



Consolidated Financial Statements

For the year ended February 20, 2017

Nitori Holdings Co., Ltd.

Consolidated Balance Sheet

Nitori Holdings Co., Ltd. and consolidated subsidiaries

As at February 20, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2016	2017	2017
ASSETS			
Current Assets:			
Cash and deposits (Notes 9 and 11)	¥42,327	¥70,560	\$625,097
Notes and accounts receivable-trade (Note 11)	15,258	18,486	163,771
Merchandise and finished goods	43,079	46,520	412,122
Work in process	90	92	816
Raw materials and supplies	2,247	2,354	20,858
Deferred tax assets (Note 16)	2,602	1,001	8,868
Forward exchange contracts	8,160	15,002	132,904
Other	16,231	16,174	143,288
Allowance for doubtful accounts (Note 11)	(8)	(9)	(87)
Total current assets	129,989	170,182	1,507,639
Non-Current Assets:			
Property, plant and equipment:			
Buildings and structures, net (Notes 5 and 17)	88,225	103,763	919,233
Machinery, equipment and vehicles, net (Note 5)	3,515	3,899	34,543
Tools, furniture and fixtures, net (Note 5)	4,424	5,379	47,659
Land (Note 17)	115,504	126,923	1,124,407
Leased assets, net (Notes 5 and 10)	2,715	2,514	22,271
Construction in progress	10,477	5,615	49,745
Total property, plant and equipment	224,863	248,094	2,197,861
Intangible assets	11,209	13,732	121,655
Investments and other assets:			
Investment securities (Notes 5, 11 and 12)	2,763	3,531	31,282
Long-term loans receivable	540	856	7,583
Guarantee deposits (Notes 5 and 11)	15,362	15,720	139,263
Lease deposits (Note 11)	18,079	20,515	181,743
Deferred tax assets (Note 16)	2,821	2,952	26,155
Other	8,921	12,239	108,431
Allowance for doubtful accounts	(9)	(9)	(87)
Total investments and other assets	48,478	55,804	494,372
Total non-current assets	284,551	317,631	2,813,889
Total assets	¥414,541	¥487,814	\$4,321,529

Consolidated Balance Sheet

Nitori Holdings Co., Ltd. and consolidated subsidiaries

As at February 20, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2016	2017	2017
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Notes and accounts payable-trade (Notes 5 and 11)	¥15,356	¥16,001	\$141,757
Short-term loans payable (Notes 11 and 21)	1,504	625	5,536
Lease obligations (Notes 10 and 21)	188	187	1,662
Accounts payable-other (Note 11)	16,195	19,291	170,901
Income taxes payable (Note 11)	14,929	15,630	138,473
Deferred tax liabilities (Note 16)	—	564	4,996
Provision for bonuses	3,024	3,751	33,234
Provision for point card certificates	1,031	1,301	11,531
Provision for special benefits to shareholders	191	214	1,895
Asset retirement obligations (Note 22)	—	44	397
Other	15,176	18,112	160,455
Total current liabilities	67,597	75,724	670,844
Non-Current Liabilities:			
Long-term loans payable (Notes 11 and 21)	625	—	—
Lease obligations (Notes 10 and 21)	2,518	2,330	20,645
Deferred tax liabilities (Note 16)	1	3	30
Provision for directors' retirement benefits	228	228	2,028
Net defined benefit liability (Note 14)	2,279	2,634	23,337
Asset retirement obligations (Note 22)	3,902	4,565	40,448
Other (Note 5)	6,418	7,548	66,867
Total non-current liabilities	15,974	17,310	153,357
Total liabilities	83,572	93,035	824,201
NET ASSETS (Note 8)			
Shareholders' Equity:			
Common stock	13,370	13,370	118,451
Capital surplus	14,411	16,306	144,459
Retained earnings	308,854	361,103	3,199,007
Treasury stock	(13,392)	(10,188)	(90,263)
Total shareholders' equity	323,244	380,592	3,371,654
Accumulated Other Comprehensive Income:			
Unrealized holding gain (loss) on securities (Note 12)	289	884	7,831
Unrealized gain (loss) from hedging instruments (Note 13)	4,165	10,369	91,866
Foreign currency translation adjustment	2,301	2,243	19,872
Remeasurements of defined benefit plans	(305)	(396)	(3,510)
Total accumulated other comprehensive income	6,450	13,100	116,060
Subscription Rights to Shares	1,174	940	8,334
Non-controlling Interests	98	144	1,277
Total net assets	330,968	394,778	3,497,327
Total liabilities and net assets	¥414,541	¥487,814	\$4,321,529

See Notes to Consolidated Financial Statements.

Consolidated Statement of Income

Nitori Holdings Co., Ltd. and consolidated subsidiaries

For the year ended February 20, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2016	2017	2017
Net Sales:	¥458,140	¥512,958	\$4,544,281
Cost of Sales:	214,597	234,684	2,079,058
Gross profit:	243,543	278,274	2,465,223
Selling, General and Administrative Expenses (Notes 6 and 15)	170,503	192,497	1,705,329
Operating income	73,039	85,776	759,893
Non-Operating Income:			
Interest income	450	433	3,844
Dividends income	31	34	304
Foreign exchange gains	681	102	911
Vending machine income	227	246	2,184
Gain on sales of goods	282	300	2,660
Construction revenue from tenants	-	147	1,305
Facility use revenue	21	174	1,549
Other	351	425	3,767
	2,046	1,865	16,528
Non-Operating Expenses:			
Interest expenses	76	59	524
Other	2	19	172
	78	78	696
Ordinary income	75,007	87,563	775,725
Special Gains:			
Gain on sales of non-current assets (Note 6)	9	645	5,717
Subsidy income	643	80	708
Penalty income	-	52	466
Gain on reversal of subscription rights to shares	10	7	69
Other	10	16	141
	673	801	7,104
Special Losses:			
Loss on sales and disposal of non-current assets (Note 6)	57	73	651
Loss on reduction of non-current assets	431	-	-
Penalty for the scrap and build of outlets	35	148	1,312
Impairment loss (Note 6)	488	10	97
Special retirement expenses	-	54	485
Cancellation penalty	11	190	1,683
Loss on valuation of investment securities (Note 12)	-	61	543
Other	35	4	43
	1,060	543	4,816
Income before income taxes	74,619	87,822	778,014
Income Taxes (Note 16):			
Current	27,514	28,565	253,057
Deferred	103	(787)	(6,977)
	27,618	27,777	246,080
Net Income	47,001	60,044	531,934
Net Income attributable to non-controlling interests	32	45	403
Net Income attributable to owners of parent	¥46,969	¥59,999	\$531,531

See Notes to Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

Nitori Holdings Co., Ltd. and consolidated subsidiaries

For the year ended February 20, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2016	2017	2017
Net income	¥47,001	¥60,044	\$531,934
Other comprehensive income (loss)			
Unrealized holding gain (loss) on securities	(296)	594	5,264
Unrealized gain (loss) from hedging instruments	(20,930)	6,204	54,967
Foreign currency translation adjustment	(1,044)	(57)	(512)
Remeasurements of defined benefit plans, net of tax	(271)	(91)	(807)
Total other comprehensive income (loss) (Note 7)	(22,542)	6,649	58,911
Comprehensive income	¥24,458	¥66,694	\$590,846
Total comprehensive income attributable to:			
Owners of parent	¥24,426	¥66,649	\$590,442
Non-controlling interests	32	45	403

See Notes to Consolidated Financial Statements.

Consolidated Statement of Changes in Net Assets

Nitori Holdings Co., Ltd. and consolidated subsidiaries

For the year ended February 20, 2017

Millions of Yen

	Shareholders' Equity					Accumulated Other Comprehensive Income							Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gain (loss) on securities	Unrealized gain (loss) from hedging instruments	Foreign currency translation adjustment	Remeasurement s of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	
Balance at February 21, 2015	¥13,370	¥13,725	¥267,963	¥(14,639)	¥280,419	¥586	¥25,095	¥3,345	¥(33)	¥28,993	¥1,050	¥66	¥310,531
Cumulative effect of changes in accounting policies			¥434		¥434								¥434
Balance at February 21, 2015 (as restated)	¥13,370	¥13,725	¥268,398	¥(14,639)	¥280,854	¥586	¥25,095	¥3,345	¥(33)	¥28,993	¥1,050	¥66	¥310,965
Changes of items during the year													
Dividends from surplus			(6,513)		(6,513)								(6,513)
Net Income attributable to owners of parent			46,969		46,969								46,969
Purchase of treasury stock				(1)	(1)								(1)
Disposal of treasury stock		686		1,248	1,935								1,935
Net changes in items other than those in shareholders' equity						(296)	(20,930)	(1,044)	(271)	(22,542)	123	32	(22,386)
Total changes of items during the year	—	686	40,455	1,247	42,389	(296)	(20,930)	(1,044)	(271)	(22,542)	123	32	20,002
Balance at February 21, 2016	¥13,370	¥14,411	¥308,854	¥(13,392)	¥323,244	¥289	¥4,165	¥2,301	¥(305)	¥6,450	¥1,174	¥98	¥330,968
Changes of items during the year													
Dividends from surplus			(7,749)		(7,749)								(7,749)
Net Income attributable to owners of parent			59,999		59,999								59,999
Purchase of treasury stock				(4)	(4)								(4)
Disposal of treasury stock		1,894		3,208	5,102								5,102
Net changes in items other than those in shareholders' equity						594	6,204	(57)	(91)	6,649	(233)	45	6,461
Total changes of items during the year	—	1,894	52,249	3,203	57,348	594	6,204	(57)	(91)	6,649	(233)	45	63,809
Balance at February 20, 2017	¥13,370	¥16,306	¥361,103	¥(10,188)	¥380,592	¥884	¥10,369	¥2,243	¥(396)	¥13,100	¥940	¥144	¥394,778

