

Consolidated Financial Results
for the Fiscal Year Ended February 28, 2017
[Japanese GAAP]

April 11, 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 ordinary general meeting of shareholders: May 24, 2017

Scheduled date of commencing dividend payments: May 25, 2017

Scheduled date of filing securities report: May 30, 2017

Availability of supplementary briefing material on financial results: Not available

Schedule of financial results briefing session: Scheduled (for analysts and institutional investors)

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

1. Consolidated Financial Results for the Fiscal Year Ended February 28, 2017 (March 1, 2016 to February 28, 2017)

(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	%
Fiscal year ended February 28, 2017	116,457	1.8	6,164	5.8	6,044	5.3	3,071	(6.6)
Fiscal year ended February 29, 2016	114,410	5.8	5,828	(27.7)	5,741	(27.9)	3,288	(19.6)

(Note) Comprehensive income: Fiscal year ended February 28, 2017: ¥3,077 million [0.7%]

Fiscal year ended February 29, 2016: ¥3,057 million [(25.6)%]

	Basic earnings per share	Diluted earnings per share	Rate of return on equity	Ordinary income to total assets	Operating income to net sales
	yen	yen	%	%	%
Fiscal year ended February 28, 2017	139.60	—	8.3	7.8	5.3
Fiscal year ended February 29, 2016	149.16	—	9.3	7.2	5.1

(Reference) Equity in earnings of affiliates: Fiscal year ended February 28, 2017: ¥10 million

Fiscal year ended February 29, 2016: ¥16 million

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	million yen	million yen	%	yen
As of February 28, 2017	77,083	37,590	48.8	1,708.72
As of February 29, 2016	76,918	36,053	46.9	1,638.84

(Reference) Equity: As of February 28, 2017: ¥37,590 million

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

(3) Consolidated Cash Flows

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
	million yen	million yen	million yen	million yen
Fiscal year ended February 28, 2017	5,160	(1,531)	(2,844)	35,959
Fiscal year ended February 29, 2016	(1,308)	(3,171)	(3,849)	35,174

2. Dividends

	Annual dividends					Total dividends paid (annual)	Payout ratio (consolidated)	Dividends to net assets (consolidated)
	1st quarter- end	2nd quarter- end	3rd quarter- end	Year- end	Total			
	yen	yen	yen	yen	yen	million yen	%	%
Fiscal year ended February 29, 2016	—	0.00	—	70.00	70.00	1,539	46.9	4.4
Fiscal year ended February 28, 2017	—	0.00	—	70.00	70.00	1,539	50.1	4.2
Fiscal year ending February 28, 2018 (Forecast)	—	0.00	—	70.00	70.00		37.9	

3. Consolidated Financial Results Forecast for the Fiscal Year Ending February 28, 2018 (March 1, 2017 to February 28, 2018)

(% 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
First half	60,650	6.2	3,480	33.0	3,390	32.4	1,520	15.1	69.09
Full year	123,880	6.4	8,020	30.1	7,850	29.9	4,060	32.2	184.55

* Notes

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

(2) 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

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

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

As of February 28, 2017	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 February 28, 2017	1,136,865 shares
As of February 29, 2016	1,136,731 shares

3) Average number of shares during the period:

Fiscal year ended February 28, 2017	21,999,178 shares
Fiscal year ended February 29, 2016	22,048,289 shares

(Reference) Summary of Non-consolidated Financial Results

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

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

	Net sales		Operating income		Ordinary income		Profit	
	million yen	%	million yen	%	million yen	%	million yen	%
Fiscal year ended February 28, 2017	49,992	(47.6)	3,991	(35.0)	3,954	(34.9)	2,300	(31.2)
Fiscal year ended February 29, 2016	95,315	5.7	6,137	(21.7)	6,077	(21.6)	3,342	(19.4)

	Basic earnings per share	Diluted earnings per share
	yen	yen
Fiscal year ended February 28, 2017	104.57	—
Fiscal year ended February 29, 2016	151.58	—

(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 in and after September 2016 mainly consist of commissions from subsidiaries and associates, and dividend income.

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	million yen	million yen	%	yen
As of February 28, 2017	46,350	35,410	76.4	1,609.64
As of February 29, 2016	67,647	34,646	51.2	1,574.89

(Reference) Equity: As of February 28, 2017: ¥35,410 million

As of February 29, 2016: ¥34,646 million

2. Non-consolidated Financial Results Forecast for the Fiscal Year Ending February 28, 2018 (March 1, 2017 to February 28, 2018)

As the Company transitioned to a holding company structure on September 1, 2016, non-consolidated financial results forecast is not stated in this report due to its lack of significance in terms of investment information.

* Presentation regarding the implementation status of the audit process

These consolidated financial results for the fiscal year ended February 28, 2017 are not covered by the audit procedure stipulated in the Financial Instruments and Exchange Act. At the time of the publication of these financial results, the audit procedure for financial statements has not been completed.

