



# Consolidated Financial Statements

For the year ended February 20,2012

Nitori Holdings Co., Ltd.

## Consolidated Balance Sheets

Nitori Holdings Co., Ltd. and consolidated subsidiaries

As at February 20, 2011 and 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2011	2012	2012
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and deposits (Notes 9 and 11)	¥16,271	¥18,768	\$235,819
Notes and accounts receivable-trade (Note 11)	8,667	8,783	110,355
Merchandise and finished goods	23,372	24,099	302,793
Work in process	51	164	2,060
Raw materials and supplies	920	1,253	15,745
Deferred tax assets (Note 16)	4,103	4,082	51,292
Other	7,390	10,769	135,308
Allowance for doubtful accounts (Note 11)	(6)	(7)	(90)
Total current assets	60,771	67,913	853,287
<b>Non-Current Assets:</b>			
Property, plant and equipment:			
Buildings and structures, net (Notes 5 and 17)	67,145	70,763	889,103
Machinery, equipment and vehicles, net	2,513	2,548	32,021
Tools, furniture and fixtures, net	3,042	3,032	38,102
Land (Note 17)	57,068	65,372	821,361
Leased assets, net (Note 10)	2,432	3,348	42,067
Construction in progress	1,657	1,920	24,124
Total property, plant and equipment	133,859	146,985	1,846,779
Intangible assets	6,756	6,544	82,231
Investments and other assets:			
Investment securities (Notes 5, 11 and 12)	799	825	10,368
Long-term loans receivable	316	333	4,194
Guarantee deposits (Note 11)	20,337	19,560	245,766
Lease deposits (Note 11)	14,089	14,799	185,947
Deferred tax assets (Note 16)	3,795	3,536	44,440
Other (Note 5)	5,488	6,681	83,945
Allowance for doubtful accounts	(27)	(27)	(342)
Total investments and other assets	44,800	45,710	574,320
Total non-current assets	185,416	199,240	2,503,330
Total assets	¥246,187	¥267,153	\$3,356,618

# Consolidated Balance Sheets

Nitori Holdings Co., Ltd. and consolidated subsidiaries  
As at February 20, 2011 and 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2011	2012	2012
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current Liabilities:</b>			
Notes and accounts payable-trade (Notes 5 and 11)	¥13,335	¥11,690	\$146,880
Short-term loans payable (Notes 11 and 21)	35,978	25,923	325,716
Lease obligations (Notes 10 and 21)	197	260	3,270
Income taxes payable (Note 11)	11,386	15,374	193,173
Provision for bonuses	1,771	1,942	24,406
Provision for point card certificates	1,887	1,325	16,660
Provision for special benefits to shareholders	59	57	726
Accounts payable-other (Note 11)	10,731	8,972	112,735
Deferred tax liabilities (Note 16)	—	0	2
Asset retirement obligations (Note 22)	—	31	402
Other	10,543	10,853	136,364
Total current liabilities	85,891	76,433	960,339
<b>Non-Current Liabilities:</b>			
Long-term loans payable (Notes 11 and 21)	5,422	4,113	51,689
Lease obligations (Notes 10 and 21)	2,286	3,127	39,290
Deferred tax liabilities (Note 16)	1	1	13
Provision for retirement benefits (Note 14)	2,643	1,743	21,905
Provision for directors' retirement benefits	238	238	2,990
Asset retirement obligations (Note 22)	—	1,559	19,600
Other (Note 5)	3,666	4,987	62,660
Total non-current liabilities	14,257	15,770	198,150
Total liabilities	100,149	92,204	1,158,489
<b>NET ASSETS (Note 8)</b>			
<b>Shareholders' Equity:</b>			
Common stock	13,370	13,370	167,996
Capital surplus	13,506	13,506	169,699
Retained earnings	138,677	167,764	2,107,863
Treasury stock	(16,662)	(16,663)	(209,368)
Total shareholders' equity	148,892	177,978	2,236,190
<b>Accumulated Other Comprehensive Income:</b>			
Unrealized holding gain (loss) on securities (Note 12)	114	165	2,081
Unrealized gain (loss) from hedging instruments (Note 13)	(718)	(131)	(1,647)
Foreign currency translation adjustment	(2,521)	(3,485)	(43,789)
Total accumulated other comprehensive income	(3,125)	(3,450)	(43,356)
Subscription Rights to Shares	272	421	5,294
Minority Interests	—	—	—
Total net assets	146,038	174,949	2,198,128
Total liabilities and net assets	¥246,187	¥267,153	\$3,356,618

See Notes to Consolidated Financial Statements.

## Consolidated Statements of Income

Nitori Holdings Co., Ltd. and consolidated subsidiaries  
For the years ended February 20, 2011 and 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2011	2012	2012
<b>Net Sales:</b>	¥314,291	¥331,016	\$4,159,015
<b>Cost of Sales:</b>	141,807	147,077	1,847,935
Gross profit:	172,483	183,938	2,311,080
<b>Selling, General and Administrative Expenses (Notes 6 and 15)</b>	119,818	125,987	1,582,950
Operating income	52,665	57,951	728,129
<b>Non-Operating Income:</b>			
Interest income	424	391	4,915
Dividends income	15	16	204
Foreign exchange gains	—	425	5,352
Rent income	943	—	—
Vending machine income	221	229	2,879
Other	457	391	4,914
	2,062	1,453	18,266
<b>Non-Operating Expenses:</b>			
Interest expenses	355	250	3,144
Cost of lease revenue	527	—	—
Foreign exchange losses	169	—	—
Other	80	3	45
	1,133	253	3,189
Ordinary income	53,594	59,151	743,206
<b>Special Gains:</b>			
Gain on sales of non-current assets (Note 6)	1	3	46
Reversal of allowance for doubtful accounts	68	—	—
Gain on bad debts recovered	—	58	731
Gain on abolishment of retirement benefit plan	—	104	1,312
Other	1	3	47
	72	170	2,138
<b>Special Losses:</b>			
Loss on sales and disposal of non-current assets (Note 6)	24	104	1,308
Penalty for the scrap and build of outlets	473	464	5,836
Provision of allowance for doubtful accounts	0	—	—
Loss on valuation of investment securities (Note 12)	4	56	705
Impairment loss	276	—	—
Loss on disaster	—	1,432	17,993
Loss on cancellation of derivative contracts	1,232	—	—
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	700	8,796
Other	40	95	1,202
	2,053	2,852	35,841
Income before income taxes and minority interests	51,612	56,469	709,503
<b>Income Taxes (Note 16):</b>			
Current	21,823	23,046	289,562
Deferred	(1,028)	(125)	(1,577)
	20,794	22,920	287,985
<b>Net Income Before Minority Interests</b>	—	33,548	421,517
<b>Minority Interests in Income (Loss)</b>	(4)	—	—
<b>Net Income</b>	¥30,822	¥33,548	\$421,517

See Notes to Consolidated Financial Statements.

