



# **Financial Report for the Fiscal Year Ended February 28, 2017** **(Japanese Accounting Standards) (Consolidated)**

April 12, 2017

Company name	Treasure Factory Co., Ltd.	Listings	The First Section of the Tokyo Stock Exchange
Securities code	3093	URL	<a href="http://www.treasurefactory.co.jp/">http://www.treasurefactory.co.jp/</a>
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Scheduled dates:			
Regular general shareholders' meeting:	May 26, 2017		
Commencement of dividend payments:	May 29, 2017		
Submission of securities report:	May 26, 2017		
Supplementary documents for financial results:	Yes		
Results briefing:	Yes (for institutional investors and analysts)		

(Amounts in millions of yen rounded down to the nearest million yen)

## 1. Results for the fiscal year ended February 28, 2017 (March 1, 2016 to February 28, 2017)

### (1) Operating results

(Percentage figures represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
Fiscal year ended Feb. 28 2017	13,325	—	734	—	758	—	485	—
Feb. 29 2016	—	—	—	—	—	—	—	—

(Note) Comprehensive income: Fiscal year ended February, 28, 2017: 484 million yen (—%)

Fiscal year ended February, 29, 2016: — million yen (—%)

	Net income per share	Diluted net income per share	Return on equity	Return on assets	Operating income to net sales
	yen	yen	%	%	%
Fiscal year ended Feb. 28 2017	43.97	42.76	13.6	11.6	5.5
Feb. 29 2016	—	—	—	—	—

(Reference) Equity in earnings of affiliates As of February 28 2017 – million yen As of February 29, 2016: – million yen

(Note) Figures for the fiscal year ended February 29, 2016 and year-on-year changes are not stated in this Report because Treasure Factory Co., Ltd. (hereinafter referred to as the "Company") began preparing consolidated financial statements in the fiscal year ending February 28, 2017.

### (2) Financial position

	Total assets	Net assets	Equity capital ratio	Net assets per share
	million yen	million yen	%	yen
As of Feb. 28, 2017	7,495	3,698	49.2	333.69
As of Feb. 29, 2016	—	—	—	—

(Reference) Shareholders' equity: As of February 28, 2017: 3,684 million yen As of February 29, 2016: – million yen

(Note) Figures for the fiscal year ended February 29, 2016 are not stated in this Report because the Company began preparing consolidated financial statements in the fiscal year ending February 28, 2017.

### (3) Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at year end
	million yen	million yen	million yen	million yen
Fiscal year ended Feb. 28 2017	331	-628	561	1,336
Feb. 29 2016	—	—	—	—

(Note) Figures for the fiscal year ended February 29, 2016 are not stated in this Report because the Company began preparing consolidated financial statements in the fiscal year ending February 28, 2017.

## 2. Dividends

	Dividend per share					Total dividend	Dividend payout ratio	Dividend on equity
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Fiscal year end	Total			
	yen	yen	yen	yen	yen	million yen	%	%
Year ended Feb. 29, 2016	—	5.50	—	7.50	13.00	144	18.0	4.5
Feb. 28, 2017	—	8.00	—	8.00	16.00	176	36.4	5.0
Year ending Feb. 28, 2018 (forecast)	—	8.00	—	8.00	16.00		30.4	

3. Results forecast for the fiscal year ending February 28, 2018 (March 1, 2017 to February 28, 2018)

(Percentage figures represent changes from the corresponding period of the previous fiscal year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
First half	7,646	27.3	201	-42.0	215	-39.6	141	-37.8	12.77
Full year	16,420	23.2	853	16.1	881	16.2	581	19.7	52.62

\* Notes

(1) Changes in important subsidiaries during the fiscal year under review (changes in specified subsidiaries that caused changes in the scope of consolidation): None

Number of new companies (their names): Number of excluded companies (their names):

(2) Changes to accounting policies, changes of accounting estimates, and revisions and restatements

[1] Changes in accounting policies in accordance with changes in accounting principles: Yes

[2] Changes in accounting policies other than the above: None

[3] Changes in accounting estimates: None

[4] Revisions and restatements: None

(3) Number of shares issued and outstanding (common shares)

[1] Number of shares issued at period-end (including treasury stock)

As of Feb. 28, 2017: 11,278,800 shares As of Feb. 29, 2016: 11,192,800 shares

[2] Treasury stock at period-end

As of Feb. 28, 2017: 237,731 shares As of Feb. 29, 2016: 117,731 shares

[3] Average number of shares issued

As of Feb. 28, 2017: 11,037,413 shares As of Feb. 29, 2016: 11,158,210 shares

\* This Financial Report is not subject to the audit procedures

\* Explanation on the proper use of the results forecast and additional information

Information on forecasts stated in this material was based on information available at the time of publication of this financial summary. Actual results may differ materially from the forecast due to a range of factors. For further information on the results forecast, please refer to 1. Analyses of Operating Results/Financial Position (1) Analysis of Operating Results (Outlook for next fiscal year) on page 3 of the accompanying materials.

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## 1. Analysis of Operating Results/Financial Position

A comparative analysis against the results for the previous fiscal year is not performed because the Company has created consolidated financial statements from this fiscal year under review.

### (1) Analysis of Operating Results

In the consolidated fiscal year ended February 28, 2017, the Japanese economy showed a moderate recovery, including improved corporate earnings and employment, while consumer spending remained flat.

While the reuse industry expanded based on an increasing number of newcomers entering the industry, competition in the industry intensified on the back of consumers' increasing needs for reuse and growing transactions involving reuse items.

In this business environment, the consolidated group of the Company ("the Group") worked to further develop its existing businesses while entering overseas markets and acquiring a company in the same industry as its wholly owned subsidiary with the aim of achieving medium- to long-term growth.

Consolidated net sales for the fiscal year under review amounted to 13,325,035 thousand yen. By product category, net sales for household items, apparel, fashion items, and electric appliances came to 1,104,520 thousand yen, 5,755,534 thousand yen, 2,496,255 thousand yen, and 2,230,529 thousand yen, respectively. The consolidated cost of purchased items was 5,031,351 thousand yen for the fiscal year under review. Net sales at the Company's existing stores (stores that had opened before February 29, 2016; the same applies hereinafter) were 96.3% of the amount in the previous fiscal year, and the amount of purchases from general customers was 97.8% of that in the previous fiscal year.