* 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 assumptions underlying the financial results forecast and the notes concerning the use of financial results forecast, please refer to “(1) Analysis of Operating Results” on page 2 of the Appendix to this report.

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1. Analysis of Operating Results and Financial Position

(1) Analysis of Operating Results

1) Overview for the Fiscal Year Ended February 28, 2017

During the fiscal year ended February 28, 2017, the Japanese economy remained on a gradual recovery trend driven mainly by improved corporate profit and the employment environment. However, the outlook of the economy is uncertain due mainly to stagnant consumer spending, sluggish world economy and yen appreciation.

As the Company was making the transition to a holding company structure, it changed its trade name to “PAL GROUP Holdings CO., LTD.” 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).

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 45 new stores. However, net sales decreased by 1.3% year on year to ¥85,097 million. In the Miscellaneous Goods/Accessories Business, we opened 20 new stores in response to robust demand for opening stores reflecting our rising visibility. As a result, net sales increased by 11.2 % year on year to ¥31,212 million.

As a result of the above, net sales of the Corporate Group for the fiscal year ended February 28, 2017 increased by 1.8% year on year to ¥116,457 million.

In terms of profit, the gross profit margin increased by 1.2 points year on year to 56.1% through the further reform of merchandising (MD), etc. Operating income increased by ¥335 million year on year to ¥6,164 million, and ordinary income increased by ¥303 million year on year to ¥6,044 million. Profit before income taxes decreased by ¥258 million year on year to ¥5,220 million due mainly to extraordinary income (gain on bargain purchase) in the amount of ¥552 million in the previous fiscal year. Profit attributable to owners of parent decreased by ¥218 million year on year to ¥3,071 million.

2) Sales Results by Segment for the Fiscal Year Ended February 28, 2017

Segment	Amount (million yen)	Changes from the previous fiscal year (%)
Apparel Business	85,097	98.7
Miscellaneous Goods/Accessories Business	31,212	111.2
Other	147	105.3
Total	116,457	101.8

3) Status of Stores for the Fiscal Year Ended February 28, 2017 (March 1, 2016 to February 28, 2017)

Number of stores as of February 29, 2016	899 stores
Number of new stores	65 stores
Number of closed stores	41 stores
Number of stores as of February 28, 2017	923 stores

4) Outlook for Fiscal 2017

As for the outlook for Fiscal 2017, the Company predicts increases in both sales and profits, expecting net sales to increase by 6.4% year on year to ¥123,880 million, operating income to increase by 30.1% year on year to ¥8,020 million, ordinary income to increase by 29.9% year on year to ¥7,850 million and profit attributable to owners of parent to increase 32.2% year on year to ¥4,060 million.

(2) Analysis of Financial Position

1) Status of Assets, Liabilities and Net Assets

(Assets)

Current assets increased by ¥612 million compared with the end of the previous fiscal year, due mainly to an increase in cash and deposits by ¥784 million, despite a decrease in merchandise and finished goods by ¥557 million.

Non-current assets decreased by ¥448 million compared with the end of the previous fiscal year, due primarily to a decrease in buildings and structures by ¥568 million.

(Liabilities)

Current liabilities increased by ¥221 million compared with the end of the previous fiscal year, due mainly to increases in short-term loans payable by ¥768 million, income taxes payable by ¥882 million and current portion of long-term loans payable by ¥647 million, despite a decrease in notes and accounts payable - trade by ¥2,577 million.

Non-current liabilities decreased by ¥1,593 million compared with the end of the previous fiscal year, due primarily to decreases in long-term accounts payable - other by ¥1,032 million and long-term loans - payable by ¥646 million.

(Net assets)

Net assets increased by ¥1,537 million compared with the end of the previous fiscal year, due mainly to an increase in retained earnings by ¥1,531 million.

2) Status of Cash Flows

Cash and cash equivalents (hereinafter “cash”) at the end of the fiscal year ended February 28, 2017 increased by ¥784 million compared with the end of the previous fiscal year to ¥35,959 million, due mainly to cash provided by operating activities in the amount of ¥5,160 million.

Cash flows for the fiscal year ended February 28, 2017 are as follows.

(Net cash provided by (used in) operating activities)

While cash used in operating activities was ¥1,308 million for the previous fiscal year, cash provided by operating activities amounted to ¥5,160 million for the fiscal year ended February 28, 2017, due mainly to profit before income taxes in the amount of ¥5,220 million, despite a decrease in notes and accounts payable - trade by ¥2,581 million and income taxes paid in the amount of ¥1,628 million.