Thousands of U.S. Dollars (Note 2)

	Shareholders' Equity					Accumulated Other Comprehensive Income							Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gain (loss) on securities	Unrealized gain (loss) from hedging instruments	Foreign currency translation adjustment	Remeasurement s of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	
Balance at February 21, 2016	\$118,451	\$127,674	\$2,736,127	\$ (118,643)	\$2,863,610	\$2,567	\$36,898	\$20,384	\$ (2,702)	\$57,148	\$10,406	\$874	\$2,932,040
Changes of items during the year													
Dividends from surplus			(68,651)		(68,651)								(68,651)
Net Income attributable to owners of parent			531,531		531,531								531,531
Purchase of treasury stock				(40)	(40)								(40)
Disposal of treasury stock		16,785		28,420	45,205								45,205
Net changes in items other than those in shareholders' equity						5,264	54,967	(512)	(807)	58,911	(2,072)	403	57,242
Total changes of items during the year	—	16,785	462,879	28,379	508,044	5,264	54,967	(512)	(807)	58,911	(2,072)	403	565,287
Balance at February 20, 2017	\$118,451	\$144,459	\$3,199,007	\$ (90,263)	\$3,371,654	\$7,831	\$91,866	\$19,872	\$ (3,510)	\$116,060	\$8,334	\$1,277	\$3,497,327

See Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

Nitori Holdings Co., Ltd. and consolidated subsidiaries
For the year ended February 20, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2016	2017	2017
Cash Flows from Operating Activities:			
Income before income taxes	¥74,619	¥87,822	\$778,014
Depreciation and amortization	10,799	12,312	109,074
Impairment loss	488	10	97
Increase (decrease) in allowance for doubtful accounts	3	1	12
Increase (decrease) in provision for bonuses	662	733	6,493
Increase (decrease) in net defined benefit liability	356	266	2,364
Increase (decrease) in provision for point card certificates	1	270	2,396
Interest and dividends income	(482)	(468)	(4,148)
Interest expenses	76	59	524
Loss (gain) on sales and disposal of non-current assets	48	(571)	(5,066)
Loss on reduction of non-current assets	431	—	—
Penalty for the scrap and build of outlets	35	148	1,312
Subsidy income	(643)	(80)	(708)
Loss (gain) on valuation of investment securities	—	61	543
Decrease (increase) in notes and accounts receivable-trade	(2,138)	(1,816)	(16,090)
Decrease (increase) in inventories	(1,157)	(3,742)	(33,152)
Increase (decrease) in notes and accounts payable-trade	(1,020)	1,409	12,485
Increase (decrease) in accrued consumption taxes	(2,363)	2,447	21,681
Other, net	(1,307)	470	4,171
Subtotal	78,411	99,334	880,004
Interest and dividends income received	492	465	4,127
Interest expenses paid	(79)	(56)	(500)
Payment of penalty for the scrap and build of outlets	(17)	(15)	(139)
Income taxes paid	(26,692)	(29,311)	(259,665)
Income taxes refund	5,228	7,512	66,554
Net cash provided by operating activities	57,343	77,930	690,381
Cash Flows from Investing Activities:			
Payments into time deposits	(10,848)	(6,581)	(58,307)
Proceeds from withdrawal of time deposits	5,870	7,361	65,216
Purchase of property, plant and equipment	(28,021)	(34,966)	(309,766)
Proceeds from sales of property, plant and equipment	8	1,708	15,135
Purchase of intangible assets	(1,656)	(4,155)	(36,809)
Proceeds from sales of intangible assets	—	395	3,507
Proceeds from government subsidy	431	291	2,580
Payments for guarantee deposits	(30)	(1,678)	(14,868)
Proceeds from collection of guarantee deposits	108	128	1,141
Payments for lease deposits	(1,101)	(2,856)	(25,305)
Proceeds from collection of lease deposits	356	56	497
Proceeds from guarantee deposits received	549	387	3,431
Proceeds from lease deposits received	595	1,145	10,145
Purchase of long-term prepaid expenses	(464)	(2,103)	(18,633)
Purchase of short-term and long-term investment securities	(1,677)	—	—
Proceeds from sales of short-term and long-term investment securities	—	17	155
Payments of loans receivable	(40)	(1,191)	(10,554)
Proceeds from collection of loans receivable	43	18	167
Other payments	(23)	(26)	(232)
Net cash used in investing activities	(35,899)	(42,047)	(372,498)

Consolidated Statement of Cash Flows

Nitori Holdings Co., Ltd. and consolidated subsidiaries
For the year ended February 20, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2016	2017	2017
Cash Flows from Financing Activities:			
Repayment of long-term loans payable	(4,392)	(1,504)	(13,331)
Repayments of lease obligations	(188)	(188)	(1,668)
Purchase of treasury stock	(1)	(4)	(40)
Cash dividends paid	(6,509)	(7,753)	(68,687)
Proceeds from exercise of stock options	1,148	3,036	26,900
Net cash used in financing activities	(9,943)	(6,414)	(56,826)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(419)	(227)	(2,014)
Net Increase in Cash and Cash Equivalents	11,080	29,240	259,043
Cash and Cash Equivalents at Beginning of the Year	25,713	36,794	325,961
Cash and Cash Equivalents at End of the Year (Note 9)	¥36,794	¥66,035	\$585,004

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Nitori Holdings Co., Ltd. and consolidated subsidiaries

For the year ended February 20, 2017

1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by Nitori Holdings Co., Ltd. (the "Company") and consolidated subsidiaries (collectively the "Group") in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

2. Basis of Translation

The accompanying consolidated financial statements are expressed in Japanese yen, and solely for the convenience of the reader, have been translated into United States dollars at the rate of ¥112.88 = U.S.\$1, the exchange rate prevailing on February 20, 2017. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at such rate.

Japanese yen amount less than a million yen are rounded down to the nearest million yen, except for per share data. U.S. dollar amount less than a thousand dollars are rounded down to the nearest thousand dollars, except for per share data.

3. Principles of Consolidation

1) Scope of Consolidation

The consolidated financial statements include the accounts of the Company and its 23 significant subsidiaries.

2) Financial Statements of Consolidated Subsidiaries

The financial closing dates of consolidated subsidiaries below are different from the balance sheet date of the Company.

NITORI FURNITURE CO., LTD.	December 20, 2016
P.T. NITORI FURNITURE INDONESIA	
NITORI FURNITURE VIETNAM EPE	
NITORI PUBLIC CO., LTD.	
NITORI TAIWAN CO., LTD.	
DECO HOME CHINA CO., LTD.	
NITORI TAICANG TRADING & LOGISTICS CO., LTD	
NITORI USA, INC.	
and other 10 subsidiaries	December 31, 2016
HOME DECO CO., LTD.	January 31, 2017

The above subsidiaries are consolidated using their financial statements as of their respective fiscal year ends, and necessary adjustments are made to their financial statements to reflect any significant transactions from their respective fiscal year ends to that of the Company.

4. Summary of Significant Accounting Policies

1) Investment Securities

The Group has available-for-sale securities. Available-for-sale securities with market quotations are valued at the prevailing market price as at the balance sheet date. Available-for-sale securities without market quotations are stated at cost, cost being determined by the gross average method. Available-for-sale securities with market quotations are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in "Net Assets", and the cost of sales is determined by the gross average method.

2) Inventories

Inventories are stated at the lower of cost or market, cost being determined by the moving-average method.

3) Derivatives

Derivative financial instruments are stated at fair value.

4) Property, Plant and Equipment (except leased assets)

Depreciation of property, plant and equipment (except leased assets) is computed by the declining balance method, at rates based on the estimated useful lives of the assets, except for buildings (excluding building facilities) acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016, which are depreciated based on the straight-line method. Overseas subsidiaries apply the straight-line method. The ranges of principal estimated useful lives are as follows:

Buildings and structures	5 to 47 years
Machinery, equipment and vehicles	2 to 12 years
Tools, furniture and fixtures	5 to 10 years

For buildings on fixed term leaseholds, the Company computes depreciation using the straight-line method, over its lease term assuming no residual value. These lease terms are principally 20 years.

5) Intangible Assets (except leased assets)

Intangible assets are amortized using the straight-line method. Software for internal use is amortized using the straight-line method over an estimated useful life of 5 years.

6) Leased Assets

Leased assets under finance lease transactions are depreciated to a residual value of zero by the straight-line method using the contract term as the useful life.

Regarding finance lease transactions that do not transfer ownership to the lessee, commencing on or before February 20, 2009, are accounted for as operating leases and related payments are charged to profit as incurred.

7) Allowance for Doubtful Accounts

For receivables classified as "normal," the allowance for doubtful accounts is provided based on historical experience. For receivables classified as "doubtful," the allowance for doubtful accounts is provided based on an individual assessment of the collectability of the account.

8) Provision for Bonuses

Provision for bonuses is provided at the estimated amounts, based on actual results during the fiscal year, to provide for the payments to employees in the following fiscal year.

9) Provision for Point Card Certificates

The Group provides customers with credit points (Nitori Members Card Points) when they make purchases by using the card. The Group provides a reserve for the estimated future costs of Nitori Members Card Points based on the historical rate of point usage.