As its store-opening measures, the Company opened eight new stores in Japan during the fiscal year under review. As a new business form, the Company developed the Suburban Large-scale Reuse Store business with the store name Treasure Factory Market and opened its first store in Chiba City, Chiba Prefecture in August. Treasure Factory Market is a large reuse store developed specifically for suburban areas and characterized by product lines consisting predominantly of electric appliances and furniture. The number of stores opened in the year by form of business included three Treasure Factory stores as General Reuse Stores, two Treasure Factory Style stores as Fashion Reuse Stores, two UseLet stores as Fashion Outlet Reuse Stores, and one Treasure Factory Market as a Suburban Large-scale Reuse Store, which are all directly managed by the Company. As a result, the Company operated a total of 99 stores as of February 28, 2017, consisting of 95 directly managed stores made up of 57 Treasure Factory stores, 29 Treasure Factory Style stores, two Brand Collect stores, two Treasure Factory Sports stores, four UseLet stores, and one Treasure Factory Market store, as well as four Treasure Factory franchise stores.

In addition, the Company acquired all the shares of Kindal Co., Ltd. in September, making it a subsidiary. Consequently, a total of 36 stores joined the Group, comprising 21 directly managed stores and 15 franchise stores (as of February 28, 2017) of Kindal, a second-hand goods store operator specializing in brand clothing, bags, watches, etc.

In overseas operations, the Company established a local subsidiary in Thailand in March, and in July it opened its first overseas store in Bangkok as a General Reuse Store. This comprises the total number of 136 stores in the Group.

Looking at profits, the gross profit ratio-net was 64.0% and the ratio of selling, general, and administrative expenses was 58.5%. The Company posted selling, general, and administrative expenses of 55,932 thousand yen used to acquire the shares of Kindal Co., Ltd. and convert it to a subsidiary. This resulted in an operating profit margin of 5.5% and an ordinary income ratio of 5.7%. Accordingly, net sales, operating income, ordinary income, and net income attributable to owners of the parent amounted to 13,325,035 thousand yen, 734,529 thousand yen, 758,036 thousand yen and 485,296 thousand yen, respectively.

#### (i) Actual cost of purchases by product type

Item	Purchase price (thousand yen)	Breakdown (%)
Daily sundries	386,975	7.7
Apparel	2,049,236	40.7
Fashion items	1,075,807	21.4
Electric appliances	758,205	15.1
Furniture	242,855	4.8
Hobby-related items	210,269	4.2
Other	308,001	6.1
Total	5,031,351	100.0

- (Notes) 1. The consumption tax is not included in the prices above.  
2. Additional costs of purchase are included in Other items.

## (ii) Actual sales by business and product type

Business	Item	Sales (thousand yen)	Breakdown (%)
Directly-managed businesses	Daily sundries	1,104,520	8.3
	Apparel	5,755,534	43.2
	Fashion items	2,496,255	18.7
	Electric appliances	2,230,529	16.7
	Furniture	966,369	7.3
	Hobby-related items	592,786	4.5
	Other items	14,045	0.1
	Subtotal	13,160,040	98.8
Franchise business		25,588	0.2
Other businesses		139,405	1.0
Total		13,325,035	100.0

- (Notes)
1. The consumption tax is not included in the prices above.
  2. The Franchise business includes, product sales, membership/consultation fees, royalties, etc.
  3. Other businesses include rental, software, and Treasure Factory moving service sales.

## (Outlook for next fiscal year)

For the next fiscal year, the Company will continue to improve its existing stores and open new stores. The opening of approximately 13 stores will be targeted during the year.

As for the full-year forecast of consolidated results for the fiscal year ending February 28, 2018, net sales are expected at 16,420 million yen (up 23.2% year on year), operating income at 853 million yen (up 16.1% year on year), ordinary income at 881 million yen (up 16.2% year on year), and net income attributable to owners of the parent at 581 million yen (up 19.7% year on year).

## (2) Analysis of the Financial Position

### (i) Status of assets, liabilities and net assets

Total assets as of the end of the fiscal year under review came to 7,495,870 thousand yen. They consisted mainly of cash and deposits of 1,349,920 thousand yen, merchandise of 2,552,420 thousand yen, and lease and guarantee deposits of 1,193,109 thousand yen.

Total liabilities as of the end of the fiscal year under review stood at 3,796,995 thousand yen. They consisted chiefly of long-term loans payable of 1,054,754 thousand yen and short-term loans payable of 970,000 thousand yen.

Net assets as of the end of the fiscal year under review totaled 3,698,874 thousand yen. They consisted primarily of capital stock of 390,093 thousand yen, capital surplus of 325,093 thousand yen, and retained earnings of 3,232,300 thousand yen.

### (ii) State of cash flows

Cash and cash equivalents as of the end of the fiscal year under review amounted to 1,336,514 thousand yen. The status of each of the cash flow segments and contributing factors for the fiscal year under review are as follows.

#### (Cash flows from operating activities)

Net cash provided by operating activities during the fiscal year under review stood at 331,412 thousand yen. This chiefly reflects cash inflow of profit before income taxes of 730,011 thousand yen and depreciation of 256,254 thousand yen, which more than offset cash outflow, including income taxes paid of 478,232 thousand yen and an increase in inventories of 264,364 thousand yen.

#### (Cash flows from investing activities)

Net cash used in investing activities during the fiscal year under review stood at 628,648 thousand yen. This was primarily due to the purchase of property, plant, and equipment of 320,033 thousand yen associated mainly with new store openings and the purchase of investments in a subsidiary resulting in a change in the scope of consolidation amounting to 160,819 thousand yen.

#### (Cash flows from financing activities)

Net cash provided in financing activities during the fiscal year under review was 561,404 thousand yen. The main factors were proceeds from long-term loans payable of 616,000 thousand yen, cash dividends paid of 170,688 thousand yen, and the purchase of treasury shares of 111,851 thousand yen.

#### (Reference) Changes in cash flow-related indicators

	Fiscal year ended February 28, 2017
Equity capital ratio (%)	49.2
Equity capital ratio based on market value (%)	118.7
Ratio of interest-bearing debt to cash flows (year)	7.0
Interest coverage ratio (x)	108.8

Equity capital ratio: Shareholders' equity/total assets

Equity capital ratio based on market value: Market capitalization/total assets

Ratio of interest-bearing debt to cash flows: Interest-bearing debt/operating cash flows

Interest coverage ratio: Operating cash flows/interest payments

(Note 1) All figures are calculated based on the consolidated financial results.

(Note 2) Market capitalization is calculated based on the number of shares issued excluding treasury stock.