(Net cash provided by (used in) investing activities)

While cash used in investing activities was ¥3,171 million for the previous fiscal year, cash used in investing activities amounted to ¥1,531 million for the fiscal year ended February 28, 2017, due mainly to purchase of property, plant and equipment of ¥1,377 million.

(Net cash provided by (used in) financing activities)

While cash used in financing activities was ¥3,849 million for the previous fiscal year, cash used in financing activities amounted to ¥2,844 million for the fiscal year ended February 28, 2017, due mainly to cash dividends paid of ¥1,539 million and repayments of installment payables of ¥1,406 million.

(Reference) Cash flow-related indicators

	Fiscal year ended February 28, 2013	Fiscal year ended February 28, 2014	Fiscal year ended February 28, 2015	Fiscal year ended February 29, 2016	Fiscal year ended February 28, 2017
Equity ratio (%)	46.3	47.2	41.8	46.9	48.8
Equity ratio based on market value (%)	72.3	59.4	87.2	73.0	78.1
Interest-bearing debt to cash flows ratio (%)	213.3	208.5	85.1	—	251.7
Interest- coverage ratio (times)	44.8	40.7	102.0	—	38.7

Equity ratio: Equity / Total assets

Equity ratio based on market value: Market capitalization of shares / Total assets

Interest-bearing debt to cash flows ratio: Interest-bearing debt / Operating cash flows

Interest-coverage ratio: Operating cash flows / Interest payments

(Note) For the fiscal year ended February 29, 2016, the description of interest-bearing debt to cash flows ratio and interest-coverage ratio has been omitted as the operating cash flows were negative.

(3) Basic Policy for Distribution of Profit and Dividends for Fiscal 2016 and Fiscal 2017

The Company considers the returning of profits to shareholders to be one of its most important management policies. The Company's basic policy is to reinforce and maintain the stability of its corporate structure by securing necessary profits from the expansion of its business as well as enhancing its internal reserves, thereby ensuring the continuance of long-term and stable payment of dividends to its shareholders.

For Fiscal 2016, the Company expects to pay an annual dividend of ¥70 per share, which is the same amount as the previous fiscal year. For Fiscal 2017, the Company also expects to pay ¥70 per share.

(4) Risk Factors

1. Changes in fashion trends

Generally, fashion trends constantly undergo changes according to what is currently in vogue, thus as a member of the fashion apparel industry, it is difficult for the Corporate Group to eliminate the effects of such trends on its performance. Moreover, competition with rival companies on the youth market, which makes up its main customers, is becoming increasingly intense.

The Corporate Group, by developing multiple brands, covers a broad range of fashion, and by holding weekly meetings of store managers by each business division and examining sales and inventory trends etc., it is making efforts to plan products and conduct purchasing reflecting what is currently in vogue.

2. Expansion policy

1) Expansion by renting space as a tenant

The Corporate Group expands its stores primarily by renting space in station buildings and commercial complexes as tenants. It follows this policy in order to ensure sales capacity by opening stores in station buildings and other locations, which draw large volumes of customers, and also to minimize the risk of holding excess noncurrent assets and facilities when practicing its policy of “scrap and build” through the timely opening and closing of stores in response to the changes in the surrounding environment and customer flow.

Going forward, the Corporate Group will continue to pursue its policy of proactive expansion mainly by renting space in station buildings and commercial complexes as tenants, while maintaining its store brand. Additionally, the Corporate Group makes efforts to expand in an efficient manner by comprehensively taking into account the rent, the demographics of the trade area, and especially in the case of apparel, whether the potential store will be attractive to young people, its main customers, when selecting sites for new stores. If the Corporate Group fails to secure a satisfactory number of attractive store sites, it could lead to the scaling down of the number of stores, in addition to impacting the Corporate Group’s performance due to such factors as the number of stores, their locations and the timing of their opening.

Furthermore, as guarantee deposits are paid when renting space as tenants, guarantee deposits accounted for 17.4% of the total assets as of February 28, 2017. Although the Corporate Group mostly opens stores in the buildings of major developers, the Corporate Group is exposed to the risk of not being able to collect these guarantee deposits, in whole or in part, due to bankruptcy or other reasons pertaining to the lessor.

2) Costs associated with scrap and build

The Corporate Group captures changes in fashion trends accurately and in a timely manner and develops new businesses accordingly, while at the same time, actively reviews its outdated businesses. Generally in the retail industry, sales of existing stores tend to decline after their initial opening with the passage of time. Consequently, the Corporate Group is constantly making efforts to revitalize its stores as a whole by proactively practicing scrap and build including the opening of new stores, reviewing the product line-up at existing stores, changing the types of business, and closing stores, when necessary. The Corporate Group recognizes such costs associated with the rebuilding of its business will arise in the same manner as necessary expenses.

3. Management of customer information

Although the Corporate Group takes every precaution in managing its customer information, should such information be leaked, it could have an adverse impact on its performance as a result of a decline in the Corporate Group’s credibility, among others.