10) Provision for Special Benefit to Shareholders

Provision for special benefit to shareholders is provided for future utilization of granted shareholder benefits. The amount of the provision is estimated based on the historical rate of use of shareholder benefits.

11) Provision for Directors' Retirement Benefits

Provision for directors' and corporate auditors' retirement benefits of the Company and its certain domestic consolidated subsidiaries had been recorded until 2004 April for the Company and in 2005 December for the subsidiaries based on their internal rules at the estimated amount which would be payable if all officers were to retire at the balance sheet date. The retirement benefits were terminated at that time and its carrying amounts for the provision are unpaid portions.

12) Accounting Method for Retirement Benefits

Projected benefit obligations are attributed to each period by the benefit formula method over the estimated years of service of the eligible employees.

Actuarial gains and losses are amortized using the straight-line method over a specific period (ten years), which is within the average estimated remaining service period of employees at the time of recognition, from the following fiscal year when the gain or loss was recognized.

Unrecognized prior service costs are amortized using the straight-line method over a specific period (ten years), which is within the average estimated remaining service period of employees at the time of recognition.

13) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rate in effect at the balance sheet date and the resulting exchange gains or losses are credited or charged to income as incurred.

The balance sheets of overseas subsidiaries are translated into Japanese yen at the exchange rates prevailing at the balance sheet date except for the components of net assets excluding minority interests which are translated at historical rates. Revenue and expense accounts of overseas subsidiaries are translated into Japanese yen at the average exchange rate.

Differences arising from such translations are shown as "Foreign currency translation adjustment" in the net assets section.

14) Hedge Accounting

Hedging instruments are recorded at fair value and accounted for using the deferral hedge accounting, under which unrealized gain or loss is deferred as a separate component of net assets.

Hedging instruments: Derivative transactions (foreign exchange contracts).

Hedged items: Liabilities exposed to foreign exchange market fluctuation risks.

Hedging policy: Derivative transactions are used solely for hedging the risks arising from adverse fluctuation in foreign currency exchange rates.

The Company assesses the hedge effectiveness every half year based on internal rules covering derivative transactions. Derivative transactions are never entered into for the purpose of trading or speculation.

15) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statement of cash flows consist of cash on hand, bank deposits payable on demand, and short-term investments with a maturity of three months or less, which are readily convertible into cash and subject to minor risks of fluctuations in value.

16) Consumption Tax

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

17) Income Taxes

Deferred tax assets and liabilities have been recognized in the consolidated financial statements with respect to the differences between the financial reporting and tax bases of the assets and liabilities, and were measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

18) Changes in Accounting Policy

(Application of Accounting Standard for Business Combinations)

The Company has applied "Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No.21, revised on September 13, 2013), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, revised on September 13, 2013), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7, revised on September 13, 2013), and other standards from the fiscal year ended February 20, 2017.

The Company changed its presentation of net income and related items, and renamed "minority interests" as "non-controlling interests." The consolidated financial statements for the year ended February 20, 2016, have been reclassified to reflect this change.

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

Following revisions to the Corporation Tax Act of Japan, the Company applied the "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016" (ASBJ Practical Issues Task Force No.32 issued on June 17, 2016), and changed its 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.

The impact of this change on the consolidated financial statements for the fiscal year ended February 20, 2017, was immaterial.

19) Accounting Standards Issued but Not Yet Effective

“Implementation Guidance on Recoverability of Deferred Tax Assets” ASBJ Guidance No.26 revised on March 28, 2016)

1) Overview

Regarding the treatment of the recoverability of deferred tax assets, a review was conducted following the framework of the Japanese Institute of Certified Public Accountants Audit Committee Report No.66 “Audit Treatment on Determining the Recoverability of Deferred Tax Assets,” whereby companies are categorized into five categories and deferred tax assets are calculated based on each of these categories.

- ① Treatment of companies that do not satisfy any of the category requirements for (Category 1) Through (Category 5)
- ② Category requirements for (Category 2) and (Category 3)
- ③ Treatment related to future deductible temporary differences which cannot be scheduled in companies that qualify as (Category 2)
- ④ Treatment related to the reasonable estimable period of future pre-adjusted taxable income in companies that qualify as (Category 3)
- ⑤ Treatment in cases where companies that satisfy the category requirements for (Category 4) but qualify as (Category 2) or (Category 3)

2) Scheduled date of adoption

The Company expects to adopt the revised implementation guidance from the beginning of the fiscal year ending February 20, 2018.

3) Impact of adopting revised implementation guidance

The Company is currently evaluating the impact of adopting this revised implementation guidance on its consolidated financial statements.

20) Changes in Method of Presentation

(Consolidated Statement of Income)

In the previous fiscal year, “Facility use revenue” was included in “Other” under “Operating income”. Effective from the fiscal year ended February 20, 2017, the item is now presented separately because it has become more significant. In order to reflect the change in presentation method, modifications were made to the consolidated financial statements for the previous fiscal year.

As a result, “Other” of ¥21 million under “Non-operating income” in the consolidated statement of income for the previous fiscal year was reclassified as “Facility use revenue”.

In the previous fiscal year, “Cancellation penalty” was included in “Other” under “Special losses”. Effective from the fiscal year ended February 20, 2017, the item is now presented separately because it has become more significant. In order to reflect the change in presentation method, modifications were made to the consolidated financial statements for the previous fiscal year.

As a result, “Other” of ¥11 million under “Special losses” in the consolidated statement of income for the previous fiscal year was reclassified as “Cancellation penalty”.

5. Notes to Consolidated Balance Sheet

1) Accumulated depreciation of property, plant and equipment

As at February 20	Millions of Yen		Thousands of U.S. Dollars
	2016	2017	2017
Accumulated depreciation	¥83,103	¥92,379	\$818,385

2) Assets Pledged as Collateral

The following assets are pledged as collateral for certain debts and other liabilities:

As at February 20	Millions of Yen		Thousands of U.S. Dollars
	2016	2017	2017
Pledged assets:			
Buildings and structures	¥2,169	¥2,079	\$18,422
Guarantee deposits	30	23	205
Total	2,200	2,102	18,627
Corresponding liabilities:			
Notes and accounts payable-trade	30	¥23	\$206
Current liabilities (other)	124	124	1,102
Non-current liabilities (other)	2,196	2,162	19,160
Total	2,352	¥2,310	\$20,470

3) Investment securities of non-consolidated subsidiaries

Investments in non-consolidated subsidiaries and affiliates are as follows:

As at February 20	Millions of Yen		Thousands of U.S. Dollars
	2016	2017	2017
Investment securities	¥15	¥ -	\$ -

4) Amount of reduction entry

The accumulated reduction entry of non-current assets deducted from the acquisition cost of the tangible fixed assets as a result of based on the funds from government subsidies, etc. is as follows:

As at February 20	Millions of Yen		Thousands of U.S. Dollars
	2016	2017	2017
Tools, furniture and fixtures	¥431	¥431	\$3,824

6. Notes to Consolidated Statement of Income

1) The major components of "Selling, General and Administrative Expenses" are as follows:

For the years ended February 20	Millions of Yen		Thousands of U.S. Dollars
	2016	2017	2017
Customer delivery expenses	¥21,890	¥23,685	\$209,829
Advertising	13,329	14,804	131,149
Salaries, allowances and bonuses	49,200	55,198	488,999
Provision for bonuses	2,704	3,361	29,779
Retirement benefit expenses	983	1,091	9,672
Rents	25,497	28,027	248,294
Depreciation and amortization	9,398	10,406	92,194
Outsourcing	8,370	10,925	96,791

2) Gains on sales of non-current assets are as follows:

For the years ended February 20	Millions of Yen		Thousands of U.S. Dollars
	2016	2017	2017
Buildings and structures	¥4	¥603	\$5,344
Machinery, equipment and vehicles	4	37	329
Tools, furniture and fixtures	0	4	43
Total	¥9	¥645	\$5,717

3) Losses on sales and disposal of non-current assets are as follows:

For the years ended February 20	Millions of Yen		Thousands of U.S. Dollars
	2016	2017	2017
Loss on disposal:			
Buildings and structures	¥37	¥40	\$356
Machinery, equipment and vehicles	0	1	15
Tools, furniture and fixtures	9	12	108
Tangible fixed assets-other	—	12	112
Intangible assets-other	6	2	23
Loss on sales:			
Machinery, equipment and vehicles	1	—	—
Tools, furniture and fixtures	3	3	34
Intangible assets-other	0	—	—
Total	¥57	¥73	\$651

4) Impairment loss

For the year ended February 20, 2016

Location	Group	Assets	Millions of Yen	Thousands of U.S. Dollars
Kita-ku, Tokyo and other	System development cost	Software	¥121	\$1,075
California, USA	Store assets	Buildings and structures and other	366	3,247

The Company identifies groups of assets on a nature of business basis. Impairment loss was recognized for a part of system development cost because of the cancellation of the development project and for store assets with a significant decline in future collectibility.

The recoverable amount of store assets was measured at the net realizable value based on the publicly assessed value of fixed assets. System development cost was measured at the value in use and estimated to have no recoverable amount.

For the year ended February 20, 2017

Location	Group	Assets	Millions of Yen	Thousands of U.S. Dollars
Iwata City, Shizuoka	Store assets	Buildings and structures and other	6	53
Kamikawa, Hokkaido	Idle assets	Land	4	44

The Company identifies groups of assets on a nature of business basis. Impairment loss was recognized for land as a result of a market price decline.

The recoverable value of store assets was measured at the net realizable value based on the publicly assessed value of fixed assets. Idle assets were measured at the value in use and assumed to have no recoverable value.

