

Six Months Ended August 31, 2020

PAL GROUP HOLDINGS

Materials for Financial Results Briefing

October 21, 2020

PAL GROUP Holdings CO., LTD.

Securities code: 2726

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Management dedicated to the happiness of all employees and shareholders



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Financial Report

Review of Financial Results

for the Six Months Ended August 31, 2020

Full-year Financial Results Forecast

for the Fiscal Year Ending February 28, 2021

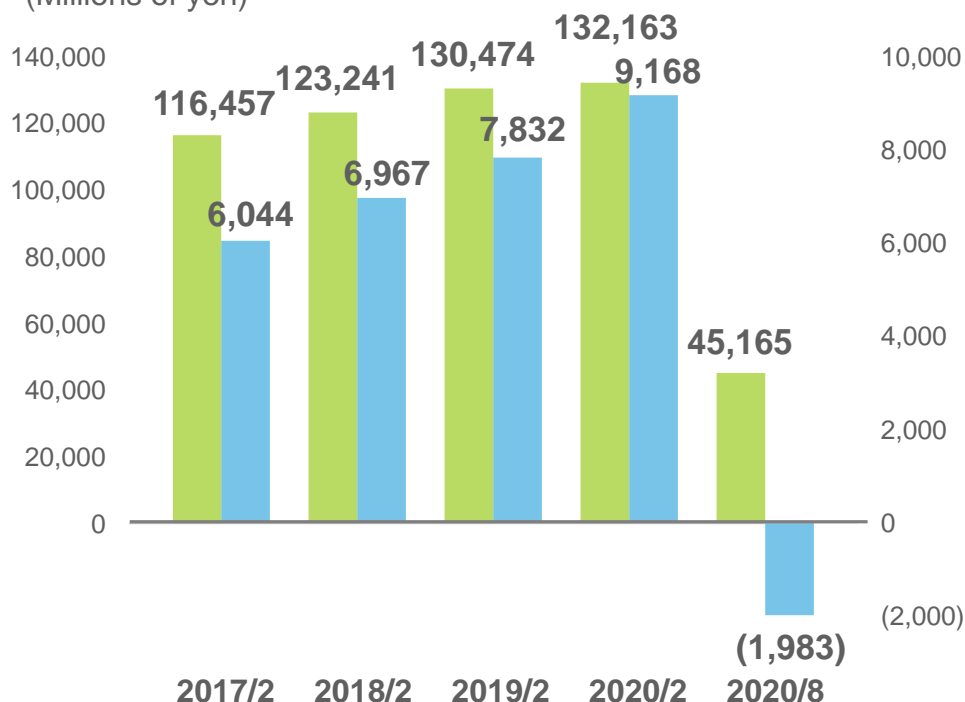


Review on the first half of the fiscal year

- **Net Sales:** The declaration of a state of emergency and other measures to prevent the spread of the coronavirus disease 2019 (COVID-19) forced our stores to temporarily close or shorten operating hours, leading to bleak sales for spring garments. Expanded infections from July prevented customer traffic from returning to inner-city stores and caused net sales to decrease by 32.5% year on year.
- **Profit :** Gross profit for 1Q was down 3.7 points year on year to 56.0%, due to markdown sales to sell spring garments. Gross profit for the first half was also down 3.5 points to 53.6% because some inventory adjustment was carried over to 2Q. Gross profit ratio from 3Q is expected to significantly improve upon clearing up inventory at the end of the interim period, and steady sales of new autumn/winter merchandise at regular prices.

Consolidated

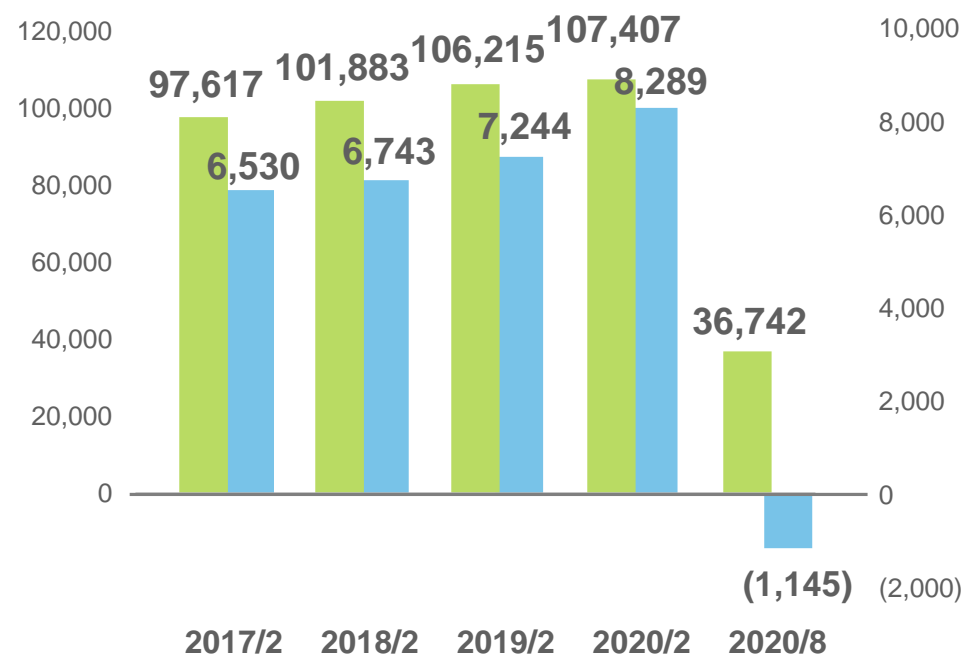
(Millions of yen)



Non-consolidated

(PAL GROUP Holdings CO., LTD. + PAL CO., LTD.)

(Millions of yen)



Consolidated Statements of Income of PAL GROUP Holdings CO., LTD. for the Six Months Ended August 31, 2020

PAL GROUP HOLDINGS

(Millions of yen)

	Six months ended August 31, 2019	Six months ended August 31, 2020			
		Forecast undisclosed	Actual results	Changes from the previous corresponding period	Compared to forecast
Net sales	66,958	—	45,165	-32.5%	—
Gross profit	38,209	—	24,191	-36.7%	—
(% of net sales)	57.1%	—	53.6%	-3.5%	—
Operating profit	5,524	—	(1,761)	—	—
(% of net sales)	8.2%	—	—	—	—
Ordinary profit	5,488	—	(1,983)	—	—
(% of net sales)	8.2%	—	—	—	—
Profit attributable to owners of parent	3,468	—	(1,518)	—	—
(% of net sales)	5.2%	—	—	—	—

- Amid the spread of COVID-19, we concentrated our people, goods and capital on E-commerce (EC), the only sales channel left, to make up for decreased store sales, but efforts were still insufficient. We will increase the EC ratio as ongoing tasks.
- We focused on cost-cutting during the period as a priority issue by negotiating to lower rent expenses associated with temporary closure and reduced operating hours and applying for an employment adjustment subsidy. As a result, SG&A expenses decreased by ¥6,732 million.