## Consolidated Statement of Comprehensive Income

Nitori Holdings Co., Ltd. and consolidated subsidiaries

For the year ended February 20, 2012

	2011	Millions of Yen 2012	Thousands of U.S. Dollars (Note 2) 2012
<b>Net Income Before Minority Interests</b>	—	¥33,548	\$421,517
<b>Other Comprehensive Income (Note 7)</b>			
Unrealized holding gain (loss) on securities	—	51	646
Unrealized gain (loss) from hedging instruments	—	587	7,384
Foreign currency translation adjustment	—	(964)	(12,112)
<b>Total Other Comprehensive Income</b>	—	(324)	(4,081)
<b>Comprehensive Income (Note 7)</b>	—	¥33,223	\$417,436
Total comprehensive income attributable to:			
Shareholders of Nitori Holdings Co., Ltd.	—	¥33,223	\$417,436
Minority interests	—	—	—

See Notes to Consolidated Financial Statements.

# Consolidated Statements of Changes in Net Assets

Nitori Holdings Co., Ltd. and consolidated subsidiaries  
For the years ended February 20, 2011 and 2012

Millions of Yen

	Shareholders' Equity					Accumulated Other Comprehensive Income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gain on securities	Unrealized gain from hedging instruments	Foreign currency translation adjustment	Total accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
<b>Balance at February 20, 2010</b>	¥13,370	¥13,506	¥110,689	¥(2,335)	¥135,231	¥57	¥332	¥(1,595)	¥(1,206)	¥139	—	¥134,164
Changes of items during the year												
Dividends from surplus			(2,833)		(2,833)							(2,833)
Net income			30,822		30,822							30,822
Purchase of treasury stock				(14,626)	(14,626)							(14,626)
Disposal of treasury stock		(1)		299	297							297
Transfer to capital surplus from retained earnings		1	(1)									—
Increase of consolidated subsidiaries											30	30
Purchase of shares of consolidated subsidiaries											(25)	(25)
Minority interests in income (loss)											(4)	(4)
Net changes in items other than those in shareholders' equity						57	(1,050)	(925)	(1,919)	132	—	(1,787)
<b>Total changes of items during the year</b>	—	—	27,987	(14,327)	13,660	57	(1,050)	(925)	(1,919)	132	—	11,873
<b>Balance at February 20, 2011</b>	¥13,370	¥13,506	¥138,677	¥(16,662)	¥148,892	¥114	¥(718)	¥(2,521)	¥(3,125)	¥272	—	¥146,038
Changes of items during the year												
Dividends from surplus			(4,384)		(4,384)							(4,384)
Net income			33,548		33,548							33,548
Purchase of treasury stock				(0)	(0)							(0)
Change of scope of consolidation			(76)		(76)							(76)
Net changes in items other than those in shareholders' equity						51	587	(964)	(324)	149	—	(175)
<b>Total changes of items during the year</b>	—	—	29,087	(0)	29,086	51	587	(964)	(324)	149	—	28,910
<b>Balance at February 20, 2012</b>	¥13,370	¥13,506	¥167,764	¥(16,663)	¥177,978	¥165	¥(131)	¥(3,485)	¥(3,450)	¥421	—	¥174,949

Thousands of U.S. Dollars (Note 2)

	Shareholders' Equity					Accumulated Other Comprehensive Income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gain on securities	Unrealized gain from hedging instruments	Foreign currency translation adjustment	Total accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
<b>Balance at February 20, 2011</b>	\$167,996	\$169,699	\$1,742,400	\$(209,356)	\$1,870,739	\$1,435	\$(9,032)	\$(31,677)	\$(39,274)	\$3,419	—	\$1,834,884
Changes of items during the year												
Dividends from surplus			(55,093)		(55,093)							(55,093)
Net income			421,517		421,517							421,517
Purchase of treasury stock				(12)	(12)							(12)
Change of scope of consolidation			(960)		(960)							(960)
Net changes in items other than those in shareholders' equity						646	7,384	(12,112)	(4,081)	1,874	—	(2,207)
<b>Total changes of items during the year</b>	—	—	365,463	(12)	365,451	646	7,384	(12,112)	(4,081)	1,874	—	363,244
<b>Balance at February 20, 2012</b>	\$167,996	\$169,699	\$2,107,863	\$(209,368)	\$2,236,190	\$2,081	\$(1,647)	\$(43,789)	\$(43,356)	\$5,294	—	\$2,198,128

See Notes to Consolidated Financial Statements.

## Consolidated Statements of Cash Flows

Nitori Holdings Co., Ltd. and consolidated subsidiaries  
For the years ended February 20, 2011 and 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2011	2012	2012
<b>Cash Flows from Operating Activities:</b>			
Income before income taxes and minority interests	¥51,612	¥56,469	\$709,503
Depreciation and amortization	8,282	9,013	113,254
Impairment loss	276	—	—
Amortization of goodwill	—	114	1,443
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	700	8,796
Increase (decrease) in allowance for doubtful accounts	(280)	0	6
Increase (decrease) in provision for bonuses	(85)	172	2,161
Increase (decrease) in provision for retirement benefits	346	(889)	(11,177)
Increase (decrease) in provision for point card certificates	1,019	(561)	(7,056)
Interest and dividends income	(439)	(407)	(5,119)
Interest expenses	355	250	3,144
Loss (gain) on sales and disposal of non-current assets	22	100	1,261
Penalty for the scrap and build of outlets	473	464	5,836
Loss (gain) on valuation of investment securities	4	56	705
Loss on cancellation of derivative contracts	1,232	—	—
Decrease (increase) in notes and accounts receivable-trade	(2,700)	956	12,012
Decrease (increase) in inventories	(1,472)	(1,191)	(14,970)
Increase (decrease) in notes and accounts payable-trade	(164)	(922)	(11,590)
Increase (decrease) in accrued consumption taxes	407	1,081	13,593
Other, net	1,462	(888)	(11,160)
Subtotal	60,354	64,519	810,644
Interest and dividends income received	367	385	4,841
Interest expenses paid	(348)	(251)	(3,155)
Payment of penalty for the scrap and build of outlets	(175)	(32)	(407)
Payment for cancellation of derivative contracts	(1,232)	—	—
Income taxes paid	(24,312)	(20,712)	(260,246)
Net cash provided by operating activities	34,653	43,908	551,677
<b>Cash Flows from Investing Activities:</b>			
Payments into time deposits	(5,601)	(763)	(9,594)
Proceeds from withdrawal of time deposits	4,610	2,594	32,596
Purchase of property, plant and equipment	(21,730)	(21,977)	(276,133)
Proceeds from sales of property, plant and equipment	17	7	99
Purchase of intangible assets	(757)	(516)	(6,483)
Payments for guarantee deposits	(1,706)	(1,571)	(19,741)
Proceeds from collection of guarantee deposits	216	214	2,690
Payments for lease deposits	(1,128)	(732)	(9,200)
Proceeds from collection of lease deposits	309	79	1,001
Proceeds from guarantee deposits received	21	605	7,603
Proceeds from lease deposits received	—	279	3,507
Purchase of long-term prepaid expenses	—	(1,061)	(13,330)
Purchase of investment securities	(2)	—	—
Purchase of stocks of subsidiaries and affiliates	(25)	—	—
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	—	28	354
Payments of loans receivable	(202)	(109)	(1,376)
Proceeds from collection of loans receivable	19	—	—
Other payments	(726)	(3)	(37)
Other proceeds	0	—	—
Net cash used in investing activities	(26,684)	(22,925)	(288,045)