7. Notes to Consolidated Statement of Comprehensive Income

For the years ended February 20	Millions of yen		Thousands of U.S. Dollars
	2016	2017	2017
Unrealized holding gain (loss) on securities			
Amounts arising during the year	(¥483)	¥801	\$7,096
Reclassification adjustments	-	45	401
Total before income tax effect	(483)	846	7,498
Income tax effect	186	(252)	(2,233)
Sub-total	(296)	594	5,264
Unrealized gain (loss) from hedging instruments			
Amounts arising during the year	(32,770)	8,776	77,747
Reclassification adjustments	-	-	-
Total before income tax effect	(32,770)	8,776	77,747
Income tax effect	11,839	(2,571)	(22,780)
Sub-total	(20,930)	6,204	54,967
Foreign currency translation adjustment			
Amounts arising during the year	(1,044)	(57)	(512)
Sub-total	(1,044)	(57)	(512)
Remeasurements of defined benefit plans, net of tax			
Amounts arising during the year	(396)	(122)	(1,081)
Reclassification adjustments	4	41	369
Total before income tax effect	(392)	(80)	(711)
Income tax effect	121	(10)	(96)
Sub-total	(271)	(91)	(807)
Total other comprehensive income (loss)	(¥22,542)	¥6,649	\$58,911

8. Notes to Consolidated Statement of Changes in Net Assets

1) Type and number of outstanding shares

Type of shares	For the year ended February 20, 2016			Number of shares (Thousands)	
	Balance at beginning of year	Increase	Decrease	Balance at end of year	
Issued stock:					
Common stock	114,443	-	-	114,443	
Treasury stock:					
Common stock	4,213	0	359	3,854	

- Notes:1. The increase in 0 thousand shares of treasury stock consists of an increase due to the purchases of shares in quantities less than the minimum trading unit of shares.
2. The decrease in 359 thousand shares of treasury stock consists of a decrease in 69 thousand shares due to the exercise of "Stock Benefit Trust (J-ESOP)", which was resolved on December 20, 2011, and a decrease in 290 thousand shares by the exercise of stock options.
3. The treasury stock balance at end of the fiscal year included 418 thousand shares of common stock held by Trust & Custody Services Bank, Ltd.(The Trust Account E) which is the trustee under the Stock Benefit Trust(J-ESOP).

Type of shares	For the year ended February 20, 2017			Number of shares (Thousands)	
	Balance at beginning of year	Increase	Decrease	Balance at end of year	
Issued stock:					
Common stock	114,443	-	-	114,443	
Treasury stock:					
Common stock	3,854	0	923	2,931	

- Notes:1. The increase in 0 thousand shares of treasury stock consists of an increase due to the purchases of shares in quantities less than the minimum trading unit of shares.
2. The decrease in 923 thousand shares of treasury stock consists of a decrease in 156 thousand shares due to the exercise of "Stock Benefit Trust (J-ESOP)", which was resolved on December 20, 2011, and a decrease in 767 thousand shares by the exercise of stock options.
3. The treasury stock balance at end of the fiscal year included 262 thousand shares of common stock held by Trust & Custody Services Bank, Ltd.(The Trust Account E) which is the trustee under the Stock Benefit Trust(J-ESOP).

2) Subscription rights to shares

As at February 20	Millions of Yen		Thousands of U.S. Dollars
	2016	2017	2017
Subscription rights to shares as stock options	¥1,174	¥940	\$8,334

3) Dividends

(1) Dividends paid to shareholders

For the year ended February 20, 2016

Resolution approved by	Type of shares	Amount (Millions of Yen)	Amount per share (Yen)	Shareholders' cut-off date	Effective date
Board of directors (March 30, 2015) (Note 1)	Common stock	¥3,210	¥29	February 20, 2015	April 20, 2015
Board of directors (September 28, 2015)(Note 2)	Common stock	3,329	30	August 20, 2015	October 27, 2015

- Note:1.The amount includes the dividend of ¥14 million on shares, held by Trust & Custody Services Bank, Ltd. (The Trust Account E) which is the trustee under the Stock Benefit Trust(J-ESOP).
- 2.The amount includes the dividend of ¥12 million on shares, held by Trust & Custody Services Bank, Ltd. (The Trust Account E) which is the trustee under the Stock Benefit Trust(J-ESOP).

For the year ended February 20, 2017

Resolution approved by	Type of shares	Amount (Millions of Yen)	Amount per share (Yen)	Shareholders' cut-off date	Effective date
Board of directors (March 28, 2016) (Note 1)	Common stock	¥3,885	¥35	February 20, 2016	April 22, 2016
Board of directors (September 27, 2016)(Note 2)	Common stock	3,887	35	August 20, 2016	October 25, 2016

For the year ended February 20, 2017

Resolution approved by	Type of shares	Amount (Thousands of U.S. Dollars)	Amount per share (U.S. Dollars)	Shareholders' cut-off date	Effective date
Board of directors (March 28, 2016) (Note 1)	Common stock	\$34,419	\$0.31	February 20, 2016	April 22, 2016
Board of directors (September 27, 2016)(Note 2)	Common stock	34,443	0.31	August 20, 2016	October 25, 2016

Note : 1.The amount includes the dividend of ¥14 million (U.S.\$129 thousand) on shares, held by Trust & Custody Services Bank, Ltd. (The Trust Account E) which is the trustee under the Stock Benefit Trust(J-ESOP).

2.The amount includes the dividend of ¥9 million (U.S.\$81 thousand) on shares, held by Trust & Custody Services Bank, Ltd. (The Trust Account E) which is the trustee under the Stock Benefit Trust(J-ESOP).

(2) Dividends with a shareholders' cut-off date during the current fiscal year but an effective date in the following fiscal year

For the year ended February 20, 2016

Resolution approved by	Type of shares	Paid from	Amount (Millions of Yen)	Amount per share (Yen)	Shareholders' cut-off date	Effective date
Board of directors (March 28, 2016)	Common stock	Retained earnings	¥3,885	¥35	February 20, 2016	April 22, 2016

Note : 1.The amount includes the dividend of ¥14 million on shares, held by Trust & Custody Services Bank, Ltd. (The Trust Account E) which is the trustee under the Stock Benefit Trust(J-ESOP).

For the year ended February 20, 2017

Resolution approved by	Type of shares	Paid from	Amount (Millions of Yen)	Amount (Thousands of U.S. Dollars)	Amount per share (Yen)	Amount per share (U.S. Dollars)	Shareholders' cut-off date	Effective date
Board of directors (March 28, 2017)	Common stock	Retained earnings	¥5,252	\$46,535	¥47	\$0.41	February 20, 2017	April 21, 2017

Note : 1.The amount includes the dividend of ¥12 million (U.S.\$109 thousand) on shares, held by Trust & Custody Services Bank, Ltd. (The Trust Account E) which is the trustee under the Stock Benefit Trust(J-ESOP).

4) Shareholder's Equity

The Corporation Act of Japan (the "Act") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common stock account. Such distributions can be made at any time by resolution of the shareholders, or by the board of directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

9. Note to Consolidated Statement of Cash Flows

The reconciliation between cash and cash equivalents reported in the consolidated statement of cash flows and cash and deposits reported in the consolidated balance sheet is as follows:

As at February 20	Millions of Yen		Thousands of U.S. Dollars
	2016	2017	2017
Cash and deposits	¥42,327	¥70,560	\$625,097
Time deposits with maturities exceeding 3 months	(5,533)	(4,525)	(40,092)
Cash and cash equivalents	¥36,794	¥66,035	\$585,004

10. Leases

As Lessee:

The Group leases certain buildings for retail stores. With finance leases for which ownership is not transferred to the lessee commencing on or before February 20, 2009, the Company employs accounting methods normally applicable to operating lease transactions. The information on these lease transactions is omitted because it is insignificant.

Future minimum lease payments relating to non-cancelable operating leases are as follows:

As at February 20	Millions of Yen		Thousands of U.S. Dollars
	2016	2017	2017
Due within one year	¥2,511	¥4,824	\$42,741
Due after one year	29,296	35,438	313,949
Total	¥31,808	¥40,263	\$356,690

As Lessor:

Future minimum lease receivables relating to non-cancelable operating leases are as follows:

As at February 20	Millions of Yen		Thousands of U.S. Dollars
	2016	2017	2017
Due within one year	¥219	¥1,133	\$10,040
Due after one year	1,490	10,201	90,378
Total	¥1,709	¥11,335	\$100,419

11. Financial Instruments

1. Overview

1) Policy for financial instruments

The Group raises necessary funds based on capital investment plans and fund management plans, mainly through loans from banks. The Group utilizes derivative financial instruments only to manage risks described below and does not enter into such transactions for speculative trading purposes.

2) Types of financial instruments, risk and risk management

Trade notes and accounts receivable-trade are exposed to credit risk of customers, but term for cash collection is relatively short and actual bad debt ratio is extremely low. The Group manages its credit risk by monitoring balances for each customer to identify default risk of those customers at an early stage, which results in decrease of credit risk to the Group.

Investment securities with market values are exposed to market risk, and which without market values are exposed to impairment risk. The Group periodically reviews the fair values of such financial instruments.

Guarantee deposits and lease deposits, which are mostly related to rental of stores, are exposed to credit risk of lessors. The Group manages its credit risk by monitoring balances of these deposits to identify the default risk of lessors at an early stage.

Most of notes and accounts payable-trade and income taxes payable are due within three months. Long-term loans payable are for long-term working capital. Certain long-term loans payable are exposed to interest rate fluctuation risk.