(Note 3) The calculation of the operating cash flow and interest payments used the cash flow from operating activities and interest expenses paid stated in the Consolidated Statement of Cash Flows.

(Note 4) Interest-bearing debt includes all liabilities on the consolidated balance sheet, of which interest payments have been made.

### (3) Basic Policy on Profit Distribution and Dividends for the Current and Next Fiscal Year

The Company considers passing on profits to shareholders to be an important management issue and follows a basic policy of continuously paying out dividends in line with earnings by taking into consideration the balance between shareholder returns and the strengthening of the financial foundation through the enhancement of internal reserves. The Company's dividend payout ratio is targeted at 25% or higher for the foreseeable future.

For the fiscal year under review, the year-end dividend is expected to be 8 yen per share in view of the aforementioned dividend policy. The annual dividend per share will be 16 yen, effectively rising 3 yen from the previous fiscal year.

For the next fiscal year, an annual dividend of 16 yen per share (8 yen for the interim dividend and 8 yen for the year-end dividend) is scheduled. The Company may revise the amount of dividends as appropriate based on changes in its earnings.

### (4) Business Risks, etc.

The following lists the factors that could pose potential risks in the operation of the businesses of the Group. It includes factors that are deemed important for investors in making investment decisions from the standpoint of proactively disclosing information to investors that are otherwise not necessarily considered risks for the business. While the Group's policy, after recognizing the possible occurrence of the risks, is to strive to prevent these risks or deal with them in the event that they occur, the Company believes that investment decisions regarding its shares should be made after careful consideration of the factors in this section as well as other factors in this material.

Factors related to future prospects are those that were determined by the Group as of the release of this material (April 12, 2017).

#### I. Businesses, etc.

##### (i) Purchasing second-hand items

Ensuring a stable supply of merchandise is positioned as an important issue in operating the Company's business because unlike new products, it is difficult to adjust the purchase volume of second-hand items. For this reason, the Company strives to secure merchandise consistently by diversifying its procurement channels, such as in-store purchases from general customers, home-visit purchases made by visiting a customer's home, home-delivery purchases, and also purchases from dealers that handle new and second-hand products.

The Company's earnings, however, may be affected if it fails to ensure stable procurement due to a rise in purchasing prices, a lack of merchandise availability, etc. due to reasons including future economic trends, an emergence of competitors, and an increase in the use of mobile applications for trading between individuals.

##### (ii) Procurement risks of counterfeit products

The Group handles brand-name goods. Counterfeits of branded products may be circulating, and there is a risk that such products could be brought into the Group as purchased items.

The Group is doing its utmost to prevent the circulation of counterfeit products by joining a private-sector organization whose purpose is to prevent and do away with the circulation of fake and fraudulent products, obtaining information on counterfeits, creating an in-house manual to determine authenticity, and establishing a system that allows the sharing of information on authenticity.

However, pitfalls exist in terms of risks arising from counterfeit products, and the Group's earnings could be affected if a major problem occurs and trust toward the Group's stores declines.

##### (iii) Developing franchise (FC) stores

The Group had concluded the following franchise agreements as of the end of the fiscal year ended February 28, 2017:

Four franchise stores of Treasure Factory in the category of General Reuse Stores

Fifteen franchise stores of Kindal stores in the category of Fashion Reuse Stores

The Group provides the franchise stores with its original expertise and systems and receives royalties, etc. in return. Any scandal arising from a franchise store could damage the brand image of the entire Group and adversely affect the business performance and financial position of the Group. The franchise contract allows its termination at the request of a franchise store operator, even prior to the end of the contract term. There may therefore be a risk of a current franchise store operator terminating its contract.

## II. Store openings

### (i) Opening/closing stores

Changes in the number of the Company's directly-managed stores during the most recent five years are as follows:

	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
New store openings (number of stores)	7	7	9	9	8
Store closings (number of stores)	—	—	—	—	—
Stores at end of FY (number of stores)	62	69	78	87	95

The Company, in selecting store openings, makes a decision based on property conditions, contract terms, population of the surrounding regions and their dynamics, transportation accessibility, the status of competitors, among other factors. For this reason, the Company's earnings could be affected if it is unable to secure a desirable property at the time the Company wish to secure.

Also, the Company may have decided to close a store due to deteriorating earnings, among other reasons, or may be forced to close a store because of contract termination resulting from matters such as those related to a lessor, even if the store is delivering sounds earnings. For these reasons, the Group's earnings may be affected as a result of impairment loss or loss on closing of stores.

### (ii) Lease and guarantee deposits

The Group's basic policy is to develop stores by leasing properties when planning to open stores. The Company pays lease and guarantee deposits to lessors when leasing properties, with this balance totaling 1,193,109 thousand yen (15.9% of total assets) as of the end of the fiscal year ended February 28, 2017.

These lease and guarantee deposits are to be returned at the time the contracts are dissolved, but possibility exists that a portion or all of these deposits may not be returned as a result of the lessor's reasons. Further, a portion of the lease and guarantee deposits may not be returned depending on the provisions of a contract if the Group decides to terminate the lease contract based on its own circumstances.

### (iii) Dependence on interest-bearing debt

The Group procures a portion of the funds associated with store openings in the form of loans from financial institutions. The amount of interest-bearing debt as of the end of the fiscal year ended February 28, 2017 stood at 2,309,183 thousand yen, which equals 30.8% of total assets. The Group will not be affected by fluctuations in interest rates for a specific period of time because long-term loans are borrowed at fixed interest rates; however, the Group's earnings may be affected in the event that interest rates rise due to economic conditions, etc. when it takes out a new loan in the future.

## III. Legal regulations

### (i) Regulations associated with the Secondhand Articles Dealer Act

The Group receives approval from the public safety commission of each prefecture for operating its businesses when opening stores because it handles merchandise specified as secondhand articles as per the Secondhand Articles Dealer Act. The Group thoroughly maintains its ledgers for secondhand articles, has an internal manual in place to comply with the Secondhand Articles Dealer Act, and trains its employees, among other endeavors, in order to conduct its business appropriately in accordance with this Act. While there are no grounds for the rescission of the approval given to the Group as of the release of this material, any violation of a regulation provided for in the Act by the Group may result in the revocation of its approval to conduct business, the suspension of its business, or other penalties, which may affect the Group's earnings.

Further, if an item purchased by the Group is either a lost or stolen item, the Group will have to return such an item to the victim or owner for free of charge if it is less than one year since the item was lost or stolen. In this event, the Group will incur a loss.

