

Consolidated Financial Results for the Six Months Ended August 31, 2016 [Japanese GAAP]



September 30, 2016

Company name: Takihyo Co., Ltd.
 Code number: 9982
 URL: <http://www.takihyo.co.jp>
 Stock exchange listing: Tokyo Stock Exchange (First Section), Nagoya Stock Exchange (First Section)
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 Scheduled date of commencing dividend payments: October 27, 2016
 Scheduled date for filing of quarterly securities report: October 5, 2016
 Availability of supplementary briefing material on quarterly results: None
 Schedule of quarterly results briefing session: None

(Figures are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Six Months Ended August 31, 2016 (March 1, 2016 to August 31, 2016)

(1) Consolidated Results of Operations (cumulative) (% indicates changes from the previous corresponding period)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
	million yen	%	million yen	%	million yen	%	million yen	%
Six months ended August 31, 2016	38,408	(1.4)	774	(24.9)	722	(37.9)	411	(49.2)
Six months ended August 31, 2015	38,945	8.1	1,032	78.4	1,162	74.4	811	82.4

(Note) Comprehensive income: Six months ended August 31, 2016: ¥(1,577) million [—%]

Six months ended August 31, 2015: ¥(468) million [—%]

	Net income per share	Diluted net income per share
	yen	yen
Six months ended August 31, 2016	8.83	8.73
Six months ended August 31, 2015	17.41	17.21

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	million yen	million yen	%	yen
As of August 31, 2016	54,122	29,609	54.3	630.13
As of February 29, 2016	57,030	31,344	54.6	668.26

(Reference) Equity: As of August 31, 2016: ¥29,388 million

As of February 29, 2016: ¥31,136 million

2. Dividends

	Annual Dividends				
	1st quarter end	2nd quarter end	3rd quarter end	Year end	Total
	yen	yen	yen	yen	yen
Fiscal year ended February 29, 2016	–	4.00	–	4.00	8.00
Fiscal year ending February 28, 2017	–	4.00			
Fiscal year ending February 28, 2017 (Forecast)			–	4.00	8.00

(Note) Revision of dividends forecast from recently announced figures: None

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

(% indicates changes from the previous corresponding period)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full year	86,000	2.0	2,600	3.5	2,700	18.4	1,700	24.8	36.45

(Note) Revision of forecast results from recently announced figures: None

*Notes

- (1) Significant changes of subsidiaries during the period under review (affecting specified subsidiaries resulting in changes in scope of consolidation): No
- (2) Adoption of special accounting treatment for preparing quarterly consolidated financial statements: No
- (3) Changes in accounting policies, changes in accounting estimates and restatements
 - 1) Changes in accounting policies due to the revision of accounting standards: Yes
 - 2) Any changes in accounting policies other than 1) above: No
 - 3) Changes in accounting estimates: No
 - 4) Restatements: No
- (4) Total number of issued shares (common stock)
 - 1) Total number of issued shares at the end of the period (including treasury stock):

August 31, 2016	48,000,000 shares
February 29, 2016	48,000,000 shares
 - 2) Total number of treasury stock at the end of the period:

August 31, 2016	1,361,225 shares
February 29, 2016	1,406,760 shares
 - 3) Average number of shares during the period (cumulative):

Six months ended August 31, 2016	46,632,535 shares
Six months ended August 31, 2015	46,594,800 shares

* Presentation regarding the implementation status of the quarterly review process

This summary of consolidated quarterly financial results is not subject to the quarterly review procedures provided by the Japanese Financial Instruments and Exchange Act. Therefore, at the time of the disclosure of these financial results, the quarterly financial statement review procedures based on the Act have not been completed.

* Explanation of the proper use of performance forecast and other notes

The projections above were prepared based on available information at the time of the release of this document, and do not constitute a promise by the Company to achieve those projections. In addition, actual results may be different from the projections due to various factors.

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

(1) Qualitative Information on Results of Operations

During the six months ended August 31, 2016, there were little signs of recovery in the Japanese economy, especially in terms of apparel expenditures, as could be evidenced by the year-on-year negative figures in real household expenditures for the fifth consecutive month concerning personal consumption which accounts for 60% of real GDP.