Non-consolidated Statements of Income of PAL GROUP Holdings CO., LTD. PAL GROUP HOLDINGS and PAL CO., LTD. for the Six Months Ended August 31, 2020

(Millions of yen)

	Six months ended August 31, 2019	Six months ended August 31, 2020	
		Actual results	Changes from the previous corresponding period
Net sales	54,216	36,742	-32.2%
Gross profit	31,271	19,998	-36.0%
(% of net sales)	57.7%	54.4%	-3.3%
Operating profit	4,866	(1,135)	—
(% of net sales)	9.0%	—	—
Ordinary profit	4,869	(1,145)	—
(% of net sales)	9.0%	—	—
Profit	7,271	287	-96.1%
(% of net sales)	13.4%	0.8%	-12.6%

- The Company suffered the most significant decrease in net sales among other companies for 1Q. Our long-standing policy to open stores mainly at major cities has backfired to some extent.
- The lifestyle miscellaneous goods business including 3COINS, which was not on our EC channel, failed to generate sales due to store closures, etc. Upon promptly studying how to put the business online, we started EC sales at PAL CLOSET on September 24.

Financial Situation of NICE CLAUP Co., LTD. for the Six Months Ended August 31, 2020

PAL GROUP HOLDINGS

(Millions of yen)

	Six months ended August 31, 2019 Actual results	Six months ended August 31, 2020 Actual results	Changes from the previous fiscal year
Net sales	8,295	5,671	-31.6%
Operating profit	598	(76)	—
Ordinary profit	609	(62)	—
Profit	516	(106)	—

- Despite the COVID-19 crisis, financial results far exceeded the previous year's level in some brands including PUAL CE CIN and OLIVE des OLIVE. All of them posted an EC sales growth rate of over 50% and successfully offset decreased store sales.
- Gross profit ratio was down 3.7 points year on year to 51.9%, as a result of a progress in inventory adjustment centering on spring garments amid the state of emergency.

Overview of Sales Results and E-commerce Net Sales by Segment

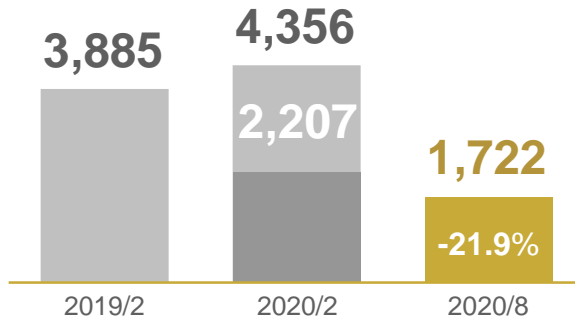
PAL GROUP HOLDINGS

(Millions of yen)			
	Six months ended August 31, 2019	Six months ended August 31, 2020	Changes from the previous corresponding period
Apparel			
Net sales	48,714	32,061	-34.2%
Composition %	72.8%	71.0%	-1.8%
Operating profit	4,068	(2,085)	—
Operating profit %	8.4%	—	—
Miscellaneous Goods/Accessories			
Net sales	18,194	13,080	-28.1%
Composition %	27.2%	29.0%	1.8%
Operating profit	1,433	317	-77.9%
Operating profit %	7.9%	2.4%	-5.5%
Other			
Net sales	49	23	-53.1%
	Six months ended August 31, 2019	Six months ended August 31, 2020	Changes from the previous fiscal year
E-commerce net sales			
ZOZO TOWN	5,794	6,182	106.7%
PAL CLOSET (Our online store)	1,850	3,431	185.5%
Other	1,076	1,165	108.1%
Total	8,720	10,778	123.6%
Ratio to apparel net sales	17.9%	23.9%	6.0P

- EC ratio jumped up to 23.9%. We will further increase the EC ratio as an ongoing task.
- By website, our online store PAL CLOSET operated by PAL Group showed significant growth at 185.5%. We will further enhance this channel to establish a system adapted to the “With Corona” era, that can also contribute to increasing gross profit ratio.

Main Brands

Net sales (Millions of yen)



Kastane

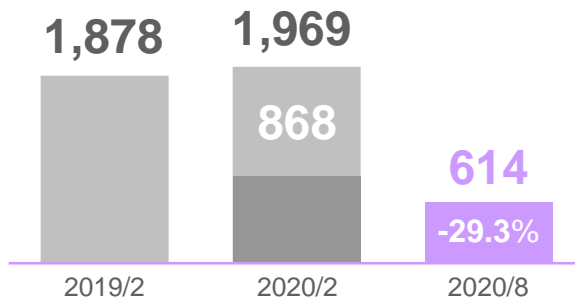
Based on the American classic, we offer authentic styles beyond generations and genders. Express yourself as you find your own style.

Kastane

23 stores



Net sales (Millions of yen)



Lui's

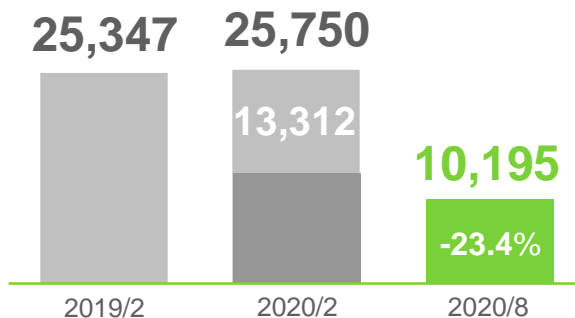
Based on the concept "wardrobe for popular man," we propose a mixed coordinate between mode and street styles. We select products with a high regard for comfort, fabric cutting and materials and introduce them to both domestic and overseas markets.

Lui's

11 stores



Net sales (Millions of yen)



3COINS

You will feel like visiting over and over again, where you can always find something new! 3COINS, a HAPPY STORE filled with fun, promises to bring you a spark of excitement every time. We offer a wide variety of 300-yen goods from basic to colorful items, everything from kitchen goods to those for bath, interior, as well as socks, accessories, and more.

3COINS

205 stores



Selling, General and Administrative Expenses

PAL GROUP HOLDINGS

(Millions of yen)

	Six months ended August 31, 2019	Six months ended August 31, 2020	Changes from the previous corresponding period
Non-consolidated PAL GROUP Holdings CO., LTD. + PAL CO., LTD.	26,404	21,134	-20.0%
Consolidated	32,685	25,953	-20.6%
SG&A ratio (consolidated)	48.8%	57.5%	8.7P
Personnel expenses ratio	18.2%	21.6%	3.4P
Rent expenses ratio	15.0%	15.1%	0.1P
Advertising expenses ratio	1.2%	1.7%	0.5P

- Although SG&A ratio to net sales is rising amid the COVID-19 crisis, we were able to significantly cut costs for many SG&A items including personnel expenses and rent expenses compared to the previous fiscal year. We intend to continue reducing expenses.