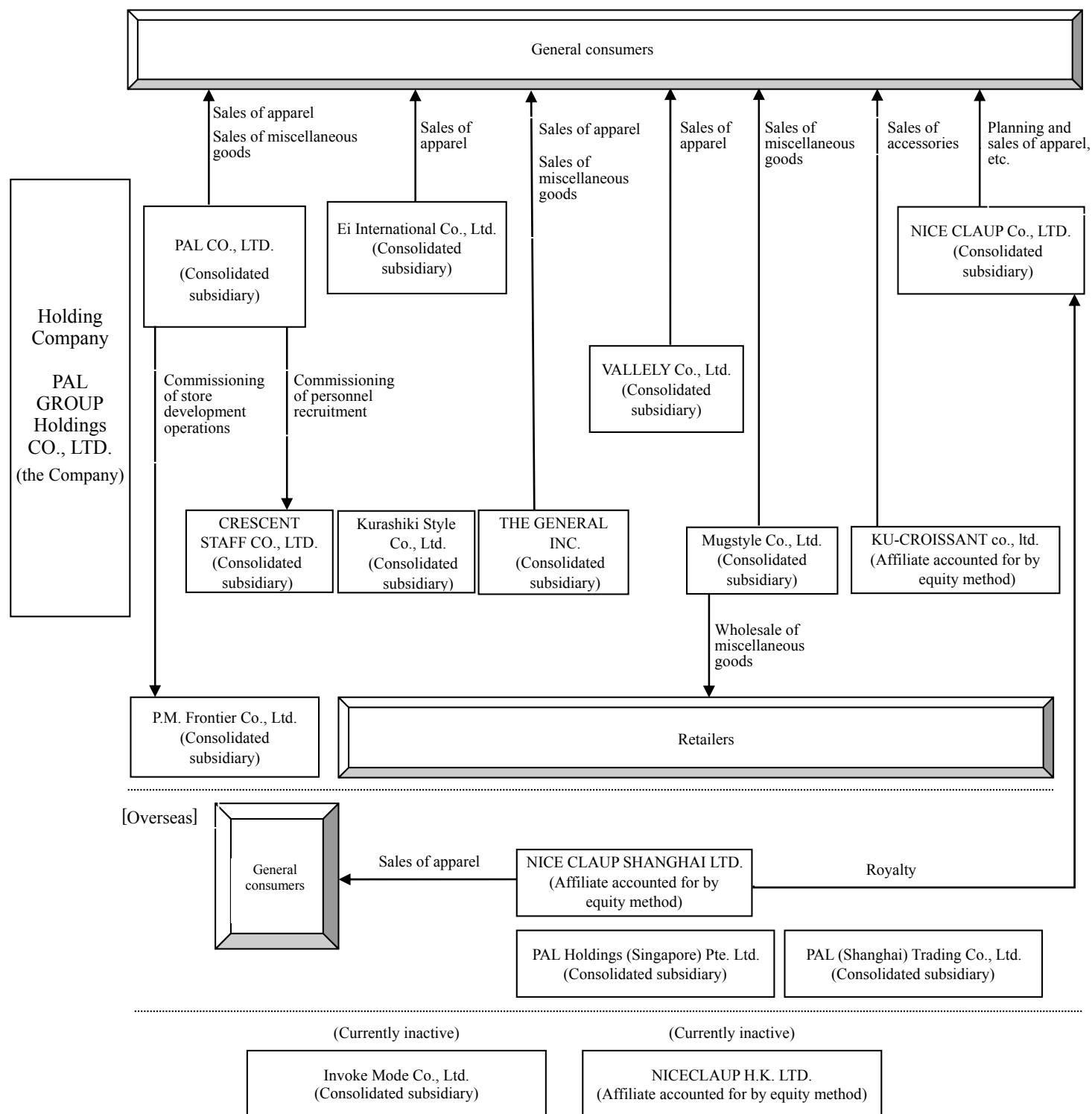
(5) Significant Events Relating to Going Concern Assumption

Not applicable.

2. Corporate Group Overview

As of the end of the fiscal year ended February 28, 2017, the Corporate Group comprised the Company as its holding company, 12 consolidated subsidiaries, three affiliates and one non-consolidated subsidiary. The Corporate Group is mainly engaged in the in-store sales of apparel to the general consumer, in addition to the sales of miscellaneous goods and other businesses.

An outline of the Corporate Group's businesses is as follows.



(Notes) 1 NICECLAUP H.K. LTD., an affiliate accounted for by equity method, has suspended operations since September 2008.

