



Consolidated Financial Statements

For the year ended February 20, 2021

Nitori Holdings Co., Ltd.

Consolidated Balance Sheet

Nitori Holdings Co., Ltd. and consolidated subsidiaries
As of February 20, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
ASSETS			
Current Assets:			
Cash and cash equivalents (Note 16)	¥125,487	¥140,791	\$1,186,865
Short-term investments (Note 16)	33,089	18,398	312,965
Marketable securities (Notes 4 and 16)	7,791	—	73,691
Trade notes and accounts receivable (Note 16)	37,806	27,880	357,578
Allowance for doubtful accounts (Note 16)	(5)	(4)	(51)
Inventories (Note 5)	80,737	65,513	763,620
Other	17,843	11,010	168,762
Total current assets	302,750	263,589	2,863,431
Property, plant and equipment:			
Land (Notes 6 and 7)	257,012	173,010	2,430,839
Buildings and structures (Notes 6 and 7)	353,576	215,908	3,344,149
Machinery, equipment and vehicles	13,811	13,511	130,632
Tools, furniture and fixtures	24,554	19,686	232,237
Lease assets (Note 15)	4,384	3,776	41,464
Right-of-use assets (Note 15)	6,015	5,742	56,892
Construction in progress	9,762	3,489	92,332
Total	669,117	435,126	6,328,548
Accumulated depreciation	(209,083)	(127,739)	(1,977,519)
Net property, plant and equipment	460,034	307,387	4,351,028
Intangible assets:			
Goodwill (Note 3)	31,665	—	299,492
Software	9,296	11,391	87,931
Software in progress	517	5,984	4,894
Leasehold interests in land	7,178	7,160	67,896
Other	89	64	850
Total intangible assets	48,748	24,599	461,065
Investments and other assets:			
Investment securities (Notes 4 and 16)	25,727	25,535	243,333
Long-term loans receivable	665	732	6,297
Guarantee deposits (Notes 7 and 16)	19,858	13,987	187,825
Leasehold deposits (Note 16)	28,945	23,756	273,765
Deferred tax assets (Note 12)	25,389	13,246	240,136
Other	14,999	10,429	141,868
Allowance for doubtful accounts	(72)	(18)	(681)
Total investments and other assets	115,514	87,670	1,092,544
Total assets	¥927,048	¥683,247	\$8,768,070

Consolidated Balance Sheet

Nitori Holdings Co., Ltd. and consolidated subsidiaries
As of February 20, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
LIABILITIES AND EQUITY			
Current Liabilities:			
Short-term bank loans (Notes 7 and 16)	¥48,715	¥2,787	\$460,750
Lease obligations (Notes 7, 15 and 16)	1,570	1,554	14,851
Payables:			
Trade notes and accounts (Notes 7 and 16)	44,554	19,774	421,395
Other (Note 16)	33,512	22,923	316,966
Income taxes payable (Note 16)	30,351	20,224	287,070
Provision for bonuses	5,120	4,020	48,425
Provision for point card certificates	2,669	2,076	25,250
Provision for shareholder benefit program	463	282	4,379
Other (Notes 7 and 9)	39,388	23,420	372,541
Total current liabilities	206,345	97,063	1,951,630
Long-term Liabilities:			
Long-term debt (Notes 7 and 16)	2,000	4,000	18,916
Lease obligations (Notes 7, 15 and 16)	5,875	6,714	55,567
Provision for retirement benefits for directors and other officers	228	228	2,165
Liability for retirement benefits (Note 8)	5,186	1,343	49,051
Asset retirement obligations (Note 9)	14,608	5,673	138,168
Other (Note 7)	10,945	7,361	103,525
Total long-term liabilities	38,844	25,322	367,394
Equity (Note 10):			
Common stock—authorized, 288,000,000 shares; issued, 114,443,496	13,370	13,370	126,461
Capital surplus	26,255	25,074	248,330
Stock acquisition rights	—	289	—
Retained earnings	612,082	532,471	5,789,104
shares in 2020	(8,971)	(10,875)	(84,855)
Accumulated Other Comprehensive Income:			
Unrealized gain on available-for-sale securities (Note 4)	690	750	6,530
Foreign currency translation adjustments	(1,122)	161	(10,613)
Defined retirement benefit plans	(208)	(382)	(1,973)
Total accumulated other comprehensive income	(640)	529	(6,056)
Non-controlling interests	39,760	—	376,060
Total equity	681,857	560,861	6,449,045
Total liabilities and equity	¥927,048	¥683,247	\$8,768,070

See Notes to Consolidated Financial Statements.

Consolidated Statement of Income

Nitori Holdings Co., Ltd. and consolidated subsidiaries
For the year ended February 20, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
Net Sales	¥716,900	¥642,273	\$6,780,481
Cost of Sales	305,109	287,909	2,885,738
Gross profit	411,791	354,364	3,894,743
Selling, General and Administrative Expenses (Note 13)	274,104	246,886	2,592,491
Operating income	137,687	107,478	1,302,251
Other Income (Expenses):			
Interest income	501	522	4,745
Dividend income	38	36	361
Share of profit of entities accounted for using equity method	566	588	5,359
Subsidy income	212	203	2,005
Vending machine income	253	247	2,395
Gain on sales of goods	187	374	1,777
Interest expenses	(294)	(283)	(2,783)
Commission expenses	(1,000)	—	(9,458)
Foreign exchange losses	(6)	(24)	(58)
Gain on sales of fixed assets (Note 14)	5	315	52
Gain on reversal of stock acquisition rights (Note 11)	12	3	114
Gain on cancellation of rental contracts	397	—	3,760
Reversal of provision for loss on cancellation	352	—	3,334
Penalty income	—	307	—
Loss on sales and retirement of fixed assets (Note 14)	(63)	(99)	(602)
Loss on impairment of long-lived assets (Note 14)	(8,351)	(4,090)	(78,990)
Loss on change in equity	(81)	(172)	(772)
Compensation for damage	—	(85)	—
Provision for loss on cancellation	—	(630)	—
Other—net	279	378	2,644
Other income (expenses)—net	(6,990)	(2,408)	(66,115)
Income before income taxes	130,696	105,069	1,236,136
Income Taxes (Note 12):			
Current	42,431	34,979	401,314
Deferred	(3,848)	(1,304)	(36,403)
Total income taxes	38,582	33,674	364,911
Net Income	92,114	71,395	871,225
Net Income Attributable to			
Owners of the parent	¥92,114	¥71,395	\$871,225
		Yen	U.S. Dollars
Per Share of Common Stock (Note 19):			
Basic net income	¥817.01	¥635.42	\$7.73
Diluted net income	816.66	634.03	7.72
Cash dividends applicable to the year	123.00	108.00	1.16

See Notes to Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

Nitori Holdings Co., Ltd. and consolidated subsidiaries
For the year ended February 20, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
Net Income	¥92,114	¥71,395	\$871,225
Other Comprehensive Income (Loss):			
Unrealized gain (loss) on available-for-sale securities	(60)	(197)	(567)
Foreign currency translation adjustments	(1,283)	(740)	(12,138)
Defined retirement benefit plans	173	(14)	1,640
Total other comprehensive income (loss) (Note 17)	(1,169)	(951)	(11,065)
Comprehensive Income	¥90,944	¥70,443	\$860,159
Comprehensive Income Attributable to:			
Owners of the parent	¥90,944	¥70,443	\$860,159

See Notes to Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

Nitori Holdings Co., Ltd. and consolidated subsidiaries

For the year ended February 20, 2021

	Thousands										Millions of Yen	
	Number of shares of common stock outstanding	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock	Accumulated Other Comprehensive Income			Total	Non-controlling interests	Total equity
							Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plans			
Balance at February 21, 2019	112,221	¥13,370	¥19,841	¥470	¥472,755	¥(7,727)	¥947	¥901	¥(367)	¥1,481	¥—	¥500,192
Net income attributable to owners of the parent					71,395							71,395
Cash dividends, ¥104 per share					(11,679)							(11,679)
Purchase of treasury stock	(290)					(5,012)						(5,012)
Disposal of treasury stock	536		5,232			1,865						7,098
Net change in the year				(180)			(197)	(740)	(14)	(951)	—	(1,132)
Balance at February 20, 2020	112,467	¥13,370	¥25,074	¥289	¥532,471	¥(10,875)	¥750	¥161	¥(382)	¥529	—	¥560,861
Net income attributable to owners of the parent					92,114							92,114
Cash dividends, ¥111 per share					(12,504)							(12,504)
Purchase of treasury stock	(1)					(21)						(21)
Disposal of treasury stock	357		1,181			1,924						3,105
Net change in the year				(289)			(60)	(1,283)	173	(1,169)	39,760	38,301
Balance at February 20, 2021	112,824	¥13,370	¥26,255	¥—	¥612,082	¥(8,971)	¥690	¥(1,122)	¥(208)	¥(640)	¥39,760	¥681,857

	Thousands of U.S. Dollars (Note 1)											
	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock	Accumulated Other Comprehensive Income			Total	Non-controlling interests	Total equity	
						Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plans				
Balance at February 20, 2020	\$126,461	\$237,158	\$2,741	\$5,036,145	\$(102,857)	\$7,098	\$1,524	\$(3,613)	\$5,009	\$—	\$5,304,658	
Net income attributable to owners of the parent				871,225								871,225
Cash dividends, \$1.05 per share				(118,265)								(118,265)
Purchase of treasury stock					(199)							(199)
Disposal of treasury stock		11,172			18,202							29,374
Net change in the year			(2,741)			(567)	(12,138)	1,640	(11,065)	376,060		362,253
Balance at February 20, 2021	\$126,461	\$248,330	\$—	\$5,789,104	\$(84,855)	\$6,530	\$(10,613)	\$(1,973)	\$(6,056)	\$376,060		\$6,449,045

See Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

Nitori Holdings Co., Ltd. and consolidated subsidiaries
For the year ended February 20, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
Operating Activities:			
Income before income taxes	¥130,696	¥105,069	\$1,236,136
Adjustments for:			
Income taxes paid	(34,610)	(34,112)	(327,350)
Income taxes refund	79	9,856	747
Depreciation and amortization	17,831	16,561	168,649
Loss on impairment of long-lived assets	8,351	4,090	78,990
Commission expenses	1,000	—	9,458
Share of loss (profit) of entities accounted for using equity method	(566)	(588)	(5,359)
Gain on cancellation of rental contracts	(397)	—	(3,760)
Penalty income	—	(307)	—
Provision for loss on cancellation	—	630	—
Reversal of provision for loss on cancellation	(352)	—	(3,334)
Loss (gain) on sales and retirement of fixed assets	58	(216)	550
Loss (gain) on change in equity	81	172	772
Changes in asses and liabilities:			
Decrease (increase) in trade receivables	(991)	(3,664)	(9,381)
Decrease (increase) in inventories	4,867	(2,687)	46,032
Increase (decrease) in trade payables	(99)	219	(939)
Increase (decrease) in accrued consumption taxes	6,486	1,011	61,348
Increase (decrease) in allowance for doubtful accounts	—	21	—
Increase (decrease) in provision for bonuses	701	(177)	6,637
Increase (decrease) in provision for point card certificates	591	63	5,594
Increase (decrease) in liability for retirement benefits	389	(1,880)	3,682
Other—net	16,763	5,275	158,547
Total adjustments	20,182	(5,731)	190,886
Net cash provided by operating activities	150,879	99,337	1,427,022

Consolidated Statement of Cash Flows

Nitori Holdings Co., Ltd. and consolidated subsidiaries
For the year ended February 20, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
Investing Activities:			
Payments into time deposits	(15,267)	(18,374)	(144,396)
Proceeds from withdrawal of time deposits	534	2,285	5,056
Purchase of property, plant and equipment	(17,145)	(17,482)	(162,165)
Proceeds from sales of property, plant and equipment	40	517	386
Purchase of intangible assets	(3,094)	(9,550)	(29,270)
Proceeds from sales of short-term and long-term investment securities	—	5	—
Payments of guarantee deposits	(1,289)	(1,032)	(12,199)
Proceeds from refund of guarantee deposits	108	277	1,027
Purchase of shares of subsidiary resulting in change in scope of consolidation (Note 18)	(158,304)	—	(1,497,254)
Payments of leasehold deposits	(1,417)	(1,157)	(13,402)
Proceeds from refund of leasehold deposits	421	346	3,985
Guarantee deposits received	40	41	378
Leasehold deposits received	66	154	629
Refund of leasehold deposits received	(29)	(92)	(279)
Purchase of long-term prepaid expenses	(354)	(158)	(3,355)
Loan advances	(339)	(296)	(3,214)
Collection of loans receivable	45	36	431
Other—net	—	(5)	—
Net cash used in investing activities	(195,985)	(44,486)	(1,853,643)
Financing Activities:			
Proceeds from short-term bank loans	46,000	88	435,070
Repayments of short-term bank loans	(30)	(2)	(290)
Repayments of long-term debt	(2,000)	(2,009)	(18,916)
Repayments of lease obligations	(1,588)	(1,382)	(15,020)
Purchase of treasury stock	(21)	(4,907)	(199)
Proceeds from sales of treasury stock	—	5,009	—
Dividends paid	(12,497)	(11,663)	(118,199)
Proceeds from exercise of employee stock options	1,447	1,006	13,686
Commission paid	(1,000)	—	(9,458)
Net cash provided by (used in) financing activities	30,309	(13,862)	286,672
Effect of Exchange Rate Change on Cash and Cash Equivalents	(507)	(250)	(4,800)
Net Increase (Decrease) in Cash and Cash Equivalents	(15,304)	40,737	(144,749)
Cash and Cash Equivalents, Beginning of Year	140,791	100,053	1,331,614
Cash and Cash Equivalents, End of Year (Note 18)	¥125,487	¥140,791	\$1,186,865

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Nitori Holdings Co., Ltd. and consolidated subsidiaries

For the year ended February 20, 2021

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 its 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 (IFRSs), and have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP").

Japanese yen amounts less than a million yen have been rounded down to the nearest million yen, except for per share data.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2020 consolidated financial statements to conform to the classifications used in 2021.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥105.73 to \$1, the approximate rate of exchange at February 20, 2021. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

U.S. dollar amounts less than a thousand dollars have been rounded down to the nearest thousand dollars, except for per share data.

2. Summary of Significant Accounting Policies

1) Scope of consolidation

(1) As of February 20, 2021, the Company had 27 consolidated subsidiaries (25 consolidated subsidiaries as of February 20, 2020).

Names of major consolidated subsidiaries:

Nitori Co., Ltd.
Home Logistics Co., Ltd.
Shimachu Co., Ltd.
NITORI Taiwan Co., Ltd.
NITORI (CHINA) HOLDINGS Co., Ltd.
Deco Home China Co., Ltd.
NITORI (SHANGHAI) HOME FURNISHING CO., LTD.
NITORI (SHANGHAI) HOME FURNISHINGS SALES CO., LTD.
NITORI (Taicang) Trading & Logistics Co., Ltd.
NITORI USA, Inc.
NITORI FURNITURE VIETNAM EPE
NITORI Public Co., Ltd.
HOME DECO Co., Ltd.
and 14 other subsidiaries

The Company acquired shares in Shimachu Co., Ltd. during the year ended February 20, 2021, and said company was newly included in the scope of consolidation.

NITORI FURNITURE Ba Ria-Vung Tau Co., Ltd. dissolved since it was absorbed and merged into NITORI FURNITURE VIETNAM EPE, which is the surviving company, during the year ended February 20, 2021. Furthermore, the Company passed a resolution at its board of directors meeting held on August 30, 2017 to liquidate P.T. NITORI FURNITURE INDONESIA, which is a consolidated subsidiary of the Company, and said company is currently in the process of liquidation.

(2) Names of major unconsolidated subsidiaries

The Company did not have any unconsolidated subsidiaries.

2) Application of equity method

(1) As of February 20, 2021, the Company had one associate accounted for using the equity method (one as of February 20, 2020).

Name of associate accounted for using equity method:
KATITAS Co., Ltd.

(2) Other specific information if deemed necessary about the application of equity method

As the associate's reporting date is different from the balance sheet date of the Company, financial statements provisionally prepared based on its latest quarterly financial statements have been used.

3) Financial statements of consolidated subsidiaries

The reporting dates of the following consolidated subsidiaries are different from the balance sheet date of the Company.

Shimachu Co., Ltd. August 31, 2020
NITORI Furniture Co., Ltd. December 20, 2020
NITORI Taiwan Co., Ltd.
NITORI (CHINA) HOLDINGS Co., Ltd.
Deco Home China Co., Ltd.
NITORI (SHANGHAI) HOME FURNISHING CO., LTD.
NITORI (SHANGHAI) HOME FURNISHINGS SALES CO., LTD.
NITORI (Taicang) Trading & Logistics Co., Ltd.
NITORI USA, Inc.
NITORI FURNITURE VIETNAM EPE
NITORI Public Co., Ltd.
and 9 other subsidiaries December 31, 2020
HOME DECO Co., Ltd. January 31, 2021

As for the consolidated subsidiaries whose reporting dates are not more than three months different from the balance sheet date of the Company, their financial statements as of their respective reporting dates have been used, and as for the consolidated subsidiary whose reporting date is more than three months different from the balance sheet date of the Company, financial information provisionally prepared based on its latest quarterly financial statements has been used. Necessary adjustments have been made for consolidation purposes to reflect any significant transactions that occurred between the dates of respective subsidiaries and the date of the consolidated financial statements.

4) 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 insignificant risk of changes in value.

5) Marketable and investment securities

The Group has available-for-sale securities. Available-for-sale securities with market quotations are carried at fair value with changes in unrealized holding gains or losses, net of the applicable income taxes, included directly in "equity," and the cost of securities sold is determined by the gross average method. Available-for-sale securities without market quotations are stated at cost determined by the gross average method.

As for investments in investment limited partnerships which are deemed as securities pursuant to Article 2, paragraph (2) of the Financial Instruments and Exchange Act of Japan, amounts equivalent to the Group's share are recognized on the basis of the latest financial statements of the partnerships available to the Group depending on the respective reporting dates set forth in the partnership agreements.

6) Inventories

Nitori business at cost determined by the moving-average method
Shimachu business at cost determined by the retail method
Inventories are stated at the lower of cost or market.

7) Property, plant and equipment (except lease assets)

Depreciation of property, plant and equipment (except lease assets) of the Company and its consolidated domestic subsidiaries is computed by the declining balance method based on the estimated useful lives of the assets, except for buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016, which are depreciated by the straight-line method. Consolidated overseas subsidiaries apply the straight-line method to their property, plant and equipment. The ranges of estimated useful lives are as follows:

Buildings and structures	5 to 47 years
Machinery, equipment and vehicles	4 to 12 years
Tools, furniture and fixtures	2 to 10 years

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

8) Intangible assets (except lease 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 to 7 years.

9) Lease assets

Lease 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.

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 expense as incurred.

10) Right-of-use assets

Right-of-use assets are depreciated by the straight-line method over the lesser of the useful life of the asset or the lease term.

11) Goodwill amortization and period

Goodwill is amortized over 10 years on a straight-line basis.

12) Allowance for doubtful accounts

The Company and certain consolidated subsidiaries record the allowance for doubtful accounts based on historical experience for normal receivables and on an individual assessment of the collectability of the account for doubtful receivables.

13) Provision for bonuses

The Company and certain consolidated subsidiaries record the provision for bonuses at the amount expected to be paid to their employees based on actual results during the fiscal year in order to cover the payments to the employees in the following fiscal year.

14) Provision for point card certificates

Customers earn loyalty points by presenting their member card at the time of purchase. Provision for point card certificates is recorded at the amount expected to be used by customers in the future.

15) Provision for shareholder benefit program

Provision for shareholder benefit program is recognized for future utilization of granted shareholder benefits and recorded at the amount expected to be used by shareholders in the future based on the historical rate of use of shareholder benefits.

16) Provision for retirement benefits for directors and other officers

Provision for retirement benefits for directors and other officers is recorded at the amount required to be paid in accordance with internal rules if all directors and corporate auditors were to retire at the balance sheet date. The plans of the Company and its consolidated domestic subsidiaries were abolished in April 2004 and December 2005, respectively, and the recorded amount represents benefits incurred but not yet paid.