Regarding derivatives, the Group enters into forward foreign currency exchange transactions to hedge foreign currency exchange rate fluctuation risk related to trade receivables and trade payables denominated in foreign currencies. The Group believes that the credit risk under derivative transactions is fairly low because counterparties of derivative transactions are limited to financial institutions with a high credit rating. The execution and management of derivative transactions are performed by the finance department based on in-house rules.

3) Supplementary explanation on fair value of financial instruments

The fair value of financial instruments is based on market value, or, when no market price is available, a rationally estimated amount. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. The notional amounts of derivatives in the following table are not necessarily indicative of the actual market risk involved in derivative transactions.

2. Estimated fair value of financial instruments

The carrying value of the financial instruments on the consolidated balance sheet as at February 20, 2016 and 2017, and estimated fair value are shown below. The following table does not include financial instruments for which it is extremely difficult to determine the fair value.

As at February 20, 2016	Millions of Yen		
	Carrying value	Estimated fair value	Difference
Assets			
(1) Cash and deposits	¥42,327	¥42,327	¥-
(2) Notes and accounts receivable-trade	15,250	15,250	-
(3) Investment securities	2,375	2,375	-
(4) Guarantee deposits	15,362	16,884	1,522
(5) Lease deposits	18,079	17,611	(467)
Liabilities			
(1) Notes and accounts payable-trade	¥15,356	¥15,356	¥-
(2) Accounts payable-other	16,195	16,195	-
(3) Income taxes payable	14,929	14,929	-
(4) Long-term loans payable, including current portion of long-term loans payable	2,129	2,126	(3)
Derivative transactions(*)	¥6,214	¥6,214	¥-

As at February 20, 2017	Millions of Yen		
	Carrying value	Estimated fair value	Difference
Assets			
(1) Cash and deposits	¥70,560	¥70,560	¥-
(2) Notes and accounts receivable-trade	18,476	18,476	-
(3) Investment securities	3,226	3,226	-
(4) Guarantee deposits	15,720	17,061	1,341
(5) Lease deposits	20,515	20,054	(461)
Liabilities			
(1) Notes and accounts payable-trade	¥16,001	¥16,001	¥-
(2) Accounts payable-other	19,291	19,291	-
(3) Income taxes payable	15,630	15,630	-
(4) Long-term loans payable, including current portion of long-term loans payable	625	624	(0)
Derivative transactions(*)	¥14,998	¥14,998	¥-

As at February 20, 2017	Thousands of U.S. Dollars		
	Carrying value	Estimated fair value	Difference
Assets			
(1) Cash and deposits	\$625,097	\$625,097	\$-
(2) Notes and accounts receivable-trade	163,683	163,683	-
(3) Investment securities	28,583	28,583	-
(4) Guarantee deposits	139,263	151,151	11,887
(5) Lease deposits	181,743	177,658	(4,084)
Liabilities			
(1) Notes and accounts payable-trade	\$141,757	\$141,757	\$-
(2) Accounts payable-other	170,901	170,901	-
(3) Income taxes payable	138,473	138,473	-
(4) Long-term loans payable, including current portion of long-term loans payable	5,536	5,533	(3)
Derivative transactions(*)	\$132,870	\$132,870	\$-

(*)The value of assets and liabilities arising from derivatives is shown at net value, and with the amount in parentheses representing net liability position.

Notes: 1. Methods to determine the estimated fair value of financial instruments

[Assets]

(1) Cash and deposits, (2) Notes and accounts receivable-trade

The Company uses the carrying value because these items will be settled in the short term, meaning that the carrying value approximates fair value.

(3) Investment securities

Fair value of stocks is based on quoted market prices. Additional information on securities classified by holding purpose is presented in "Securities" (Note 12).

(4) Guarantee deposits

Fair value of guarantee deposits is based on the present value of the future cash flows, which are discounted at the rate determined by reference to an appropriate index such as a government bond yield adjusted for the credit risk related to the maturity schedule.

(5) Lease deposits

Fair value of lease deposits is based on the present value of the future cash flows, which are discounted at the rate determined by reference to an appropriate index such as a government bond yield adjusted with the credit risk related to the term remaining.

[Liabilities]

(1) Notes and accounts payable-trade, (2) Accounts payable-other (3) Income taxes payable

The Company uses carrying value because they will be settled in the short term, meaning that carrying value approximate fair value.

(4) Long-term loans payable

Fair value of long-term loans payable is based on the present value of the total of principal and interest discounted by the rate applicable to similar new borrowings.

(Derivative transactions)

Details of derivative transactions are described in "Derivatives" (Note 13).

2. Investment securities for which fair value is deemed extremely difficult to determine.

	Millions of Yen		Thousands of U.S. Dollars
	2016	2017	2017
As at February 20			
Unlisted stocks	¥388	¥304	\$2,699

Unlisted stocks are excluded from "Assets (3) Investment securities" because they are not actively traded in a market and it is extremely difficult to determine the fair value.

3. Redemption schedule for monetary assets

	Millions of Yen		
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years
As at February 20, 2016			
Cash and deposits	¥42,327	¥-	¥-
Notes and accounts receivable-trade	15,258	-	-
Total	¥57,586	¥-	¥-

Guarantee deposits and lease deposits are not disclosed because it is difficult to determine the redemption schedule.

	Millions of Yen		
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years
As at February 20, 2017			
Cash and deposits	¥70,560	¥-	¥-
Notes and accounts receivable-trade	18,486	-	-
Total	¥89,047	¥-	¥-

	Thousands of U.S. Dollars		
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years
As at February 20, 2017			
Cash and deposits	\$625,097	\$-	\$-
Notes and accounts receivable-trade	163,771	-	-
Total	\$788,868	\$-	\$-

Guarantee deposits and lease deposits are not disclosed because it is difficult to determine the redemption schedule.

4. Redemption schedule for long-term loans payable

	Millions of Yen					
	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
As at February 20, 2016						
Long-term loans payable	¥1,501	¥625	¥-	¥-	¥-	¥-
Total	¥1,501	¥625	¥-	¥-	¥-	¥-

Millions of Yen						
As at February 20, 2017	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Long-term loans payable	¥625	¥-	¥-	¥-	¥-	¥-
Total	¥625	¥-	¥-	¥-	¥-	¥-

Thousands of U.S. Dollars						
As at February 20, 2017	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Long-term loans payable	\$5,536	\$-	\$-	\$-	\$-	\$-
Total	\$5,536	\$-	\$-	\$-	\$-	\$-

12. Securities

1) Available-for-sale securities (with market value)

Millions of Yen			
As at February 20, 2016	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost			
Stocks	¥1,105	¥180	¥924
Securities whose acquisition cost exceeds their carrying value			
Stocks	1,269	1,773	(503)
Total	¥2,375	¥1,953	¥421

Note: Unlisted stocks (¥388 million in the consolidated balance sheet) are not included in the above table because determining their fair values is extremely difficult.

Millions of Yen			
As at February 20, 2017	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost			
Stocks	¥1,980	¥274	¥1,705
Securities whose acquisition cost exceeds their carrying value			
Stocks	¥1,246	¥1,677	(¥431)
Total	¥3,226	¥1,952	¥1,274

As at February 20, 2017	Thousands of U.S. Dollars		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs			
Stocks	\$17,541	\$2,430	\$15,110
Securities whose acquisition cost exceeds their carrying value			
Stocks	\$11,042	\$14,865	(\$3,822)
Total	\$28,583	\$17,295	\$11,288

Note: Unlisted stocks (¥304 million (\$2,699 thousand) in the consolidated balance sheet) are not included in the above table because determining their fair values is extremely difficult.

2) Sales of available-for-sale securities

As at February 20, 2016

Not applicable.

As at February 20, 2017	Millions of Yen		
	Proceeds from sales	Gain on sales	Loss on sales
Stocks	¥17	¥16	¥-
Total	¥17	¥16	¥-

As at February 20, 2017	Thousands of U.S. Dollars		
	Proceeds from sales	Gain on sales	Loss on sales
Stocks	\$155	\$141	\$-
Total	\$155	\$141	\$-

3) Impairment of available-for-sale securities

For the years ended February 20	Millions of Yen		Thousands of U.S. Dollars
	2016	2017	2017
Loss on valuation of investment securities (unlisted stocks)	¥-	¥61	\$543

If the market value of securities as of the fiscal year-end declines more than 50% compared with the acquisition costs, the difference between fair value and the acquisition cost is recognized as loss on valuation in the period of the decline. In addition, if the fair value of securities as of the fiscal year-end declines from 30% to 50% compared with the acquisition costs and if such decline is considered to be material and unrecoverable, the difference between fair value and the acquisition cost is recognized as loss on valuation in the period of the decline.

13. Derivatives

1. Derivative transactions to which hedge accounting is not applied

Currency-related transactions

As at February 20, 2016

		Millions of Yen			
Category	Transaction type	Notional amount	Notional amount maturing over 1 year	Fair value	Unrealized Gain (Loss)
Over-the-counter transactions	Foreign exchange forward contract				
	Selling U.S. dollars	¥3,035	¥-	(¥7)	(¥7)

As at February 20, 2017

		Millions of Yen			
Category	Transaction type	Notional amount	Notional amount maturing over 1 year	Fair value	Unrealized Gain (Loss)
Over-the-counter transactions	Foreign exchange forward contract				
	Selling U.S. dollars	¥546	¥-	¥ 3	¥ 3

As at February 20, 2017

		Thousands of U.S. Dollars			
Category	Transaction type	Notional amount	Notional amount maturing over 1 year	Fair value	Unrealized Gain (Loss)
Over-the-counter transactions	Foreign exchange forward contract				
	Selling U.S. dollars	\$4,842	\$-	\$34	\$34

Note: The fair value of derivative transactions is valued based on the prices quoted by counterparty financial institutions.