2 Invoke Mode Co., Ltd., a consolidated subsidiary, has suspended operations since January 2011.

3. Management Policy

(1) Basic Management Policy of the Company

The Company's motto is "To contribute to society by constantly proposing new fashionable ways of life." To this end, we have made it our basic policy to grow and win the trust of not only our customers, but also shareholders, business partners, and society in every aspect of our business including our products, services, sales technique, financial constitution and the quality of our employees.

(2) Targeted Management Indicators

The Company aims to reinforce its corporate foundations and enhance its high-profit company structure, while engaging in corporate management based on the ROE (Return on Equity) as its key indicator.

(3) The Company's Medium- to Long-term Management Strategies

The Corporate Group will make every effort 1) to pursue both price appeal and profitability by promoting the supply of products of high-sensitivity and high profit margins in line with globalization of production, while 2) ensuring the optimal allocation of management resources by promoting greater efficiency in staff assignments and store management. The Corporate Group also intends 3) to engage in companywide activities in order to improve Customer Satisfaction (CS) and win the support of its customers.

Additionally, 4) under the theme of "Let's become top notch," the approximately 50 brands of the Corporate Group have set their own targets in accordance with their individual brand concepts and are striving to further improve operating efficiency in terms of sales and profits, etc., in addition to implementing various measures in order to become "top notch" in brand image and CS.

Through the implementation of the above measures, the Corporate Company intends to expand its management base and aim for stable growth.

4. Rationale behind the Choice of Accounting Standards

To sustain comparability of consolidated financial statements between periods as well as between companies, the Company prepares consolidated financial statements under the Japanese GAAP.

We will appropriately respond to the application of the International Financial Reporting Standards (IFRS) considering various circumstances in Japan and overseas.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of February 29, 2016	As of February 28, 2017
Assets		
Current assets		
Cash and deposits	35,174	35,959
Notes and accounts receivable - trade	5,138	5,178
Merchandise and finished goods	9,149	8,592
Raw materials and supplies	11	14
Deferred tax assets	499	666
Other	704	880
Allowance for doubtful accounts	(1)	(2)
Total current assets	50,675	51,288
Non-current assets		
Property, plant and equipment		
Buildings and structures	13,449	13,656
Accumulated depreciation	(5,384)	(6,159)
Buildings and structures, net	8,064	7,496
Machinery, equipment and vehicles	14	15
Accumulated depreciation	(12)	(13)
Machinery, equipment and vehicles, net	1	1
Land	779	779
Leased assets	2,359	2,374
Accumulated depreciation	(943)	(1,132)
Leased assets, net	1,415	1,241
Other	435	675
Accumulated depreciation	(203)	(291)
Other, net	231	383
Total property, plant and equipment	10,493	9,903
Intangible assets	315	398
Investments and other assets		
Investment securities	773	718
Guarantee deposits	13,388	13,414
Deferred tax assets	716	837
Other	614	597
Allowance for doubtful accounts	(58)	(74)
Total investments and other assets	15,433	15,492
Total non-current assets	26,242	25,794
Total assets	76,918	77,083

(Millions of yen)

	As of February 29, 2016	As of February 28, 2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	15,188	12,610
Short-term loans payable	2,518	3,287
Current portion of long-term loans payable	2,270	2,917
Accrued expenses	2,039	2,017
Income taxes payable	660	1,543
Provision for bonuses	1,001	1,255
Provision for directors' bonuses	68	164
Provision for sales returns	0	0
Other	3,716	3,888
Total current liabilities	27,463	27,685
Non-current liabilities		
Long-term loans payable	7,432	6,786
Net defined benefit liability	736	756
Provision for directors' retirement benefits	119	122
Provision for loss on guarantees	90	140
Long-term accounts payable - other	2,212	1,179
Lease obligations	1,104	1,052
Asset retirement obligations	1,638	1,702
Deferred tax liabilities	13	10
Other	54	56
Total non-current liabilities	13,401	11,807
Total liabilities	40,865	39,492
Net assets		
Shareholders' equity		
Capital stock	3,181	3,181
Capital surplus	4,469	4,469
Retained earnings	30,396	31,927
Treasury shares	(2,087)	(2,087)
Total shareholders' equity	35,960	37,491
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	138	142
Foreign currency translation adjustment	1	(5)
Remeasurements of defined benefit plans	(47)	(38)
Total accumulated other comprehensive income	92	99
Total net assets	36,053	37,590
Total liabilities and net assets	76,918	77,083

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

(Millions of yen)

