

Brief announcement of non-consolidated financial statements (Japanese GAAP) for the second quarter of fiscal year ending March 2017

October 27, 2016

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 Code number: 4679 (First Section)
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Shihanki-Houkokusho to be submitted on: November 8, 2016
 Preparing supplementary material for quarterly financial results: Yes
 Holding quarterly financial results presentation meeting: Yes

(Amounts less than 1 million yen were rounded down.)

1. Financial results for the second quarter of FY2016 (year-to-date: April 1 to September 30, 2016)

(1) Operating results (Accumulated total) (The percentages denote year-on-year change)

	Sales		Operating income		Ordinary income	
	million yen	%	million yen	%	million yen	%
Second Qtr. FY2016 (YTD)	5,695	(1.9)	(174)	-	(173)	-
Second Qtr. FY2015 (YTD)	5,807	0.7	(228)	-	(227)	-

	Net profit		Net profit per share		Net profit per share after adjustment of latent shares	
	million yen	%	yen	sen	yen	sen
Second Qtr. FY2016 (YTD)	(210)	-	(42.15)	-	-	-
Second Qtr. FY2015 (YTD)	(264)	-	(52.87)	-	-	-

(2) Financial position

	Total assets	Net assets	Capital ratio	Net assets per share
	million yen	million yen	%	yen sen
Second Qtr. FY2016	6,213	2,565	41.3	513.44
FY2015	6,798	2,776	40.8	555.60

(Reference) Equity capital: Second quarter of FY2016: 2,565 million yen, FY2015: 2,776 million yen

2. Dividend payments

(Base date)	Dividend per share				
	At end of first quarter	At end of second quarter	At end of third quarter	Fiscal year-end	Annual dividend
	yen sen	yen sen	yen sen	yen sen	yen sen
FY2015	-	0.00	-	0.00	0.00
FY2016	-	0.00	-	-	-
FY2016 (forecast)	-	-	-	-	-

(NOTE) Revision of forecast for dividends announced recently: None

The year-end dividend will be determined based upon the business performance for the fiscal year ending March 31, 2017.

3. The projected financial results for the period ending March 2017 (April 1, 2016 to March 31, 2017)

(The percentages denote year-on-year change.)

	Sales		Operating income		Ordinary income		Current net profit		Current net profit per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen sen
Full year	11,644	(1.7)	18	-	13	-	(35)	-	(7.00)

(NOTE) Revision of forecast for this quarter announced recently: None

*Notes

(1) Application of accounting procedures unique to the preparation of quarterly financial statements: None

(2) Changes in accounting policy, changes in accounting estimates and restatement

1) Changes in accounting policy associated with the revision of accounting standards, etc.: Yes

2) Changes in accounting policy other than those in 1) above: None

3) Changes in accounting estimates: None

4) Restatement: None

(Note) Please refer to “2. Matters regarding summary information (Notes) (2) Changes in accounting policy, changes in accounting estimates, and restatement” on Page 6 of the accompanying material for details.

(3) Number of outstanding shares (common stocks)

- 1) Number of outstanding shares (including treasury stocks), at the end of the second quarter of the term ending March 2017: 5,100,000 shares; for the year ended March 2016: 5,100,000 shares
- 2) Number of treasury stocks, at the end of the second quarter of the term ending March 2017: 102,946 shares; for the year ended March 2016: 102,946 shares
- 3) Average number of shares, the second quarter of the term ending March 2017: 4,997,054 shares; the second quarter of the term ended March 2016: 4,997,061 shares

* Recording of Implementation Conditions regarding Quarterly Review Procedures

This quarterly financial summary does not fall within the scope of the Quarterly Review Procedures referenced in the Financial Instruments and Exchange Act. At the time of disclosure of the quarterly financial summary, the Company was in the process of implementing quarterly review procedures for its quarterly financial statements.

* Explanation on an appropriate use of the projected business performance and other remarks

Any forward-looking statements such as business performance forecasts contained in this material are based on the information available to the Company and on certain assumptions that we consider to be reasonable at the time of preparation of this document. The actual results may differ considerably due to various factors. For suppositions that form the assumptions for forecasts and important notes for using such business performance projections, please refer to "Explanation regarding forecast information such as earnings forecast" on page 5 of the accompanying material.

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1. Qualitative information regarding results for this quarter

(1) Explanation regarding business results

During the first six months of the fiscal year under review, Japan's economy continued to recover at a modest pace, supported by improvements to corporate earnings and employment conditions, which were underpinned by various economic policies implemented by the government. However, the outlook for the economy remained uncertain on the back of downturns in China's economy and other emerging economies in Asia, as well as the rapid appreciation of the yen.

