quarterly consolidated financial statements for the nine months ended November 30, 2016.



(Changes in depreciation method)

In accordance with the reform of the Corporation Tax Act, effective the first quarter of the fiscal year ending February 28, 2017, the Company and its domestic consolidated subsidiaries applied “Practical Solution on a change in depreciation method due to Tax Reform 2016” (PITF No.32 of June 17, 2016). As a result, the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 has been changed from the declining balance method to the straight-line method.

The impact of this change on profit or loss in the nine months ended November 30, 2016 is negligible.

### 3. Consolidated Financial Statements

#### (1) Consolidated Balance Sheets

(Millions of yen)

	As of February 29, 2016	As of November 30, 2016
<b>Assets</b>		
Current assets		
Cash and deposits	35,174	36,076
Notes and accounts receivable - trade	5,138	7,393
Merchandise and finished goods	9,149	10,547
Other	1,215	987
Allowance for doubtful accounts	(1)	(1)
Total current assets	50,675	55,003
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,064	8,057
Other, net	2,428	2,432
Total property, plant and equipment	10,493	10,490
Intangible assets	315	481
Investments and other assets		
Guarantee deposits	13,388	13,370
Other	2,103	2,095
Allowance for doubtful accounts	(58)	(57)
Total investments and other assets	15,433	15,408
Total non-current assets	26,242	26,380
Total assets	76,918	81,384
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	15,188	16,692
Short-term loans payable	2,518	3,278
Current portion of long-term loans payable	2,270	2,979
Income taxes payable	660	896
Provision for bonuses	1,001	739
Provision	68	137
Other	5,756	6,881
Total current liabilities	27,463	31,605
Non-current liabilities		
Long-term loans payable	7,432	7,144
Net defined benefit liability	736	795
Provision	209	249
Asset retirement obligations	1,638	1,736
Other	3,384	2,616
Total non-current liabilities	13,401	12,542
Total liabilities	40,865	44,147

(Millions of yen)

	As of February 29, 2016	As of November 30, 2016
Net assets		
Shareholders' equity		
Capital stock	3,181	3,181
Capital surplus	4,469	4,469
Retained earnings	30,396	31,611
Treasury shares	(2,087)	(2,087)
Total shareholders' equity	35,960	37,175
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	138	151
Foreign currency translation adjustment	1	(14)
Remeasurements of defined benefit plans	(47)	(76)
Total accumulated other comprehensive income	92	60
Total net assets	36,053	37,236
Total liabilities and net assets	76,918	81,384

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

## Consolidated Statements of Income

(Millions of yen)

	Nine months ended November 30, 2015	Nine months ended November 30, 2016
Net sales	84,409	86,810
Cost of sales	36,948	37,552
Gross profit	47,461	49,257
Selling, general and administrative expenses	42,424	44,211
Operating income	5,036	5,046
Non-operating income		
Interest income	2	1
Rent income	5	5
Share of profit of entities accounted for using equity method	9	0
Compensation income	17	—
Other	44	70
Total non-operating income	78	77
Non-operating expenses		
Interest expenses	112	100
Provision for loss on guarantees	14	38
Other	13	31
Total non-operating expenses	140	170
Ordinary income	4,974	4,953
Extraordinary income		
Gain on bargain purchase	507	—
Total extraordinary income	507	—
Extraordinary losses		
Loss on retirement of non-current assets	186	89
Impairment loss	319	185
Other	6	—
Total extraordinary losses	513	275
Profit before income taxes	4,968	4,678
Income taxes - current	1,738	1,825
Income taxes - deferred	316	97
Total income taxes	2,055	1,922
Profit	2,913	2,755
Profit attributable to non-controlling interests	16	—
Profit attributable to owners of parent	2,896	2,755

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Nine months ended November 30, 2015	Nine months ended November 30, 2016
Profit	2,913	2,755
Other comprehensive income		
Valuation difference on available-for-sale securities	(20)	13
Remeasurements of defined benefit plans, net of tax	(33)	(28)
Foreign currency translation adjustment	(0)	(7)
Share of other comprehensive income of entities accounted for using equity method	(0)	(8)
Total other comprehensive income	(54)	(31)
Comprehensive income	2,858	2,723
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,844	2,723
Comprehensive income attributable to non-controlling interests	13	—

(3) Notes to Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

(Notes in Case of Significant Changes in Shareholders' Equity)

Not applicable.

4. Additional Information

(1) Sales Results by Segment (Consolidated)

	Nine months ended November 30, 2015	Nine months ended November 30, 2016	Changes from the previous corresponding period
	million yen	million yen	%
Apparel Business	63,589	62,986	99.1
Miscellaneous Goods/ Accessories Business	20,722	23,711	114.4
Other	97	111	114.4
Total	84,409	86,810	102.8

(2) Status of Stores (Consolidated)

	Nine months ended November 30, 2016
Number of stores as of February 29, 2016	899 stores
Number of new stores	60 stores
Number of closed stores	22 stores
Number of stores as of November 30, 2016	937 stores