

**Consolidated Financial Results**  
**for the Six Months Ended August 31, 2015**  
**[Japanese GAAP]**

October 13, 2015

Company name: PAL CO., LTD.

Stock exchange listing: Tokyo Stock Exchange

Code number: 2726

URL: <http://palgroup.co.jp>

Representative: Ryuta Inoue, President and Representative Director

Contact: Yukio Utsunomiya, Managing Officer and General Manager of Administrative Department

Phone: +81-6-6227-0308

Scheduled date of filing quarterly securities report: October 14, 2015

Scheduled date of commencing dividend payments: —

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

Schedule of quarterly 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 Six Months Ended August 31, 2015 (March 1, 2015 to August 31, 2015)**

**(1) 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	%
Six months ended August 31, 2015	55,683	7.7	3,246	(14.9)	3,209	(15.3)	1,893	(6.9)
Six months ended August 31, 2014	51,703	6.6	3,814	39.6	3,789	37.0	2,033	45.9

(Note) Comprehensive income: Six months ended August 31, 2015: ¥1,903 million [(4.5)%]

Six months ended August 31, 2014: ¥1,992 million [57.1%]

	Net income per share	Diluted net income per share
	yen	yen
Six months ended August 31, 2015	85.67	—
Six months ended August 31, 2014	92.45	—

**(2) Consolidated Financial Position**

	Total assets	Net assets	Equity ratio
	million yen	million yen	%
As of August 31, 2015	76,170	34,899	45.8
As of February 28, 2015	82,023	36,316	41.8

(Reference) Equity: As of August 31, 2015: ¥34,889 million

As of February 28, 2015: ¥34,302 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 28, 2015	—	0.00	—	65.00	65.00
Fiscal year ending February 29, 2016	—	0.00			
Fiscal year ending February 29, 2016 (Forecast)			—	65.00	65.00

(Note) Revision of dividend forecast: No

## 3. Consolidated Financial Results Forecast for the Fiscal Year Ending February 29, 2016 (March 1, 2015 to February 29, 2016)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full year	117,510	8.7	8,080	0.2	7,860	(1.3)	4,390	7.3	199.55

(Note) Revision of consolidated financial results forecast: Yes

### \* 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 August 31, 2015	23,136,000 shares
As of February 28, 2015	23,136,000 shares

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

As of August 31, 2015	1,136,757 shares
As of February 28, 2015	1,140,318 shares

3) Average number of shares during the period:

Six months ended August 31, 2015	22,097,292 shares
Six months ended August 31, 2014	21,995,993 shares

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

These consolidated financial results for the six months ended August 31, 2015 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 Six Months Ended August 31, 2015 (March 1, 2015 to August 31, 2015)**

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

	Net sales		Operating income		Ordinary income		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
Six months ended August 31, 2015	46,382	6.9	3,364	(14.2)	3,343	(14.5)	1,707	(23.0)
Six months ended August 31, 2014	43,380	9.2	3,918	30.1	3,912	26.5	2,218	30.4

**2. Non-consolidated Financial Results Forecast for the Fiscal Year Ending February 29, 2016 (March 1, 2015 to February 29, 2016)**

(% indicates changes from the previous corresponding periods.)

	Net sales		Ordinary income		Net income		Net income per share
	million yen	%	million yen	%	million yen	%	yen
Full year	97,580	8.2	7,870	1.5	4,250	2.5	193.19

(Note) Revision of non-consolidated financial results forecast: Yes

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

### (1) Explanation of Operating Results

During the six months ended August 31, 2015 (March 1, 2015 to August 31, 2015), the Japanese economy continued on a gradual recovery track driven partially by the economic stimulus policies by the government.

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 44 new stores. As a result, net sales increased by 4.9% year on year to ¥42,119 million. Additionally, 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 17.4% year on year to ¥13,497 million.

As a result of the above, net sales for the six months ended August 31, 2015 increased by 7.7% year on year to ¥55,683 million.