The beauty industry continued to face a tough business environment due to factors such as a slump in consumer sentiment as consumers became more budget-minded, an increase in competition among salons within the industry, and difficulty securing beauticians as a result of tightening supply-demand conditions in the labor market.

Under these circumstances, the Company encouraged customers to visit our salons by delivering three special offers and strengthening product sales by offering a new product line to "help customers look beautiful every day and anywhere."

Regarding salons, the Company changed the brand of Courreges salon beaute atre Oimachi to TAYA atre Oimachi.

Consequently, the Company posted the following operating results for the second quarter YTD of the fiscal year ending March 31, 2017: sales of 5,695 million yen, a decrease of 1.9% year on year, operating loss of 174 million yen (operating loss of 228 million yen a year earlier), ordinary loss of 173 million yen (ordinary loss of 227 million yen a year earlier), and net loss of 210 million yen (net loss of 264 million yen a year earlier).

In view of changes in the management environment in recent years, the Company formulated the "Medium-term Management Improvement Plan (FY2016–FY2018)," which started in FY2016. During the fiscal year under review, the first year of the plan, we are promoting initiatives centered on four measures: (1) Human resources measures, (2) Sales measures, (3) Salon measures, and (4) Corporate measures. By implementing these measures, we will achieve an early improvement in earnings and establish a corporate structure that allows a shift to a growth strategy.

(2) Explanation regarding financial position

1) Status of assets, liabilities, and shareholders' equity

Total assets as of the end of the second quarter under review were 6,213 million yen, a decrease of 585 million yen from the end of the previous fiscal year.

Current assets totaled 1,809 million yen, down 566 million yen from the end of the previous fiscal year. Fixed assets amounted to 4,403 million yen, down 19 million yen from the end of the previous fiscal year. The main factors underlying the decrease were a decrease of 463 million yen in cash and deposits, a decrease of 66 million yen in accounts receivable-trade, and a decrease of 15 million yen in buildings.

Total liabilities as of the end of the second quarter stood at 3,647 million yen, down 374 million yen from the end of the previous fiscal year.

Current liabilities amounted to 2,304 million yen, down 290 million yen from the end of the previous fiscal year. Fixed liabilities stood at 1,342 million yen, down 84 million yen from the end of the previous fiscal year. The main factors underlying the decrease were a decrease of 85 million yen of in short-term and long-term loans payable, a decrease of 40 million yen in notes and accounts payable-trade, a decrease of 20 million yen from redemption of corporate bonds, a decrease of 145 million yen in unpaid consumption taxes which are included in "others" in current liabilities, and repayments of guarantee money received of 85 million yen.

The Company's net assets as of the end of the second quarter came to 2,565 million yen, down 210 million yen from the end of the previous fiscal year. As a result, our capital adequacy ratio rose from 40.8% in the previous fiscal year to 41.3%.

2) Cash flows

Cash and cash equivalents (“funds” hereinafter) as of the end of the second quarter decreased by 439 million yen from the previous fiscal year to 823 million yen.

Detailed cash flows and causal factors are shown below.

(Cash flow from operations)

Cash flow from operations for the second quarter YTD was negative 216 million yen (negative 85 million yen for the same period last year).

This is primarily attributable to a pretax net loss of 174 million yen, payment of corporate taxes of 59 million yen, decrease in trade payables of 38 million yen, decrease in bonus reserve of 30 million yen, and decrease in unpaid consumption taxes of 145 million yen, included in “others,” as well as depreciation expenses of 132 million yen and a decrease in accounts receivable-trade of 67 million yen.

(Cash flow from investments)

Cash flow from investments for the second quarter YTD amounted to negative 20 million yen (positive 47 million yen for the same period last year).

This is primarily attributable to an outflow of 26 million yen for purchases of tangible fixed assets associated with the relocation of salons and expenditure of 13 million yen for security deposits and guarantee money payments, while there were proceeds of 12 million yen from collecting security deposits and guarantee money associated with store closings.

(Cash flow from financial activities)

Cash flow from financing activities for the second quarter YTD was negative 202 million yen (positive 101 million yen for the same period for the same period last year).

This is primarily attributable to a net decrease of 85 million yen in short-term and long-term loans payable, repayments of guarantee money received of 85 million yen, and outflow of 20 million yen in redemption of corporate bonds.

(3) Explanation regarding forecast information such as earnings forecast

Regarding the projected business performance for the fiscal year ending March 31, 2017, we considered concerns about the future of consumer spending and published the “Notice concerning the projected business performance” on September 30, 2016. According to the projection, sales are expected to total 11,644 million yen (down 1.7% from the previous fiscal year), operating income of 18 million yen (operating loss of 231 million yen for the previous fiscal year), ordinary income of 13 million yen (ordinary loss of 228 million yen for the previous fiscal year) and net loss of 35 million yen (net loss of 182 million yen for the previous fiscal year).