Number of Stores

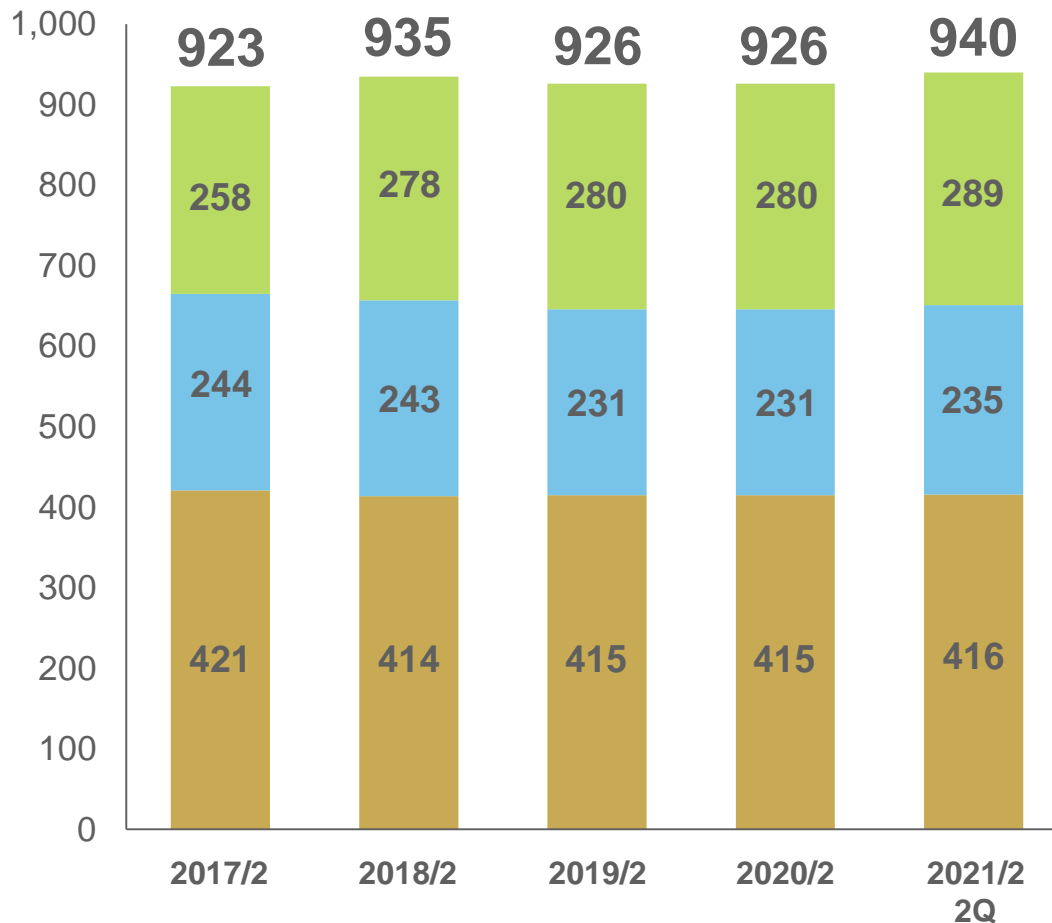
PAL GROUP HOLDINGS

Number of stores

as of August 31, 2020: 940

(+14 compared to the end
of the previous fiscal year)

- Other regions
- Kansai region
- Kanto region



- Status of opening/closing stores
Net increase of 14 stores as a result of opening 38 new stores and closing 24 stores.
- Status of new stores for each brand
New store openings comprised 5 stores for 3COINS, 3 stores for COLONY 2139 and 2 stores for CIAOPANIC TYPY.

Extraordinary Income or Losses

PAL GROUP HOLDINGS

(Millions of yen)

	Six months ended August 31, 2019	Six months ended August 31, 2020
Loss on retirement of non-current assets	72	49
Impairment loss	80	209
Total extraordinary losses	152	258

- Impairment loss significantly increased from the previous fiscal year as a result of store closures, etc. due to the emergency declaration.

Consolidated Balance Sheets

PAL GROUP HOLDINGS

(Millions of yen)

	As of February 29, 2020	As of August 31, 2020	Changes from the end of the previous fiscal year	Remarks
Current assets	67,842	65,571	(2,271)	
Cash and deposits	52,727	50,938	(1,789)	
Accounts receivable - trade	6,435	5,746	(689)	Inventories decreased by ¥921 mil.
Inventories	7,829	7,615	(214)	
Other	849	1,272	423	
Non-current assets	27,112	28,081	969	
Property, plant and equipment	7,780	8,261	481	
Intangible assets	690	590	(100)	
Investments and other assets	18,641	19,229	588	
Total assets	94,954	93,653	(1,301)	
Current liabilities	36,004	37,584	1,580	Posted short term borrowings of ¥15,000 mil.
Non-current liabilities	12,323	13,292	969	
Total liabilities	48,327	50,877	2,550	
Total net assets	46,627	42,776	(3,851)	
Total liabilities and net assets	94,954	93,653	(1,301)	

Consolidated Statements of Cash Flows

PAL GROUP HOLDINGS

(Millions of yen)

	Six months ended August 31, 2019	Six months ended August 31, 2020
Cash flows from operating activities	9,417	(11,638)
Cash flows from investing activities	(2,636)	(1,228)
Cash flows from financing activities	388	11,077
Net increase (decrease) in cash and cash equivalents	7,169	(1,789)
Cash and cash equivalents at beginning of period	45,633	52,727
Cash and cash equivalents at end of period	52,802	50,938

- As we prioritized the payment of expenses such as rent expenses and personnel expenses even though sales fell sharply upon store closures and reduced operating hours due to the emergency declaration, we took out short term borrowings of ¥15,000 million in an effort to secure stable financing.

Consolidated Full-year Financial Results Forecast for the Fiscal Year Ending February 28, 2021

PAL GROUP HOLDINGS

(Millions of yen)

	Fiscal year ended February 29, 2020	First half ended August 31, 2020	Second half ending February 28, 2021	Fiscal year ending February 28, 2021	Changes from the previous fiscal year
Net sales	132,163	45,165	59,614	104,779	-20.7%
Gross profit	74,386	24,191	33,628	57,819	-22.3%
SG&A expenses	65,319	25,953	32,474	58,427	-10.6%
Operating profit	9,067	(1,761)	1,154	(607)	—
Ordinary profit	9,168	(1,983)	1,041	(942)	—
Extraordinary income or losses	564	258	200	458	—
Profit attributable to owners of parent	7,028	(1,518)	298	(1,220)	—
Gross profit ratio	56.3%	53.6%	56.4%	55.2%	-1.1P

- Sales declined in the first half by 32.5% year on year in 1Q, but improved to a 10.6% decrease in 2Q. Controlled purchasing also contributed to lower inventory in the first half compared to the previous fiscal year. Upon intensive verification, we collectively wrote off inventory, mainly of spring garments, at the end of the period to clear all deadstock and prevent any carry overs to the second half. Gross profit ratio for the second half onward is expected to recover significantly.
- Even after the lifting of the emergency declaration, customer footfall to shopping malls located in the center of Tokyo is yet to fully recover. Assuming a 20.7% year-on-year decrease in net sales amid the COVID-19 crisis, purchasing has been adjusted accordingly. Performance is forecast for existing stores in the second half at 80% of the previous fiscal year, and 85% when combined with EC sales. We will accelerate measures to enhance EC, especially our online store PAL CLOSET. The lifestyle miscellaneous goods business including 3COINS, previously without EC presence, also started online sales in September. We will promptly respond to issues that came to light amid the COVID-19 crisis.