## Consolidated Statements of Cash Flows

Nitori Holdings Co., Ltd. and consolidated subsidiaries  
For the years ended February 20, 2011 and 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2011	2012	2012
<b>Cash Flows from Financing Activities:</b>			
Net increase (decrease) in short-term loans payable	29,443	(8,348)	(104,896)
Proceeds from long-term loans payable	—	3,100	38,949
Repayment of long-term loans payable	(15,449)	(6,255)	(78,597)
Repayments of lease obligations	(143)	(213)	(2,681)
Purchase of treasury stock	(14,627)	(0)	(12)
Cash dividends paid	(2,830)	(4,380)	(55,036)
Proceeds from stock issuance to minority shareholders	30	—	—
Net cash used in financing activities	(3,577)	(16,099)	(202,274)
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	(325)	(422)	(5,313)
<b>Net Increase in Cash and Cash Equivalents</b>	4,066	4,460	56,044
<b>Cash and Cash Equivalents at Beginning of the Year</b>	9,968	14,035	176,343
<b>Decrease in Cash and Cash Equivalents Resulting from Exclusion of Subsidiaries from Consolidation</b>	—	(85)	(1,071)
<b>Cash and Cash Equivalents at End of the Year (Note 9)</b>	¥14,035	¥18,410	\$231,316

See Notes to Consolidated Financial Statements.



# Notes to Consolidated Financial Statements

Nitori Holdings Co., Ltd. and consolidated subsidiaries

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## 1. Basis of Presentation of Consolidated Financial Statements

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

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## 2. Basis of Translation

The accompanying consolidated financial statements are expressed in Japanese yen, and solely for the convenience of the reader, have been translated into United States dollars at the rate of ¥79.59 = U.S.\$1, the exchange rate prevailing on February 20, 2012. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at such rate.

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

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## 3. Principles of Consolidation

### 1) Scope of Consolidation

The consolidated financial statements include the accounts of the Company and its 17 significant subsidiaries. Newly established companies NITORI FACILITY CO., LTD. and 2 other subsidiaries have been included in the scope of consolidation from the fiscal year ended February 20, 2012.

Effective from the fiscal year ended February 20, 2012, NITORI (THAILAND) CO., LTD. was excluded from the scope of consolidation and equity method of accounting due to immaterial impact.

### 2) Financial Statements of Consolidated Subsidiaries

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

P.T. NITORI FURNITURE INDONESIA .....	November 20, 2011
NITORI FURNITURE CO., LTD. ....	December 20, 2011
NITORI FURNITURE VIETNAM EPE	
NITORI (CHINA) CO., LTD.	
NITORI PUBLIC CO., LTD.	
SHANGHAI LIQIAO INDUSTRIAL CO., LTD.	
NITORI TAIWAN CO., LTD.	
DECO HOME CHINA CO., LTD.	
and other 4 subsidiaries .....	December 31, 2011
HOME DECO CO., LTD. ....	January 31, 2012

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

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## 4. Summary of Significant Accounting Policies

### 1) Investment Securities

The Group has available-for-sale securities. Available-for-sale securities with market quotations are valued at the prevailing market price as at the balance sheet date. Available-for-sale securities without market quotations are stated at cost, cost being determined by the gross average method. Net unrealized gains or losses on available-for-sale securities with market quotations are reported net of taxes as a separate component of "Net Assets" and the cost of sales is determined by the gross average method.

### 2) Inventories

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

### 3) Derivatives

Derivative financial instruments are stated at fair value.

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

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

Buildings and structures	8 to 47 years
Machinery, equipment and vehicles	2 to 12 years
Tools, furniture and fixtures	5 to 10 years

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

#### **5) Intangible Assets (except leased assets)**

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

#### **6) Leased assets**

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

Regarding finance lease transactions that do not transfer ownership to the lessee, commencing on or before February 20, 2009, are accounted for as operating lease transactions.

#### **7) Allowance for Doubtful Accounts**

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

#### **8) Provision for Bonuses**

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

#### **9) Provision for Retirement Benefits**

Provision for employees' retirement benefits as at the balance sheet date is determined based on the actuarial valuation of projected benefit obligations and the fair value of the plan assets.

Actuarial differences are amortized using the straight-line basis mainly over 10 years, which are within the average of the estimated remaining service period of employees, commencing in the following period.

(Additional Information)

Effective from April 1, 2011, the Company and certain consolidated subsidiaries changed their retirement benefit plans and such changes were accounted for in accordance with the Accounting Standards Board of Japan ("ASBJ") Guidance No.1 "Guidance on Accounting Standard for Transfer between Retirement Benefit Plans". Due to this change, projected benefit obligation decreased by ¥352 million (\$4,424 thousand) and prior service gain from this transition is being amortized over 10 years. Transition gains of ¥104 million (\$1,312 thousand) were posted in "Gain on abolishment of retirement benefit plan" in Special Gain in the consolidated statement of income for the year ended February 20, 2012.

#### **10) Provision for Directors' Retirement Benefits**

Provision for directors' and corporate auditors' retirement benefits of the Company and certain of its consolidated subsidiaries is provided based on their internal rules and is calculated at the estimated amount which would be payable if all officers were to retire at the balance sheet date.

#### **11) Provision for Point Card Certificates**

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

#### **12) Provision for Special benefit to shareholders**

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

#### **13) Foreign Currency Translation**

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

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

Differences arising from such translations are shown as "Foreign currency translation adjustment" in "Net Assets."

#### **14) Hedge Accounting**

Hedging instruments are recorded at fair value and accounted for using the deferral hedge accounting, under which unrealized gain or loss is deferred as a separate component of net assets. With regard to some interest rate swaps that meet certain criteria, the Group uses the special treatment.

Hedging instruments: Derivative transactions (interest rate swaps and foreign exchange contracts).

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

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

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

#### **15) Cash and Cash Equivalents**

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

#### **16) Consumption Tax**

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

#### **17) Income Taxes**

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

#### **18) Asset Retirement Obligations**

Effective from the fiscal year ended February 20, 2012, the Group has adopted new accounting standards, the "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No.18, March 31, 2008) and the "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No.21, March 31, 2008). As a result, operating income and ordinary income decreased by ¥179 million (\$2,252 thousand), and income before income taxes and minority interests decreased by ¥809 million (\$10,171 thousand).

#### **19) Change in Method of Presentation**

(Consolidated Statements of Income)

Effective from the fiscal year ended February 20, 2012, the Group has adopted a new regulation, the "Cabinet Office Ordinance Partially Revising Regulations for Terminology, Forms and Preparation Methods of Financial Statements, etc." (Cabinet Office Ordinance No.5, March 24, 2009) based on the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, December 26, 2008), and as a result, newly presented "Net Income Before Minority Interests".

In the previous fiscal year, "Rent income" was presented separately. Effective from the fiscal year ended February 20, 2012, however, this item is now included in "Other" under "Non-Operating Income" because it accounts for less than 10% of total non-operating income. "Rent income" in the fiscal year ended February 20, 2012 totaled ¥38 million (\$484 thousand).

In the previous fiscal year, "Cost of lease revenue" was presented separately. Effective from the fiscal year ended February 20, 2012, however, this item is now included in "Other" under "Non-Operating Expenses" because it accounts for less than 10% of total non-operating expenses. "Cost of lease revenue" in the fiscal year ended February 20, 2012 totaled ¥1 million (\$12 thousand).