### (ii) Managing personal information

The Group may obtain a customer's personal information when it purchases a product from him/her pursuant to regulations such as the Secondhand Articles Dealer Act. The Group may also obtain the personal information of customers or candidates for hire through its website.

For this reason, the Group has been working to strengthen the management of personal information through improving the internal management structure by establishing internal regulations that stipulate personal information management, educating employees, managing the access to its network system as a way of preventing unauthorized access, and taking other measures,



and will continue to strive to protect personal information in the future.

If personal information is leaked despite these measures, the Group's earnings may be affected as a result of a loss of public trust and large expenses incurred in dealing with the event, among other reasons.

(iii) Other legal regulations

The Act on Specified Commercial Transactions, the Building Standards Act, the Act on Recycling of Specified Kinds of Home Appliances, and the Waste Management and Public Cleansing Act are among the other laws that regulate and apply to the Group.

The Group's earnings may be affected in the event that new costs are incurred in association with an amendment to various laws and regulations such as expanding the scope of standards that apply to social insurance for part-time workers.

IV. Business structure

(i) Securing and cultivating human resources

Although the Group is developing and working to secure human resources in line with an increase in the number of stores, the Group's earnings may be affected by any difficulty in developing stores due to an inability to secure sufficient human resources or a delay in human resource development from the store development plan.

V. Other

(i) Natural disasters

Of the total of 136 stores as of the end of the fiscal year ended February 28, 2017, 98 are located in the Tokyo metropolitan area. For this reason, the Group's earnings may be seriously affected by any physical or human loss due to an earthquake, storm, or flood damage (storm, downpour, flooding, or tsunami), excessive heat or heat wave, heavy snow, volcanic eruption, or any other abnormal natural phenomenon that strikes Tokyo or the surrounding areas.

The Group's earnings may also be significantly affected in the event of the interruption of a lifeline supply such as a shortage of electricity and fuel, the suspension of communications, or the stoppage of transport functions and water caused by a natural disaster in areas where the Group operates its stores and difficulty in continuing operations arises as a result of an evacuation order or an advisory by the authorities.

(ii) Subscription rights to shares

The Group issues subscription rights to shares with the intention of boosting the motivation and morale of its directors and employees to improve the Group's business performance and to secure outstanding human resources. The total number of dilutive shares as a result of subscription rights to shares stood at 554,000 as of the end of the fiscal year ended February 28, 2017, which would equal 4.7% of the total shares outstanding if all of the subscription rights were exercised. The Group plans to issue more subscription rights to shares as appropriate, and as such, new shares issued as a result of exercising the subscription rights to shares may dilute the value of the Group's shares in the future and impact its share price.

(iii) M&A, etc.

The Group plans to actively consider M&A, capital alliances, etc. ("M&A, etc.") in order to advance into new regions or businesses and strengthen its existing businesses, etc. Prior to implementing M&A, etc., the Group will conduct research and analysis of the target business, applicable region, market conditions, and business and financial position, etc. of the counterpart. The implementation of M&A, etc., however, may not progress as planned due to factors such as rapid changes in the external environment, the outflow of human resources, and a conflict of interest between the parties involved. If restrictions, etc. at the stage of considering M&A, etc. prevent adequate research and analysis, contingent or unrecognized liabilities may arise after the implementation. In addition, any decline in the financial performance of the counterpart may result in difficulties recovering the investment, additional expenses incurred, impairment of goodwill, etc., or other factors, which may affect the operating results and financial position of the Group.

## 2. Status of the Company Structure

The Group (the Company and its affiliated companies) consists of the Company and two subsidiaries.

The Company operates reuse stores based on the concept behind the company name Treasure Factory, which is founded on the management philosophy of providing people with pleasure, discoveries, and excitement.

The Company mainly handles second-hand products, known as reused items (including unused products and inventory clearance items from manufacturers), which include a wide range of goods such as apparel, home appliances, furniture, daily sundries, brand-name products, sports and outdoor goods, instruments and hobby-related items.

The Company operates six store types below.

- Treasure Factory: handles a wide range of reused products
- Treasure Factory Style: specializes in handling apparel and fashion items
- Brand Collect: specializes in handling brand-name second-hand items
- Treasure Factory Sports: specializes in handling sports and outdoor products
- UseLet: specializes in handling inexpensive apparel and fashion items
- Treasure Factory Market: specializes in handling electric appliances and furniture at large-scale reuse stores developed specifically for suburban areas

The Company also conducts sales outside of the stores on the Internet.

Procurement of reuse items that the Company handles are done through purchases from general customers, as well as from dealers that handle both new and second-hand items and from the secondhand market (hereinafter “purchases from dealers”). Purchases from general customers are in the form of purchases brought in by customers into stores or home-visit purchases in which visits are made to customers’ homes to purchase items. An efficient and flexible structure has been set up for home-visit purchases as they are registered collectively at call centers. In addition, the Company also conducts purchases via home deliveries with its website as the main location of contact.

The Company has set up a Purchase Department and a distribution center separately from stores in order to enhance its product lineup through purchases from dealers, in addition to purchase from general customers. The Company also has been working on large-scale procurement projects, which has led to the strengthening of its procurement ability, by making use of its sales capability and distribution network based on a store network through dominant store openings.

The Company has been building a procurement structure that allows a variety of reuse items to be available in a steady manner at stores by retaining diversified procurement channels ranging from general purchases to purchases from dealers.

In addition to the above, the Company also conducts the fashion rental business and the Treasure Factory moving service, offering one-stop solutions for moving and purchases.

Kindal, a consolidated subsidiary, operates reuse stores specializing in the brand-name reuse clothing network of directly-managed stores and franchise stores in the Tokyo metropolitan area and Kansai area.

Treasure Factory (Thailand) Co., Ltd., a consolidated subsidiary, operates one store categorized under Treasure Factory General Reuse Stores in Bangkok, Thailand.

The status of stores as of February 28, 2017, is as follows.