Premises for Full-year Financial Results Forecast for the Fiscal Year Ending February 28, 2021

PAL GROUP HOLDINGS

1. Number of stores

	Fiscal year ended February 29, 2020	As of August 31, 2020	Fiscal year ending February 28, 2021 Forecast
Number of new stores	48	38	71
Number of closed stores	48	24	52
Net increase in number of stores	0	14	19
Number of stores at the end of the period	926	940	945

2. Sales at existing stores (Total for the PAL Group companies)

	Fiscal year ended February 29, 2020	First half ended August 31, 2020 Actual results	Second half ending February 28, 2021 Forecast	Fiscal year ending February 28, 2021
Sales at existing stores	100.1	66.0	85.0	75.5
Of which, sales at existing retail stores	98.2	57.0	80.0	68.5
Of which, sales at existing stores via internet	114.0	124.4	150.0	137.2

	March 2020	April	May	June	July	August
Sales at existing stores	69.1	25.0	41.4	95.0	81.5	83.8
Of which, sales at existing retail stores	66.1	10.9	25.6	87.3	75.0	77.2
Of which, sales at existing stores via internet	101.9	117.0	135.0	139.8	120.2	126.1

3. Sales at all stores

	March	April	May	June	July	August	First half total
Sales at all stores	71.7	25.0	42.4	96.1	83.1	86.9	67.5
Of which, E-commerce	98.8	117.3	135.2	139.9	120.7	125.9	123.6

4. Number of customers and average spending per customer

	Average spending per customer compared to the previous fiscal year (Accumulated figure for the first half)	Number of customers compared to the previous fiscal year (Accumulated figure for the first half)
Apparel Business	92.2%	63.0%
Miscellaneous Goods/ Accessories Business	108.0%	64.5%
Overall	105.2%	63.0%

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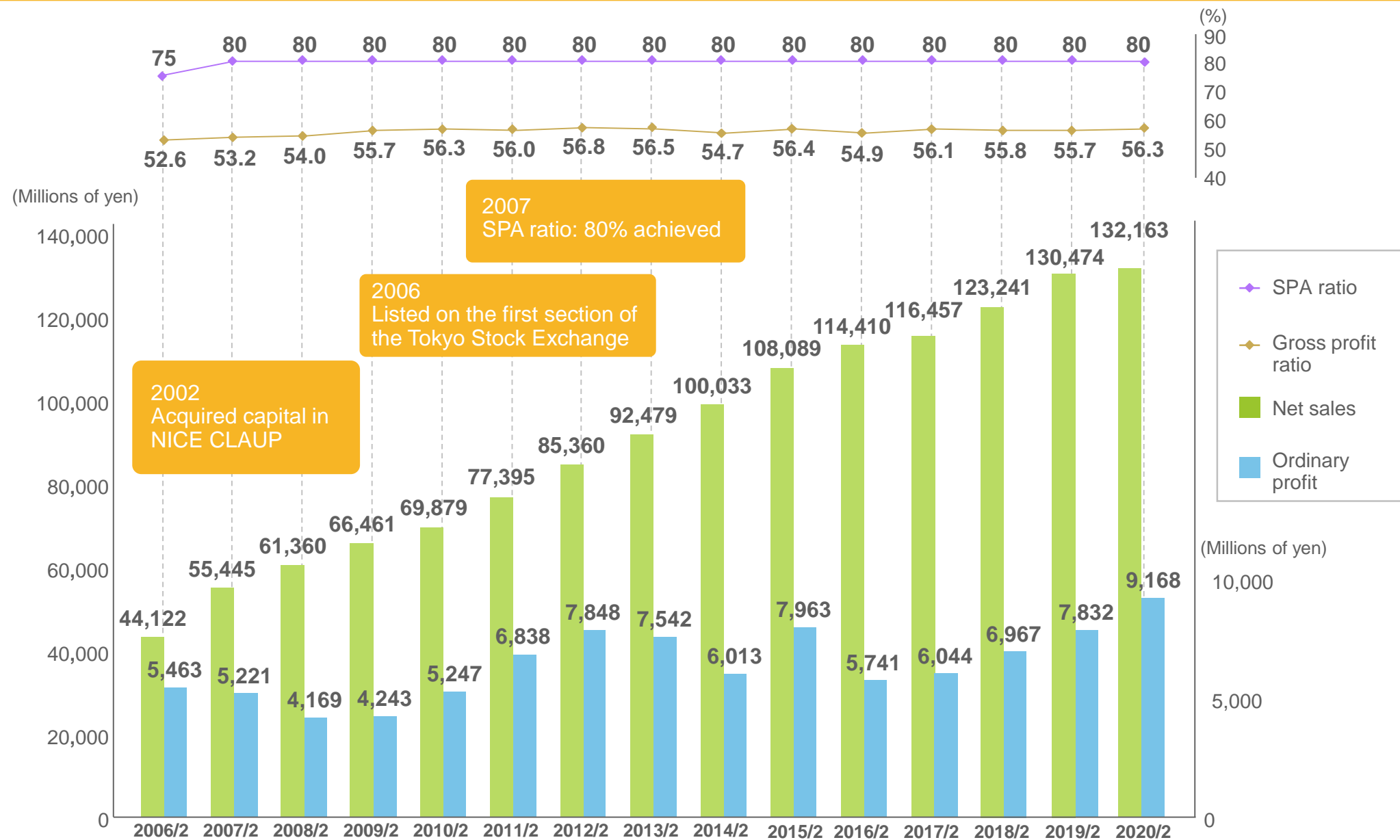
Management Vision