(Consolidated Statements of Cash Flows)

In the previous fiscal year, "Purchase of long-term prepaid expenses" was included in "Other payments" under "Cash Flows from Investing Activities". Effective from the fiscal year ended February 20, 2012, however, this item is now presented separately due to its materiality. "Purchase of long-term prepaid expenses" in the previous fiscal year ended February 20, 2011 totaled ¥726 million.

#### **20) Additional Information**

Effective from the fiscal year ended February 20, 2012, the Group has adopted a new accounting standard, the "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No.25, June 30, 2010). However, the amounts of accumulated other comprehensive income and total accumulated other comprehensive income for the fiscal year ended at February 20, 2011 are the amounts of valuation and translation adjustments and total valuation and translation adjustments at February 20, 2011, respectively.

## 5. Notes to Consolidated Balance Sheets

### 1) Assets Pledged as Collateral

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

	Millions of Yen		Thousands of U.S. Dollars
	2011	2012	2012
As at February 20			
Pledged assets:			
Buildings and structures	¥384	¥361	\$4,540
Investments and other assets (other)	225	69	873
Total	¥609	¥430	\$5,414
Corresponding liabilities:			
Notes and accounts payable-trade	¥59	¥65	\$820
Non-current liabilities (other)	303	286	3,596
Total	¥362	¥351	\$4,416

### 2) Investment securities of non-consolidated subsidiaries

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

	Millions of Yen		Thousands of U.S. Dollars
	2011	2012	2012
As at February 20			
Investment securities	-	¥15	\$197

## 6. Notes to Consolidated Statements of Income

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

For the years ended February 20	Millions of Yen		Thousands of U.S. Dollars
	2011	2012	2012
Customer delivery expenses	¥14,445	¥14,937	\$187,675
Advertising	10,672	11,640	146,254
Salaries, allowances and bonuses	29,013	32,401	407,100
Provision for bonuses	1,724	1,858	23,347
Provision for retirement benefits	672	534	6,715
Rents	19,745	20,629	259,196
Depreciation and amortization	7,762	8,456	106,246
Outsourcing	7,007	6,046	75,964

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

For the years ended February 20	Millions of Yen		Thousands of U.S. Dollars
	2011	2012	2012
Machinery, equipment and vehicles	¥1	¥3	\$46
Tools, furniture and fixtures	-	0	0

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

For the years ended February 20	Millions of Yen		Thousands of U.S. Dollars
	2011	2012	2012
Loss on sales:			
Machinery, equipment and vehicles	¥0	¥-	\$-
Tools, furniture and fixtures	7	0	1
Loss on disposal:			
Buildings and structures	¥1	¥10	\$135
Machinery, equipment and vehicles	3	0	0
Tools, furniture and fixtures	0	2	37
Other intangible assets	12	90	1,133

## 7. Notes to Consolidated Statements of Comprehensive Income

1) Comprehensive income	Millions of Yen
For the year ended February 20	2011
Comprehensive income attributable to Shareholders of the parent	¥28,903
Comprehensive income attributable to Minority interests	(4)
<b>Total</b>	<b>¥28,898</b>

2) Other comprehensive income	Millions of Yen
For the year ended February 20	2011
Unrealized holding gain (loss) on securities	¥57
Unrealized gain (loss) from hedging instruments	(1,050)
Foreign currency translation adjustment	(925)
<b>Total</b>	<b>¥(1,919)</b>

## 8. Notes to Consolidated Statements of Changes in Net Assets

### 1) Type and number of outstanding shares

Type of shares	Number of shares (Thousands)		
	Balance at beginning of year	Increase	Balance at end of year
For the year ended February 20, 2011			
Issued stock:			
Common stock	57,221	-	57,221
Treasury stock:			
Common stock	351	2,086	2,395

Notes: 1. The increase in 2,086 thousand shares of treasury stock is mostly due to the purchases of shares based on the resolution by the board of directors meeting.

2. The decrease in 43 thousand shares of treasury stock is due to exercise of stock options.

Type of shares	Number of shares (Thousands)		
	Balance at beginning of year	Increase	Balance at end of year
For the year ended February 20, 2012			
Issued stock:			
Common stock	57,221	-	57,221
Treasury stock:			
Common stock	2,395	0	2,395

Notes: 1. The increase of treasury stock is due to the purchases of shares in quantities less than the minimum trading unit of shares.

2. At the board of directors meeting held on 20 December 2011, the Company resolved to introduce a "Stock Benefit Trust (J-ESOP)". Under this scheme, Trust & Custody Services Bank, Ltd. has acquired 416 thousand shares of treasury stock on January 20, 2012. The treasury stock balance at end of the fiscal year included 416 thousand shares of common stock held by Trust & Custody Services Bank, Ltd.

## 2) Subscription rights to shares

As at February 20	Millions of Yen		Thousands of U.S. Dollars
	2011	2012	2012
Subscription rights to shares as stock options	<b>¥272</b>	<b>¥421</b>	<b>\$5,294</b>

## 3) Dividends

### (1) Dividends paid to shareholders

For the year ended February 20, 2011

Resolution approved by	Type of shares	Amount (Millions of Yen)	Amount per share (Yen)	Shareholders' cut-off date	Effective date
Board of directors (March 29, 2010)	Common stock	<b>¥1,421</b>	<b>¥25</b>	February 20, 2010	April 22, 2010
Board of directors (September 29, 2010)	Common stock	<b>1,411</b>	<b>25</b>	August 20, 2010	November 2, 2010

For the year ended February 20, 2012

Resolution approved by	Type of shares	Amount (Millions of Yen)	Amount per share (Yen)	Shareholders' cut-off date	Effective date
Board of directors (April 4, 2011)	Common stock	<b>¥2,191</b>	<b>¥40</b>	February 20, 2011	April 27, 2011
Board of directors (September 27, 2011)	Common stock	<b>2,193</b>	<b>40</b>	August 20, 2011	November 2, 2011

For the year ended February 20, 2012

Resolution approved by	Type of shares	Amount (Thousands of U.S. Dollars)	Amount per share (U.S. Dollars)	Shareholders' cut-off date	Effective date
Board of directors (April 4, 2011)	Common stock	<b>\$27,539</b>	<b>\$0.50</b>	February 20, 2011	April 27, 2011
Board of directors (September 27, 2011)	Common stock	<b>27,554</b>	<b>0.50</b>	August 20, 2011	November 2, 2011

### (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, 2011

Resolution approved by	Type of shares	Paid from	Amount (Millions of Yen)	Amount per share (Yen)	Shareholders' cut-off date	Effective date
Board of directors (April 4, 2011)	Common stock	Retained earnings	<b>¥2,191</b>	<b>¥40</b>	February 20, 2011	April 27, 2011

For the year ended February 20, 2012

Resolution approved by	Type of shares	Paid from	Amount (Millions of Yen)	Amount (Thousands of U.S. Dollars)	Amount per share (Yen)	Amount per share (U.S. Dollars)	Shareholders' cut-off date	Effective date
Board of directors (March 30, 2012)	Common stock	Retained earnings	<b>¥2,209</b>	<b>\$27,763</b>	<b>¥40</b>	<b>\$0.50</b>	February 20, 2012	April 24, 2012

## 4) Shareholder's Equity

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

## 9. Note to Consolidated Statements of Cash Flows

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

As at February 20	Millions of Yen		Thousands of U.S. Dollars
	2011	2012	2012
Cash and deposits	¥16,271	¥18,768	\$235,819
Time deposits with maturities exceeding 3 months	(2,236)	(358)	(4,502)
Cash and cash equivalents	¥14,035	¥18,410	\$231,316