Name	Location
Head office	3 Kanda-Neribeicho, Chiyoda-ku, Tokyo
Distribution center	Minami-ku, Saitama, Saitama Prefecture
Style center	Midori-ku, Sagamihara, Kanagawa Prefecture
Fulfillment center	Toda-shi, Saitama Prefecture
General Reuse Stores Treasure Factory (57 directly-managed stores, four franchise stores)	13 stores in Tokyo, 10 stores in Kanagawa Prefecture, 16 stores in Saitama Prefecture, nine stores in Chiba Prefecture, one store in Ibaraki Prefecture, four stores in Fukushima Prefecture, one store in Aichi Prefecture, one store in Kyoto Prefecture, four stores in Osaka Prefecture, one store in in Hyogo Prefecture, one store in in Fukuoka Prefecture
Fashion Reuse Stores Treasure Factory Style (29 directly-managed stores)	13 stores in Tokyo, five stores in Kanagawa-ken, three stores in Saitama Prefecture, five stores in Chiba Prefecture, two stores in Osaka Prefecture, one store in in Hyogo Prefecture
Brand-Name Fashion Reuse Stores Brand Collect (two directly-managed stores)	Two stores in Tokyo
Sports and Outdoor Reuse Stores Treasure Factory Sports (two directly-managed stores)	One store in Kanagawa Prefecture, one store in Chiba Prefecture
Fashion Outlet Reuse Stores UseLet (four directly-managed stores)	Four stores in Saitama Prefecture

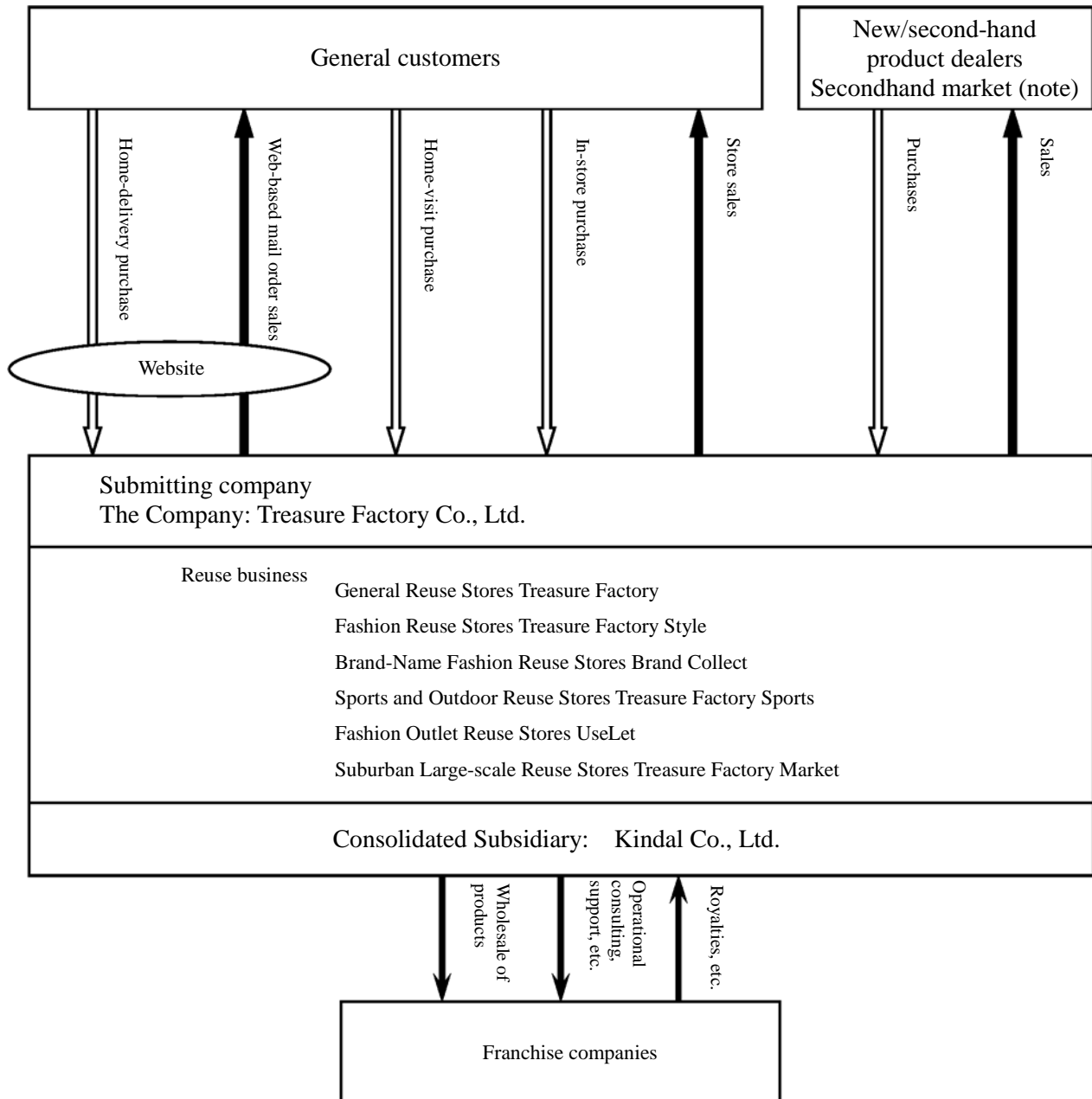
Name	Location
Suburban Large-scale Reuse Stores Treasure Factory Market (one directly-managed store)	One store in Chiba Prefecture

The status of stores of Kindal Co., Ltd. as of February 28, 2017 is as follows.

Name	Location
Brand-name Reuse Clothing Specialist Kindal (21 directly-managed stores and 15 franchise stores)	14 stores in Tokyo, one store in Aichi Prefecture, one store in Niigata Prefecture, one store in Shiga Prefecture, one store in Nara Prefecture, one store in Wakayama Prefecture, two stores in Kyoto Prefecture, nine stores in Osaka Prefecture, six stores in Hyogo Prefecture

In addition to the above, the Group has a store that is directly managed by Treasure Factory (Thailand) Co., Ltd. in Bangkok, Thailand.

[Diagram of the Company's business structure]



(Note) The secondhand market refers to one (a market consisting of sales or exchanges of secondhand articles between secondhand articles dealers) provided for in Article 2, Paragraph 2, Item 2 of the Secondhand Articles Dealer Act for which the main players are those that have obtained approval stipulated in the Act from a public safety commission (referred to as “secondhand market dealers”). Secondhand market dealers have formulated their own respective agreements in the secondhand market and criteria are already established for newcomers to the market, and thus, it is not necessarily the case that anyone who has obtained approval to conduct a secondhand business could participate.

### 3. Management Policy

#### (1) The Company's Basic Management Policy

The Company's management policy is to contribute to the realization of a recycling-based society that adheres closely to the needs in life by promoting its management philosophy of providing people with pleasures, discoveries, and excitement.