2. Derivative transactions to which hedge accounting is applied

1) Currency-related transactions

As at February 20, 2016

			Millions of Yen		
Hedging method	Transaction type	Main hedged item	Notional amount	Notional amount maturing over 1 year	Fair value
Deferral method	Foreign exchange forward contract	Accounts payable-trade			
	Buying U.S. dollars		¥157,546	¥-	¥6,222

Note: The fair value of derivative transactions is valued based on the prices quoted by counterparty financial institutions.

As at February 20, 2017

			Millions of Yen		
Hedging method	Transaction type	Main hedged item	Notional amount	Notional amount maturing over 1 year	Fair value
Deferral method	Foreign exchange forward contract	Accounts payable-trade			
	Buying U.S. dollars		¥170,590	-	¥14,998

As at February 20, 2017

			Thousands of U.S. Dollars		
Hedging method	Transaction type	Main hedged item	Notional amount	Notional amount maturing over 1 year	Fair value
Deferral method	Foreign exchange forward contract	Accounts payable-trade			
	Buying U.S. dollars		\$1,511,257	\$-	\$132,869

Note: The fair value of derivative transactions is valued based on the prices quoted by counterparty financial institutions.

2) Interest-related transactions

As at February 20, 2016

Not applicable.

As at February 20, 2017

Not applicable.

14. Retirement Benefits

1) Summary of Employees' Retirement Benefit Plans

The Company and certain consolidated subsidiaries have a defined benefit corporate pension plan, an employees' retirement lump-sum benefit plan and a defined contribution pension plan. The Company and certain consolidated subsidiaries provide for lump-sum payments, which are not included in the calculation of projected benefit obligations, to employees upon retirement determined by reference to their current rate of pay, length of service and the conditions under which termination occurs.

2) Defined benefit pension plans

(a) Reconciliation of beginning and ending balances of the projected benefit obligations is as follows:

For the years ended February 20	Millions of Yen		Thousands of U.S. Dollars
	2016	2017	2017
Balance at beginning of year (as previously reported)	¥4,787	¥4,836	\$42,846
Cumulative effect of changes in accounting policies	(675)	-	-
Balance at beginning of year (as restated)	4,112	4,836	42,846
Service cost	691	764	6,770
Interest cost	33	47	419
Actuarial loss (gain)	294	176	1,563
Benefits paid	(296)	(253)	(2,248)
Balance at end of year	¥4,836	¥5,570	\$49,351

Note: Includes those under the plan in which a simplified method is applied.

(b) Reconciliation of beginning and ending balances of plan assets at fair value is as follows:

For the years ended February 20	Millions of Yen		Thousands of U.S. Dollars
	2016	2017	2017
Balance at beginning of year	¥2,442	¥2,556	\$22,648
Expected return on plan assets	48	51	452
Actuarial gain (loss)	(101)	93	832
Employer contributions	289	322	2,855
Benefits paid	(122)	(87)	(775,103)
Plan assets at fair value at end of year	¥2,556	¥2,936	\$26,013

(c) Reconciliation of amounts recognized in the consolidated balance sheet is as follows:

As at February 20	Millions of Yen		Thousands of U.S. Dollars
	2016	2017	2017
Projected benefit obligations (funded plans)	¥2,559	¥2,929	\$25,948
Plan assets at fair value	(2,556)	(2,936)	(26,013)
	3	(7)	(65)
Projected benefit obligations (unfunded plans)	2,276	2,641	23,403
Net defined benefit liability in the consolidated balance sheet	2,279	2,634	23,337
Gross defined benefit liability	2,279	2,634	23,337
Net defined benefit liability in the consolidated balance sheet	2,279	2,634	23,337

Note: Includes those under the plan in which a simplified method is applied.

(d) The composition of net pension and severance costs is as follows:

For the years ended February 20	Millions of Yen		Thousands of U.S. Dollars
	2016	2017	2017
Service cost	¥691	¥764	\$6,770
Interest cost	33	47	419
Expected return on plan assets	(48)	(51)	(452)
Amortization and expenses:			
Actuarial loss	39	39	354
Prior service cost	(35)	(35)	(311)
Net pension and severance costs	¥680	¥765	\$6,778

Note: Includes those under the plan in which a simplified method is applied.

(e) The components of remeasurements of defined benefit plans recognized in other comprehensive income (loss) before income tax effect in are as follows:

For the years ended February 20	Millions of Yen		Thousands of U.S. Dollars
	2016	2017	2017
Prior service cost	(¥35)	(¥35)	(\$311)
Actuarial loss	(357)	(45)	(399)
Total	(¥392)	(¥80)	(\$711)

(f) The components of remeasurements of defined benefit plans recognized in accumulated other comprehensive income (loss) before income tax effect are as follows:

As at February 20	Millions of Yen		Thousands of U.S. Dollars
	2016	2017	2017
Unrecognized prior service cost	¥179	¥144	\$1,281
Unrecognized actuarial loss	(624)	(669)	(5,933)
Total	(¥444)	(¥525)	(\$4,652)

(g) The significant components of plan assets, by asset category, are as follows:

As at February 20	(% of total plan assets)	
	2016	2017
Life insurance company general accounts	46 %	45 %
Debt securities	28	27
Equity securities	24	26
Others	2	2
Total	100 %	100 %

(h) The expected long-term rate of return on plan assets is determined based on the current and expected future allocation of plan assets and the current and expected future long-term rate of return of various assets of which plan assets are composed.

(i) Assumptions used for the actuarial computation of the retirement benefit obligations are as follows:

As at February 20	2016	2017
Discount rate	Primarily 0.8 %	Primarily 0.6 %
Expected long-term rate of return on plan assets	2.0	2.0
Expected rate of salary increase	Primarily 4.6	Primarily 4.6

3) Defined contribution pension plans

The contribution to defined contribution pension plans of the Company was ¥329 (\$2,919 thousand) for the year ended February 20, 2017.

15. Stock Options

For the years ended February 20, 2016 and 2017, the Group recognized expenses regarding stock options of ¥339 million and ¥315 million (\$2,794 thousand), respectively, which are included in selling, general and administrative expenses.

For the years ended February 20, 2016 and 2017, the Group recognized gains related to unexercised stock options of ¥10 million and ¥7 million (\$69 thousand), which are presented in special gains as "Gain on reversal of subscription rights to shares".

1) The stock options outstanding as of February 20, 2017

	The Fourth and Fifth Subscription Rights to Shares	
Date of annual general meeting of shareholders	May 12, 2011	
Date of meeting of directors	March 29, 2012	
Grantees	Directors	4
	Company auditors	2
	Officers	16
	Directors of subsidiaries	5
	Employees of subsidiaries	2,664
Type and number of shares	Common stock	1,389,100
Grant date	April 2, 2012	
Exercise conditions	None	
Intended service period	From April 2, 2012 to March 29, 2015	
Exercise period	From March 30, 2015 to March 29, 2017	

	The Sixth Subscription Rights to Shares		The Seventh Subscription Rights to Shares	
Date of annual general meeting of shareholders	May 9, 2014		May 9, 2014	
Date of meeting of directors	June 27, 2014		June 27, 2014	
Grantees	Directors	8	Officers	14
	Company auditors	3	Directors of subsidiaries	4
			Employees of subsidiaries	3,239
Type and number of shares	Common stock	121,000	Common stock	904,100
Grant date	July 14, 2014		June 30, 2014	
Exercise conditions	None		None	
Intended service period	From July 14, 2014 to July 14, 2017		From June 30, 2014 to June 30, 2017	
Exercise period	From July 15, 2017 to July 14, 2020		From July 1, 2017 to June 30, 2020	

Note: The Company conducted a stock split of common shares at a ratio of two for one effective February 21, 2014. The type and number of shares are retroactively adjusted for the stock split.

2) A summary of stock option activity during the fiscal year ended February 20, 2017

	The Fourth and Fifth Subscription Rights to Shares	
Non-vested (Shares)		
At the beginning of the year	-	
Granted	-	
Forfeited and expired	-	
Vested	-	
At the end of the year	-	
Vested (Shares)		
At the beginning of the year	943,500	
Vested	-	
Exercised	767,000	
Forfeited and expired	11,100	
At the end of the year	165,400	

	The Sixth Subscription Rights to Shares		The Seventh Subscription Rights to Shares	
Non-vested (Shares)				
At the beginning of the year	121,000		853,500	
Granted	-		-	
Forfeited and expired	2,000		26,100	
Vested	-		-	
At the end of the year	119,000		827,400	
Vested (Shares)				
At the beginning of the year	-		-	
Vested	-		-	
Exercised	-		-	
Forfeited and expired	-		-	
At the end of the year	-		-	

Note: The Company conducted a stock split of common shares at a ratio of two for one effective February 21, 2014. The number of The Fourth and Fifth Subscription Rights to Shares issued are retrospectively adjusted for the stock split.

The unit price information is as follows:

The Fourth and Fifth Subscription Rights to Shares

	Yen	U.S. dollars
Exercise price	¥3,959	\$35.07
Average stock price at exercise	11,564	102.44
Fair value price on grant date	706	6.25

The Sixth Subscription Rights to Shares

	Yen	U.S. dollars
Exercise price	¥5,650	\$50.05
Average stock price at exercise	-	-
Fair value price on grant date	¥1,022	9.05

The Seventh Subscription Rights to Shares

	Yen	U.S. dollars
Exercise price	¥5,540	\$49.08
Average stock price at exercise	-	-
Fair value price on grant date	996	8.82

Note: The Company conducted a stock split of common shares at a ratio of two for one effective February 21, 2014. The Exercise price of The Fourth and Fifth Subscription Rights to Shares is adjusted retrospectively for the stock split.