In terms of profit, the gross profit margin decreased by 1.2 points year on year to 56.0% despite the further reform of merchandising (MD), etc. Operating income decreased by ¥568 million year on year to ¥3,246 million, and ordinary income decreased by ¥579 million year on year to ¥3,209 million. Net income decreased by ¥140 million year on year to ¥1,893 million.

### (2) Explanation of Financial Position

#### (Assets)

Current assets decreased by ¥6,585 million compared with the end of the previous fiscal year, due mainly to a decrease in cash and deposits by ¥7,828 million, despite increases in notes and accounts receivable - trade by ¥284 million and in merchandise and finished goods by ¥955 million.

Non-current assets increased by ¥732 million compared with the end of the previous fiscal year, due primarily to increases in buildings and structures by ¥397 million and in guarantee deposits by ¥242 million.

#### (Liabilities)

Current liabilities decreased by ¥4,913 million compared with the end of the previous fiscal year, due mainly to decreases in notes and accounts payable - trade by ¥3,489 million and in income taxes payable by ¥1,072 million.

Non-current liabilities increased by ¥478 million compared with the end of the previous fiscal year, due primarily to an increase in long-term loans payable by ¥350 million.

#### (Net assets)

Net assets decreased by ¥1,417 million compared with the end of the previous fiscal year, due mainly to a decrease in minority interests by ¥2,004 million, despite an increase in capital surplus by ¥1,090 million.

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

On October 13, 2015, the Company revised the Consolidated Financial Results Forecast earlier made public on April 14, 2015. As for the reasons for the changes, please refer to “Notice Concerning Differences between Results and Financial Results Forecast for the Six Months Ended August 31, 2015 and Changes in Financial Results Forecast for the Full Year Ending February 29, 2016” announced on October 13, 2015.

## 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 retirement benefits, etc.)

Effective from the first quarter of the fiscal year ending February 29, 2016, the Company adopted the provisions described in the main clause of Paragraph 35 of the “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26 of May 17, 2012) and the main clause of Paragraph 67 of the “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25 of March 26, 2015). Consequently, the Company reviewed the calculation method of retirement benefit obligations and service costs, changed the method of attributing expected retirement benefits to periods from a straight line basis to a benefit formula basis, and changed the determination method of discount rates from a method based on discount rates approximate to the remaining service periods of employees to a single weighted average discount rate that reflects the estimated timing and amount of benefit payments.

In the application of the Accounting Standard for Retirement Benefits, the Company followed the transitional treatment set out in Paragraph 37 of the standard whereby the effects of changes in the calculation method of retirement benefit obligations and service costs are reflected in retained earnings at March 1, 2015.

As a result, net defined benefit liability as of March 1, 2015 increased by ¥42 million and retained earnings and minority interests decreased by ¥26 million and ¥15 million, respectively. The impact of this change on profit or loss in the first half of the fiscal year under review is negligible.

## 3. Significant Events Relating to Going Concern Assumption

Not applicable.



#### 4. Consolidated Financial Statements

##### (1) Consolidated Balance Sheets

(Millions of yen)

	As of February 28, 2015	As of August 31, 2015
<b>Assets</b>		
Current assets		
Cash and deposits	43,503	35,675
Notes and accounts receivable - trade	5,603	5,887
Merchandise and finished goods	7,701	8,656
Other	1,176	1,178
Allowance for doubtful accounts	(3)	(2)
Total current assets	57,981	51,395
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,986	7,384
Other, net	2,224	2,386
Total property, plant and equipment	9,211	9,771
Intangible assets	201	245
Investments and other assets		
Guarantee deposits	12,750	12,993
Other	1,997	1,873
Allowance for doubtful accounts	(119)	(109)
Total investments and other assets	14,628	14,757
Total non-current assets	24,041	24,774
Total assets	82,023	76,170
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	18,207	14,717
Short-term loans payable	1,459	2,118
Current portion of long-term loans payable	2,725	2,506
Income taxes payable	2,363	1,290
Provision for bonuses	1,122	980
Provision	281	73
Other	6,436	5,995
Total current liabilities	32,596	27,682
Non-current liabilities		
Long-term loans payable	6,954	7,304
Net defined benefit liability	541	603
Provision	186	202
Asset retirement obligations	1,424	1,503
Other	4,003	3,974
Total non-current liabilities	13,110	13,588
Total liabilities	45,706	41,271