The projected results are prepared based on the information available as at present, and actual future business performance may differ from the projected figures due to various factors.

2. Matters regarding summary information (Notes)

(1) Application of accounting procedures unique to the preparation of quarterly financial statements

None

(2) Changes in accounting policy, changes in accounting estimates, and restatement

Changes in accounting policy

(Application of Practical Solution on a change in depreciation method due to Tax Reform 2016)

The Company applied the “Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016” (ASBJ Practical Issues Task Force (PITF) No. 32, issued on June 17, 2016) from the first quarter of the fiscal year under review, following the revision of the Corporation Tax Act. Accordingly, the depreciation method of facilities attached to buildings and structures acquired on or after April 1, 2016 was changed from the declining-balance method to the straight-line method.

As a result of this change, operating income, ordinary income, and current net income before tax for the first six months of the fiscal year under review each increased 755 thousand yen.

(3) Additional information

(Application of Implementation Guidance on Recoverability of Deferred Tax Assets)

Effective from the first quarter of the fiscal year under review, the Company applied “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, issued on March 28, 2016).

3. Key events concerning preconditions for business as a going concern

The Company recorded an operating loss and an ordinary loss for three consecutive fiscal periods of the previous fiscal year, which constitute events or conditions that may cast significant doubt over the preconditions of a going concern.

However, the Company determined that there were no concerns about the continuity of business activities in the immediate future after examining cash flow at the end of the second quarter of the fiscal year under review and future cash flow. To eliminate such events or conditions, the Company released the “Medium-term Management Improvement Plan (FY2016–FY2018),” which starts from FY2016, and is designed to improve business performance at an early date and establish a corporate structure that allows a shift to a growth strategy.

Under the plan, we will implement the following four key priority measures: (1) Human resources measures, (2) Sales measures, (3) Salon measures, and (4) Corporate measures. The aim is to enhance technical and service capabilities for our customers, as well as secure sales by encouraging customers to use our special offers and increasing product sales to customers, while improving profits at salons by closing and relocating unprofitable salons and renovating existing salons. In addition, we will promote the consolidation of head office functions by systematizing operations to achieve a “small head office” and reduce costs.

The Company will strive to improve its profitability by implementing those measures and maintaining favorable transaction relationships with financial institutions, which will ensure that its financial position is not undermined. Considering this, the Company has determined that there are no events or conditions that may cast a significant doubt over the preconditions of a going concern.

4. Financial Statements

(1) Balance Sheet for the Second Quarter of FY2016

(Unit: thousand yen)

	Previous fiscal year (as of March 31, 2016)	As of the second quarter of FY2016 (September 30, 2016)
Assets		
Current assets		
Cash and deposits	1,539,061	1,075,114
Accounts receivable-trade	529,700	463,082
Merchandise	81,200	85,458
Materials for beauty treatments	34,974	28,452
Others	191,233	157,531
Bad debt reserves	(324)	(324)
Total current assets	2,375,845	1,809,315
Fixed assets		
Tangible fixed assets		
Building (net value)	1,300,277	1,285,032
Land	1,193,505	1,193,505
Others (net value)	52,342	48,444
Total tangible fixed assets	2,546,124	2,526,981
Intangible fixed assets	35,875	33,678
Investments and other assets		
Security deposit and guarantee money	1,806,505	1,810,666
Others	34,241	32,395
Bad debt reserves	(1)	(1)
Total of investment and other assets	1,840,746	1,843,061
Total fixed assets	4,422,746	4,403,721
Total assets	6,798,592	6,213,037

(Unit: Thousand yen)

	Previous fiscal year (as of March 31, 2016)	As of the second quarter of FY2016 (September 30, 2016)
Liabilities		
Current liabilities		
Notes payable and trade accounts payable	444,688	404,649
Short-term loans payable	101,800	431,200
Corporate bonds to be redeemed within one year	40,000	40,000
Long-term loans due within one year	688,102	336,046
Unpaid corporate taxes	95,717	77,856
Bonus reserve	213,195	182,249
Asset retirement obligations	5,049	45,708
Others	1,006,619	786,816
Total current liabilities	2,595,172	2,304,526
Fixed liabilities		
Corporate bonds	20,000	-
Long-term loans payable	744,356	681,286
Retirement benefit reserve	415,516	411,177
Asset retirement obligations	202,380	201,478
Others	44,821	48,868
Total fixed liabilities	1,427,074	1,342,810
Total liabilities	4,022,247	3,647,336
Net assets		
Shareholders' equity		
Capital stock	1,480,180	1,480,180
Capital surplus	1,702,245	1,702,245
Retained earnings	(246,583)	(457,227)
Treasury stock	(159,497)	(159,497)
Total shareholders' equity	2,776,344	2,565,700
Total net assets	2,776,344	2,565,700
Total liabilities and net assets	6,798,592	6,213,037