Under these circumstances, the Company firstly made efforts to expand the sales share mainly through the women's sales groups launched last year by cultivating new specialist retailers with a high growth potential and further deepening the relationship with existing clients. The Company anticipates this will lead to a tangible achievement in the future. Secondly, the Company is currently carrying out an overhaul of the core system as part of a measure to improve the Company's infrastructure aimed at realizing creative and careful work. The completion is scheduled in January 2017, and the Company is currently at the final test stage of the system. Additionally, the Company is currently strengthening the technical guidance and quality control in China, the largest production outsourcing destination, focusing on the QC center in Dalian. Thirdly, in terms of cost reduction initiatives, the production ratio of apparel products in countries with relatively low production cost, such as ASEAN and the South Asian countries, exceeded 20%. Further, with the improved productivity of the logistics center, the Company is on the right track to further reduce its logistics cost. Fourthly, in terms of the expansion of overseas market, the Company will test-market its character goods in the United States from this fall and winter season. The transactions with major apparel companies in East Asia are now steadily increasing as well. Fifthly, in terms of the selection and concentration of business operations, the Company suspended the development of its brand "BERARDI" in August 2016.

As a result of the above measures, although the consolidated performance in the first quarter registered increased revenue and profit, net sales in the second quarter was affected severely by budget-minded tendency among consumers and their greater preference for lower priced products, as well as sluggish sales at stores due to the August typhoons. As a result, net sales in the six months ended August 31, 2016 stayed at ¥38,408 million (1.4% decrease from the previous corresponding period). In terms of income, although the Company was able to reduce sales and general administrative expenses, due to the sluggish net sales and lower productivity of products, consolidated performance in the six months ended August 31, 2016 registered ¥774 million operating income (24.9% decrease from the previous corresponding period), ¥722 million ordinary income (37.9% decrease from the previous corresponding period). Net income attributable to owners of the parent was ¥411 million (49.2% decrease from the previous corresponding period) due to registering ¥98 million extraordinary loss for the settlement of a case which required an investigation into the relationship with a client.

(2) Qualitative Information on Financial Position

1) Assets

Current assets decreased by ¥3,625 million compared with the end of the previous fiscal year, to ¥24,635 million, due primarily to a ¥3,584 million decrease in notes and accounts receivable-trade.

Non-current assets increased by ¥718 million compared with the end of the previous fiscal year, to ¥29,487 million, due primarily to an increase of ¥499 million in intangible assets and an increase of ¥287 million in investment securities.

As a result, total assets decreased by ¥2,907 million compared with the end of the previous fiscal year, to ¥54,122 million.

2) Liabilities

Liabilities decreased by ¥1,172 million compared with the end of the previous fiscal year, to ¥24,513 million, due primarily to a ¥3,484million decrease in notes and accounts payable-trade and a ¥699 million decrease in accounts payable-other, despite a ¥2,846 million increase in derivatives liabilities.

3) Net assets

Net assets decreased by ¥1,734 million compared with the end of the previous fiscal year, to ¥29,609 million, due primarily to a ¥1,989 million decrease in accumulated other comprehensive income, despite a ¥222 million increase in retained earnings.

(3) Explanation of Consolidated Forecast and Other Forward-looking Statements

The financial results forecast has not changed since its earlier announcement on March 31, 2016.

2. Items Regarding Summary Information (Items of Note)

(1) Changes in Accounting Policies, Changes in Accounting Estimates and Restatements

(Changes in Accounting Policies)

Application of Accounting Standard for Business Combinations, etc.

Effective from the three months ended May 31, 2016, the Company has applied the “Revised Accounting Standard for Business Combinations” (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013), the “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013) and the “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013), etc. Accordingly, the Company has changed the presentation of net income and other related items. To reflect these changes in presentation, reclassifications of accounts have been made to the consolidated financial statements for the six months ended August 31, 2016.