3) Method of estimating the number of options vested expirations

Estimated number of options vested is determined based on expirations ratio of the actual termination.

16. Income Taxes

1) As at February 20, 2016 and 2017, the significant components of deferred tax assets and liabilities are as follows:

As at February 20	Millions of Yen		Thousands of U.S. Dollars
	2016	2017	2017
Deferred tax assets			
Accrued enterprise tax, business office tax	¥1,288	¥1,296	\$11,487
Accrued real estate acquisition tax	54	222	1,967
Provision for bonuses	905	1,012	8,972
Provision for point card certificates	340	405	3,591
Unrealized gain on sales of inventories	147	173	1,537
Deferred gains on hedges	639	-	-
Net defined benefit liability	718	765	6,781
Depreciation and amortization	2,994	3,134	27,767
Provision for directors' retirement benefits	73	70	621
Allowance for doubtful accounts	31	22	195
Impairment loss and penalty for the scrap and build of outlets	417	271	2,409
Asset retirement obligations	1,373	1,474	13,059
Other	3,674	4,206	37,266
Sub total	12,660	13,055	115,657
Less: valuation allowance	(1,587)	(1,634)	(14,481)
Total deferred tax assets	11,073	11,420	101,176
Deferred tax liabilities			
Deferred gains on hedges	2,696	4,628	41,003
Unrealized holding gain on securities	138	390	3,456
Construction assistance fund receivables	760	798	7,078
Asset retirement cost related to asset retirement obligation	899	887	7,860
Retained earnings of subsidiaries	1,125	886	7,852
Other	30	443	3,926
Total deferred tax liabilities	5,649	8,034	71,178
Net deferred tax assets	¥5,423	¥3,386	\$29,997

Note: Deferred tax assets and liabilities as of February 20, 2016 and 2017 are reflected in the following accounts in the consolidated balance sheet:

As at February 20	Millions of Yen		Thousands of U.S. Dollars
	2016	2017	2017
Current assets – Deferred tax assets	¥2,602	¥1,001	\$8,868
Investments and other assets – Deferred tax assets	2,821	2,952	26,155
Current liabilities – Deferred tax liabilities	-	564	4,996
Non-Current liabilities – Deferred tax liabilities	1	3	30

2) Reconciliation between the effective statutory tax rate and the actual effective tax rates

The details for the years ended February 20, 2016 and 2017 are omitted as the differences between the statutory tax rate and effective tax rates are 5% or less of the statutory tax rate.

3) Revision of amount of deferred tax assets and deferred tax liabilities due to change in corporate tax rate.

Following the enactment by the Japanese Diet of the "Partial Revision of Income Tax Act, etc." (Act No. 15 of 2016) and the "Partial Revision of Local Tax Act, etc." (Act No. 13 of 2016) on March 29, 2016, and the "Act for Partial Revision to the Partial Revision, etc. of Consumption Tax Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources, etc. for Social Security" (Act No. 85 of 2016) and the "Act for Partial Revision to the Partial Revision, etc. of Local Tax Act and Local Allocation Tax Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources, etc. for Social Security" (Act No. 86 of 2016) on November 18, 2016, the statutory tax rate will be lowered from fiscal years beginning on or after April 1, 2016. The effective statutory tax rate used to measure deferred tax assets and liabilities was changed from 32.3% to 30.9% for temporary differences expected to be utilized in the fiscal years beginning on February 21, 2017 and to 30.6% for temporary differences expected to be utilized in the fiscal year beginning on February 21, 2019 and the after.

As a result, deferred tax assets decreased by ¥174 million (\$1,542 thousand), deferred tax liabilities decreased by ¥25 million (\$226 thousand), unrealized gain on hedging instruments increased by ¥209 million (\$1,860 thousand) and income taxes-deferred increased by ¥373 million (\$3,311 thousand).

17. Investment and Rental Properties

The Company and certain consolidated subsidiaries hold rental properties such as commercial facilities (including land) in major cities throughout Japan. Certain rental properties are not recognized as rental properties but as real estate including spaces used as rental properties since the Company and certain consolidated subsidiaries use some of the floor space of these properties.

For the years ended February 20, 2016 and 2017, the carrying values, changes during the year, and fair values of those properties are as follows:

For the years ended February 20	Millions of Yen		Thousands of U.S. Dollars
	2016	2017	2017
Rental property			
Carrying value			
Balance at beginning of year	¥5,946	¥29,577	\$262,029
Increase (decrease)	23,630	(7,210)	(63,874)
Balance at end of year	29,577	22,367	198,155
Fair value at end of year	26,540	22,004	194,937
Real estate including spaces used as rental properties			
Carrying value			
Balance at beginning of year	¥43,635	¥32,297	\$286,122
Increase (decrease)	(11,337)	9,782	86,663
Balance at end of year	32,297	42,080	372,785
Fair value at end of year	26,536	47,032	416,658

Notes: 1. The carrying value is presented after deducting accumulated depreciation from acquisition cost.

2. Increase of rental property during the year ended February 20, 2016 was primarily attributable to newly acquired properties of ¥14,406 million and the transfer from real estate including spaces used as rental properties of ¥9,241 million. Increase during the year ended February 20, 2017 was primarily attributable to newly acquired properties, Abeno-ku, Osaka-shi, (Previously Sharp Corporation's Headquarters) of ¥6,830 million (\$60,510 thousand) and the transfer from real estate including spaces used as rental properties of ¥4,906 million (\$43,469 thousand). Decrease of rental property during the year ended February 20, 2017 was due to the termination of the lease contract, Abeno-ku, Osaka-shi, (Previously Sharp Corporation's Headquarters) of ¥6,589 million (\$58,376 thousand) and the transfer from real estate including spaces used as rental properties of ¥11,082 million (\$98,176 thousand).

3. Decrease of real estate including spaces used as rental properties during the year ended February 20, 2016 was primarily attributable to the transfer to rental property of ¥9,241 million, and which was partially offset by depreciation expense of ¥847 million. Increase during the year ended February 20, 2017 was primarily attributable to the transfer to rental property of ¥15,343 million (\$135,931 thousand). Decrease of rental property during the year ended February 20, 2017 was primarily attributable to the transfer to rental property of ¥4,906 million (\$43,469 thousand).

4. Fair values of the properties as of year end are calculated by the Company based on certain appraisal values and other indicators reflecting the market value.

For the years ended February 20, 2016 and 2017, income from rental properties is as follows:

For the years ended February 20	Millions of Yen		Thousands of U.S. Dollars
	2016	2017	2017
Rental properties			
Income from rental properties	¥547	¥1,024	\$9,077
Cost of rental properties	284	654	5,798
Gross profit from rental properties	262	370	3,279
Real estate including spaces used as rental properties			
Income from rental properties	¥3,854	¥5,122	\$45,381
Cost of rental properties	1,963	2,841	25,171
Gross profit from rental properties	1,891	2,281	20,209

Notes: 1. Effective from the fiscal year ended February 20, 2017, income from rental properties is now presented separately because it has become more significant. In order to reflect this change in presentation, modifications were made to the consolidated financial statements for the previous fiscal year.

2. Since the Company and certain of its subsidiaries use certain real estate including spaces used as rental properties for the purposes of providing services and management, the related rental income is not recognized. Expenses related to rental property (depreciation, insurance, taxes, etc.) are included in cost of rental properties.

18. Segment Information

1. Segment Information

The Company and its consolidated subsidiaries have been primarily engaged in a single segment of sales of home furnishings and interior goods. Therefore, the disclosure of reportable segment information is omitted.

2. Related Information

1) Information about products and services

Information about products and services is as follows:

For the year ended February 20, 2016	Millions of Yen		
	Home furnishings and interior goods	Other	Total
Sales to external customers	¥449,251	¥8,889	¥458,140

For the year ended February 20, 2017	Millions of Yen		
	Home furnishings and interior goods	Other	Total
Sales to external customers	¥501,591	¥11,367	¥512,958

For the year ended February 20, 2017	Thousands of U.S. Dollars		
	Home furnishings and interior goods	Other	Total
Sales to external customers	\$4,443,577	\$100,703	\$4,544,281

2) Information about geographic areas

a) Sales

Information about geographic areas is not disclosed because sales to external customers in Japan constituted more than 90% of net sales on the consolidated statement of income.

b) Property, plant and equipment

Information about property, plant and equipment is not disclosed because property, plant and equipment in Japan constituted more than 90% of property, plant and equipment on the consolidated balance sheet.

3) Information about major customers

Information about major customers is not disclosed since no single customer accounts for more than 10% of consolidated net sales.

3. Information about Impairment Loss on Fixed Assets by Reportable Segment

The Group has been primarily engaged in a single segment of sales of home furnishings and interior goods. Therefore, this information is omitted.

4. Information about Amortization and Unamortized Balances of Goodwill by Reportable Segment

Not applicable.

5. Information about Gain on Negative Goodwill by Reportable Segment

Not applicable.