With the reuse business at the core, the Company aims at continuous and steady growth by proactively developing its businesses based on this management policy. Also, the Company, in order to realize its management philosophy, is in pursuit of an organization in which employees can exhibit their capabilities to the fullest and produce major achievements that otherwise cannot be delivered by one person alone.

#### (2) Target Management Indicators

The Group aims to generate high earnings through continued growth on the back of proactive business development. In terms of management indicators, the Company focuses on ratio of ordinary income to net sales, which indicates the earnings capacity of a business or a company. In addition, ROE (return on equity) is an important management indicator in aiming to improve profitability and capital efficiency from the standpoint of shareholders.

#### (3) The Company's Medium- to Long-Term Management Strategy

The Group's medium-term management strategy is as follows:

(i) By opening multiple types of stores, accelerate store openings in major cities throughout Japan

The Group operates seven store types, including Treasure Factory General Reuse Stores and Treasure Factory Fashion Reuse Stores. It aims to open stores in major cities nationwide by establishing a structure in which directly-managed stores can be opened at a rate of 10 stores per year by combining multiple numbers of store types.

(ii) Work to develop new businesses by taking advantage of our comprehensive strength in handling used products

In order to meet diverse customer needs, the Group will put a system in place that enables the provision of a wide variety of used products by developing the general reuse business and various specialist businesses.

(iii) Promote the expansion of the online business and revenue via the Internet

The Group aims to expand overall earnings by combining services provided in physical stores and services provided via the Internet. The overall expansion of earnings will be sought by enhancing purchases via the Internet based on a pre-assessment service using smartphones and a home delivery purchase service and by increasing sales via the Internet through expanded coverage, from the current focus on fashion items to used products as a whole in addition to fashion items.

(iv) Develop reuse operations overseas

To achieve the sustainable growth of business over the medium to long term, the Group's policy is to develop the Reuse Business not only in Japan, but also overseas. Currently, it operates one store categorized under Treasure Factory General Reuse Stores in Bangkok, Thailand. Going forward, it will look to promote multi-store development in Thailand and incorporate this initiative into its efforts to build an earnings base for the Reuse Business overseas.

#### (4) The Company's Challenges

Competition in the industry is picking up steam, with the second-hand retail industry witnessing an acceleration of multiple store developments by major reuse store chains; entries from other industries; and an increase in the number of services for buying and selling of second-hand items via the Internet, among other developments.

In order to promote further business growth in this environment, the challenges include firmly establishing a structure that enables store development in large areas, securing products as well as human resources and cultivating them as well as strengthening buying and selling goods via the Internet. Specific challenges and their countermeasures are as shown below.

(i) Store development in large areas

The Company has been opening directly-managed stores through a dominant strategy (note) centered on Tokyo in order to realize efficient distribution, improve recognition in the region and optimize advertising, among other initiatives. Going forward, the Company will continue to focus store openings on Tokyo, while simultaneously working on proactively opening stores in other regions. The Company will move forward with strengthening its store development structure, swiftly and sufficiently securing properties for store openings as well as strengthening a product support structure for distant stores to have the capability to open multiple stores in large areas.

(Note) Refers to store openings that focus on a specific region.

(ii) Strengthening product purchasing

The Company will strengthen general purchasing based on three pillars: namely in-store purchases, home-visit purchases, which involve purchasing by visiting customers' homes, and home-delivery purchases, which respond to requests for purchases from a distant location using home-delivery services. With respect to in-store purchases, it will utilize a points service to enhance returns

to customers and provide convenience that can only be achieved at physical stores. In addition to the above, it will seek to increase general purchasing opportunities as a whole by strengthening purchases of large household appliances, furniture, etc. based on an enhanced home-visit purchase system and purchases of fashion items from around the country using boosted home delivery purchases. The Company will also promote its ties with companies such as condominium management companies and moving companies in a bid to introduce its purchasing services to customers of each of these firms and for their ultimate use. Meanwhile, the Company will continue to strengthen corporate purchases from dealers that handle new and second-hand items. It will move forward with developing large lot purchases from dealers by utilizing its distribution center to secure sufficient supplementary stock for new store inventory as well as for existing stores.

(iii) Securing and cultivating human resources

In the businesses operated by the Group, the operation of stores in a flexible manner that does not rely solely on manuals is required as it handles a diverse range of merchandise and responds to ever-changing customer needs. Accordingly, it is necessary to secure and cultivate independent human resources that have the ability to consider matters and act of their own volition in response to any situation.

In light of its plan to open at least 10 stores every year, the Company will continue to work on securing human resources by strengthening its efforts to hire newly graduated as well as mid-career candidates, along with proactively turning part-timers into full-fledged employees as a way to sufficiently secure outstanding human resources.

In addition, the Company will work on making the secured human resources competitive workforce early by establishing a dedicated training department and enhancing the content of training for an early development of human resources.

(iv) Strengthening buying and selling via the Internet

Purchases and sales of reused items via the Internet are expanding as a result of the popularization of smartphones, among other factors. The Group has been working on continuously strengthening purchases and sales via the Internet, mainly of apparel and fashion items. Going forward, it will continue to proactively promote purchases and sales via the Internet of other reuse items in addition to apparel and fashion items. In order to achieve the above, the Group will improve convenience and expand the product lineup on each website and strengthen the internal systems.

#### 4. Policy on the Choice of Accounting Standards

The Group has adopted the Japanese standards. The Company will take conditions in Japan and overseas into consideration to make an appropriate decision as to whether to adopt IFRS (International Financial Reporting Standards).

## 5. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

(Thousand yen)

	Fiscal year under review (February 28, 2017)
<b>Assets</b>	
Current assets	
Cash and deposits	1,349,920
Accounts receivable - trade	340,364
Merchandise	2,552,420
Supplies	6,021
Deferred tax assets	117,682
Other	296,572
Total current assets	4,662,983
Non-current assets	
Property, plant and equipment	
Buildings and structures, net	951,651
Land	141,555
Construction in progress	2,035
Other, net	232,735
Total property, plant and equipment	1,327,978
Intangible assets	
Goodwill	53,532
Other	39,417
Total intangible assets	92,950
Investments and other assets	
Investment securities	4,606
Deferred tax assets	75,186
Lease and guarantee deposits	1,193,109
Other	139,057
Total investments and other assets	1,411,959
Total non-current assets	2,832,887
Total assets	7,495,870

(Thousand yen)