## 10. Leases

As Lessee:

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

As at February 20, 2011	Millions of Yen		
	Machinery, equipment and vehicles	Tools, furniture and fixtures	Intangible assets and others
Acquisition costs	¥192	¥3,986	¥63
Accumulated depreciation/amortization	139	2,857	51
Net book value	¥52	¥1,128	¥12

As at February 20, 2012	Millions of Yen		
	Machinery, equipment and vehicles	Tools, furniture and fixtures	Intangible assets and others
Acquisition costs	¥150	¥2,191	¥10
Accumulated depreciation/amortization	124	1,725	6
Net book value	¥25	¥466	¥3

As at February 20, 2012	Thousands of U.S. Dollars		
	Machinery, equipment and vehicles	Tools, furniture and fixtures	Intangible assets and others
Acquisition costs	\$1,887	\$27,538	\$127
Accumulated depreciation/amortization	1,566	21,677	85
Net book value	\$321	\$5,860	\$42

Future minimum lease payments relating to finance leases accounted for as operating leases are as follows:

As at February 20	Millions of Yen		Thousands of U.S. Dollars
	2011	2012	2012
Due within one year	¥738	¥367	\$4,616
Due after one year	490	128	1,617
Total	¥1,229	¥496	\$6,234

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

As at February 20	Millions of Yen		Thousands of U.S. Dollars
	2011	2012	2012
Due within one year	¥816	¥951	\$11,950
Due after one year	8,296	12,661	159,086
<b>Total</b>	<b>¥9,112</b>	<b>¥13,612</b>	<b>\$171,036</b>

Lease payments and depreciation/amortization expenses are as follows:

For the years ended February 20	Millions of Yen		Thousands of U.S. Dollars
	2011	2012	2012
Lease payments	¥1,090	¥898	\$11,292
Depreciation/amortization expenses	1,090	898	11,292

As Lessor:

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

As at February 20	Millions of Yen		Thousands of U.S. Dollars
	2011	2012	2012
Due within one year	¥104	¥104	\$1,313
Due after one year	1,829	1,724	21,672
<b>Total</b>	<b>¥1,934</b>	<b>¥1,829</b>	<b>\$22,986</b>



## 11. Financial Instruments

### 1. Overview

#### 1) Policy for financial instruments

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

#### 2) Types of financial instruments, risk and risk management

Trade notes and accounts receivable-trade are exposed to credit risk of customers. The Group manages its credit risk monitoring balances of customers to identify default risk of customers at an early stage.

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

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

Most notes and accounts payable-trade and income taxes payable are due within three months.

Short-term loans payable are obtained mainly for short-term working capital, and long-term loans payable are for long-term working capital. Certain long-term loans payable are exposed to interest rate fluctuation risk. However, the interest rate fluctuation risk is hedged by interest rate swap transactions.

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

#### 3) Supplementary explanation on fair value of financial instruments

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

### 2. Estimated fair value of financial instruments

The carrying value of the financial statements on the consolidated balance sheets as at February 20, 2011 and 2012, and estimated fair value are shown below. The following table does not include financial instruments for which it is extremely difficult to determine the fair value.

As at February 20, 2011	Millions of Yen		
	Carrying value	Estimated fair value	Difference
<b>Assets</b>			
(1) Cash and deposits	¥16,271	¥16,271	¥-
(2) Notes and accounts receivable-trade	8,660	8,660	-
(3) Investment securities	514	514	-
(4) Guarantee deposits	20,337	20,799	462
(5) Lease deposits	14,089	11,515	(2,573)
<b>Liabilities</b>			
(1) Notes and accounts payable-trade	¥13,335	¥13,335	¥-
(2) Short-term loans payable	30,500	30,500	-
(3) Accounts payable-other	10,731	10,731	-
(4) Income taxes payable	11,386	11,386	-
(5) Long-term loans payable, including current portion of long-term loans payable	10,900	10,931	31
Derivative transactions(*)	¥(1,206)	¥(1,206)	¥-

As at February 20, 2012	Millions of Yen		
	Carrying value	Estimated fair value	Difference
<b>Assets</b>			
(1) Cash and deposits	¥18,768	¥18,768	¥-
(2) Notes and accounts receivable-trade	8,776	8,776	-
(3) Investment securities	533	533	-
(4) Guarantee deposits	19,560	20,517	956
(5) Lease deposits	14,799	12,696	(2,103)
<b>Liabilities</b>			
(1) Notes and accounts payable-trade	¥11,690	¥11,690	¥-
(2) Short-term loans payable	22,263	22,263	-
(3) Accounts payable-other	8,972	8,972	-
(4) Income taxes payable	15,374	15,374	-
(5) Long-term loans payable, including current portion of long-term loans payable	7,773	7,799	25
Derivative transactions(*)	¥(322)	¥(322)	¥-

As at February 20, 2012	Thousands of U.S. Dollars		
	Carrying value	Estimated fair value	Difference
<b>Assets</b>			
(1) Cash and deposits	\$235,819	\$235,819	\$-
(2) Notes and accounts receivable-trade	110,265	110,265	-
(3) Investment securities	6,699	6,699	-
(4) Guarantee deposits	245,766	257,784	12,017
(5) Lease deposits	185,947	159,518	(26,429)
<b>Liabilities</b>			
(1) Notes and accounts payable-trade	\$146,880	\$146,880	\$-
(2) Short-term loans payable	279,730	279,730	-
(3) Accounts payable-other	112,735	112,735	-
(4) Income taxes payable	193,173	193,173	-
(5) Long-term loans payable, including current portion of long-term loans payable	97,675	97,991	315
Derivative transactions(*)	\$(4,050)	\$(4,050)	\$-

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

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

[Assets]

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

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

(3) Investment securities

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

(4) Guarantee deposits

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

(5) Lease deposits

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

(1) Notes and accounts payable-trade, (2) Short-term loans payable, (3) Accounts payable-other, (4) Income taxes payable  
The Company uses carrying value because they will be settled in the short term, meaning that carrying value approximate fair value.

(5) Long-term loans payable

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

For long-term loans payable with floating interest rates hedged by interest rate swaps subject to special treatment, the fair value is based on the present value of the total of principal and interest discounted by the rate applicable to similar new borrowings.

(Derivative transactions)

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

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

As at February 20	Millions of Yen		Thousands of U.S. Dollars
	2011	2012	2012
Unlisted stocks	<b>¥285</b>	<b>¥291</b>	<b>\$3,668</b>

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

3. Redemption schedule for monetary assets

As at February 20, 2011	Millions of Yen		
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years
Cash and deposits	<b>¥16,271</b>	<b>¥-</b>	<b>¥-</b>
Notes and accounts receivable-trade	<b>8,660</b>	-	-
<b>Total</b>	<b>¥24,932</b>	<b>¥-</b>	<b>¥-</b>

As at February 20, 2012	Millions of Yen		
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years
Cash and deposits	<b>¥18,768</b>	<b>¥-</b>	<b>¥-</b>
Notes and accounts receivable-trade	<b>8,776</b>	-	-
<b>Total</b>	<b>¥27,544</b>	<b>¥-</b>	<b>¥-</b>

As at February 20, 2012	Thousands of U.S. Dollars		
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years
Cash and deposits	<b>\$235,819</b>	<b>\$-</b>	<b>\$-</b>
Notes and accounts receivable-trade	<b>110,265</b>	-	-
<b>Total</b>	<b>\$346,085</b>	<b>\$-</b>	<b>\$-</b>

4. Redemption schedule for long-term loans payable and lease obligations

Refer to "Short-term and Long-term Loans Payable" (Note 21) in the Notes to Consolidated Financial Statements.