17) Accounting method for retirement benefits

Projected benefit obligations are attributed to periods on a benefit formula basis.

Actuarial gains and losses are amortized using the straight-line method over a specific period (mainly 10 years), which is within the average remaining years of service of the employees at the time of occurrence, from the fiscal year following the year in which each gain or loss occurs.

Prior service costs are amortized using the straight-line method over a specific period (10 years), which is within the average remaining years of service of the employees at the time of occurrence.

18) Income taxes

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

19) 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 sheet accounts of consolidated overseas subsidiaries are translated into Japanese yen at the exchange rate prevailing at the balance sheet date except for the components of equity excluding non-controlling interests, which are translated at the historical rate. Differences arising from such translation are shown as "foreign currency translation adjustments" in the equity section. Revenue and expense accounts of consolidated overseas subsidiaries are translated into Japanese yen at the average exchange rate.

20) Derivatives and hedge accounting

Derivative financial instruments are stated at fair value.

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

Hedging instruments: Derivative transactions (foreign exchange forward contracts)

Hedged items: Trade accounts payable denominated in foreign currencies

Hedging policy: The derivative transactions are used solely for hedging the risk arising from adverse fluctuations 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.

21) Consumption taxes

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

22) Accounting standards issued but not yet effective

(1) Accounting Standard for Disclosure of Accounting Estimates

- "Accounting Standard for Disclosure of Accounting Estimates" (Accounting Standards Board of Japan ("ASBJ") Statement No. 31, March 31, 2020)

(i) Overview

Requests were made to consider the "sources of estimation uncertainty," which are required to be disclosed by paragraph 125 of International Accounting Standard ("IAS") 1 "Presentation of Financial Statements" issued by the International Accounting Standards Board ("IASB") in 2003 ("IAS 1"), to be disclosed in a note pursuant to Japanese GAAP as well, as useful information for financial statement users, and the ASBJ developed and issued the Accounting Standard for Disclosure of Accounting Estimates (the "Standard" in this subsection).

The ASBJ's basic policy in developing the Standard is not to extend individual notes but to present the principle (disclosure purposes) in order for entities to determine specific disclosures in the light of the disclosure purposes. The ASBJ referred to paragraph 125 of IAS 1 when developing the Standard.

(ii) Scheduled date of adoption

The Group expects to adopt the Standard at the end of the year ending February 20, 2022.

(2) Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections
- “Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections” (ASBJ Statement No. 24, revised on March 31, 2020)

(i) Overview

Proposals were made to consider the enhancement of notes on “applied principles and procedures of accounting when there are no specific provisions involved such as accounting standards,” so the ASBJ made required revisions to issue as the revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections.

Entities shall follow the provisions of Corporate Accounting Principles (Note 1-2) specifying that entities shall disclose significant accounting policies when enhancing notes on the “applied principles and procedures of accounting when there are no specific provisions involved such as accounting standards” so that the enhancement does not affect previous practices that were implemented when there are specific provisions involved such as accounting standards.

(ii) Scheduled date of adoption

The Group expects to adopt the standard at the end of the year ending February 20, 2022.

(3) Accounting Standard for Fair Value Measurement and related accounting standards and implementation guidance

- “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019)
- “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, July 4, 2019)
- “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, revised on July 4, 2019)
- “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, July 4, 2019)
- “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, revised on March 31, 2020)

(i) Overview

The IASB and the Financial Accounting Standards Board (“FASB”) developed and have provided detailed guidance for fair value measurement with approximately the same content (IFRS 13 “Fair Value Measurement” as for IFRSs and Accounting Standards Codification Topic 820 “Fair Value Measurement” as for U.S. GAAP). In the light of such situation, the ASBJ worked on aligning Japanese GAAP with such international accounting standards mainly on guidance and disclosures about fair value of financial instruments, and then issued the “Accounting Standard for Fair Value Measurement” and other standards and guidance.

The ASBJ’s basic policy in developing the Accounting Standard for Fair Value Measurement is, in principle, to incorporate all provisions in IFRS 13 from the standpoint that the unified measurement approach improves the comparability of financial statements between entities in and outside Japan. The ASBJ also considered traditional accounting practices in Japan and defined the treatment specific to particular items to the extent that such treatment may not significantly diminish the comparability of financial statements.

(ii) Scheduled date of adoption

The Group expects to adopt the standards and guidance at the beginning of the year ending February 20, 2023.

(iii) Impact of adopting the standards and implementation guidance

The Company is currently evaluating the impact of adopting the standards and guidance on its consolidated financial statements.

(4) Accounting Standard for Revenue Recognition and implementation guidance thereon

- “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, revised on March 31, 2020)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, revised on March 31, 2020)

(i) Overview

The standard is a comprehensive accounting standard for revenue recognition. Revenue is recognized in accordance with the following five-step approach.

Step 1: Identify the contract with a customer.

Step 2: Identify performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to each performance obligation in the contract.

Step 5: Recognize revenue when or as a performance obligation is satisfied.

(ii) Scheduled date of adoption

The Group expects to adopt the standard and implementation guidance at the beginning of the year ending February 20, 2023.

(iii) Impact of adopting the standard and implementation guidance

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

3. Business Combination

The board of directors of the Company resolved to acquire common shares of Shimachu Co., Ltd. (the "Target Company" in this section) through a tender offer under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the "Tender Offer") with a view to make the Target Company become a wholly owned subsidiary of the Company at the board of directors meeting held on October 29, 2020.

Accordingly, the Company entered into a business integration agreement with the Target Company on November 13, 2020 and commenced the Tender Offer on November 16, 2020, and the Tender Offer ended on December 28, 2020.

As a result of the Tender Offer, on January 6, 2021 (settlement start date of the Tender Offer), the Company acquired a majority of voting rights of the Target Company, and the Target Company became a consolidated subsidiary of the Company.

1) Overview of business combination

(1) Name and business description of acquiree

Name of acquiree: Shimachu Co., Ltd.

Business description: Retailing of furniture and home accessories (including curtains, carpets, and home accents) and home center goods (including household essentials, garden equipment and supplies, pet supplies, timber, and hardware)

(2) Primary reasons for business combination

The Company had been considering entering into the home center industry through mergers and acquisitions (the "M&A"). During the current coronavirus pandemic, customers' attitude toward "home" and lifestyle have changed, and it has become apparent that customers need "to have their life enriched." Under those circumstances, the Company came to consider that, in addition to the sale of furniture and interior merchandise the Group has been engaged in, carrying a wider variety of goods would enable the Group to further improve customers' lives. Having the Target Company join the Group would (i) allow the Group to enter into a new business area: the home center industry and (ii) allow the Target Company to utilize the Group's experience and strengths to its advantage since various areas in which the Target Company has been engaged are common to what the Group has developed as a "Manufacturing, Logistics, IT and Retail Sales" business. The Company believed these would greatly contribute to expanding and developing both the Group and the Target Company and maximize their value.

The Company decided to conduct the Tender Offer since it believed that strong cooperation between the Group and the Target Company, resulting from business integration through the Tender Offer and the Target Company becoming a wholly-owned subsidiary of the Company, would enable both to achieve synergies and that it would allow the Group to extend its business to the sale of home center and general merchandise in addition to the existing furniture and interior merchandise, provide customers with comprehensive services related to home, and develop a business to accommodate a variety of lifestyles.

(3) Date of business combination

January 6, 2021 (share acquisition date)

November 30, 2020 (deemed acquisition date)

(4) Legal form of business combination

Share acquisition for cash consideration

(5) Name of company after combination

There is no change.

(6) Percentage of voting rights acquired

Percentage of voting rights owned immediately before date of business combination 0.00%

Percentage of voting rights acquired on date of business combination 77.04%

Percentage of voting rights after acquisition 77.04%

(7) Grounds for determining acquirer

The Company acquired common shares of the Target Company through a tender offer.

2) Period of acquiree's operating results included in consolidated financial statements

The consolidated financial statements for the year ended February 20, 2021 do not include the operating results of the acquiree since the Company only consolidated the acquiree's balance sheet.

3) Acquisition cost of acquiree and its breakdown by type of consideration

Consideration for acquisition: Cash and cash equivalents ¥165,054 million (\$1,561,091 thousand)

Acquisition cost: ¥165,054 million (\$1,561,091 thousand)

4) Detail and amount of main acquisition-related costs

Advisory and other fees ¥1,634 million (\$15,457 thousand)

5) Amount of and cause for goodwill arising from business combination, and amortization method for and period of goodwill

(1) Amount of goodwill arising from business combination

¥31,665 million (\$299,492 thousand)

The amount of goodwill was provisionally determined since the acquisition cost allocation had not been completed as of February 20, 2021.

(2) Cause for goodwill arising from business combination

The goodwill mainly represents excess earning power expected for future business operations.

(3) Amortization method for and period of goodwill

Over ten years on a straight-line basis

6) Assets acquired and liabilities assumed on date of business combination and their breakdown

Current assets ¥46,231 million (\$437,262 thousand)

Non-current assets ¥177,845 million (\$1,682,074 thousand)

Total assets ¥224,077 million (\$2,119,336 thousand)

Current liabilities ¥35,630 million (\$336,996 thousand)

Long-term liabilities ¥15,297 million (\$144,681 thousand)

Total liabilities ¥50,927 million (\$481,677 thousand)

7) Estimated amounts of effects on the consolidated statement of income for the year ended February 20, 2021 as though the business combination had been completed as of the beginning of the current fiscal year, and explanation on estimating the amounts

Net sales ¥152,998 million (\$1,447,070 thousand)

Operating income ¥6,425 million (\$60,774 thousand)

(Explanation on estimating amounts)

The Company determined the differences between net sales and profit and loss information that were estimated as though the business combination had been completed as of the beginning of the current fiscal year and net sales and profit and loss information on the acquiree's statement of income as the estimated amounts of effects. In addition, the Company determined the amount of amortization of goodwill as though the goodwill recognized at the date of business combination had arisen as of the beginning of the current fiscal year.