Fiscal year under review (February 28, 2017)	
<b>Liabilities</b>	
Current liabilities	
Accounts payable - trade	32,339
Short-term loans payable	970,000
Current portion of long-term loans payable	284,429
Income taxes payable	65,419
Provision for bonuses	188,700
Provision for shareholder benefit program	13,199
Provision for sales returns	22,686
Provision for point card certificates	37,999
Other	702,343
Total current liabilities	2,317,115
Non-current liabilities	
Long-term loans payable	1,054,754
Asset retirement obligations	411,097
Other	14,029
Total non-current liabilities	1,479,880
Total liabilities	3,796,995
<b>Net assets</b>	
Shareholders' equity	
Capital stock	390,093
Capital surplus	325,093
Retained earnings	3,232,300
Treasury shares	-261,921
Total shareholders' equity	3,685,565
Accumulated other comprehensive income	
Foreign currency translation adjustment	-1,277
Total accumulated other comprehensive income	-1,277
Subscription rights to shares	4,570
Non-controlling interests	10,016
Total net assets	3,698,874
Total liabilities and net assets	7,495,870



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

(Thousand yen)

	Fiscal year under review (from March 1, 2016 to February 28, 2017)
Net sales	13,325,035
Cost of sales	4,793,158
Gross profit	8,531,876
Provision for sales returns	22,686
Reversal of provision for sales returns	21,868
Gross profit - net	8,531,058
Selling, general and administrative expenses	7,796,529
Operating income	734,529
Non-operating income	
Interest income	193
Income from vending machines	14,000
Subsidy income	7,220
Income from sales of disposable items	4,894
Other	4,817
Total non-operating income	31,125
Non-operating expenses	
Interest expenses	3,043
Foreign exchange losses	3,340
Other	1,235
Total non-operating expenses	7,619
Ordinary income	758,036
Extraordinary losses	
Loss on sales of non-current assets	386
Loss on retirement of non-current assets	2,333
Impairment loss	25,304
Total extraordinary losses	28,025
Profit before income taxes	730,011
Income taxes - current	264,424
Income taxes - deferred	-19,709
Total income taxes	244,715
Profit	485,296
Profit attributable to non-controlling interests	—
Profit attributable to owners of parent	485,296

(Consolidated Statement of Comprehensive Income)

(Thousand yen)

	Fiscal year under review (from March 1, 2016 to February 28, 2017)
Profit	485,296
Other comprehensive income	
Foreign currency translation adjustment	-1,277
Total other comprehensive income	-1,277
Comprehensive income	484,019
Comprehensive income attributable to	
Comprehensive income attributable to owners of parent	484,019
Comprehensive income attributable to non-controlling interests	—

## (3) Consolidated Statement of Changes in Equity

Fiscal year under review (from March 1, 2016 to February 28, 2017)

(Thousand yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of period	369,743	304,743	2,917,867	-150,070	3,442,284
Changes of items during period					
Issuance of new shares	20,349	20,349			40,699
Dividends of surplus			-170,863		-170,863
Profit attributable to owners of parent			485,296		485,296
Purchase of treasury shares				-111,851	-111,851
Net changes of items other than shareholders' equity					
Total changes of items during period	20,349	20,349	314,432	-111,851	243,280
Balance at the end of period	390,093	325,093	3,232,300	-261,921	3,685,565

	Accumulated other comprehensive income		Subscription rights to shares	Non-controlling interests	Total net assets
	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at the beginning of period	—	—	5,280	—	3,447,564
Changes of items during period					
Issuance of new shares					40,699
Dividends of surplus					-170,863
Profit attributable to owners of parent					485,296
Purchase of treasury shares					-111,851
Net changes of items other than shareholders' equity	-1,277	-1,277	-709	10,016	8,029
Total changes of items during period	-1,277	-1,277	-709	10,016	251,310
Balance at the end of period	-1,277	-1,277	4,570	10,016	3,698,874

## (4) Consolidated Statement of Cash Flows

(Thousand yen)

	Fiscal year under review (from March 1, 2016 to February 28, 2017)
Cash flows from operating activities	
Profit before income taxes	730,011
Depreciation	256,254
Impairment loss	25,304
Increase (decrease) in provision for bonuses	-1,805
Increase (decrease) in provision for shareholder benefit program	5,504
Increase (decrease) in provision for point card certificates	5,494
Increase (decrease) in provision for sales returns	817
Interest and dividend income	-193
Interest expenses	3,043
Foreign exchange losses (gains)	-1,194
Loss (gain) on retirement of non-current assets	2,720
Decrease (increase) in notes and accounts receivable - trade	48,097
Decrease (increase) in inventories	-264,364
Increase (decrease) in notes and accounts payable - trade	-5,229
Other	8,033
Subtotal	812,496
Interest and dividend income received	194
Interest expenses paid	-3,045
Income taxes paid	-478,232
Cash flows from operating activities	331,412
Cash flows from investing activities	
Purchase of property, plant and equipment	-320,033
Purchase of intangible assets	-17,942
Payments for lease and guarantee deposits	-124,369
Proceeds from collection of lease and guarantee deposits	34,023
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-160,819
Other	-39,505
Cash flows from investing activities	-628,648
Cash flows from financing activities	
Net increase (decrease) in short-term loans payable	356,662
Proceeds from long-term loans payable	616,000
Repayments of long-term loans payable	-177,040
Proceeds from issuance of common shares	39,990
Purchase of treasury shares	-111,851
Cash dividends paid	-170,688
Proceeds from share issuance to non-controlling shareholders	10,016
Other	-1,683
Cash flows from financing activities	561,404
Effect of exchange rate change on cash and cash equivalents	-82
Net increase (decrease) in cash and cash equivalents	264,085
Cash and cash equivalents at beginning of period	1,072,428
Cash and cash equivalents at end of period	1,336,514

(5) Consolidated Notes on Financial Statements

(Notes on the going concern assumption)

Not applicable

(Change in accounting policy)

(Application of the Practical Solution to the Change in the Depreciation Method Due to Tax Reform 2016)

With the amendment of the Corporation Tax Act, the Company began applying the Practical Solution to the Change in the Depreciation Method Due to Tax Reform 2016 (PITF No. 32 issued on June 17, 2016) in the first quarter of the fiscal year under review, and changed the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining balance method to the straight-line method.

This change produced insignificant effects on consolidated operating income, consolidated ordinary income and consolidated profit before income taxes for the fiscal year under review.

(Business combinations, etc.)

(1) Outlines of business combination

(i) Name and business of the acquired company

Name of the acquired company Kindal Co., Ltd.