## 12. Securities

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

As at February 20, 2011	Millions of Yen		
	Carrying value	Acquisition cost	Unrealized Gain (Loss)
Securities whose carrying value exceeds their acquisition cost			
Stocks	<b>¥367</b>	<b>¥170</b>	<b>¥196</b>
Securities whose acquisition cost exceeds their carrying value			
Stocks	<b>147</b>	<b>152</b>	<b>(5)</b>
<b>Total</b>	<b>¥514</b>	<b>¥322</b>	<b>¥191</b>

Note: Unlisted stocks (¥285 million in the consolidated balance sheets) are not included in the above table because determining their fair values is extremely difficult.

As at February 20, 2012	Millions of Yen		
	Carrying value	Acquisition cost	Unrealized Gain (Loss)
Securities whose carrying value exceeds their acquisition cost			
Stocks	<b>¥435</b>	<b>¥175</b>	<b>¥259</b>
Securities whose acquisition cost exceeds their carrying value			
Stocks	<b>97</b>	<b>147</b>	<b>(49)</b>
<b>Total</b>	<b>¥533</b>	<b>¥322</b>	<b>¥210</b>

As at February 20, 2012	Thousands of U.S. Dollars		
	Carrying value	Acquisition cost	Unrealized Gain (Loss)
Securities whose carrying value exceeds their acquisition costs			
Stocks	<b>\$5,468</b>	<b>\$2,207</b>	<b>\$3,260</b>
Securities whose acquisition cost exceeds their carrying value			
Stocks	<b>1,230</b>	<b>1,847</b>	<b>(616)</b>
<b>Total</b>	<b>\$6,699</b>	<b>\$4,055</b>	<b>\$2,643</b>

Note: Unlisted stocks (¥291 million (\$3,668 thousand) in the consolidated balance sheets) are not included in the above table because determining their fair values is extremely difficult.

### 2) Sale of available-for-sale securities

Not applicable

### 3) Impairment of available for sale securities

For the years ended February 20	Millions of Yen		Thousands of U.S. Dollars
	2011	2012	2012
Impairment loss on available-for-sale securities	<b>¥4</b>	<b>¥56</b>	<b>\$705</b>

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

### 13. Derivatives

#### 1. Derivative transactions to which hedge accounting is not applied

As at February 20, 2011

Not applicable.

As at February 20, 2012

Millions of Yen

Transaction type	Notional amount	Notional amount maturing after 1 year	Fair value	Unrealized gain (loss)
Foreign exchange forward contract Buying U.S. dollars	<b>¥372</b>	<b>¥104</b>	<b>¥(102)</b>	<b>¥(102)</b>

As at February 20, 2012

Thousands of U.S. Dollars

Transaction type	Notional amount	Notional amount maturing after 1 year	Fair Value	Unrealized gain (loss)
Foreign exchange forward contract Buying U.S. dollars	<b>\$4,681</b>	<b>\$1,317</b>	<b>\$(1,287)</b>	<b>\$(1,287)</b>

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

#### 2. Derivative transactions to which hedge accounting is applied

##### 1) Currency-related transactions

As at February 20, 2011

Millions of Yen

Hedging method	Transaction type	Main hedged item	Notional amount	Notional amount maturing over 1 year	Fair value
Deferral method	Foreign exchange forward contract	Accounts payable-trade			
	Buying U.S. dollars		<b>¥39,487</b>	<b>¥-</b>	<b>¥(1,206)</b>

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

As at February 20, 2012

Millions of Yen

Hedging method	Transaction type	Main hedged item	Notional amount	Notional amount maturing over 1 year	Fair value
Deferral method	Foreign exchange forward contract	Accounts payable-trade			
	Buying U.S. dollars		<b>¥20,852</b>	<b>¥-</b>	<b>¥(219)</b>

As at February 20, 2012

Thousands of U.S. Dollars

Hedging method	Transaction type	Main hedged item	Notional amount	Notional amount maturing over 1 year	Fair value
Deferral method	Foreign exchange forward contract	Accounts payable-trade			
	Buying U.S. dollars		<b>\$261,996</b>	<b>\$-</b>	<b>\$(2,763)</b>

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

## 2) Interest-related transactions

As at February 20, 2011

			Millions of Yen		
Hedging method	Transaction type	Main hedged item	Notional amount	Notional amount maturing over 1 year	Fair value
Special treatment of interest rate swaps	Interest rate swap transaction Pay fixed/ Receive floating	Long-term loans payable	<b>¥2,920</b>	<b>¥2,240</b>	(Note)

As at February 20, 2012

			Millions of Yen		
Hedging method	Transaction type	Main hedged item	Notional amount	Notional amount maturing over 1 year	Fair value
Special treatment of interest rate swaps	Interest rate swap transaction Pay fixed/ Receive floating	Long-term loans payable	<b>¥2,740</b>	<b>¥1,810</b>	(Note)

As at February 20, 2012

			Thousands of U.S. Dollars		
Hedging method	Transaction type	Main hedged item	Notional Amount	Notional amount maturing over 1 year	Fair value
Special treatment of interest rate swaps	Interest rate swap transaction Pay fixed/ Receive floating	Long-term loans payable	<b>\$34,426</b>	<b>\$22,741</b>	(Note)

Note: Since accounting for interest rate swaps subject to special treatment are combined with the hedged long-term loans payable, their market values have been included in those of the corresponding long-term loans payable.

## 14. Retirement Benefits

### 1) Summary of Employees' Retirement Benefit Plans

The Company and certain consolidated subsidiaries have a defined benefit corporate pension plan, an employees' retirement lump-sum benefit plan and a defined contribution pension plan. The employees' retirement benefit plan provides for lump-sum payments to employees upon retirement determined by reference to their current rate of pay, length of service and the conditions under which termination occurs.

The Company and certain consolidated subsidiaries applied "Guidance on Accounting Standard for Transfers Between Retirement Benefit Plans" (ASBJ Guidance No.1) upon transferring their tax qualified pension plan to defined benefit corporate pension plan and also transferring their retirement lump-sum benefit plan to a defined contribution pension plan through revisions to the retirement plans on April 1, 2011.