The Company did not receive an audit certificate on the estimated amounts.

4. Marketable and investment Securities

1) Investment securities

Investments in associates are as follows:

As of February 20	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Investment securities	¥22,001	¥22,237	\$208,091

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

As of February 20, 2021	Millions of Yen		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying values exceed their acquisition costs:			
Stocks	¥1,490	¥180	¥1,309
Securities whose acquisition costs exceed their carrying values:			
Stocks	1,747	2,089	(341)
Other	7,791	8,471	(679)
Total	¥11,029	¥10,741	¥288

As of February 20, 2020	Millions of Yen		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying values exceed their acquisition costs:			
Stocks	¥1,395	¥147	¥1,247
Securities whose acquisition costs exceed their carrying values:			
Stocks	1,618	1,778	(160)
Total	¥3,014	¥1,926	¥1,087

As of February 20, 2021	Thousands of U.S. Dollars		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying values exceed their acquisition costs:			
Stocks	\$14,099	\$1,709	\$12,389
Securities whose acquisition costs exceed their carrying values:			
Stocks	16,527	19,761	(3,234)
Other	73,691	80,121	(6,430)
Total	\$104,318	\$101,592	\$2,725

Notes: 1. Unlisted stocks (¥312 million (\$2,958 thousand) and ¥283 million in the consolidated balance sheet as of February 20, 2021 and 2020, respectively) are not included in the table above because no quoted market price is available and it is extremely difficult to determine the fair value.

2. Investments in investment limited partnerships (¥175 million (\$1,656 thousand) in the consolidated balance sheet as of February 20, 2021) are not included in the table above because no quoted market price is available and it is extremely difficult to determine the fair value.

3) Sales of available-for-sale securities

The Group did not sell any available-for-sale securities during the year ended February 20, 2021.

For the year ended February 20, 2020	Millions of Yen		
	Proceeds from sales	Gain on sales	Loss on sales
Stocks	¥7	¥1	¥-
Total	¥7	¥1	¥-

4) Impairment of available-for-sale securities

The Group did not recognize any impairment loss for available-for-sale securities for the years ended February 20, 2021 and 2020.

If the fair values of securities as of the fiscal year-end decline more than 50% compared with the acquisition cost, those securities are written down to the fair value, and the resulting losses are charged to the statement of income for the period. If the fair values of securities as of the fiscal year-end decline from 30% to 50% compared with the acquisition cost, those securities are written down to the amount determined taking into consideration the materiality of such amount, recoverability, and other factors, and the resulting losses are charged to the statement of income for the period.

5. Inventories

Inventories as of February 20, 2021 and 2020 consisted of the following:

As of February 20	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Merchandise and finished goods	¥76,133	¥61,203	\$720,076
Work in process	200	182	1,895
Raw materials and supplies	4,403	4,127	41,647
Total	¥80,737	¥65,513	\$763,620

6. Investment and Rental Properties

The Company and certain consolidated subsidiaries own commercial facilities and other properties (including land) for lease 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.

The carrying value in the consolidated balance sheet, net change during the year, and fair value of those properties are as follows:

For the years ended February 20	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Rental properties:			
Carrying value			
Balance at beginning of year	¥37,579	¥39,228	\$355,425
Increase (decrease)	(1,021)	(1,649)	(9,657)
Balance at end of year	36,558	37,579	345,767
Fair value at end of year	¥38,279	¥39,657	\$362,052
Real estate including spaces used as rental properties:			
Carrying value			
Balance at beginning of year	¥42,040	¥39,773	\$397,622
Increase (decrease)	22,965	2,267	217,208
Balance at end of year	65,006	42,040	614,831
Fair value at end of year	¥72,223	¥50,332	\$683,097

Notes: 1. The carrying value represents the acquisition cost less accumulated depreciation.

2. The decrease in rental properties during the year ended February 20, 2021 was primarily due to the reclassification of ¥2,764 million (\$26,142 thousand) from idle properties to properties for business purposes for building a store in Hanaten, Osaka Prefecture. The decrease in rental properties during the year ended February 20, 2020 was primarily due to the termination of lease of the property in Shime Town, Fukuoka Prefecture of ¥1,545 million for building a store.

3. The increase in real estate including spaces used as rental properties during the year ended February 20, 2021 was primarily an increase of ¥24,793 million (\$234,500 thousand) due to Shimachu Co., Ltd. becoming a consolidated subsidiary of the Company, and the decrease was primarily due to a decrease in the carrying amount attributable to depreciation of ¥915 million (\$8,654 thousand). The increase in real estate including spaces used as rental properties during the year ended February 20, 2020 was primarily due to the opening of a new building for tenants of ¥3,281 million, and the decrease was primarily due to a decrease in the carrying amount attributable to depreciation of ¥916 million.

4. The fair value at the fiscal year-end is measured at the value based on certain appraisal values and other indicators reflecting the market value.

Lease revenue and rental expenses on rental properties and real estate including spaces used as rental properties are as follows:

For the years ended February 20	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Rental properties:			
Lease revenue	¥1,059	¥956	\$10,021
Rental expenses	690	382	6,528
Difference	369	574	3,493
Real estate including spaces used as rental properties:			
Lease revenue	¥6,118	¥6,422	\$57,873
Rental expenses	3,087	3,149	29,203
Difference	3,031	3,273	28,669

Note: Since real estate including spaces used as rental properties includes some of the floor space used by the Company and certain consolidated subsidiaries for the purposes of providing services and management, the related lease revenue is not recognized. Expenses related to the properties (depreciation, insurance, taxes, etc.) are included in rental expenses.

7. Short-term Bank Loans and Long-term Debt

Item	Balance at		Balance at	Average interest rate (%)	Repayment term
	February 20, 2020	Millions of Yen	February 20, 2021		
Short-term bank loans	¥787	¥46,715	\$441,834	0.3	–
Current portion of long-term debt	2,000	2,000	18,916	0.4	–
Current portion of lease obligations	1,554	1,570	14,851	–	–
Long-term debt (excluding current portion)	4,000	2,000	18,916	0.4	2022
Lease obligations (excluding current portion)	6,714	5,875	55,567	–	2022 – 2032
Total	¥15,056	¥58,160	\$550,085	–	–

Notes: 1. The average interest rate represents a weighted-average interest rate applicable to the loans balance at the fiscal year-end.

2. The average interest rate applicable to lease obligations is not disclosed since related interest charges are included in the amount of lease obligations in the consolidated balance sheet.

3. The repayment schedule of long-term debt due within 5 years as of February 20, 2021 is as follows:

Long-term debt (excluding current portion)	Millions of Yen	Thousands of U.S. Dollars
Over 1 year less than 2 years	¥2,000	\$18,916
Over 2 years less than 3 years	–	–
Over 3 years less than 4 years	–	–
Over 4 years less than 5 years	–	–

4. Maturities of lease obligations, excluding the current portion, due within 5 years as of February 20, 2021 are as follows:

Lease obligations (excluding current portion)	Millions of Yen	Thousands of U.S. Dollars
Over 1 year less than 2 years	¥1,246	\$11,788
Over 2 years less than 3 years	1,123	10,623
Over 3 years less than 4 years	950	8,985
Over 4 years less than 5 years	830	7,850

Assets pledged as collateral and collateralized liabilities are as follows:

As of February 20	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Pledged assets:			
Buildings and structures	¥3,890	¥1,699	\$36,798
Land	–	65	–
Guarantee deposits	42	29	398
Total	¥3,932	¥1,794	\$37,197
Corresponding liabilities:			
Trade notes and accounts payable	¥42	¥38	\$398
Short-term bank loans	–	128	–
Other (current liabilities)	114	122	1,084
Other (long-term liabilities)	1,598	1,716	15,114
Total	¥1,754	¥2,006	\$16,598

8. Retirement Benefits

1) Summary of employees' retirement benefit plans

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

The Company established a retirement benefit trust for the lump-sum payment plan in August 2019.

2) Defined benefit plan

(1) The reconciliation from the beginning balance to the ending balance of projected benefit obligations is as follows:

For the years ended February 20	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year	¥7,645	¥6,762	\$72,310
Service cost	1,105	1,030	10,452
Interest cost	23	20	218
Actuarial loss (gain)	(132)	173	(1,250)
Benefits paid	(443)	(341)	(4,195)
Increase due to business combination	4,230	–	40,011
Balance at end of year	¥12,428	¥7,645	\$117,546

Note: The table above includes amounts under plans in which the simplified method has been applied.

(2) The reconciliation from the beginning balance to the ending balance of plan assets at fair value is as follows:

For the years ended February 20	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year	¥6,301	¥3,559	\$59,601
Expected return on plan assets	126	94	1,192
Actuarial gain (loss)	54	95	511
Employer contributions	420	404	3,973
Establishment of retirement benefit trust	–	2,300	–
Benefits paid	(185)	(152)	(1,758)
Increase due to business combination	925	–	8,751
Plan assets at fair value at end of year	¥7,641	¥6,301	\$72,271

(3) The reconciliation between projected benefit obligations and plan assets at the fiscal year-end and the amounts recognized in the consolidated balance sheet is as follows:

As of February 20	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Projected benefit obligations (funded plans)	¥8,658	¥7,276	\$81,892
Plan assets at fair value	(7,641)	(6,301)	(72,271)
	1,017	975	9,621
Projected benefit obligations (unfunded plans)	3,769	368	35,654
Net of asset and liability accounts recognized in the consolidated balance sheet	4,787	1,343	45,275
Liability for retirement benefits	5,186	1,343	49,051
Asset for retirement benefits	(399)	–	(3,775)
Net of asset and liability accounts recognized in the consolidated balance sheet	¥4,787	¥1,343	\$45,275

Note: The table above includes amounts under plans in which the simplified method has been applied.

(4) The components of retirement benefit expenses are as follows:

For the years ended February 20	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Service cost	¥1,105	¥1,030	\$10,452
Interest cost	23	20	218
Expected return on plan assets	(126)	(94)	(1,192)
Amortization and expenses:			
Actuarial loss	98	92	935
Prior service cost	(35)	(35)	(333)
Retirement benefit expenses on defined benefit plan	¥1,065	¥1,014	\$10,081

Note: The table above includes amounts under plans in which the simplified method has been applied.