Business Results Trend
Medium- to Long-term Vision



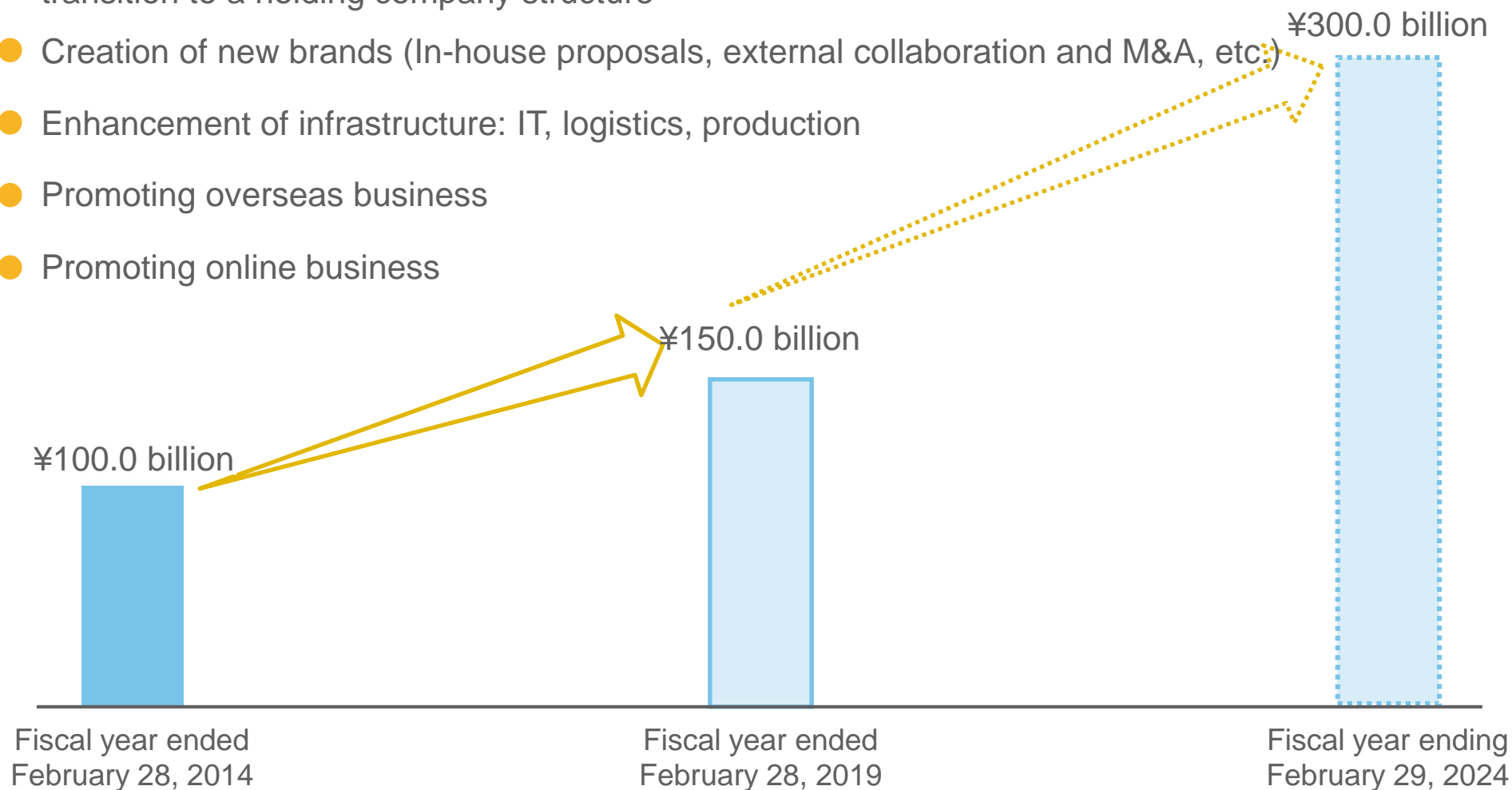
Business Results Trend

PAL GROUP HOLDINGS



Business strategies

- Further penetration of “PAL-style” management to Group companies: transition to a holding company structure
- Creation of new brands (In-house proposals, external collaboration and M&A, etc.)
- Enhancement of infrastructure: IT, logistics, production
- Promoting overseas business
- Promoting online business



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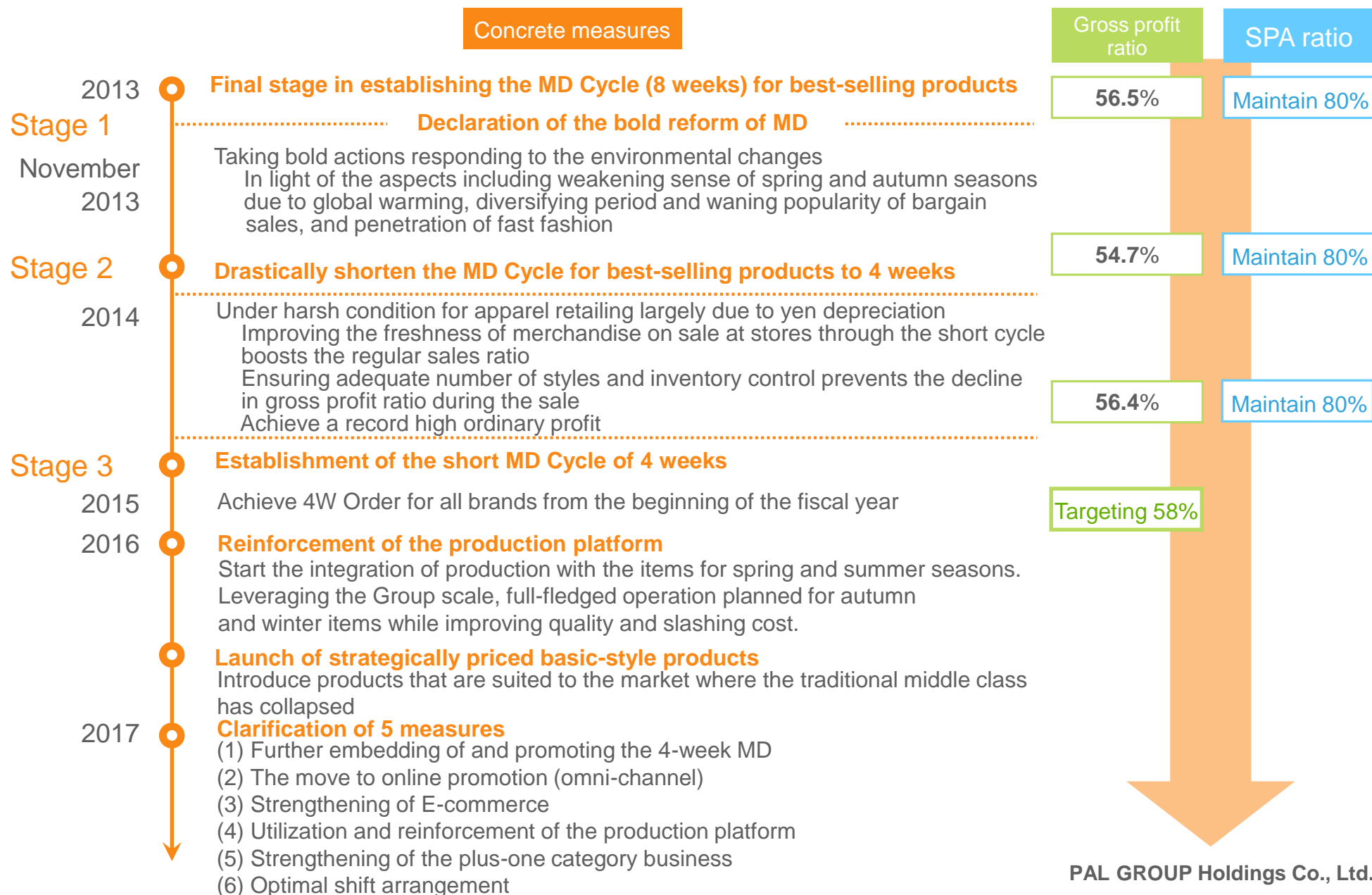
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Topics

-
1. Progress of the Reform of MD
 2. Enhancement of E-commerce Sales
 - 2- Acceleration of strategic schedule
 - 2-1). PAL-style omni-channel
 3. Measures to Enhance E-commerce
 - 3-1). 3COINS business started E-commerce operations
 - 3-2). TERRITOIRE, a brand exclusively for E-commerce