(Millions of yen)

	As of February 28, 2015	As of August 31, 2015
Net assets		
Shareholders' equity		
Capital stock	3,181	3,181
Capital surplus	3,379	4,469
Retained earnings	28,563	29,000
Treasury shares	(1,146)	(2,087)
Total shareholders' equity	33,977	34,564
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	261	278
Foreign currency translation adjustment	6	7
Remeasurements of defined benefit plans	56	39
Total accumulated other comprehensive income	324	324
Minority interests	2,014	9
Total net assets	36,316	34,899
Total liabilities and net assets	82,023	76,170

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

## Consolidated Statements of Income

(Millions of yen)

	Six months ended August 31, 2014	Six months ended August 31, 2015
Net sales	51,703	55,683
Cost of sales	22,129	24,509
Gross profit	29,574	31,173
Selling, general and administrative expenses	25,759	27,927
Operating income	3,814	3,246
Non-operating income		
Interest income	7	1
Share of profit of entities accounted for using equity method	13	7
Amortization of negative goodwill	9	—
Rent income	5	3
Foreign exchange gains	1	—
Compensation income	—	17
Other	26	33
Total non-operating income	63	63
Non-operating expenses		
Interest expenses	60	75
Provision for loss on guarantees	—	14
Other	28	9
Total non-operating expenses	89	99
Ordinary income	3,789	3,209
Extraordinary income		
Gain on sales of non-current assets	15	—
Gain on bargain purchase	—	507
Total extraordinary income	15	507
Extraordinary losses		
Loss on retirement of non-current assets	42	189
Impairment loss	125	267
Other	8	6
Total extraordinary losses	177	464
Income before income taxes and minority interests	3,627	3,251
Income taxes - current	1,688	1,207
Income taxes - deferred	(56)	138
Total income taxes	1,631	1,345
Income before minority interests	1,995	1,905
Minority interests in income (loss)	(37)	12
Net income	2,033	1,893

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Six months ended August 31, 2014	Six months ended August 31, 2015
Income before minority interests	1,995	1,905
Other comprehensive income		
Valuation difference on available-for-sale securities	(1)	19
Remeasurements of defined plans, net of tax	—	(22)
Foreign currency translation adjustment	—	(0)
Share of other comprehensive income of entities accounted for using equity method	(0)	0
Total other comprehensive income	(2)	(2)
Comprehensive income	1,992	1,903
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,029	1,893
Comprehensive income attributable to minority interests	(36)	9

(3) Notes to Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable

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

- 1) Decrease in treasury shares and accrual of gain on disposal of treasury shares following a share exchange

In making NICE CLAUP Co., LTD. a wholly owned subsidiary by way of a share exchange, treasury shares were allotted to the shareholders of NICE CLAUP Co., LTD. on June 1, 2015. As a result of this allotment, treasury shares decreased by ¥343 million and capital surplus (gain on disposal of treasury shares) increased by ¥1,089 million during the six months ended August 31, 2015.

- 2) Purchase of treasury shares

Based on the resolution at the Board of Directors meeting held on July 14, 2015, the Company purchased treasury shares during the six months ended August 31, 2015. As a result, treasury shares increased by ¥1,281 million.

5. Additional Information

(1) Sales Results by Segment (Consolidated)

	Six months ended August 31, 2014	Six months ended August 31, 2015	Changes from the previous corresponding period
	million yen	million yen	%
Apparel Business	40,138	42,119	104.9
Miscellaneous Goods/ Accessories Business	11,499	13,497	117.4
Other	66	66	100.0
Total	51,703	55,683	107.7

(2) Status of Stores (Consolidated)

	Six months ended August 31, 2015
Number of stores as of February 28, 2015	833 stores
Number of new stores	64 stores
Number of closed stores	29 stores
Number of stores as of August 31, 2015	868 stores