	Fiscal year ended February 29, 2016	Fiscal year ended February 28, 2017
Net sales	114,410	116,457
Cost of sales	51,558	51,154
Gross profit	62,852	65,303
Provision for sales returns	(0)	(0)
Gross profit - net	62,852	65,303
Selling, general and administrative expenses		
Advertising and promotion expenses	2,685	2,485
Transportation and warehousing expenses	3,023	3,035
Provision of allowance for doubtful accounts	(5)	17
Salaries, allowances and bonuses	16,886	17,684
Provision for bonuses	1,001	1,255
Provision for directors' bonuses	68	164
Retirement benefit expenses	54	93
Provision for directors' retirement benefits	3	3
Welfare expenses	3,031	3,189
Rent expenses	19,348	19,892
Lease expenses	197	201
Other	10,728	11,115
Total selling, general and administrative expenses	57,023	59,139
Operating income	5,828	6,164
Non-operating income		
Interest income	2	1
Rent income	6	8
Share of profit of entities accounted for using equity method	16	10
Foreign exchange gains	5	—
Compensation income	17	—
Other	59	78
Total non-operating income	107	100
Non-operating expenses		
Interest expenses	148	133
Loss on investments in partnership	2	—
Provision for loss on guarantees	19	50
Other	25	36
Total non-operating expenses	195	219
Ordinary income	5,741	6,044
Extraordinary income		
Gain on bargain purchase	552	—
Total extraordinary income	552	—

(Millions of yen)

	Fiscal year ended February 29, 2016	Fiscal year ended February 28, 2017
Extraordinary losses		
Loss on retirement of non-current assets	230	170
Loss on cancellation of leases	17	4
Impairment loss	560	649
Other	6	–
Total extraordinary losses	816	823
Profit before income taxes	5,477	5,220
Income taxes - current	2,192	2,462
Income taxes - deferred	(7)	(312)
Total income taxes	2,185	2,149
Profit	3,292	3,071
Profit attributable to non-controlling interests	3	–
Profit attributable to owners of parent	3,288	3,071

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal year ended February 29, 2016	Fiscal year ended February 28, 2017
Profit	3,292	3,071
Other comprehensive income		
Valuation difference on available-for-sale securities	(120)	4
Foreign currency translation adjustment	(3)	(1)
Remeasurements of defined benefit plans, net of tax	(108)	9
Share of other comprehensive income of entities accounted for using equity method	(1)	(5)
Total other comprehensive income	(234)	6
Comprehensive income	3,057	3,077
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,056	3,077
Comprehensive income attributable to non-controlling interests	0	—

(3) Consolidated Statements of Changes in Net Assets

Fiscal year ended February 29, 2016

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	3,181	3,379	28,563	(1,146)	33,977
Cumulative effects of changes in accounting policies			(26)		(26)
Restated balance	3,181	3,379	28,537	(1,146)	33,951
Changes of items during period					
Dividends of surplus			(1,429)		(1,429)
Profit attributable to owners of parent			3,288		3,288
Purchase of treasury shares				(1,283)	(1,283)
Disposal of treasury shares		1,090		343	1,433
Net changes of items other than shareholders' equity					
Total changes of items during period	—	1,090	1,859	(940)	2,008
Balance at end of current period	3,181	4,469	30,396	(2,087)	35,960

(Millions of yen)

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	261	6	56	324	2,014	36,316
Cumulative effects of changes in accounting policies						(26)
Restated balance	261	6	56	324	2,014	36,290
Changes of items during period						
Dividends of surplus						(1,429)
Profit attributable to owners of parent						3,288
Purchase of treasury shares						(1,283)
Disposal of treasury shares						1,433
Net changes of items other than shareholders' equity	(122)	(5)	(104)	(232)	(2,014)	(2,246)
Total changes of items during period	(122)	(5)	(104)	(232)	(2,014)	(237)
Balance at end of current period	138	1	(47)	92	—	36,053

Fiscal year ended February 28, 2017

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	3,181	4,469	30,396	(2,087)	35,960
Cumulative effects of changes in accounting policies					
Restated balance	3,181	4,469	30,396	(2,087)	35,960
Changes of items during period					
Dividends of surplus			(1,539)		(1,539)
Profit attributable to owners of parent			3,071		3,071
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares					
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	1,531	(0)	1,530
Balance at end of current period	3,181	4,469	31,927	(2,087)	37,491

(Millions of yen)

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	138	1	(47)	92	—	36,053
Cumulative effects of changes in accounting policies						—
Restated balance	138	1	(47)	92	—	36,053
Changes of items during period						
Dividends of surplus						(1,539)
Profit attributable to owners of parent						3,071
Purchase of treasury shares						(0)
Disposal of treasury shares						—
Net changes of items other than shareholders' equity	4	(6)	9	6		6
Total changes of items during period	4	(6)	9	6	—	1,537
Balance at end of current period	142	(5)	(38)	99	—	37,590