1. Progress of the Reform of MD

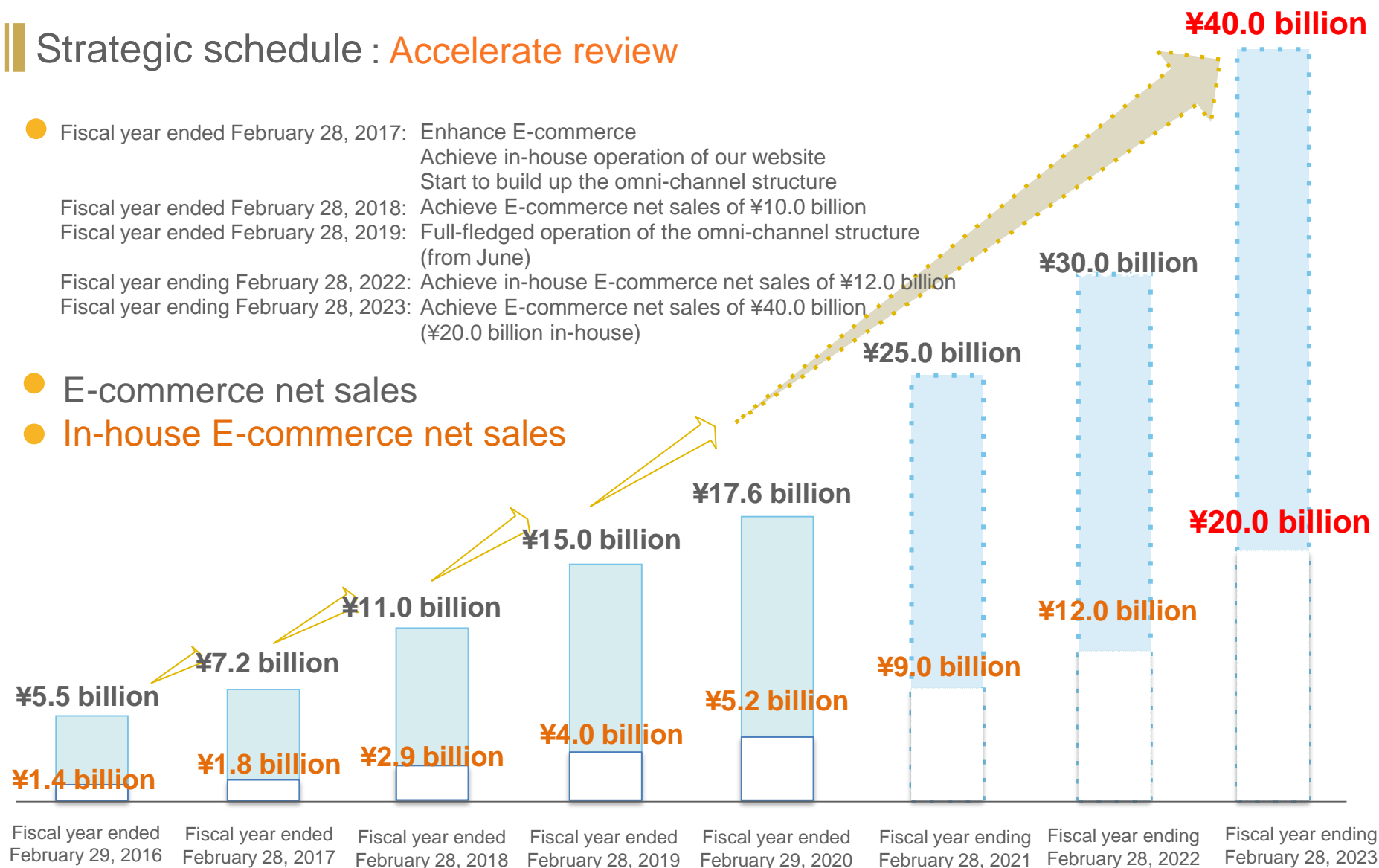


2. Enhancement of E-commerce Sales

Strategic schedule : Accelerate review

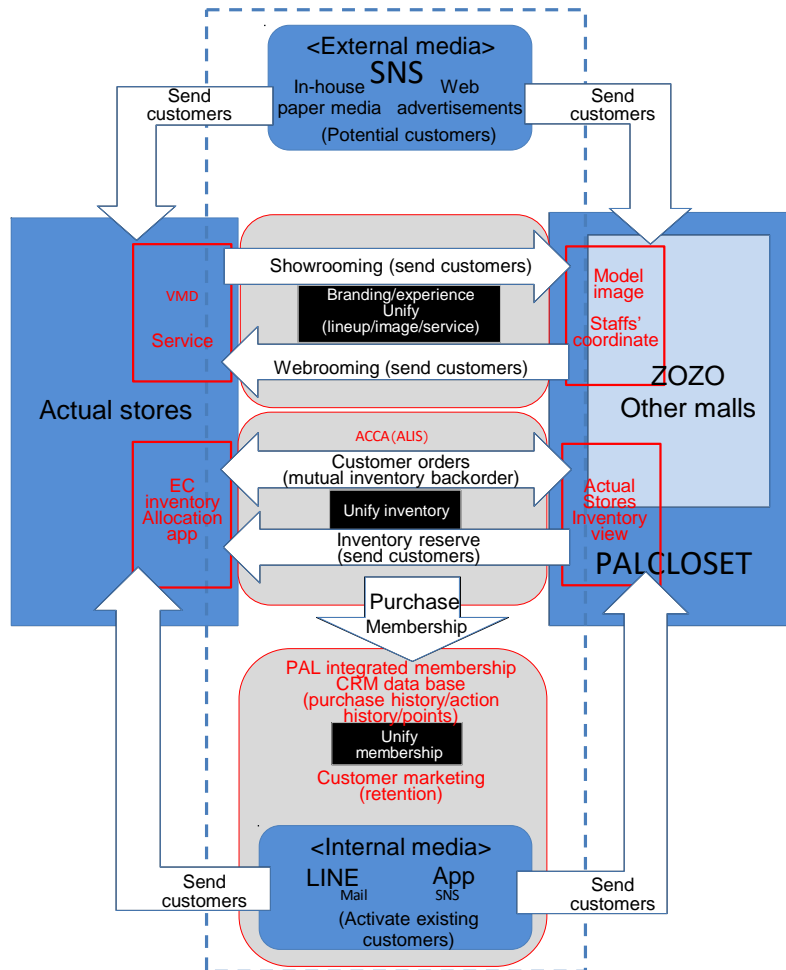
- Fiscal year ended February 28, 2017: Enhance E-commerce
Achieve in-house operation of our website
Start to build up the omni-channel structure
- Fiscal year ended February 28, 2018: Achieve E-commerce net sales of ¥10.0 billion
- Fiscal year ended February 28, 2019: Full-fledged operation of the omni-channel structure (from June)
- Fiscal year ending February 28, 2022: Achieve in-house E-commerce net sales of ¥12.0 billion
- Fiscal year ending February 28, 2023: Achieve E-commerce net sales of ¥40.0 billion (¥20.0 billion in-house)