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

For the years ended February 20	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Prior service cost	¥(35)	¥(35)	\$(333)
Actuarial gain (loss)	285	14	2,696
Total	¥249	¥(20)	\$2,363

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

As of February 20	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrecognized prior service cost	¥3	¥38	\$35
Unrecognized actuarial loss	(304)	(589)	(2,879)
Total	¥(300)	¥(550)	\$(2,844)

(7) The plan assets, by major category, as a percentage of total plan assets are as follows:

As of February 20	(% of total plan assets)	
	2021	2020
Life insurance company general accounts	29 %	27 %
Bonds	19	20
Stocks	45	52
Other	7	1
Total	100 %	100 %

Note: Total plan assets as of February 20, 2021 and 2020 include a retirement benefit trust established for a lump-sum payment plan of 31% and 37%, respectively.

(8) 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 on various assets of which plan assets are composed.

(9) Assumptions used for the actuarial calculation are as follows:

As of February 20	2021	2020
Discount rate	Primarily 0.4 %	Primarily 0.1 %
Expected long-term rate of return on plan assets	2.0	2.0
Expected rate of salary increase	Primarily 4.5	Primarily 4.7

3) Defined contribution plan

Contributions made to the defined contribution plan for the years ended February 20, 2021 and 2020 were ¥451 million (\$4,267 thousand) and ¥415 million, respectively.

9. Asset Retirement Obligations

1) Asset retirement obligations recognized in consolidated balance sheet

(1) Overview of asset retirement obligations recognized in consolidated balance sheet

The asset retirement obligations mainly represent restoration obligations under real estate leases and fixed-term land leases for stores.

(2) Method of measuring asset retirement obligations recognized in consolidated balance sheet

The Group mainly uses the real estate lease term and the fixed-term land lease term as the expected period of use and discount rates of 0.0% to 1.7% to measure the amount of the asset retirement obligations.

(3) Changes in total asset retirement obligations recognized in consolidated balance sheet

For the years ended February 20	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year	¥5,696	¥5,365	\$53,877
Increase due to purchase of property, plant and equipment	309	342	2,928
Adjustments for passage of time	46	45	435
Increase due to business combination	7,388	-	69,883
Decrease due to performance of asset retirement obligations	(141)	(51)	(1,340)
Other increase (decrease)	1,325	(5)	12,536
Balance at end of year	¥14,624	¥5,696	\$138,321

2) Asset retirement obligations not recognized in consolidated balance sheet

Under real estate leases other than real estate leases and fixed-term land leases for business purposes, the Group may be under obligations to restore some premises used as stores when vacating them but has not recognized related asset retirement obligations, since it is difficult to reasonably estimate the amount on the grounds that the period of use for the lease assets is not definite, the possibility of incurring expenses is not obvious, and the Group does not plan to vacate the premises.

10. Equity

1) Class and total number of issued shares and treasury shares

For the year ended February 20,
2021

Class of stock	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 (Notes 1, 2, and 3)	1,975	1	357	1,619

Notes: 1. The increase of 1 thousand shares in treasury represents an increase due to the purchase of shares less than one unit.

2. The decrease of 357 thousand shares in treasury consists of a decrease of 78 thousand shares due to the exercise of "Stock Benefit Trust (J-ESOP)" and a decrease of 278 thousand shares due to the exercise of share options.

3. The number of treasury shares at the fiscal year-end includes 240 thousand shares held by Custody Bank of Japan, Ltd. (Trust Account E), which is the trustee under the "Stock Benefit Trust (J-ESOP)."

For the year ended February 20,
2020

Class of stock	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 (Notes 1, 2, and 3)	2,221	290	536	1,975

Notes: 1. The increase of 290 thousand shares in treasury consists of an increase of 0 thousand shares due to the purchase of shares less than one unit and an additional contribution to the "Stock Benefit Trust (J-ESOP)" for 290 thousand shares by the resolution at the board of directors meeting held on January 8, 2020.

2. The decrease of 536 thousand shares in treasury consists of a decrease of 67 thousand shares due to the exercise of "Stock Benefit Trust (J-ESOP)," which was introduced by the resolution at the board of directors meeting held on December 20, 2011, a decrease of 177 thousand shares due to the exercise of share options, disposal of 1 thousand shares in treasury in the "performance-based share compensation" plan introduced by the resolution at the board of directors meeting held on April 10, 2019, and an additional contribution to the "Stock Benefit Trust (J-ESOP)" for 290 thousand shares by the resolution at the board of directors meeting held on January 8, 2020.

3. The number of treasury shares at the fiscal year-end includes 319 thousand shares held by Custody Bank of Japan, Ltd. (Trust Account E), which is the trustee under the "Stock Benefit Trust (J-ESOP)."

2) Stock acquisition rights

The balance of stock acquisition rights as stock options of the Company as of February 20, 2021 and 2020 was nil and ¥289 million, respectively.

3) Dividends

(1) Dividends paid to shareholders

For the year ended February 20, 2021

Resolution at	Class of stock	Total amount of dividends (Millions of Yen)	Total amount of dividends (Thousands of U.S. Dollars)	Amount of dividends per share (Yen)	Amount of dividends per share (U.S. Dollars)	Shareholders' cut-off date	Effective date
Board of directors meeting held on April 6, 2020 (Note 1)	Common stock	¥6,090	\$57,604	¥54	\$0.51	February 20, 2020	April 23, 2020
Board of directors meeting held on October 2, 2020 (Note 2)	Common stock	6,444	60,954	57	0.54	August 20, 2020	October 20, 2020

Notes: 1. The total amount of dividends includes dividends of ¥17 million (\$163 thousand) on shares held by Custody Bank of Japan, Ltd. (Trust Account E), which is the trustee under the "Stock Benefit Trust (J-ESOP)."

2. The total amount of dividends includes dividends of ¥13 million (\$129 thousand) on shares held by Custody Bank of Japan, Ltd. (Trust Account E), which is the trustee under the "Stock Benefit Trust (J-ESOP)."

For the year ended February 20, 2020

Resolution at	Class of stock	Total amount of dividends (Millions of Yen)	Amount of dividends per share (Yen)	Shareholders' cut-off date	Effective date
Board of directors meeting held on April 8, 2019 (Note 1)	Common stock	¥5,615	¥50	February 20, 2019	April 25, 2019
Board of directors meeting held on October 2, 2019 (Note 2)	Common stock	6,069	54	August 20, 2019	October 23, 2019

Notes: 1. The total amount of dividends includes dividends of ¥4 million on shares held by Custody Bank of Japan, Ltd. (Trust Account E), which is the trustee under the "Stock Benefit Trust (J-ESOP)."

2. The total amount of dividends includes dividends of ¥1 million on shares held by Custody Bank of Japan, Ltd. (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, 2021

Resolution at	Class of stock	Paid from	Total amount of dividends (Millions of Yen)	Total amount of dividends (Thousands of U.S. Dollars)	Amount of dividends per share (Yen)	Amount of dividends per share (U.S. Dollars)	Shareholders' cut-off date	Effective date
Board of directors meeting held on April 8, 2021	Common stock	Retained earnings	¥7,462	\$70,578	¥66	\$0.62	February 20, 2021	April 22, 2021

Note: The total amount of dividends includes dividends of ¥15 million (\$150 thousand) on shares held by Custody Bank of Japan, Ltd. (Trust Account E), which is the trustee under the "Stock Benefit Trust (J-ESOP)."

For the year ended February 20, 2020

Resolution at	Class of stock	Paid from	Total amount of dividends (Millions of Yen)	Amount of dividends per share (Yen)	Shareholders' cut-off date	Effective date
Board of directors meeting held on April 6, 2020	Common stock	Retained earnings	¥6,090	¥54	February 20, 2020	April 23, 2020

Note: The total amount of dividends includes dividends of ¥17 million on shares held by Custody Bank of Japan, Ltd. (Trust Account E), which is the trustee under the "Stock Benefit Trust (J-ESOP)."

4) Information specific to Japan

The Companies Act of Japan 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 stated capital. Such distributions can be made at any time by resolution at the shareholders' meeting, or at the board of directors meeting if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

11. Stock Options

For the years ended February 20, 2021 and 2020, the Group recognized no expenses regarding stock options. For the years ended February 20, 2021 and 2020, the Group recognized gains due to forfeited stock options of ¥12 million (\$114 thousand) and ¥3 million, respectively, which are presented in other income as “gain on reversal of stock acquisition rights.”

1) Description of stock options as of February 20, 2021

	The Sixth Stock Acquisition Rights		The Seventh Stock Acquisition Rights	
Resolution at annual general meeting of shareholders held on	May 9, 2014		May 9, 2014	
Resolution at board of directors meeting held on	June 27, 2014		June 27, 2014	
Grantees	Directors	8	Officers	14
	Company auditors	3	Directors of subsidiaries	4
			Employees of subsidiaries	3,239
Number of shares by class	Common stock (Shares)	121,000	Common stock (Shares)	904,100
Grant date	July 14, 2014		June 30, 2014	
Vesting conditions	None		None	
Vesting 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	

2) Summary of stock option activity during the year ended February 20, 2021

	The Sixth Stock Acquisition Rights	The Seventh Stock Acquisition Rights
Non-vested (Shares):		
At beginning of year	-	-
Granted	-	-
Forfeited	-	-
Vested	-	-
At end of year	-	-
Vested (Shares):		
At beginning of year	400	290,600
Vested	-	-
Exercised	400	278,400
Forfeited	-	12,200
At end of year	-	-

The unit price information is as follows:

The Sixth Stock Acquisition Rights

	Yen	U.S. Dollars
Exercise price	¥5,650	\$53.44
Average share price at exercise	17,392	164.49
Fair value per share on grant date	1,022	9.67

The Seventh Stock Acquisition Rights

	Yen	U.S. Dollars
Exercise price	¥5,540	\$52.40
Average share price at exercise	16,869	159.55
Fair value per share on grant date	996	9.42

3) Method of estimating the number of vested options

The number of non-vested, forfeited options is estimated by reference to the historical forfeiture rate due to retirement.

12. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 31% for the years ended February 20, 2021 and 2020.

1) Significant components of deferred tax assets and liabilities

As of February 20	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Deferred tax assets:			
Accrued enterprise tax and business office taxes	¥1,995	¥1,356	\$18,873
Accrued real estate acquisition tax	39	39	377
Provision for bonuses	1,662	1,062	15,726
Provision for point card certificates	807	645	7,634
Unrealized gain on sales of inventories	302	335	2,861
Tax loss carryforwards (Note)	5,148	3,854	48,696
Liability for retirement benefits	2,289	1,109	21,651
Depreciation and amortization	9,231	5,148	87,311
Provision for retirement benefits for directors and other officers	70	70	663
Allowance for doubtful accounts	2	2	27
Loss on impairment of long-lived assets and penalty for the scrapping and building of outlets	3,052	1,677	28,870
Asset retirement obligations	4,604	1,850	43,551
Unrealized loss on consolidated subsidiary	3,756	–	35,525
Other	6,223	4,158	58,860
Subtotal	39,186	21,310	370,630
Valuation allowance for tax loss carryforwards (Note)	(4,428)	(3,854)	(41,882)
Valuation allowance for deductible temporary differences	(1,453)	(1,239)	(13,749)
Total valuation allowance	(5,881)	(5,093)	(55,631)
Total deferred tax assets	33,304	16,217	314,998
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(307)	(336)	(2,909)
Construction assistance fund receivables	(1,041)	(986)	(9,850)
Asset retirement cost related to asset retirement obligations	(2,361)	(808)	(22,336)
Unrealized gain on consolidated subsidiary	(2,860)	–	(27,057)
Retained earnings of subsidiaries	(1,112)	(837)	(10,521)
Other	(231)	(1)	(2,186)
Total deferred tax liabilities	(7,915)	(2,970)	(74,862)
Net deferred tax assets	¥25,389	¥13,246	\$240,136

Note: The amounts of tax loss carryforwards and related deferred tax assets disaggregated by period of expiration:

Millions of Yen							
As of February 20, 2021	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years	Total
Tax loss carryforwards *	¥27	¥366	¥438	¥261	¥397	¥2,935	¥4,428
Valuation allowance	(27)	(366)	(438)	(261)	(397)	(2,935)	(4,428)
Deferred tax assets	-	-	-	-	-	-	-

Millions of Yen							
As of February 20, 2020	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years	Total
Tax loss carryforwards *	¥-	¥27	¥413	¥492	¥268	¥2,651	¥3,854
Valuation allowance	-	(27)	(413)	(492)	(268)	(2,651)	(3,854)
Deferred tax assets	-	-	-	-	-	-	-

Thousands of U.S. Dollars							
As of February 20, 2021	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years	Total
Tax loss carryforwards *	\$261	\$3,469	\$4,144	\$2,477	\$3,761	\$27,767	\$41,882
Valuation allowance	(261)	(3,469)	(4,144)	(2,477)	(3,761)	(27,767)	(41,882)
Deferred tax assets	-	-	-	-	-	-	-

*Tax loss carryforwards present the amounts computed by multiplying the effective statutory tax rate.

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

The details for the years ended February 20, 2021 and 2020 are omitted as differences between the effective statutory tax rate and the actual effective tax rate are 5% or less of the effective statutory tax rate.

13. Selling, General and Administrative Expenses

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
	2021	2020	2021
Customer delivery expenses	¥29,278	¥27,991	\$276,914
Advertising expenses	17,182	16,888	162,513
Salaries, allowances and bonuses	71,184	68,493	673,270
Provision for bonuses	8,555	3,528	80,919
Retirement benefit expenses	1,518	1,412	14,360
Rent expenses	38,444	37,261	363,607
Depreciation and amortization	16,024	14,575	151,556
Outsourcing expenses	21,249	18,351	200,975

14. Other Income (Expenses)

1) The breakdown of gain on sales of "Property, plant and equipment" is as follows:

For the years ended February 20	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Buildings and structures	¥-	¥0	\$-
Machinery, equipment and vehicles	2	2	20
Tools, furniture and fixtures	0	0	2
Land	3	311	28
Total	¥5	¥315	\$52

2) The breakdown of loss on sales and retirement of "Property, plant and equipment" and "Intangible assets" is as follows:

For the years ended February 20	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Loss on retirement:			
Buildings and structures	¥17	¥34	\$162
Machinery, equipment and vehicles	1	0	16
Tools, furniture and fixtures	19	5	185
Construction in progress	-	35	-
Other (intangible assets)	16	12	153
Loss on sales:			
Machinery, equipment and vehicles	0	0	7
Tools, furniture and fixtures	-	9	-
Land	8	0	76
Total	¥63	¥99	\$602

3) Loss on impairment of long-lived assets

For the year ended February 20, 2021

Location	Use	Class	Millions of Yen	Thousands of U.S. Dollars
Japan	Store	Buildings and structures, and other	¥524	\$4,957
	Mission critical system	Software and other	6,760	63,941
	Logistics system	Software and other	107	1,014
People's Republic of China	Store	Buildings and structures, and other	499	4,720
		Right-of-use assets	454	4,294
The United States of America	Store	Buildings and structures, and other	6	61

The Group's assets are grouped according to the type of business. Loss on impairment of long-lived assets was recognized for some stores, taking into account decisions on their closure or their decreased profitability. Furthermore, loss on impairment of long-lived assets was recognized for a new global system that had been designed and developed as a new mission critical system because of changes in the project policy. When the recoverable amount was measured at the value in use, the Group assumed that the value in use was zero.

For the year ended February 20, 2020

Location	Use	Class	Millions of Yen
Japan	Store	Buildings and structures, and other	¥78
	Accommodation	Land, buildings and structures, and other	923
	Logistics system	Machinery, equipment and vehicles	378
People's Republic of China	Store	Buildings and structures, and other	594
		Right-of-use assets	1,791
Republic of China	Store	Buildings and structures, and other	29
The United States of America	Store and headquarters	Buildings and structures, and other	225
Kingdom of Thailand	Plant facility	Buildings and structures, and other	71

The Group's assets are grouped according to the type of business. Loss on impairment of long-lived assets was recognized for some stores, taking into account decisions on their closure or their decreased profitability. When the recoverable amount was measured at the net selling price, it was computed based on the real estate appraisal value, assessed value for fixed asset tax, and other value. When the recoverable amount was measured at the value in use, the Group assumed that the value in use was zero.

15. Leases

As Lessee:

The Group leases certain buildings for retail stores. Finance leases that do not transfer ownership to the lessee commencing on or before February 20, 2009 are accounted for in a manner similar to the accounting treatment for ordinary rental transactions. The information on these lease transactions is omitted because it is insignificant.

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

As of February 20	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Due within 1 year	¥9,279	¥6,192	\$87,763
Due after 1 year	75,457	30,145	713,680
Total	¥84,736	¥36,338	\$801,443

As Lessor:

Future minimum lease payments to be received under non-cancelable operating leases are as follows:

As of February 20	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Due within 1 year	¥1,134	¥1,030	\$10,731
Due after 1 year	6,229	7,111	58,918
Total	¥7,364	¥8,142	\$69,649

16. Financial Instruments and Related Disclosures

1) Overview

(1) Policy for financial instruments

The Group raises necessary funds based on capital investment plans and cash flow 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, related risks, and risk management

Trade notes and accounts receivable are exposed to credit risk of customers, but the collection period is short, and the historical bad debt ratio is low. The Group manages the credit risk by monitoring due dates and outstanding balances for each customer and makes efforts to promptly collect receivables from customers in financial difficulties.

Marketable and investment securities with market quotations are exposed to market risk, and those without market quotations are exposed to impairment risk due to the relevant companies' operating results. The Group periodically reviews the fair values of such financial instruments.

Guarantee deposits and leasehold deposits, which are mostly related to leases on stores, are exposed to credit risk of lessors. The Group manages the credit risk by monitoring due dates and outstanding balances for each lessor and makes efforts to identify and decrease concerns about collecting deposits from lessors in financial difficulties at an early stage.

Most trade notes and accounts payable, other payables, and income taxes payable are due within three months.

Short-term bank loans, long-term debt and lease obligations are mainly intended to raise required funding for capital investments and loans and investments.

Regarding derivatives, the Group enters into foreign exchange forward contracts to hedge foreign currency risk related to 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 high credit ratings. The finance department executes and manages derivative transactions upon approval by person(s) with authority in accordance with internal rules stipulating authority of transactions.

(3) Supplementary explanation on estimated fair value of financial instruments

The fair values of financial instruments are based on their quoted market prices. When no quoted market price is available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair values.

2) Estimated fair value of financial instruments

The carrying values of financial instruments on the consolidated balance sheet as of February 20, 2021 and 2020 and estimated fair values are shown below. The following table does not include financial instruments for which it is extremely difficult to determine the fair value (please refer to Note 2 below).