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal year ended February 29, 2016	Fiscal year ended February 28, 2017
Cash flows from operating activities		
Profit before income taxes	5,477	5,220
Depreciation	1,947	2,064
Impairment loss	560	649
Gain on bargain purchase	(552)	–
Increase (decrease) in allowance for doubtful accounts	(5)	16
Interest and dividend income	(6)	(7)
Interest expenses	148	133
Foreign exchange losses (gains)	0	–
Share of (profit) loss of entities accounted for using equity method	(16)	(10)
Decrease (increase) in notes and accounts receivable - trade	465	(40)
Decrease (increase) in inventories	(1,443)	554
Increase (decrease) in notes and accounts payable - trade	(3,039)	(2,581)
Increase (decrease) in provision for bonuses	(120)	254
Increase (decrease) in provision for directors' retirement benefits	3	3
Increase (decrease) in provision for directors' bonuses	(213)	96
Increase (decrease) in net defined benefit liability	14	4
Increase (decrease) in provision for sales returns	0	(0)
Increase (decrease) in provision for loss on guarantees	19	50
Loss on retirement of property, plant and equipment	248	174
Loss (gain) on sales of non-current assets	6	–
Loss (gain) on sales of investment securities	1	–
Loss (gain) on investments in partnership	2	(3)
Increase (decrease) in accrued consumption taxes	(713)	389
Other, net	(116)	(53)
Subtotal	2,667	6,913
Interest and dividend income received	5	10
Interest expenses paid	(148)	(133)
Income taxes (paid) refund	(3,832)	(1,628)
Payments for directors' retirement benefits	–	(2)
Net cash provided by (used in) operating activities	(1,308)	5,160

(Millions of yen)

	Fiscal year ended February 29, 2016	Fiscal year ended February 28, 2017
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,111)	(1,377)
Proceeds from sales of property, plant and equipment	1	–
Proceeds from sales and redemption of short-term and long-term investment securities	99	54
Purchase of short-term and long-term investment securities	(237)	–
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	1	–
Collection of loans receivable	4	1
Purchase of intangible assets	(87)	(83)
Payments for guarantee deposits	(1,589)	(550)
Proceeds from collection of guarantee deposits	1,042	526
Purchase of shares of subsidiaries	(55)	–
Payments for transfer of business	(108)	–
Payments for asset retirement obligations	(131)	(102)
Net cash provided by (used in) investing activities	(3,171)	(1,531)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	1,058	768
Proceeds from long-term loans payable	1,886	1,127
Repayments of long-term loans payable	(1,864)	(1,125)
Proceeds from sales of treasury shares	0	–
Purchase of treasury shares	(1,283)	(0)
Purchase of treasury shares of subsidiaries	(0)	–
Cash dividends paid	(1,429)	(1,539)
Dividends paid to non-controlling interests	(15)	(0)
Repayments of installment payables	(1,643)	(1,406)
Repayments of finance lease obligations	(558)	(667)
Net cash provided by (used in) financing activities	(3,849)	(2,844)
Effect of exchange rate change on cash and cash equivalents	(0)	–
Net increase (decrease) in cash and cash equivalents	(8,328)	784
Cash and cash equivalents at beginning of period	43,503	35,174
Cash and cash equivalents at end of period	35,174	35,959

6. Non-consolidated Financial Statements

(1) Non-consolidated Balance Sheets

(Millions of yen)

	As of February 29, 2016	As of February 28, 2017
Assets		
Current assets		
Cash and deposits	28,830	18,202
Accounts receivable - trade	3,992	330
Merchandise	8,034	19
Advance payments - trade	118	0
Prepaid expenses	260	12
Short-term loans receivable from subsidiaries and associates	30	10,070
Deferred tax assets	439	52
Other	185	490
Allowance for doubtful accounts	-	(28)
Total current assets	41,890	29,147
Non-current assets		
Property, plant and equipment		
Buildings	7,108	171
Vehicles	1	1
Tools, furniture and fixtures	59	2
Land	1,005	1,005
Leased assets	1,347	2
Total property, plant and equipment	9,522	1,183
Intangible assets	261	240
Investments and other assets		
Investment securities	704	705
Shares of subsidiaries and associates	2,821	2,895
Long-term prepaid expenses	310	4
Guarantee deposits	11,322	11,289
Deferred tax assets	705	1,086
Other	111	104
Allowance for doubtful accounts	(2)	(2)
Total investments and other assets	15,973	16,085
Total non-current assets	25,756	17,509
Total assets	67,647	46,657

(Millions of yen)