- E-commerce net sales
- In-house E-commerce net sales



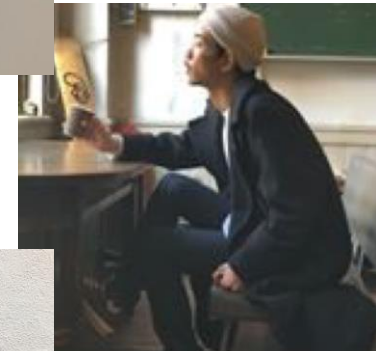
2-1). PAL-style omni-channel

Technology



Unify system/data digitally

Human

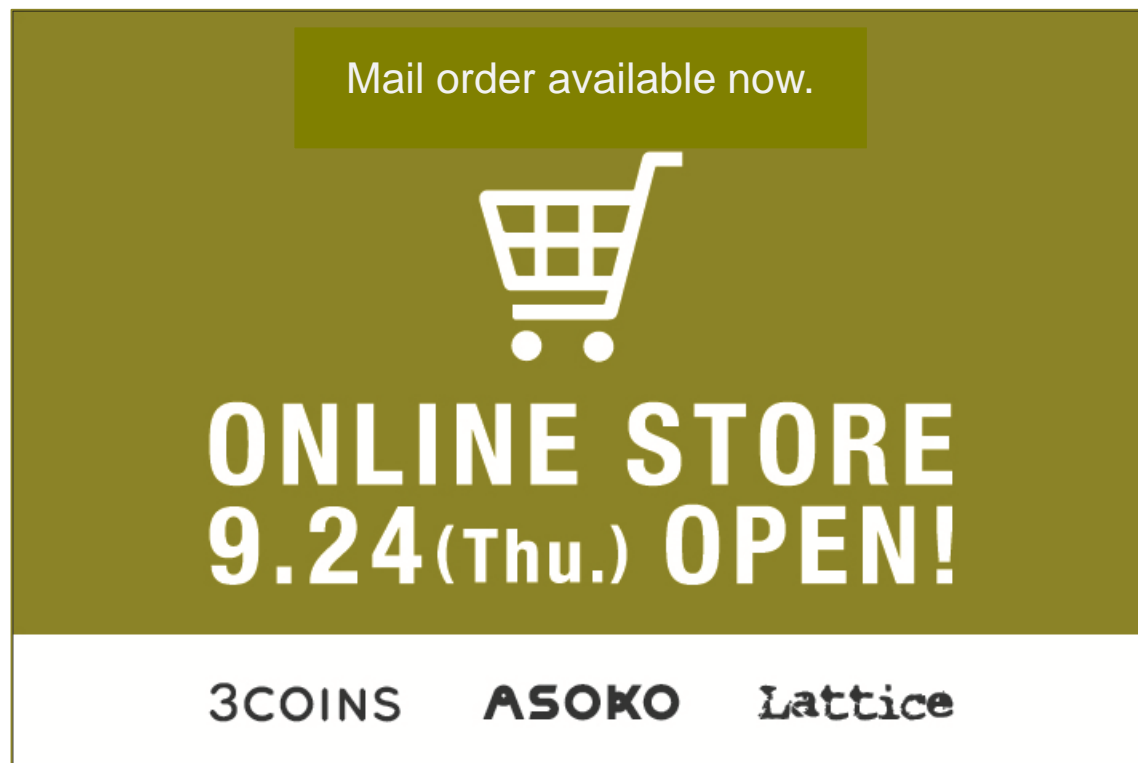


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Staffs' active roles that cross the border of actual stores and EC

3-1). Measures to Enhance E-commerce

- Three brands operated by PAL, 3COINS, ASOKO and Lattice, started online sales at our official online shopping site PAL CLOSET on September 24.



Mail order available now.



ONLINE STORE
9.24(Thu.) OPEN!

3COINS **ASOKO** **Lattice**

Minimum online purchase is ¥1,500 (exclusive of tax) per brand for 3COINS, ASOKO and Lattice.

Free shipping for a purchase of ¥5,000 (inclusive of tax) or more.

Points can be used for both online and brick-and-mortar stores.

● Sustainability initiatives by TERRITOIRE, our brand exclusively for E-commerce



Tagged “be sustainable with TERRITOIRE,” we will develop sustainability-conscious products from autumn/winter 2020.

Ranging from the use of sustainable materials to pieces that can be cherished for a lifetime, we will design products that feature sustainability with a classic concept.

Initiative 1

Prepared tags to indicate sustainable products



Prepared tags with a design logo to indicate sustainable products. The tag material is 100% recycled paper. Washing instruction labels are also switched to eco-friendly material.

Initiative 2

Featuring pajamas using recycled polyester



Initiative 3

Enhancing PR activity of products indicated as sustainable products

With a new in-house standard for sustainable products, web pages for products that apply will bear a dedicated logo. A feature page will be posted in the end of September to promote the initiative and the products.



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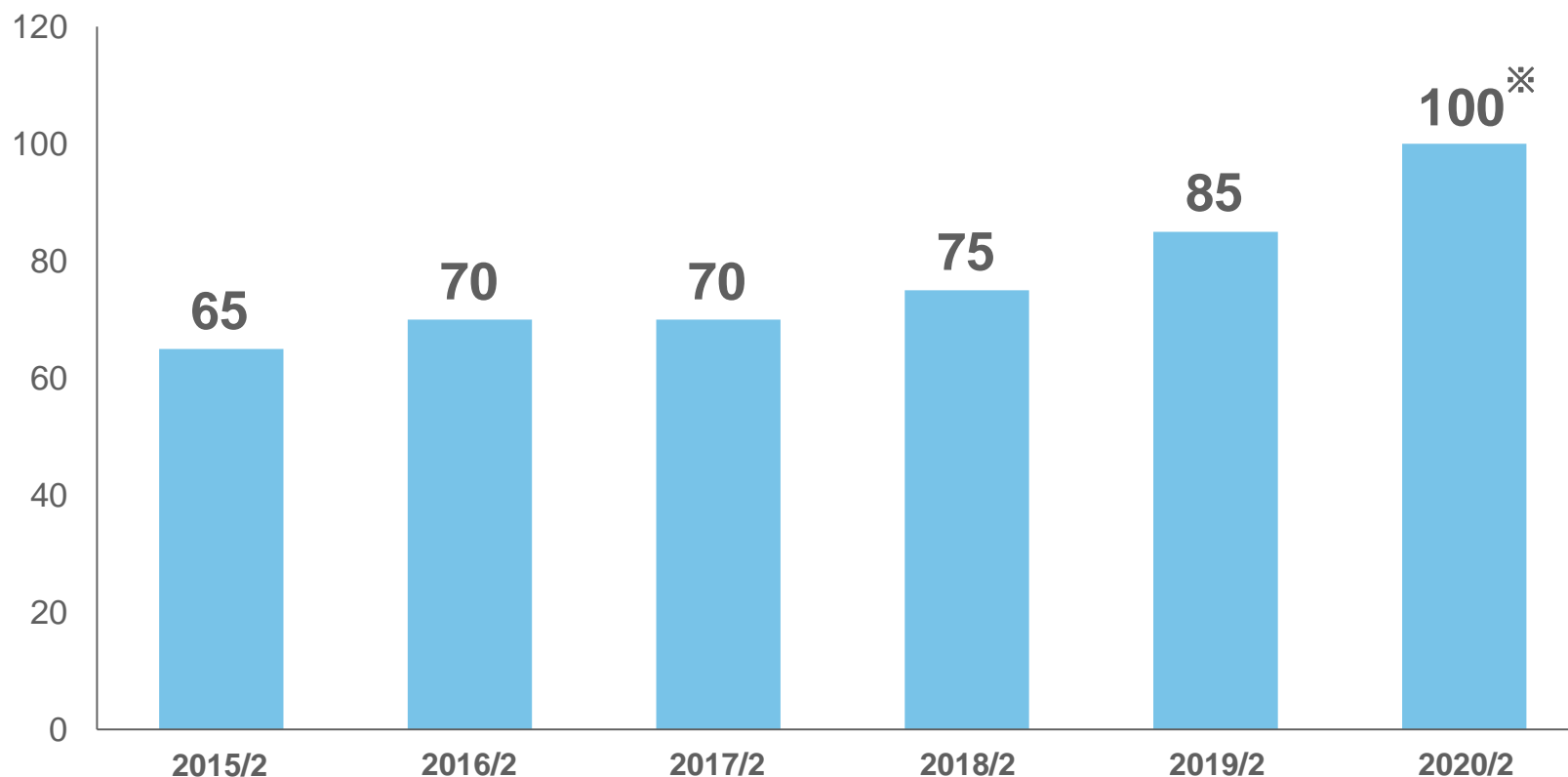
Response to Shareholders

-
1. Policy for Return to Shareholders
 2. Shareholder Benefit Program



1. Policy for Return to Shareholders

- Basic policy for return of profits is to continue providing stable dividends.