19. Related Party Transactions

1. Related party transactions between the Company and related parties

Directors and major shareholders (individual shareholders only), etc., of the Company

For the year ended February 20, 2016							Amounts of Transaction		Balance at the end of the year	
Category	Name	Address	Capital or Investment	Relationship	% of Voting Rights Held (held by Others)	Business Relationship	Nature of Transaction	Millions of Yen	Account	Millions of Yen
Directors	Nitori Akio	-	-	Representative director	(held by others) Direct 3.08	-	Exercise of stock options (Note 2)	¥633	-	-
Directors	Shirai Toshiyuki	-	-	Representative director	(held by others) Direct 0.04	-	Exercise of stock options (Note 2)	23	-	-
Directors	Komiya Shoshin	-	-	Director	(held by others) Direct 0.02	-	Exercise of stock options (Note 2)	39	-	-
Close relative of Nitori directors	Mitsuko	-	-	Mother of representative director Nitori Akio	(held by others) Direct 0.01	Building lease	Building lease (Note 3)	16	Lease deposits	¥28

Notes: 1. Amount of transaction does not include consumption taxes.

2. Exercise of stock options during the fiscal year ended February 20, 2016 approved by annual general meeting of shareholders on May 12, 2011.

3. The terms and prices of building lease transactions are determined based on a similar transaction in a nearby area.

For the year ended February 20, 2017							Amounts of Transaction			Balance at the end of the year		
Category	Name	Address	Capital or Investment	Relationship	% of Voting Rights Held (held by Others)	Business Relationship	Nature of Transaction	Millions of Yen	Thousands of U.S. Dollars	Account	Millions of Yen	Thousands of U.S. Dollars
Directors	Komiya Shoshin	-	-	Director	(held by others) Direct 0.03	-	Exercise of stock options (Note 2)	¥19	\$175	-	-	-
Directors	Ikeda Masanori	-	-	Director	(held by others) Direct 0.03	-	Exercise of stock options (Note 2)	15	140	-	-	-
Directors	Sudou Fumihito	-	-	Director	(held by others) Direct 0.01	-	Exercise of stock options (Note 2)	19	175	-	-	-
Directors	Kubo Takao	-	-	Director	(held by others) Direct 0.02	-	Exercise of stock options (Note 2)	15	140	-	-	-
Directors of subsidiaries	Matsukura Sigehito	-	-	Director	(held by others) Direct 0.04	-	Exercise of stock options (Note 2) Loans receivable (Note 3) Collection of loans receivable (Note 3)	79	701	-	-	-
Close relative of Nitori directors	Mitsuko	-	-	Mother of representative director Nitori Akio	(held by others) Direct 0.01	Building lease	Building lease (Note 4)	16	143	Lease deposits	¥28	\$253

Notes: 1. Amount of transaction does not include consumption taxes.

2. Exercise of stock options during the fiscal year ended February 20, 2017 approved by annual general meeting of shareholders on May 12, 2011.

3. Interest rates on loans are determined based on market interest rates.

4. The terms and prices of building lease transactions are determined based on a similar transaction in a nearby area.

2. Related party transactions between the consolidated subsidiaries and related parties

Not applicable.

20. Amounts per Share

As at and for the years ended February 20	Yen		U.S. Dollars
	2016	2017	2017
Net assets per share of common stock	¥2,981.27	¥3,530.51	\$31.28
Basic net income per share of common stock	425.10	540.93	4.79
Diluted net income per share of common stock	421.40	536.23	4.75

Notes: Stocks held by Trust & Custody Services Bank, Ltd. on behalf of the J-ESOP are excluded in the number of shares for the calculation of net assets per share of common stock information.

1. Basis of net income per share of common stock and diluted net income per share of common stock

1) Basic net income per share

For the years ended February 20	Millions of Yen		Thousands of U.S. Dollars
	2016	2017	2017
Net income	¥46,969	¥59,999	\$531,531
Net income not attributable to ordinary shareholders	-	-	-
Net income attributable to ordinary shareholders	46,969	59,999	531,531
Average number of shares issued and outstanding during the period (Thousand shares)	110,488	110,918	

Note: Stocks held by Trust & Custody Services Bank, Ltd. on behalf of the J-ESOP are excluded in the number of shares for the calculation of average number of shares issued and outstanding during the period.

2) Diluted net income per share

For the years ended February 20	Millions of Yen		Thousands of U.S. Dollars
	2016	2017	2017
Adjustment to net income	¥-	¥-	\$-
Increase in the number of common stock corresponding to share warrants (Thousand shares)	970	972	

21. Short-term and Long-term Loans Payable

Item	Balance at	Balance at		Average interest rate (%)	Repayment term
	February 21, 2016	February 20, 2017	Thousands of U.S. Dollars		
	Millions of Yen	Millions of Yen	Thousands of U.S. Dollars		
Short-term loans payable	¥-	¥-	\$-	-	-
Current portion of long-term loans payable	1,504	625	5,536	0.65	-
Current portion of lease obligations	188	187	1,662	-	-
Long-term loans payable (Excluding current portion)	625	-	-	-	-
Lease obligations (Excluding current portion)	2,518	2,330	20,645	-	2018–2032
Total	4,836	¥3,143	\$27,844	-	-

Notes: 1. Average interest rates show weighted-average interest rate of loans payable balance at year end.

2. The weighted-average rate of interest for finance lease obligations is not disclosed since related interest charges are included in the amount of lease obligations in the consolidated balance sheet.

3. Maturities of long-term loans payable and lease obligations, excluding the current portion, due within 5 years as of February 20, 2017 are as follows:

Lease obligations (excluding current portion)	Millions of Yen	Thousands of U.S. Dollars
Over 1 year less than 2 years	¥187	\$1,657
Over 2 years less than 3 years	187	1,657
Over 3 years less than 4 years	187	1,657
Over 4 years less than 5 years	187	1,657

22. Asset Retirement Obligations

Asset retirement obligations are not disclosed because asset retirement obligations constituted less than 1% of total liabilities and net assets on the consolidated balance sheet.

23. Subsequent Event

On April 28, 2017, a share transfer agreement was concluded where by a certain number of shares of Katitas Co., Ltd. were transferred from Advantage Partners (located in Minato-ward, Tokyo; Representative partner, Taisuke Sasanuma) to the Company. A summary of the transaction is as follows:

1. Reason for acquisition of shares

From a product marketing perspective, significant synergies can be expected by adding a new distribution channel for the Company's products to the Nitori group because Katitas sells "renovated houses", about 4,400 houses per year in Japan, and "Challenging lifestyle from scratch" is Katitas corporate policy via providing good quality houses at reasonable price.

From a remodeling perspective, the company can increase market share faster than before since entering the remodeling market in 2007, aiming to enhance market share in this business in the long run by using Katisas's strong network with over 600 excellent building contractors in mainly local areas.

Furthermore, this collaboration will create multiple benefits for both companies and enhance corporate value. Therefore, the Company has decided to acquire its shares, and Katitas is newly classified as an equity-method affiliate.

2. Overview of Katitas

- 1) Name of the company: Katitas Co., Ltd.
- 2) Name and title of representative: Representative director, Mr. Katsutoshi Arai
- 3) Address: 4-2 Mihara, Kiryu City, Gunma Pref., Japan
- 4) Date of foundation: September 1, 1978
- 5) Business description: Remodeling of used homes and real estate leasing
- 6) Fiscal year end: End of March
- 7) Number of employees: 600 (excluding 79 temporary staff)
- 8) Head office: 1-22-17 Shinkawa, Chuou-ward, Tokyo, Japan
- 9) Capital stock: ¥3,778 million
- 10) Total number of issued shares: 1,400,000
- 11) Principal shareholders and shareholder voting rights ratio
As at March 31, 2017

Names of shareholders	Number of voting rights	shareholder voting rights ratio (%) (Note 2)
Advantage Partners IV (Note 1)	511,624	42.05
SMS AIV (Note 1)	333,008	27.37
Japan Ireland Investment Partners (Note 1)	310,281	25.5
Forty Three Limited (Note 1)	34,119	2.80
AP Cayman Partners II, L.P. (Note1)	24,012	1.97

Notes: 1. Advantage Partners IV provides services to these investment funds.

2. Shareholder voting rights ratio includes potential voting rights and excludes treasury stock.

12) Consolidated financial results for the previous fiscal year

For the year ended March 31, 2016	Millions of Yen	Thousands of U.S. Dollars
Net sales	¥39,337	\$348,488
Gross profit	10,133	89,770
Operating income	3,801	33,676
Ordinary income	3,340	29,594
Net Income attributable to owners of parent	1,996	17,690
Total assets	33,577	297,466
Total shareholders' equity	9,429	83,539
	Yen	U.S. Dollars
Dividend per share	¥3,297	\$29

3. Date of share transfer

End of May 2017

4. Number of shares, acquisition cost and shareholder voting rights ratio

1) Number of shares held before acquisition

Number of voting rights	Shareholder voting rights ratio (%)*
-	-

2) Number of shares acquired

Number of voting rights	Shareholder voting rights ratio (%)*
445,207	34.00

3) Acquisition cost

	Millions of Yen	Thousands of U.S. Dollars
Total acquisition cost	¥23,300	\$206,413

4) Number of shares held after acquisition

Number of voting rights	Shareholder voting rights ratio (%)*
445,207	34.00

* The shareholder voting rights ratio excludes treasury stock and includes potential voting rights.

5. Source of funds

Cash on hand

6. Other information

Not applicable

Independent Auditor's Report

The Board of Directors
Nitori Holdings Co., Ltd.

We have audited the accompanying consolidated financial statements of Nitori Holdings Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at February 20, 2017, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nitori Holdings Co., Ltd. and its consolidated subsidiaries as at February 20, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.



May 11, 2017
Tokyo, Japan