### 2) Projected Benefit Obligations

As at February 20	Millions of Yen		Thousands of U.S. Dollars
	2011	2012	2012
Retirement benefit obligations	¥(4,357)	¥(3,273)	\$(41,124)
Plan assets at fair value	1,465	1,579	19,849
Unfunded retirement benefit obligation	(2,891)	(1,693)	(21,274)
Unrecognized actuarial loss	248	270	3,398
Unrecognized prior service cost	-	(320)	(4,029)
Provision for retirement benefits	¥(2,643)	¥(1,743)	\$(21,905)

### 3) Retirement Benefit Expenses for Employees

For the years ended February 20	Millions of Yen		Thousands of U.S. Dollars
	2011	2012	2012
Service cost	¥584	¥502	\$6,315
Interest cost	69	54	685
Expected return on plan assets	(24)	(29)	(368)
Amortization of actuarial loss	42	37	477
Amortization of prior service cost	-	(31)	(395)
Contribution of defined contribution pension plan	-	218	2,748
Retirement benefit expenses for employees	¥672	¥753	\$9,464

### 4) Assumptions and Policies Used to Calculate Projected Benefit Obligations

	2011	2012
Method of allocation of the projected benefit obligations to periods of service	Straight-line basis	<b>Straight-line basis</b>
Discount rate	2.0%	<b>2.0%</b>
Expected rates of return on plan assets	2.0%	<b>2.0%</b>
Amortization periods for prior service cost	-	<b>10 years</b>
Amortization periods for actuarial loss	10 years	<b>10 years</b>

Notes: 1. Unrecognized prior service costs are amortized over the specific periods, which is within the average of the estimated remaining service periods of employees.

2. Actuarial loss are amortized using the straight-line basis over the specific periods, which is within the average of the estimated remaining service periods. Amortization cost of the actual loss is recognized in the following year when incurred.

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## 15. Stock Options

For the years ended February 20, 2011 and 2012, the Group recognized expenses regarding stock options of ¥430 million and ¥149 million (\$1,874 thousand), respectively, which are included in selling, general and administrative expenses.

The stock options outstanding as of February 20, 2012 are as follows:

Resolution approved by annual general meeting of shareholders (May 16, 2008) and board of directors (March 17, 2009)

Grantees	Directors	9
	Company auditors	2
	Officers	9
	Employees	1,966
	Directors and employees of subsidiaries	94
	Quality/Technical advisers (External)	5
Type and number of shares	Common stock	362,500
Grant date	March 26, 2009	
Exercise conditions	None	
Intended service period	From March 26, 2009 to March 17, 2012	
Exercise period	From March 18, 2012 to March 17, 2014	

A summary of stock option activity during the fiscal year ended February 20, 2012 is as follows:

Resolution approved by annual general meeting of shareholders (May 16, 2008) and board of directors (March 17, 2009)

Non-vested (Shares)	
At the beginning of the year	340,600
Granted	-
Forfeited and expired	6,350
Vested	-
At the end of the year	334,250
Vested (Shares)	
At the beginning of the year	-
Vested	-
Exercised	-
Forfeited and expired	-
At the end of the year	-

The unit price information is as follows:

Resolution approved by annual general meeting of shareholders (May 16, 2008) and board of directors (March 17, 2009)

Exercise price – yen	¥5,912
(U.S. dollars)	(\$74.28)
Average stock price at exercise – yen	-
(U.S. dollars)	-
Fair value price on grant date – yen	¥1,294
(U.S. dollars)	(\$16.25)



## 16. Income Taxes

1) As at February 20, 2011 and 2012, the significant components of deferred tax assets and liabilities are as follows:

As at February 20	Millions of Yen		Thousands of U.S. Dollars
	2011	2012	2012
<b>Deferred tax assets</b>			
Accrued enterprise tax, business office tax	¥1,025	¥1,413	\$17,763
Accrued real estate acquisition tax	206	77	976
Provision for bonuses	685	751	9,438
Allowance for doubtful accounts	93	77	967
Unrealized gain on sales of inventories	214	176	2,218
Deferred losses on hedges	506	88	1,115
Provision for retirement benefits	1,047	600	7,542
Provision for directors' retirement benefits	96	89	1,120
Depreciation and amortization	1,979	1,917	24,092
Impairment loss and penalty for the scrap and build of outlets	762	694	8,720
Other	2,825	3,759	47,241
Sub total	9,444	9,646	121,198
Less: valuation allowance	(1,269)	(1,456)	(18,298)
Total deferred tax assets	8,173	8,189	102,899
<b>Deferred tax liabilities</b>			
Deferred gains on hedges	19	-	-
Unrealized holding gain on securities	77	91	1,152
Construction assistance fund receivables	177	180	2,272
Asset retirement cost related to asset retirement obligation	-	296	3,720
Other	2	2	35
Total deferred tax liabilities	276	571	7,180
Net deferred tax assets	¥7,898	¥7,618	\$95,715

2) Reversal of the amount of deferred tax assets and liabilities due to the change in the corporate tax rate

The "Act for Partial Revision of the Income Tax Act etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures" (Act No.114 of 2011) and the "Act for Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No.117 of 2011) were promulgated on December 2, 2011. The reduction of the corporate tax rate and a special reconstruction corporate tax will apply to corporate taxes effective fiscal years beginning on or after April 1, 2012. Therefore, the effective tax rate used to measure the Company's deferred tax assets and liabilities was changed from 40.69% to 38.01% for temporary differences expected to be utilized in fiscal years beginning February 20, 2013 to February 20, 2016 and from 38.01% to 35.64% for temporary differences expected to be utilized from fiscal years beginning February 21, 2016.

As a result of these changes in the tax rate, deferred tax assets (net of the amount of deferred tax liabilities) decreased by ¥748 million (\$9,407 thousand), and deferred income taxes increased by ¥761 million (\$9,571 thousand) as of and for the fiscal year ended February 20, 2012.

## 17. Investment and Rental Properties

The Company and certain consolidated subsidiaries hold rental properties such as commercial facilities 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 or certain consolidated subsidiaries use some of the floor space of these properties.

For the years ended February 20, 2011 and 2012, the carrying values, changes during the year, and fair values of those properties are as follows:

For the years ended February 20	2011	Millions of Yen	Thousands of U.S. Dollars
		2012	2012
<b>Rental property</b>			
Carrying value			
Balance at beginning of year	¥-	¥1,967	\$24,724
Increase (Decrease)	-	5,764	72,431
Balance at end of year	-	7,732	97,156
Fair value at end of year	-	7,751	97,398
<b>Real estate including spaces used as rental properties</b>			
Carrying value			
Balance at beginning of year	¥-	¥12,878	\$161,815
Increase (Decrease)	-	2,566	32,248
Balance at end of year	-	15,445	194,063
Fair value at end of year	-	11,478	144,225

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

2. Increase during the year ended February 20, 2012 was primarily attributable to newly acquired properties of ¥8,850 million (\$111,198 thousand) partially offset by depreciation expense of ¥564 million (\$7,097 thousand).

3. Fair values of the properties as of February 20, 2012 are calculated by the Company based on certain appraisal values and other indicators reflecting the market value.

For the years ended February 20, 2011 and 2012, income from rental properties is as follows:

For the years ended February 20	2011	Millions of Yen	Thousands of U.S. Dollars
		2012	2012
<b>Real estate including spaces used as rental properties</b>			
Income from rental properties	¥-	¥1,857	\$23,342
Cost of rental properties	-	1,062	13,345
Gross profit from rental properties	-	795	9,996

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

## 18. Segment Information

### For the year ended February 20, 2011

Business segment information is not disclosed because the proportion of net sales, operating income and assets derived from the home furnishings and interior goods sales business segment exceeded 90% of the total.

Geographic segment information is not disclosed because the proportion of net sales and total assets of the Japan operations exceeded 90% of the total.

Information on overseas sales is not disclosed because overseas sales constituted less than 10% of the consolidated net sales during the year.