Change in Depreciation Method

In accordance with revisions of the Corporation Tax Law, in the three months ended May 31, 2016, the Company has applied the “Practical Solution on a change in depreciation method due to Tax Reform 2016” (Practical Issues Task Force No. 32, June 17, 2016), and changed the depreciation method of auxiliary equipment of buildings and structures acquired on and after April 1, 2016 from the declining-balance method to the straight-line method.

The effect of this change on loss and income for the six months ended August 31, 2016 is immaterial.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of February 29, 2016	As of August 31, 2016
Assets		
Current assets		
Cash and deposits	3,350	3,449
Notes and accounts receivable-trade	18,102	14,517
Inventories	5,197	4,063
Other	1,624	2,626
Allowance for doubtful accounts	(13)	(21)
Total current assets	28,261	24,635
Non-current assets		
Property, plant and equipment		
Land	18,890	18,890
Other, net	4,100	4,032
Total property, plant and equipment	22,990	22,923
Intangible assets	567	1,066
Investments and other assets		
Investment securities	3,978	4,265
Other	1,308	1,298
Allowance for doubtful accounts	(74)	(65)
Total investments and other assets	5,211	5,497
Total non-current assets	28,769	29,487
Total assets	57,030	54,122
Liabilities		
Current liabilities		
Notes and accounts payable-trade	12,008	8,523
Short-term loans payable	1,980	2,300
Current portion of long-term loans payable	2,250	2,100
Income taxes payable	540	242
Derivatives liabilities	2,009	5,594
Provision	205	152
Other	2,941	2,617
Total current liabilities	21,934	21,529
Non-current liabilities		
Long-term loans payable	1,075	850
Net defined benefit liability	526	562
Provision for directors' retirement benefits	176	176
Asset retirement obligations	140	136
Other	1,834	1,258
Total non-current liabilities	3,751	2,983
Total liabilities	25,686	24,513

	As of February 29, 2016	As of August 31, 2016
Net assets		
Shareholders' equity		
Capital stock	3,622	3,622
Capital surplus	4,148	4,148
Retained earnings	24,404	24,627
Treasury stock	(589)	(570)
Total shareholders' equity	31,585	31,827
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,093	1,092
Deferred gains or losses on hedges	(1,691)	(3,569)
Revaluation reserve for land	155	162
Foreign currency translation adjustment	68	(58)
Remeasurements of defined benefit plans	(75)	(66)
Total accumulated other comprehensive income	(449)	(2,439)
Subscription rights to shares	207	220
Total net assets	31,344	29,609
Total liabilities and net assets	57,030	54,122

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

(Millions of yen)

	For the six months ended August 31, 2015	For the six months ended August 31, 2016
Net sales	38,945	38,408
Cost of sales	30,955	30,890
Gross profit	7,989	7,518
Provision for sales returns	(5)	(7)
Gross profit-net	7,994	7,525
Selling, general and administrative expenses	6,962	6,750
Operating income	1,032	774
Non-operating income		
Interest income	21	9
Dividends income	45	45
Subsidy income	53	53
Other	76	42
Total non-operating income	196	150
Non-operating expenses		
Interest expenses paid	51	40
Loss on valuation of derivatives	-	117
Other	14	44
Total non-operating expenses	66	203
Ordinary income	1,162	722
Extraordinary income		
Gain on sales of non-current assets	83	-
Total extraordinary income	83	-
Extraordinary loss		
Settlement	-	98
Other	7	4
Total extraordinary loss	7	102
Income before income taxes	1,237	619
Income taxes	426	207
Net income	811	411
Net income attributable to owners of the parent	811	411

Consolidated Statements of Comprehensive Income

(Millions of yen)

	For the six months ended August 31, 2015	For the six months ended August 31, 2016
Net income	811	411
Other comprehensive income		
Valuation difference on available-for-sale securities, net of tax	285	(0)
Deferred gains or losses on hedges, net of tax	(1,597)	(1,878)
Revaluation reserve for land, net of tax	14	6
Foreign currency translation adjustment, net of tax	10	(126)
Remeasurements of defined benefit plans, net of tax	6	9
Total other comprehensive income	(1,280)	(1,989)
Comprehensive income	(468)	(1,577)
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	(468)	(1,577)

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

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

Not applicable.