	As of February 29, 2016	As of February 28, 2017
Liabilities		
Current liabilities		
Notes payable - trade	2,924	–
Accounts payable - trade	9,711	8
Current portion of long-term loans payable	2,127	2,578
Accounts payable - other	923	95
Current portion of long-term accounts payable- other	1,177	–
Accrued expenses	1,790	19
Lease obligations	491	4
Income taxes payable	592	451
Accrued consumption taxes	256	–
Deposits received	36	1,266
Provision for bonuses	886	87
Provision for directors' bonuses	68	164
Asset retirement obligations	15	–
Other	16	2
Total current liabilities	21,018	4,679
Non-current liabilities		
Long-term loans payable	6,904	6,368
Provision for retirement benefits	448	14
Provision for directors' retirement benefits	119	–
Long-term accounts payable - other	2,006	–
Lease obligations	1,044	0
Provision for loss on guarantees	90	140
Asset retirement obligations	1,327	4
Other	41	39
Total non-current liabilities	11,983	6,567
Total liabilities	33,001	11,246
Net assets		
Shareholders' equity		
Capital stock	3,181	3,181
Capital surplus		
Legal capital surplus	3,379	3,379
Other capital surplus	1,090	1,090
Total capital surpluses	4,469	4,469
Retained earnings		
Legal retained earnings	21	21
Other retained earnings		
General reserve	12,600	12,600
Retained earnings brought forward	16,325	17,086
Total retained earnings	28,947	29,707
Treasury shares	(2,087)	(2,087)
Total shareholders' equity	34,511	35,271
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	135	139
Total valuation and translation adjustments	135	139
Total net assets	34,646	35,410
Total liabilities and net assets	67,647	46,657

(2) Non-consolidated Statements of Income

(Millions of yen)

	Fiscal year ended February 29, 2016	Fiscal year ended February 28, 2017
Net sales		
Net sales of goods	95,315	48,185
Commissions from subsidiaries and associates	–	1,806
Total net sales	95,315	49,992
Cost of sales	42,230	20,956
Gross profit	53,084	29,035
Selling, general and administrative expenses	46,946	25,044
Operating income	6,137	3,991
Non-operating income		
Interest income	2	69
Dividend income	29	5
Rent income	6	22
Compensation income	17	–
Foreign exchange gains	5	6
Other	30	22
Total non-operating income	91	126
Non-operating expenses		
Interest expenses	120	80
Provision for loss on guarantees	19	50
Provision of allowance for doubtful accounts	–	28
Other	12	4
Total non-operating expenses	151	163
Ordinary income	6,077	3,954
Extraordinary income		
Gain on bargain purchase	45	–
Total extraordinary income	45	–
Extraordinary losses		
Loss on retirement of non-current assets	170	83
Impairment loss	482	230
Loss on valuation of shares of subsidiaries and associates	–	7
Total extraordinary losses	652	320
Profit before income taxes	5,470	3,633
Income taxes - current	2,087	1,325
Income taxes - deferred	41	8
Total income taxes	2,128	1,333
Profit	3,342	2,300

(3) Non-consolidated Statements of Changes in Net Assets

Fiscal year ended February 29, 2016

(Millions of yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surpluses	Legal retained earnings	Other retained earnings		Total retained earnings
					General reserve	Retained earnings brought forward		
Balance at beginning of current period	3,181	3,379	0	3,379	21	12,600	14,413	27,034
Changes of items during period								
Dividends of surplus							(1,429)	(1,429)
Profit							3,342	3,342
Purchase of treasury shares								
Disposal of treasury shares			1,090	1,090				
Net changes of items other than shareholders' equity								
Total changes of items during period	—	—	1,090	1,090	—	—	1,912	1,912
Balance at end of current period	3,181	3,379	1,090	4,469	21	12,600	16,325	28,947

(Millions of yen)

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of current period	(1,146)	32,448	262	262	32,710
Changes of items during period					
Dividends of surplus		(1,429)			(1,429)
Profit		3,342			3,342
Purchase of treasury shares	(1,283)	(1,283)			(1,283)
Disposal of treasury shares	343	1,433			1,433
Net changes of items other than shareholders' equity			(126)	(126)	(126)
Total changes of items during period	(940)	2,062	(126)	(126)	1,935
Balance at end of current period	(2,087)	34,511	135	135	34,646

Fiscal year ended February 28, 2017

(Millions of yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surpluses	Legal retained earnings	Other retained earnings		Total retained earnings
					General reserve	Retained earnings brought forward		
Balance at beginning of current period	3,181	3,379	1,090	4,469	21	12,600	16,325	28,947
Changes of items during period								
Dividends of surplus							(1,539)	(1,539)
Profit							2,300	2,300
Purchase of treasury shares								
Disposal of treasury shares								
Net changes of items other than shareholders' equity								
Total changes of items during period	—	—	—	—	—	—	760	760
Balance at end of current period	3,181	3,379	1,090	4,469	21	12,600	17,086	29,707

(Millions of yen)

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of current period	(2,087)	34,511	135	135	34,646
Changes of items during period					
Dividends of surplus		(1,539)			(1,539)
Profit		2,300			2,300
Purchase of treasury shares	(0)	(0)			(0)
Disposal of treasury shares		—			—
Net changes of items other than shareholders' equity		—	4	4	4
Total changes of items during period	(0)	760	4	4	764
Balance at end of current period	(2,087)	35,271	139	139	35,410