Details of the business Fashion items reuse business

(ii) Main reasons for business combination

The Company has acquired shares of the stock of Kindal Co., Ltd. with the aim of accelerating the growth of reuse services in the brand-name reuse clothing market by welcoming Kindal, with its high level of recognition and expertise in the brand-name reuse clothing market, into the Group.

(iii) Date of business combination

November 30, 2016 (deemed acquisition date)

(iv) Legal form of business combination

Share acquisition in exchange for cash

(v) Name of the entity after the business combination

No change

(vi) Percentage share of voting rights the Company has acquired

100%

(vii) Grounds for determining the acquired company

Because the Company acquired 100% of the voting rights of the target company through share acquisition in exchange for cash

(2) Period of the acquired company's financial results included in the consolidated financial statements

From December 1, 2016 to February 28, 2017

(3) Acquisition cost for the acquisition of the target company and breakdown by type of consideration

Consideration for acquisition	In cash	427,200 thousand yen
Acquisition cost		427,200 thousand yen

(4) Content and amount of major expenses associated with the acquisition

Fees, commissions, etc. for external advisors 55,932 thousand yen

(5) Amount of goodwill that arose, reason for recognizing goodwill, amortization method and amortization period

(i) Amount of goodwill that arose

54,904 thousand yen

(ii) Reason for recognizing goodwill

The main reason is the additional future income-generating power expected to derive from business development going forward.

(iii) Amortization method and amortization period

Straight-line method over 10 years

(6) Amounts of assets and liabilities acquired on the date of the business combination and major breakdown thereof

Current assets	1,060,755 thousand yen
Non-current assets	256,066 thousand yen
Total assets	1,316,821 thousand yen
Current liabilities	438,463 thousand yen
Non-current liabilities	506,062 thousand yen
Total liabilities	944,526 thousand yen

(7) Approximate amounts of impact on the consolidated statement of income for the fiscal year under review assuming that the business combination was completed on the commencement date of the fiscal year

Net sales	1,950,655 thousand yen
Operating income	-39,487 thousand yen
Ordinary income	-46,958 thousand yen

(Calculation method of the approximate amounts)

The difference between the net sales and profit and loss information calculated as if the business combination completed as of the date of the commencement of the consolidated fiscal year and the net sales and profit and loss information in the income statement of the acquired company is defined as the estimated amount of effect.

This explanatory note has not received audit certification.

(Segment information)

[Segment information]

The Company operates a reuse business and information on other business segments has been omitted as it has little importance.

(Per share information)

	Fiscal year under review (from March 1, 2016 to February 28, 2017)
Net asset per share	333.69 yen
Net income per share	43.97 yen
Diluted net income per share	42.76 yen

(Notes) 1. The basis for calculating net asset per share is as shown below.

	Fiscal year under review (from March 1, 2016 to February 28, 2017)
Total net assets (thousand yen)	3,698,874
Amount deducted from the total net assets (thousand yen)	14,586
(of which the amount of subscription rights to shares (thousand yen))	(4,570)
(of which the amount of non-controlling interests (thousand yen))	(10,016)
Net assets associated with common shares at the end of the fiscal year (thousand yen)	3,684,287
Number of common shares at the end of the fiscal year used to calculate net asset per share (shares)	11,041,069

2. The basis for calculating net income per share and diluted net income per share is shown below.

	Fiscal year under review (from March 1, 2016 to February 28, 2017)
Total net assets	
Amount of profit attributable to owners of parent (thousand yen)	485,296
Amount not attributable to common shareholders (thousand yen)	—
Amount of profit attributable to owners of parent associated with common stock (thousand yen)	485,296
Average number of shares outstanding during the fiscal year (shares)	11,037,413
Amount of diluted net income per share	
Amount of net income attributable to owners of parent (thousand yen)	—
Increase in the number of common shares (shares)	313,402
(of which the number of subscription rights to shares (shares))	(313,402)
Descriptions of potentially dilutive common shares that were not included in the computation of diluted net income per share because it does not have a dilutive effect.	—

(Significant subsequent events)

#### **Issuance of subscription rights to shares**

The Company resolved at a meeting of the Board of Directors held on April 12, 2017 to issue subscription rights to shares.

##### **(1) Purpose of the issuance of subscription rights to shares**

The Company will issue subscription rights to shares for value to the Directors and employees of the Company and its affiliated companies for the purpose of enhancing their motivation and morale and improving their commitment to the enhancement of business performance with the aim of increasing the Group's corporate value over the medium to long term.

##### **(2) Guidelines for subscription rights to shares**

- (i) Number of subscription rights to shares: 5,380
- (ii) Issuance value: 1,414 yen per one subscription right to share
- (iii) Subscription date: April 21, 2017
- (iv) Allotment date for subscription rights to shares: April 28, 2017
- (v) Payment date: May 31, 2017

##### **(3) Contents of subscription rights to shares**

- (i) Class and number of shares to be issued upon exercise of subscription rights to shares: 538,000 shares of common stock of the Company (100 shares per one subscription right to share)
- (ii) Exercise value: 779 yen per share
- (iii) Total amount to be issued: 426,709,320 yen

##### **(4) Exercise period:** From June 1, 2019 to April 28, 2021

##### **(5) Conditions of exercise**

- (i) A holder of subscription rights to shares may exercise such rights up to the number of such rights corresponding to the specified ratio within the number of shares allotted to him/her (hereinafter referred to as "exercisable ratio") on and after the first day of the month after the month in which the securities report for the fiscal year ending February 2019 is submitted, only if the reference index (meaning the amount obtained by adding the amount of depreciation and the amount of amortization of goodwill stated in the consolidated statement of cash flows to the amount of operating income stated in the audited consolidated income statement of the Company; the same shall apply hereinafter) in the two business years from the fiscal year ending February 2018 to the fiscal year ending February 2019 meets the conditions stated in (a) or (b) below. If





**Cancellation of treasury stock**

At a meeting of Board of Directors held on April 12, 2017, the Company reached the following resolutions on the cancellation of treasury stock pursuant to the provisions of Article 178 of the Companies Act.

- |  |   |
|--|---|
| (1) Class of shares to be cancelled                | Common stock of the Company               |
| (2) Total number of shares to be cancelled         | All the shares acquired based on 2. above |
| (3) Planned date of cancellation of treasury stock | April 20, 2017                            |

## 6. Other

### (1) Director Transfers

#### (i) Change in representative director

Not applicable

#### (ii) Changes in other officers

Will be disclosed when disclosure contents are finalized