**(2) Statement of Income for the Second Quarter of FY2016
(Second Quarter of FY2016 (YTD))**

(Unit: thousand yen)

	Second Qtr. FY2015 (YTD) (April 1 to September 30, 2015)	Second Qtr. FY2016 (YTD) (April 1 to September 30, 2016)
Sales	5,807,666	5,695,179
Cost of sales	5,276,690	5,096,775
Gross profit	530,975	598,403
Sales and administrative expenses	759,152	773,264
Operating loss	(228,176)	(174,861)
Non-operating income		
Interest income	294	109
Real estate lease	6,598	-
Dividend income of insurance	2,800	2,810
Office work fee	2,777	2,777
Compensation income	-	3,000
Others	6,248	4,520
Total non-operating income	18,719	13,218
Non-operating expenses		
Interest expense	11,002	9,326
Real estate rental expenses	4,612	-
Others	2,807	2,847
Total non-operating expense	18,422	12,173
Ordinary loss	(227,878)	(173,815)
Extraordinary losses		
Loss from retirement of fixed assets	8,621	215
Total extraordinary losses	8,621	215
Current net loss before tax	(236,500)	(174,030)
Corporate tax, inhabitant tax and enterprise tax	30,407	29,681
Amount of adjustment for corporate tax	(2,725)	6,931
Total of corporate tax and others	27,682	36,613
Current net loss	(264,182)	(210,644)

(3) Statement of Cash Flows for the Second Quarter of FY2016

(Unit: thousand yen)

	Second Qtr. FY2015 (YTD) (April 1 to September 30, 2015)	Second Qtr. FY2016 (YTD) (April 1 to September 30, 2016)
Cash flow from operations		
Current net loss before tax	(236,500)	(174,030)
Depreciation	132,427	132,706
Increase (decrease) in bonus reserve	(10,878)	(30,946)
Increase (decrease) in retirement benefit reserve	7,896	(4,338)
Interest received	(294)	(109)
Interest paid	11,002	9,326
Loss from retirement of fixed assets	8,621	215
(Increase) decrease in accounts receivable-trade	60,255	67,322
(Increase) decrease in inventory	(10,359)	3,347
Increase (decrease) in trade payables	(17,608)	(38,382)
Others	27,820	(113,174)
Sub-total	(27,615)	(148,063)
Amount of received interest	1,891	147
Amount of interest payable	(11,262)	(9,220)
Income from compensation for closed salons and shops received	12,265	-
Paid corporate taxes	(60,593)	(59,088)
Cash flow from operations	(85,314)	(216,226)
Cash flow from investments		
Payment for time deposits	(284,565)	(220,321)
Income from withdrawal of time deposits	287,054	245,012
Proceeds from sales and redemption of investment securities	100,000	-
Payment for acquisition of tangible fixed assets	(76,899)	(26,844)
Expenditure for security deposit and guarantee money payment	(5,713)	(13,962)
Revenue due to the recovery of security deposit and guarantee money	51,844	12,727
Others	(24,421)	(16,960)
Cash flow from investments	47,299	(20,350)

	Second Qtr. FY2015 (YTD) (April 1 to September 30, 2015)	Second Qtr. FY2016 (YTD) (April 1 to September 30, 2016)
Cash flow from financial operations		
Income from additional short-term loans	252,000	595,000
Repayment of short-term loans	(225,500)	(265,600)
Income from long-term loans	353,000	100,000
Repayment of long-term loans	(216,372)	(515,126)
Expenditure for lease obligation repayment	(10,638)	(10,844)
Outflow by redemption of corporate bonds	(50,000)	(20,000)
Purchase of treasury stocks	(7)	-
Repayments of guarantee money received	-	(85,581)
Dividend payments	(833)	(402)
Cash flow from financial operations	101,648	(202,554)
Translation adjustments on cash and cash equivalents	0	(125)
Increase (decrease) in cash and cash equivalents	63,633	(439,256)
Opening balance of cash and cash equivalents	1,072,701	1,262,359
Closing balance of cash and cash equivalents	1,136,335	823,103

(4) Notes to financial statements for the second quarter of FY2016

(Note concerning preconditions for business as a going concern)

None

(Note in the case of significant changes in shareholders' equity)

None