As of February 20, 2021	Millions of Yen		
	Carrying value	Estimated fair value	Difference
Assets:			
(1) Cash and cash equivalents	¥125,487	¥125,487	¥-
(2) Short-term investments	33,089	33,089	-
(3) Trade notes and accounts receivable	37,806	37,806	-
Allowance for doubtful accounts (*)	(5)	(5)	-
	37,801	37,801	-
(4) Marketable and investment securities:			
Available-for-sale securities	11,029	11,029	-
Shares of associates	22,001	82,140	60,139
(5) Guarantee deposits	19,763	20,193	430
(6) Leasehold deposits	27,022	26,502	(519)
Liabilities:			
(1) Short-term bank loans	¥46,715	¥46,715	¥-
(2) Trade notes and accounts payable	44,554	44,554	-
(3) Other payables	33,512	33,512	-
(4) Income taxes payable	30,351	30,351	-
(5) Long-term debt, including current portion of long-term debt	4,000	4,006	6
(6) Lease obligations, including current portion of lease obligations	7,445	7,445	-

As of February 20, 2020	Millions of Yen		
	Carrying value	Estimated fair value	Difference
Assets:			
(1) Cash and cash equivalents	¥140,791	¥140,791	¥-
(2) Short-term investments	18,398	18,398	-
(3) Trade notes and accounts receivable	27,880	27,880	-
Allowance for doubtful accounts (*)	(4)	(4)	-
	27,876	27,876	-
(4) Investment securities:			
Available-for-sale securities	3,014	3,014	-
Shares of associates	22,237	53,090	30,853
(5) Guarantee deposits	13,987	14,966	978
(6) Leasehold deposits	23,756	23,578	(178)
Liabilities:			
(1) Trade notes and accounts payable	¥19,774	¥19,774	¥-
(2) Other payables	22,923	22,923	-
(3) Income taxes payable	20,224	20,224	-
(4) Long-term debt, including current portion of long-term debt	6,000	6,009	9
(5) Lease obligations, including current portion of lease obligations	8,268	8,268	-

As of February 20, 2021	Thousands of U.S. Dollars		
	Carrying value	Estimated fair value	Difference
Assets:			
(1) Cash and cash equivalents	\$1,186,865	\$1,186,865	\$-
(2) Short-term investments	312,965	312,965	-
(3) Trade notes and accounts receivable	357,578	357,578	-
Allowance for doubtful accounts (*)	(51)	(51)	-
	357,527	357,527	-
(4) Marketable and investment securities:			
Available-for-sale securities	104,318	104,318	-
Shares of associates	208,091	776,891	568,799
(5) Guarantee deposits	186,922	190,992	4,070
(6) Leasehold deposits	255,577	250,661	(4,916)
Liabilities:			
(1) Short-term bank loans	\$441,834	\$441,834	\$-
(2) Trade notes and accounts payable	421,395	421,395	-
(3) Other payables	316,966	316,966	-
(4) Income taxes payable	287,070	287,070	-
(5) Long-term debt, including current portion of long-term debt	37,832	37,891	59
(6) Lease obligations, including current portion of lease obligations	70,418	70,418	-

(*) Deducted allowance for doubtful accounts related to trade notes and accounts receivable.

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

Assets:

(1) Cash and cash equivalents, (2) Short-term investments, and (3) Trade notes and accounts receivable

Since these items are settled in a short period of time, their carrying values approximate fair value.

(4) Marketable and investment securities (Investment securities as of February 20, 2020)

The fair value of stocks is based on quoted market prices, and the fair value of investment trusts is based on the net asset value per unit, which is publicly available. For information on securities classified by holding purpose, please refer to Note 4. Marketable and Investment Securities.

(5) Guarantee deposits

The fair value of guarantee deposits is based on the present value of the estimated future cash flows adjusted for credit risk in accordance with the maturity schedule by applying the discount rate determined by reference to an appropriate index, such as a government bond yield.

(6) Leasehold deposits

The fair value of leasehold deposits is based on the present value of the estimated future cash flows adjusted for credit risk by certain period of time by applying the discount rate determined by reference to an appropriate index, such as a government bond yield.

Liabilities:

(1) Short-term bank loans, (2) Trade notes and accounts payable, (3) Other payables, and (4) Income taxes payable

Since these items are settled in a short period of time, their carrying values approximate fair value.

(5) Long-term debt

The fair value of long-term debt is based on the present value of the total of principal and interest discounted by the interest rate applicable to similar new debt.

(6) Lease obligations

The fair value of lease obligations is based on the present value of the total of principal and interest discounted by the interest rate applicable to similar new leases.

2. Financial instruments for which it is difficult to determine the fair value

As of February 20	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unlisted stocks (*1)	¥312	¥283	\$2,958
Investments in investment limited partnerships (*2)	175	–	1,656
Guarantee deposits (*3)	95	–	903
Leasehold deposits (*3)	1,923	–	18,187

(*1) Unlisted stocks are excluded from “Assets, (4) Marketable and investment securities (Investment securities as of February 20, 2020)” because no quoted market price is available and it is extremely difficult to determine the fair value.

(*2) Investments in investment limited partnerships are excluded from “Assets, (4) Marketable and investment securities” because they are not marketable and the future cash flows cannot be estimated and it is extremely difficult to determine the fair value.

(*3) Guarantee deposits and leasehold deposits on extendable lease contracts are excluded from “Assets, (5) Guarantee deposits” and “Assets, (6) Leasehold deposits” because the future cash flows cannot be estimated and it is extremely difficult to determine the fair value.

3. Redemption schedule for financial assets with maturities

As of February 20, 2021	Millions of Yen		
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years
Cash and cash equivalents	¥125,487	¥–	¥–
Short-term investments	33,089	–	–
Trade notes and accounts receivable	37,806	–	–
Total	¥196,383	¥–	¥–

As of February 20, 2020	Millions of Yen		
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years
Cash and cash equivalents	¥140,791	¥–	¥–
Short-term investments	18,398	–	–
Trade notes and accounts receivable	27,880	–	–
Total	¥187,070	¥–	¥–

As of February 20, 2021	Thousands of U.S. Dollars		
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years
Cash and cash equivalents	\$1,186,865	\$–	\$–
Short-term investments	312,965	–	–
Trade notes and accounts receivable	357,578	–	–
Total	\$1,857,409	\$–	\$–

Guarantee deposits and leasehold deposits are not disclosed because it is difficult to determine the redemption schedule for all the years presented.

4. Repayment schedule for short-term bank loans and long-term debt and lease obligations

Millions of Yen						
As of February 20, 2021	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
Short-term bank loans	¥46,715	¥-	¥-	¥-	¥-	¥-
Long-term debt	2,000	2,000	-	-	-	-
Lease obligations	1,570	1,246	1,123	950	830	1,725
Total	¥50,285	¥3,246	¥1,123	¥950	¥830	¥1,725

Millions of Yen						
As of February 20, 2020	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 debt	¥2,000	¥2,000	¥2,000	¥-	¥-	¥-
Lease obligations	1,554	1,203	1,112	991	900	2,505
Total	¥3,554	¥3,203	¥3,112	¥991	¥900	¥2,505

Thousands of U.S. Dollars						
As of February 20, 2021	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
Short-term bank loans	\$441,834	\$-	\$-	\$-	\$-	\$-
Long-term debt	18,916	18,916	-	-	-	-
Lease obligations	14,851	11,788	10,623	8,985	7,850	16,318
Total	\$475,602	\$30,704	\$10,623	\$8,985	\$7,850	\$16,318

17. Other Comprehensive Income (Loss)

For the years ended February 20	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrealized gain (loss) on available-for-sale securities			
Amounts arising during period	¥(89)	¥(268)	\$(844)
Reclassification adjustments	–	(1)	–
Amount before income tax effect	(89)	(270)	(844)
Income tax effect	29	73	277
Subtotal	(60)	(197)	(567)
Foreign currency translation adjustments			
Amounts arising during period	(1,283)	(740)	(12,138)
Subtotal	(1,283)	(740)	(12,138)
Defined retirement benefit plans			
Amounts arising during period	186	(77)	1,761
Reclassification adjustments	63	57	601
Amount before income tax effect	249	(20)	2,363
Income tax effect	(76)	6	(723)
Subtotal	173	(14)	1,640
Total other comprehensive income (loss)	¥(1,169)	¥(951)	\$(11,065)

18. Supplementary Cash Flow Information

During the year ended February 20, 2021, the Company acquired shares in Shimachu Co., Ltd., and Shimachu became a consolidated subsidiary of the Company. The following are a breakdown of assets and liabilities of Shimachu at the time when the Company started to consolidate Shimachu and a reconciliation of the acquisition cost of the shares with an expenditure for the acquisition on a net basis.

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥46,231	\$437,262
Non-current assets	177,845	1,682,074
Goodwill	31,665	299,492
Current liabilities	(35,630)	(336,996)
Long-term liabilities	(15,297)	(144,681)
Non-controlling interests	(39,760)	(376,060)
Acquisition cost of shares	¥165,054	\$1,561,091
Cash and cash equivalents	(6,749)	(63,836)
Expenditure for acquisition	¥158,304	\$1,497,254

19. Net Income per Share

As of and for the years ended February 20	Yen		U.S. Dollars
	2021	2020	2021
Basic net income per share	¥817.01	¥635.42	\$7.73
Diluted net income per share	816.66	634.03	7.72

Note: The following are used to calculate the (1) basic net income per share and (2) diluted net income per share:

(1) Basic net income per share

For the years ended February 20	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Net income attributable to owners of the parent	¥92,114	¥71,395	\$871,225
Net income not attributable to common shareholders	—	—	—
Net income attributable to owners of the parent related to common stock	92,114	71,395	871,225
Average number of shares (Thousand shares)	112,745	112,358	

Note: Shares held by Custody Bank of Japan, Ltd. (Trust Account E), which have been accounted for as treasury stock in the consolidated financial statements, are excluded from the average number of shares.

(2) Diluted net income per share

For the years ended February 20	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Adjustment attributable to owners of the parent	¥—	¥—	\$—
Increase in the number of common shares corresponding to stock acquisition rights (Thousand shares)	48	247	

20. Subsequent Events

1) Adjustment to initial allocation of acquisition cost

The Company provisionally accounted for the business combination with Shimachu Co., Ltd. effected on January 6, 2021 in the year ended February 20, 2021. The Company has been continuing the provisional accounting as at the date of disclosure of these consolidated financial statements and has partially reviewed the initial allocation of the acquisition cost based on reasonable information available at that time. In addition, as mentioned in “2) Transaction under common control” below, the Company has determined the amount of goodwill arising from the additional share acquisition after the Company obtained control of Shimachu as if such amount were recognized when the Company obtained control of Shimachu.

As a result, as at the date of disclosure of these consolidated financial statements, adjustments have been made to buildings and structures (net amount), land, other payables and asset retirement obligations (long-term liabilities) as of February 20, 2021 and their amounts have increased by ¥7,859 million (\$74,334 thousand), ¥14,601 million (\$138,099 thousand), ¥49,181 million (\$465,160 thousand) and ¥301 million (\$2,852 thousand), respectively, and as a result of making adjustments to goodwill, deferred tax assets and non-controlling interests as of February 20, 2021, their amounts have decreased by ¥5,988 million (\$56,642 thousand), ¥6,749 million (\$63,838 thousand) and ¥39,760 million (\$376,060 thousand), respectively.