* On March 1, 2020, the Company implemented a two-for-one share split. As a result, dividend per share was automatically converted to ¥50 yen.

2. Shareholder Benefit Program

“Decided to enhance the shareholder benefit program, aiming to increase the attractiveness of investing in the Company’s shares”

We have enhanced the shareholder benefit program as below for the purpose of expanding the number of new individual investors by increasing the attractiveness of investing in the Company’s shares and promoting the ownership of the Company’s shares over the medium to long term.

Details of Benefit Program

- Eligible shareholders

Shareholders recorded or registered on the Company’s shareholder registry as of the last day of February of each year who hold more than 100 shares (one unit) are eligible.

- Details of Shareholder Benefits

Shareholders will receive common discount coupons which allow them to choose from the following three benefits according to the number of shares they hold. The coupons can be used from June 1 every year to May 31 of the following year.

- 1) 15% discount on the amount purchased at the Company group’s stores throughout Japan
- 2) 15% discount on the amount purchased at the Company’s EC site “PAL CLOSET ONLINE STORE”
- 3) 50% discount on accommodation course charges at “Hamayu Kuroshio” and “Freigate Shirahama,” which are accommodation facilities operated by Freigate Shirahama Co., Ltd., an affiliated subsidiary of the Company, in Shirahama-cho, Nishimuro-gun in Wakayama Prefecture
- 4) 50% discount on accommodation course charges at “Kinugawa Onsen Hotel” owned by Kanaya Hotel Kanko Co., Ltd. in the Nikko and Kinugawa area, in cooperation with the said company (Discount became available from June 1, 2020)

- Number of coupons to be granted: Remains unchanged even after the share split, which substantially doubled the number of coupons

Number of shares held	100 shares or more	200 shares or more	500 shares or more	1,000 shares or more
Number of coupons to be granted	2	4	6	10



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Initiatives for ESG

-
1. PAL's initiatives for ESG
 2. PAL Forest Project (Environment)
 - 3-1). Employment of people with disabilities (Social)
 - 3-2). Endowed courses at Kwansei Gakuin University (Social)
 - 3-3). Initiatives by PAL Inoue Scholarship Foundation (Social)
 4. Gender equality and work style reform (Governance)



1. PAL's initiatives for ESG

PAL's initiatives for ESG (Environment, Social, Governance) are to strive for achieving its management philosophy of “Management dedicated to the happiness of all employees and shareholders” and “Management dedicated to society and the globe into the future” through its daily corporate activities, i.e. continuously making profits, paying taxes, and maintaining employment.



2. PAL Forest Project (Environment)

“PAL Forest Project” (Environment)

PAL has been engaged in tree-planting activities at the Yoshino Forest in Nara Prefecture, a World Heritage site, since 2012. Considering the origin of the wrapping materials we use in our daily operations, every year many employees and their families participate in these activities to share valuable experiences that recognize the importance of maintaining the global environment conservation.



3-1). Employment of people with disabilities (Social)

Providing full support to Japan's first hotel and Japanese inn “operated by people with disabilities” (Social)

Since June 2011, PAL has been operating the hotel “Freigate Shirahama” for the purpose of employing people with disabilities. PAL purchased the neighboring accommodation facilities to expand operations and opened “Hamayu Kuroshio,” a traditional Japanese inn offering Japanese cuisine.

The majority of employees at both facilities have disabilities. Employing such people in the service sector to work at hotels and Japanese inns is still rare in Japan, but we impart our customer service know-how to employees with disabilities as they think for themselves and complete their duties by themselves.



Hamayu Kuroshio

▶ www.hamayu-kuroshio.com

Endowed courses for the School of International Studies, Kwansei Gakuin University (Social)

Following the endowed courses provided at Osaka University for five years from 2013, PAL started a course for the School of International Studies, Kwansei Gakuin University in 2019. In addition to academic knowledge, we offer frontline experiences in management and distribution, aiming to contribute to developing future talents.



Kwansei Gakuin campus with a beautiful clock tower



Human resources development through the “PAL Inoue Scholarship Foundation” (1) (Social)

PAL established the “PAL Inoue Scholarship Foundation” together with the Inoue family, the founder of the Company. After its establishment in 2013, it has been approved as a public interest incorporated foundation by the Cabinet Office, and operates public services.

Specifically, the foundation has been set up to offer scholarships to students with excellent academic records and personality who have financial difficulties in attending school, with the aim of developing promising human resources capable of contributing to the fashion industry and related fields in the future.

Currently, we offer scholarships to approximately 50 students at universities, colleges and technical schools studying fashion throughout Japan (including international students).

Website of the “PAL Inoue Scholarship Foundation”

Front page



About the PAL Inoue Scholarship Foundation

Human resources development through the “PAL Inoue Scholarship Foundation” (2) (Social)

In addition to the scholarship program, from 2018 PAL Inoue Scholarship Foundation holds a role-playing contest participated by students majoring in distribution courses at fashion schools.

The event named PAL FOUNDATION CUP is a venue for students selected from fashion schools nationwide from Hokkaido to Kyushu, where they demonstrate their extraordinary role-playing performance in their own manner. PAL intends to make this event a goal for the students aiming for fashion business in the future.



Thorough “gender equality” and “work style reform” (Governance)

(1) Gender equality

Pal has a solid “Equal treatment for equal work” guideline for a transparent personnel evaluation system, creating an environment where each and every employee can work with a sense of security while being motivated.

	Sales	Gross profit	Personnel expenses	Inventory	Capital	Stocktaking	Total	Out of 100 points
1 st Division	396	116	84	71	...	...	...	98
2 nd Division	353	78	77	...	...	...	...	86
3 rd Division	310	93	...	...	...	...	...	...
4 th Division	378	...	...	...	...	...	...	...
5 th Division	...	...	...	...	...	...	...	...
6 th Division	...	...	...	...	...	...	...	...
7 th Division	...	...	...	...	...	...	...	...
Development Division	...	...	...	...	...	...	...	...
Corporate total	382	82	66	61	...	...	...	85

(2) Work style reform

PAL is working to foster a vibrant work environment by starting operations that allow flexible working hours not bound by the “8-hour system” and make it easier for the employees to take paid and long-term leaves.

Company motto

“Contributing to society by constantly proposing new fashionable ways of life”

Group management philosophy

“Management dedicated to the happiness of all employees and shareholders”

Company name	PAL GROUP Holdings CO., LTD.
--------------	------------------------------

Location	(Head Office) Keihanshin Midosuji Bldg. 10F, 3-6-1 Doshomachi, Chuo-ku, Osaka-shi, Osaka (Tokyo Office) Akita Bldg. 4F, 12-22 Jingumae 6-chome, Shibuya-ku, Tokyo
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Representative	Ryuta Inoue
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Capital	¥3,181,200,000
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Establishment	October 1973
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Description of business	Planning, manufacturing, and wholesale and retail sale of women's clothing, men's clothing, miscellaneous goods and accessories, etc.
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Number of stores	940
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Management Planning Office

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The plans, strategies, predictions, etc., contained in this document which are not matters of historical fact are forecasts related to future business results, etc., and include elements of risk and uncertainty. Please be advised that for various reasons actual results may differ from the results forecast herein.

In addition, this document has been produced for further understanding of the PAL GROUP, not for the purpose of soliciting investment in the Company. Readers are asked to rely on their own judgment when making decisions related to investment.