

April 12, 2016

Company name: PAL CO., LTD.
Representative: Ryuta Inoue, President and Representative
Director
(Code number: 2726, First Section of the Tokyo
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Execution of an Absorption-type Company Split Agreement in Conjunction with the Transition to a Holding Company Structure through Company Split and Partial Amendments to the Articles of Incorporation (Partial Amendments to the Trade Name and Purpose of Business, etc.)

PAL CO., LTD. (the “Company”) has announced in the “Transition to a Holding Company Structure through Company Split and Establishment of a Subsidiary (Split Preparation Company)” dated March 29, 2016 that it will transition to a holding company structure on September 1, 2016.

The Company, hereby, announces that, at the Board of Directors meeting held today, it has resolved to approve the execution of an absorption-type company split agreement with the Company’s wholly-owned subsidiary (hereinafter the absorption-type company split based on the said absorption-type company split agreement shall be referred to as the “Split”) in order to transition to a holding company structure through a company split, and to submit the proposal of the partial amendments to the Articles of Incorporation to the 44th Ordinary General Meeting of Shareholders to be held on May 25, 2016. The details of the above matters are as follows.

After the Split, the Company plans to change its trade name to PAL GROUP Holdings CO., LTD. effective September 1, 2016 (scheduled), and at the same time to change its purpose of business in accordance with its business following the transition to a holding company structure. The Split and amendments to the Articles of Incorporation (partial amendments to the trade name and purpose of business) will be executed subject to the approval by resolution of the Company’s Ordinary General Meeting of Shareholders to be held on May 25, 2016 and authorization from the competent authorities, as necessary.

The Split is an absorption-type company split between the Company and its wholly-owned subsidiary. Accordingly, some of the matters and details for disclosure relating to the company split have been omitted.

I. Transition to a holding company structure through a company split

1. Background and purpose of the transition to a holding company structure

The recent Japanese economy, although showing a continued moderate recovery trend due to factors including economic measures implemented by the government, personal consumption continues to be weak. The environment surrounding the apparel industry in which we serve has been facing a series of extremely severe challenges that includes the loss of sense of seasons due to global warming; poor sales during the summer and winter sales season; the shift in the major purchasing group from younger customers to adult customers; significant increase in manufacturing costs as a result of rise in labor costs in Asian countries such as China and rapid depreciation of the yen.

Amid these condition, in order to achieve further growth, the Company resolved to transition to a holding company structure, based on the judgment that it be appropriate to further accelerate the operational speed, and establish a group operational structure that enables agile and flexible decision-making. Going forward, the Company intends to implement measures to further enhance its management efficiency including the reorganization of the apparel business within the Group.

Further, the Company will proactively allocate the Group's management resources to new growth fields, in order to nurture management personnel of the next generation and further enhance the corporate value of the Group, by assigning promising personnel for the management of each business company.

2. Overview of the transition to a holding company structure

(1) Schedule of the Split

The Board of Directors meeting to resolve the commencement of preparations for the transition to a holding company structure	March 29, 2016
Establishment of Split Preparation Company	April 1, 2016
The Board of Directors meeting to approve the absorption-type company split agreement	April 12, 2016
Execution of the absorption-type company split agreement	April 12, 2016
Record date of Ordinary General Meeting of Shareholders	February 29, 2016
Ordinary General Meeting of Shareholders to approve the absorption-type company split agreement	May 25, 2016 (scheduled)
Effective date of the absorption-type company split	September 1, 2016 (scheduled)

(2) Method of the Split

The Split will be a spin-off and absorption-type company split, in which the Company will be the splitting company in the absorption-type company split (hereinafter the "Splitting Company") and a wholly-owned split preparation company will be the succeeding company in the absorption-type company split (hereinafter the "Succeeding Company").

(3) Details of the allotment of shares pertaining to the Split

In conjunction with the Split, PAL Split Preparation Company CO., LTD., the Succeeding Company will issue 1,800 shares of common stock, and allot and deliver all of the issued shares to the Company, the Splitting Company.

(4) Handling of subscription rights to shares and bonds with subscription rights to shares associated with the Split

The Company does not issue subscription rights to shares or bonds with subscription rights to shares.

(5) Increase or decrease in the Company's capital, etc. due to the Split

There is no increase or decrease in the Company's capital in relation to the Split.