### For the year ended February 20, 2012

#### (Additional Information)

Effective from the fiscal year ended February 20, 2012, the Group adopted "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No.17, March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No.20, March 21, 2008).

#### (Segment Information)

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

#### (Related Information)

##### 1) Information about products and services

Information about products and services is as follows:

For the year ended February 20, 2012	Millions of Yen		
	Home furnishings and interior goods	Other	Total
Sales to external customers	¥326,559	¥4,456	¥331,016

For the year ended February 20, 2012	Thousands of U.S. Dollars		
	Home furnishings and interior goods	Other	Total
Sales to external customers	\$4,103,024	\$55,991	\$4,159,015

##### 2) Information about geographic areas

###### a) Sales

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

###### b) Property, plant and equipment

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

##### 3) Information about major customers

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

#### (Information about Impairment Loss on Fixed Assets by Reportable Segment)

Not applicable.

#### (Information about Amortization and Unamortized Balances of Goodwill by Reportable Segment)

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

#### (Information about Gain on Negative Goodwill by Reportable Segment)

Not applicable.

## 19. Related Party Transactions

### 1. Related party transactions between the Company and related parties

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

For the year ended February 20, 2011								Amounts of Transaction		Balance at the end of the year
Category	Name	Address	Capital or Investment	Relationship	% of Voting Rights Held (held by Others)	Business Relationship	Nature of Transaction	Millions of Yen	Account	Millions of Yen
Close relative of Nitori directors	Mitsuko	-	-	Mother of representative director	(held by others) Direct 0.82	Building lease	Building lease	16	Lease deposits	¥28

For the year ended February 20, 2012								Amounts of Transaction		Balance at the end of the year		
Category	Name	Address	Capital or Investment	Relationship	% of Voting Rights Held (held by Others)	Business Relationship	Nature of Transaction	Millions of Yen	Thousands of U.S. Dollars	Account	Millions of Yen	Thousands of U.S. Dollars
Close relative of Nitori directors	Mitsuko	-	-	Mother of representative director	(held by others) Direct 0.40	Building lease	Building lease	¥16	\$203	Lease deposits	¥28	\$359

Notes: 1. The terms and prices of building lease transactions with Nitori Mitsuko are determined based on a similar transaction in a nearby area.

2. Amount of transaction does not include consumption taxes.

## 20. Amounts per Share

	Yen		U.S. Dollars
As at and for the years ended February 20	2011	2012	2012
Net assets per share of common stock	¥2,658.68	¥3,183.28	\$39.99
Basic net income per share of common stock	548.89	611.91	7.68
Diluted net income per share of common stock	548.26	611.19	7.67

Notes: Stocks held by Trust & Custody Services Bank, Ltd. on behalf of the J-ESOP are not included in the number of shares for the calculation of per share information.

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

#### 1) Basic net income per share

	Millions of Yen		Thousands of U.S. Dollars
For the years ended February 20	2011	2012	2012
Net income	¥30,822	¥33,548	\$421,517
Net income not attributable to ordinary shareholders	-	-	-
Net income attributable to ordinary shareholders	30,822	33,548	421,517
Average number of shares issued and outstanding during the period	56,155	54,826	

Notes: Stocks held by Trust & Custody Services Bank, Ltd. on behalf of the J-ESOP are not included in the number of shares for the calculation of per share information.

#### 2) Diluted net income per share

	Millions of Yen		Thousands of U.S. Dollars
For the years ended February 20	2011	2012	2012
Adjustment to net income	¥-	¥-	\$-
Increase in the number of common stock corresponding to share warrants	64	64	

#### 3) Summary of shares not included in the calculation of diluted net income per share due to their anti-dilutive effect

Not applicable.

## 21. Short-term and Long-term Loans Payable

Item	Balance at February 20, 2011		Balance at February 20, 2012	Average interest rate (%)	Repayment term
	Millions of Yen	Millions of Yen	Thousands of U.S. Dollars		
Short-term loans payable	<b>¥30,500</b>	<b>¥22,263</b>	<b>\$279,730</b>	0.18	—
Current portion of long-term loans payable	<b>5,478</b>	<b>3,660</b>	<b>45,986</b>	0.97	—
Current portion of lease obligations	<b>197</b>	<b>260</b>	<b>3,270</b>	-	—
Long-term loans payable (Excluding current portion)	<b>5,422</b>	<b>4,113</b>	<b>51,689</b>	0.92	2013–2016
Lease obligations (Excluding current portion)	<b>2,286</b>	<b>3,127</b>	<b>39,290</b>	-	2013–2031
<b>Total</b>	<b>¥43,883</b>	<b>¥33,425</b>	<b>\$419,967</b>	-	—

Note: 1 Average interest rates shows weighted-average interest rate on the balance of these items at February 20, 2012.

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

Maturities of long-term loans payable and lease obligations, excluding the current portion, due to be paid back within five years as of February 20, 2012 are as follows:

Long-term loans payable (excluding current portion)	Millions of Yen	Thousands of U.S. Dollars
Over 1 year less than 2 years	<b>¥3,063</b>	<b>\$38,485</b>
Over 2 years less than 3 years	<b>23</b>	<b>289</b>
Over 3 years less than 4 years	<b>1,023</b>	<b>12,853</b>
Over 4 years less than 5 years	<b>4</b>	<b>60</b>

Lease obligations (excluding current portion)	Millions of Yen	Thousands of U.S. Dollars
Over 1 year less than 2 years	<b>¥213</b>	<b>\$2,687</b>
Over 2 years less than 3 years	<b>177</b>	<b>2,225</b>
Over 3 years less than 4 years	<b>176</b>	<b>2,215</b>
Over 4 years less than 5 years	<b>176</b>	<b>2,215</b>

## 22. Asset Retirement Obligations

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

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## 23. Subsequent Event

### Issuance of stock subscription rights

At the board of directors meeting held on March 29, 2012, the Company decided the conditions for, based on the approval of the general shareholders meeting held on May 12, 2011, and issued stock subscription rights. The conditions of stock subscription rights are as follows:

1) Issuance date	April 2, 2012
2) Issuance subscription rights	13,891 (50shares per right)
3) Issuance price	Without compensation
4) Type and number of shares	694,550 shares of common stock
5) Exercise price	¥7,917 (\$99.47) per share
6) Total amount of issuance	¥5,498 million (\$69,088 thousand)
7) Exercise period	From March 30, 2015 to March 29, 2017
8) Grantees	Directors of the Company 4 (1,940 rights)
	Company auditors 2 (60 rights)
	Company officers 16 (450 rights)
	Directors of subsidiaries 5 (290 rights)
	Employees of subsidiaries 2,664 (11,151 rights)

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## Report of Independent Auditors

The Board of Directors  
Nitori Holdings Co., Ltd.

We have audited the accompanying consolidated balance sheets of Nitori Holdings Co., Ltd. and consolidated subsidiaries as of February 20, 2012 and 2011, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended and consolidated statement of comprehensive income for the year ended February 20, 2012, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nitori Holdings Co., Ltd. and consolidated subsidiaries at February 20, 2012 and 2011, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

### *Supplemental Information*

As described in Note 23, at the board of directors meeting held on March 29, 2012, the Company decided the conditions for and issued stock subscription rights.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended February 20, 2012 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

*Ernst & Young ShinNihon LLC*

May 11, 2012  
Tokyo Japan