2) Transaction under common control (acquisition of additional shares of subsidiary)

On April 9, 2021, the Company entered into a share purchase agreement with Shimachu Co., Ltd., a consolidated subsidiary of the Company, concerning the transfer of fractional shares arising from the share consolidation that Shimachu had effected on March 26, 2021, and acquired the fractional shares with the permission of the court pursuant to the provision of Article 234, paragraph (2) of the Companies Act of Japan as applied mutatis mutandis pursuant to Article 235, paragraph (2) of the said act. As a result, Shimachu became a wholly-owned subsidiary of the Company.

(1) Overview of transaction

(i) Name and business description of party in combination

Name of party in combination: Shimachu Co., Ltd.
Business description: Retailing of furniture and home accessories (including curtains, carpets, and home accents) and home center goods (including household essentials, garden equipment and supplies, pet supplies, timber, and hardware)

(ii) Date of business combination

May 14, 2021 (share acquisition date)

(iii) Legal form of business combination

Share acquisition for cash consideration

(iv) Name of company after combination

There is no change.

(2) Summary of applied accounting treatment

The Company has accounted for such fractional share acquisition as a transaction with non-controlling shareholders, which is a type of transactions under common control, pursuant to the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, revised on January 16, 2019) and the "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, revised on January 16, 2019).

The Company has treated such fractional share acquisition as an integral part of the share acquisition through the January 6, 2021 tender offer and has determined the amount of goodwill arising from the additional share acquisition after the Company obtained control of Shimachu as if such amount were recognized when the Company obtained control of Shimachu.

(3) Acquisition cost of acquiree and its breakdown by type of consideration

Consideration for acquisition:	Cash and cash equivalents	¥49,174 million (\$465,099 thousand)
Acquisition cost		¥49,174 million (\$465,099 thousand)

3) Large-sum bank loans

To refinance the short-term bank loans that the Company obtained to acquire the shares of Shimachu Co., Ltd., the Company has entered into loan agreements in accordance with a resolution at its board of directors meeting held on May 6, 2021 and has borrowed long-term funds as follows:

- (1) Lenders: Mizuho Bank, Ltd., MUFG Bank, Ltd., Sumitomo Mitsui Banking Corporation, Sumitomo Mitsui Trust Bank, Limited, North Pacific Bank, Ltd., and Saitama Resona Bank, Limited
- (2) Bank loan amount: ¥100 billion (\$945 million)
- (3) Drawdown date: June 30, 2021
- (4) Final repayment date: End of June 2024
- (5) Interest rate: Fixed rate ranged from 0.10% to 0.23%
- (6) Repayment method: Equal repayment commencing the end of December 2021 and every six months thereafter
- (7) Collateral or guarantee: None

21. Segment Information

1) Overview of reportable segments

(1) Determination of reportable segments

Reportable segments of the Group are components for which discrete financial information is available and that the board of directors regularly reviews to make decisions about resources to be allocated and assess their operating results.

The Group consists of the two segments on the basis of its core operating companies and identified the following two businesses as its reportable segments: the “Nitori business” and the “Shimachu business.”

(2) Types of products and services that belong to each reportable segment

The “Nitori business” primarily engages in the development, manufacture and sale of furniture and interior merchandise.

The “Shimachu business” primarily engages in the sale of furniture, home accessories and home center goods.

(3) Change in reportable segments

The Group previously consisted of a single reportable segment of the “home furnishings and interior goods sale business.” In association with Shimachu Co., Ltd. becoming a consolidated subsidiary of the Company, the Group reviewed the segmentation and decided to add an operating segment in the year ended February 20, 2021. As a result, the Group changed its reportable segment to the two reportable segments of the “Nitori business” and the “Shimachu business.”

The segment information prepared on the new basis of segmentation for the year ended February 20, 2020 is not disclosed, since the “Shimachu business” has been added in the year ended February 20, 2021.

2) Basis of measurement of net sales, profit, assets and other items by reportable segment

The accounting policies of the reportable segments are basically consistent with the description in “2. Summary of Significant Accounting Policies.” The reportable segments’ profit corresponds to the Group’s operating income.

3) Information about net sales, profit, assets and other items by reportable segment

As of and for the year ended February 20, 2021	Millions of Yen			
	Reportable segments		Total	Consolidated
	Nitori business	Shimachu business		
Net sales				
Net sales to external customers	¥716,900	¥-	¥716,900	¥716,900
Total	¥716,900	¥-	¥716,900	¥716,900
Segment profit	¥137,687	¥-	¥137,687	¥137,687
Segment assets	¥671,305	¥255,742	¥927,048	¥927,048
Other items				
Depreciation and amortization	¥17,831	¥-	¥17,831	¥17,831
Investments in entities accounted for using equity method	22,001	-	22,001	22,001
Increase in property, plant and equipment and intangible assets	22,323	-	22,323	22,323

As of and for the year ended February 20, 2021	Thousands of U.S. Dollars			
	Reportable segments		Total	Consolidated
	Nitori business	Shimachu business		
Net sales				
Net sales to external customers	\$6,780,481	\$-	\$6,780,481	\$6,780,481
Total	\$6,780,481	\$-	\$6,780,481	\$6,780,481
Segment profit	\$1,302,251	\$-	\$1,302,251	\$1,302,251
Segment assets	\$6,349,240	\$2,418,829	\$8,768,070	\$8,768,070
Other items				
Depreciation and amortization	\$168,649	\$-	\$168,649	\$168,649
Investments in entities accounted for using equity method	208,091	-	208,091	208,091
Increase in property, plant and equipment and intangible assets	211,136	-	211,136	211,136

The information as of and for the year ended February 20, 2020 is omitted since the Group was comprised of a single reportable segment.

4) Related information

(1) Information about products and services

Information about products and services is as follows:

For the year ended February 20, 2021	Millions of Yen		
	Nitori business	Shimachu business	Total
Net sales to external customers	¥716,900	¥-	¥716,900

For the year ended February 20, 2020	Millions of Yen		
	Nitori business	Shimachu business	Total
Net sales to external customers	¥642,273	¥-	¥642,273

For the year ended February 20, 2021	Thousands of U.S. Dollars		
	Nitori business	Shimachu business	Total
Net sales to external customers	\$6,780,481	\$-	\$6,780,481

(2) Information about geographic areas

a) Net 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, net

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 10% or more of net sales on the consolidated statement of income.

5) Information about loss on impairment of long-lived assets by reportable segment

	Millions of Yen		
For the year ended February 20, 2021	Nitori business	Shimachu business	Total
Loss on impairment of long-lived assets	¥8,351	¥-	¥8,351

	Millions of Yen		
For the year ended February 20, 2020	Nitori business	Shimachu business	Total
Loss on impairment of long-lived assets	¥4,090	¥-	¥4,090

	Thousands of U.S. Dollars		
For the year ended February 20, 2021	Nitori business	Shimachu business	Total
Loss on impairment of long-lived assets	\$78,990	\$-	\$78,990

6) Information about amortization and unamortized balance of goodwill by reportable segment

	Millions of Yen		
As of and for the year ended February 20, 2021	Nitori business	Shimachu business	Total
Amortization	¥-	¥-	¥-
Balance at end of year	¥-	¥31,665	¥31,665

	Thousands of U.S. Dollars		
As of and for the year ended February 20, 2021	Nitori business	Shimachu business	Total
Amortization	\$-	\$-	\$-
Balance at end of year	\$-	\$299,492	\$299,492

Not applicable as of and for the year ended February 20, 2020.

7) Information about gain on bargain purchase by reportable segment

Not applicable.

22. Related-Party Transactions

1) Related-party transactions between the Company and related parties

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

For the year ended February 20, 2021											Transaction amount		Year-end balance	
Category	Name	Address	Capital or contribution	Occupation	% of voting rights		Business relationship	Details of transaction	Millions of Yen	Thousands of U.S. Dollars	Account	Millions of Yen	Thousands of U.S. Dollars	
					Held (held by others)									
Officer of subsidiary	Shigehito Matsukura	-	-	Representative director of subsidiary	(held by others)	Direct 0.04	-	Loaning of money (Note 2)	¥109	\$1,031	Short-term loans receivable	¥109	\$1,031	
Close relative of officer	Mitsuko Nitori	-	-	Mother of representative director, Akio Nitori	(held by others)	Direct 0.01	Building lease	Building lease (Note 3)	16	153	Leasehold deposits	28	270	

Notes: 1. The transaction amount does not include consumption taxes.

2. The interest rate for the loaning of money was determined based on the market interest rate.

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

For the year ended February 20, 2020											Transaction amount		Year-end balance	
Category	Name	Address	Capital or contribution	Occupation	% of voting rights		Business relationship	Details of transaction	Millions of Yen	Account	Millions of Yen		Millions of Yen	
					Held (held by others)									
Officer	Toshiyuki Shirai	-	-	Representative director of the Company	(held by others)	Direct 0.04	-	Exercise of stock options (Note 2)		¥56	-		¥-	
Officer	Fumihiko Sudo	-	-	Director of the Company	(held by others)	Direct 0.01	-	Exercise of stock options (Note 2)		11	-		-	
Officer of subsidiary	Shigehito Matsukura	-	-	Representative director of subsidiary	(held by others)	Direct 0.04	-	Exercise of stock options (Note 2) Loaning of money (Note 3)		83	Short-term loans receivable		109	
Close relative of officer	Mitsuko Nitori	-	-	Mother of representative director, Akio Nitori	(held by others)	Direct 0.01	Building lease	Building lease (Note 4)		16	Leasehold deposits		28	

Notes: 1. The transaction amount does not include consumption taxes.

2. This represents the exercise of stock options granted in accordance with a resolution at the annual general meeting of shareholders on May 9, 2014 during the year ended February 20, 2020.

3. The interest rate for the loaning of money was determined based on the market interest rate.

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

2) Related-party transactions between the consolidated subsidiaries and related parties

Not applicable.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Nitori Holdings Co., Ltd.:

Opinion

We have audited the consolidated financial statements of Nitori Holdings Co., Ltd. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of February 20, 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of February 20, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit and Supervisory Committee is responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Supervisory Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

May 13, 2021
(August 25, 2021 as to Note 20)