(6) Rights and obligations to be assumed by the Succeeding Company

The Succeeding Company shall assume from the Company assets and liabilities and other rights and obligations related to all businesses, with the exception of the group management business, stipulated in the absorption-type company split agreement associated with the Split as of the effective date. Additionally, the Company shall have the Succeeding Company take over the contractual status under employment contracts between the Company and all employees engaged in the above businesses (including part-time and temporary employees) and all rights and obligations arising from such contracts.

The succession of liabilities by the Succeeding Company from the Company shall be undertaken based on the concomitant assumption method, in which the Splitting Company and the Succeeding Company assume the liabilities

jointly and severally.

(7) Prospects of fulfillment of obligations

The amount of assets of the Company and the Succeeding Company are expected to exceed the amount of liabilities after the Split, and in terms of the prospects of revenues after the Split, no events are currently foreseen that would prevent the Company and the Succeeding Company from fulfilling obligations they are liable for.

Consequently, we have determined that the Company and the Succeeding Company are likely to fulfill the obligations they are liable for after the Split.

3. Overview of companies involved in the Split

Overview of companies involved in the Split

	Splitting Company As of February 29, 2016		Succeeding Company As of April 1, 2016, the time of establishment
(1) Name	PAL CO., LTD.		PAL Split Preparation Company CO., LTD.
(2) Location	3-5-29 Kitahama, Chuo-ku, Osaka City		3-5-29 Kitahama, Chuo-ku, Osaka City
(3) Position and name of the representative	Ryuta Inoue, President and Representative Director		Ryuta Inoue, President and Representative Director
(4) Business description	Business related to apparel, miscellaneous goods and accessories		Business related to apparel, miscellaneous goods and accessories
(5) Capital	3,181 million yen		10 million yen
(6) Establishment date	October 27, 1973		April 1, 2016
(7) Number of issued shares	23,136 thousand shares		200 shares
(8) Fiscal year-end	End of February		End of February
(9) Major shareholders and their shareholding ratio	Scotch Yofukuten K.K.	32.32%	PAL CO., LTD. 100.00%
	Ryuta Inoue	8.31%	
	BBH FOR FIDELITY LOW-PRICED STOCK FUND (PRINCIPAL ALL SECTOR SUBPORTFOLIO)	4.98%	
	PAL Co., Ltd.(Self –stock Account)	4.91%	
	Japan Trustee Services Bank, Ltd.	4.38%	
	The Master Trust Bank of Japan	3.04%	
	Sumitomo Mitsui Banking Corporation	2.54%	
	J.P.MORGAN BANK LUXEMBOURG	2.43%	
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2.37%	
	Hidetaka Inoue	2.23%	
(10) Relationship between the	Capital relationship	The Splitting Company owns 100% of the issued shares of the Succeeding Company.	

parties concerned	Personnel relationship	The Splitting Company dispatches Directors to the Succeeding Company.		
	Business relationship	As the Succeeding Company has not yet commenced operations, there are no business relationships with the Splitting Company.		
(11) Operating results and financial position in the last three years				
<div>Accounting period</div> <div>Account titles</div>	PAL CO., LTD. (consolidated basis)			PAL Split Preparation Company CO., LTD. (non-consolidated basis)
	Fiscal year ended February 28, 2014	Fiscal year ended February 28, 2015	Fiscal year ended February 29, 2016	As of April 1, 2016
Consolidated net assets (millions of yen)	33,231	36,316	36,053	10
Consolidated total assets (millions of yen)	66,180	82,023	76,918	10
Consolidated net assets per share (yen)	1,420.58	1,559.51	1,638.84	50,000.00
Consolidated net sales (millions of yen)	100,033	108,089	114,410	
Consolidated operating income (millions of yen)	5,969	8,066	5,828	
Consolidated ordinary income (millions of yen)	6,013	7,963	5,741	
Consolidated net income (millions of yen)	2,910	4,092	3,288	
Consolidated net income per share (yen)	132.31	186.04	149.16	
Dividends per share (yen)	50.00	65.00	70.00	

(Notes) 1 The Splitting Company plans to change its trade name to PAL GROUP Holdings CO., LTD. on September 1, 2016.

2 The Succeeding Company plans to change its trade name to PAL CO., LTD. on September 1, 2016.

3 As there is no previous fiscal year for the Succeeding Company, only the account titles stated in the balance sheet as of establishment date of the Succeeding Company are presented.

4. Overview of the business division to be split from the Company

(1) Details of business of the division to be split

Business related to apparel, miscellaneous goods and accessories (all businesses excluding the group management business)

(2) Business results of the division to be split (Fiscal year ended February 29, 2016)

	Results of business to be split (a)	Non-consolidated results of the Company (b)	Ratio (a divided by b)
Net sales	95,315 million yen	95,315 million yen	100.0%

(3) Account titles and amounts of assets and liabilities to be split (as of February 29, 2016)

Assets	Liabilities
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Account titles	Carrying amount	Account titles	Carrying amount
Current assets	14,358 million yen	Current liabilities	17,820 million yen
Non-current assets	9,146 million yen	Non-current liabilities	4,814 million yen
Total	23,504 million yen	Total	22,634 million yen

(Note) The above amounts are calculated based on the balance sheet as of February 29, 2016, and therefore the actual amounts of assets and liabilities to be assumed will be the amounts adjusted for changes to the above amounts until the effective date.

5. Status after the company split

	Splitting Company	Succeeding Company
(1) Name	PAL GROUP Holdings CO., LTD. (The Splitting Company plans to change its trade name from PAL CO., LTD. on September 1, 2016)	PAL CO., LTD. (The Succeeding Company plans to change its trade name from PAL Split Preparation Company CO., LTD. on September 1, 2016)
(2) Location	3-5-29 Kitahama, Chuo-ku, Osaka City	3-5-29 Kitahama, Chuo-ku, Osaka City
(3) Position and name of the representative	Ryuta Inoue, President and Representative Director	Ryuta Inoue, President and Representative Director
(4) Business description	Management and administration of Group companies	Business related to apparel, miscellaneous goods and accessories
(5) Capital	3,181 million yen	100 million yen
(6) Fiscal year-end	End of February	End of February

6. Future outlook

As the Succeeding Company is a wholly-owned subsidiary of the Company, the impact of the Split on consolidated business results will be minimal. Additionally, in terms of the non-consolidated business results of the Company, as the Company will become a holding company after the Split, its revenues will mainly be generated from dividend income, management guidance fees, real estate rental income from its subsidiaries and affiliates. The Company's expenses are expected to comprise mainly those associated with the management and administration function of Group companies as a holding company.

II. Amendments to the Articles of Incorporation

1. Purpose of amendments to the Articles of Incorporation

The Company intends to change its trade name, which is stipulated in Article 1 of the Articles of Incorporation of the Company, to "Kabushiki Kaisha PAL GROUP Holdings" (in English, PAL GROUP Holdings CO., LTD.), and the purpose of its business, which is stipulated in Article 2 of the Articles of Incorporation of the Company, to management and administration as a holding company, etc., subject to the approval by resolution of the Company's Ordinary General Meeting of Shareholders of the aforementioned absorption-type company split agreement in conjunction with the transition to a holding company structure.

2. Details of amendments to the Articles of Incorporation

The details of the amendments are as per the Appendix.

3. Schedule of amendment of the Articles of Incorporation

Ordinary General Meeting of Shareholders to amend the Articles of Incorporation	May 25, 2016 (scheduled)
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Effective date of the amendments to the Articles of Incorporation	September 1, 2016 (scheduled)
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(The amended parts are underlined.)

Current Articles of Incorporation	Proposed Amendments
<p>Article 1. (Trade Name) The name of the Company shall be <u>Kabushiki Kaisha PAL</u> and in English, it shall be <u>PAL CO., LTD.</u></p> <p>Article 2. (Purpose) The purpose of the Company shall be <u>to engage in the following businesses.</u></p> <p>1. to 16. (Omitted)</p> <p>(New)</p> <p>Article 3. to Article 33. (Omitted)</p> <p>(New)</p>	<p>Article 1. (Trade Name) The name of the Company shall be <u>Kabushiki Kaisha PAL GROUP Holdings</u> and in English, it shall be <u>PAL GROUP Holdings CO., LTD.</u></p> <p>Article 2. (Purpose) The purpose of the Company shall be <u>to control or manage the business activities of companies (including overseas companies), partnerships (including partnerships equivalent to those in foreign countries) and other entities similar to the above, which engage in the businesses stated in each of the following items, by owning the shares or equity interests of such companies, etc.</u></p> <p>1. to 16. (Unchanged)</p> <p><u>2. The Company may engage in businesses stated in each item of the preceding paragraph, as well as in all businesses incidental or related thereto.</u></p> <p>Article 3. to Article 33. (Unchanged)</p> <p><u>SUPPLEMENTARY PROVISIONS</u> <u>The amendments to Article 1. (Trade Name) and Article 2. (Purpose) shall become effective on September 1, 2016. This supplementary provision shall be deleted on the day immediately after the effective date.</u></p>