

# Consolidated Financial Results for the Fiscal Year Ended February 29, 2016 [Japanese GAAP]

April 12, 2016

Company name: PAL CO., LTD.

Stock exchange listing: Tokyo Stock Exchange

Code number: 2726

URL: <http://palgroup.co.jp>

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Scheduled date of ordinary general meeting of shareholders: May 25, 2016

Scheduled date of commencing dividend payments: May 26, 2016

Scheduled date of filing securities report: May 30, 2016

Availability of supplementary briefing material on financial results: Not available

Schedule of financial results briefing session: Scheduled (for analysts and institutional investors)

(Amounts of less than one million yen are rounded down.)

## 1. Consolidated Financial Results for the Fiscal Year Ended February 29, 2016 (March 1, 2015 to February 29, 2016)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

|                                     | Net sales   |     | Operating income |        | Ordinary income |        | Net income  |        |
|-------------------------------------|-------------|-----|------------------|--------|-----------------|--------|-------------|--------|
|                                     | million yen | %   | million yen      | %      | million yen     | %      | million yen | %      |
| Fiscal year ended February 29, 2016 | 114,410     | 5.8 | 5,828            | (27.7) | 5,741           | (27.9) | 3,288       | (19.6) |
| Fiscal year ended February 28, 2015 | 108,089     | 8.1 | 8,066            | 35.1   | 7,963           | 32.4   | 4,092       | 40.6   |

(Note) Comprehensive income: Fiscal year ended February 29, 2016: ¥3,057 million [(25.6)%]

Fiscal year ended February 28, 2015: ¥4,106 million [50.1%]

|                                     | Basic earnings per share | Diluted earnings per share | Rate of return on equity | Ordinary income to total assets | Operating income to net sales |
|-------------------------------------|--------------------------|----------------------------|--------------------------|---------------------------------|-------------------------------|
|                                     | yen                      | yen                        | %                        | %                               | %                             |
| Fiscal year ended February 29, 2016 | 149.16                   | —                          | 9.3                      | 7.2                             | 5.1                           |
| Fiscal year ended February 28, 2015 | 186.04                   | —                          | 12.5                     | 10.7                            | 7.5                           |

(Reference) Equity in earnings of affiliates: Fiscal year ended February 29, 2016: ¥16 million

Fiscal year ended February 28, 2015: ¥21 million

## (2) Consolidated Financial Position

|                         | Total assets | Net assets  | Equity ratio | Net assets per share |
|-------------------------|--------------|-------------|--------------|----------------------|
|                         | million yen  | million yen | %            | yen                  |
| As of February 29, 2016 | 76,918       | 36,053      | 46.9         | 1,638.84             |
| As of February 28, 2015 | 82,023       | 36,316      | 41.8         | 1,559.51             |

(Reference) Equity: As of February 29, 2016: ¥36,053 million

As of February 28, 2015: ¥34,302 million

### (3) Consolidated Cash Flows

|  | Net cash provided by<br>(used in) operating<br>activities | Net cash provided by<br>(used in) investing<br>activities | Net cash provided by<br>(used in) financing<br>activities | Cash and cash<br>equivalents at end of<br>period |
|--|---|---|---|--|
|  | million yen   | million yen   | million yen   | million yen                                      |
| Fiscal year ended<br>February 29, 2016 | (1,308)   | (3,171)   | (3,849)   | 35,174   |
| Fiscal year ended<br>February 28, 2015 | 13,084  | (543)   | (1,297)   | 43,503   |

## 2. Dividends

|   | Annual dividends       |                        |                        |              |       | Total<br>dividends<br>paid<br>(annual) | Payout ratio<br>(consolidated) | Dividends to<br>net assets<br>(consolidated) |
|---|------------------------|------------------------|------------------------|--------------|-------|--|--------------------------------|--|
|   | 1st<br>quarter<br>-end | 2nd<br>quarter<br>-end | 3rd<br>quarter<br>-end | Year-<br>end | Total |  |                                |  |
|   | yen                    | yen                    | yen                    | yen          | yen   | million yen                            | %                              | %  |
| Fiscal year ended<br>February 28, 2015                | —                      | 0.00                   | —                      | 65.00        | 65.00 | 1,429                                  | 34.9                           | 4.4  |
| Fiscal year ended<br>February 29, 2016                | —                      | 0.00                   | —                      | 70.00        | 70.00 | 1,539                                  | 46.9                           | 4.4  |
| Fiscal year ending<br>February 28, 2017<br>(Forecast) | —                      | 0.00                   | —                      | 70.00        | 70.00 |  | 34.8                           |  |

### 3. Consolidated Financial Results Forecast for the Fiscal Year Ending February 28, 2017 (March 1, 2016 to February 28, 2017)

(% indicates changes from the previous corresponding period.)

|            | Net sales   |     | Operating<br>income |      | Ordinary income |      | Net income<br>attributable to<br>owners of parent |      | Basic earnings<br>per share |
|------------|-------------|-----|---------------------|------|-----------------|------|---|------|-----------------------------|
|            | million yen | %   | million yen         | %    | million yen     | %    | million yen                                       | %    | yen                         |
| First half | 58,650      | 5.3 | 3,730               | 14.9 | 3,590           | 11.9 | 2,030   | 7.2  | 92.28                       |
| Full year  | 121,490     | 6.2 | 7,940               | 36.2 | 7,650           | 33.3 | 4,420   | 34.4 | 200.92                      |

#### \* Notes

(1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Changes in accounting policies, changes in accounting estimates and corrections of errors

1) Changes in accounting policies due to the revision of accounting standards: Yes

2) Any changes other than 1) above: No

3) Changes in accounting estimates: No

4) Corrections of errors: No

(3) Total number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):

|                         |                   |
|-------------------------|-------------------|
| As of February 29, 2016 | 23,136,000 shares |
| As of February 28, 2015 | 23,136,000 shares |

2) Total number of treasury shares at the end of the period:

|                         |                  |
|-------------------------|------------------|
| As of February 29, 2016 | 1,136,731 shares |
| As of February 28, 2015 | 1,140,318 shares |

3) Average number of shares during the period:

|                                     |                   |
|-------------------------------------|-------------------|
| Fiscal year ended February 29, 2016 | 22,048,289 shares |
| Fiscal year ended February 28, 2015 | 21,995,861 shares |

(Reference) Summary of Non-consolidated Financial Results

**1. Non-consolidated Financial Results for the Fiscal Year Ended February 29, 2016 (March 1, 2015 to February 29, 2016)**

(1) Non-consolidated Operating Results (% indicates changes from the previous corresponding period.)

|                                     | Net sales   |     | Operating income |        | Ordinary income |        | Net income  |        |
|-------------------------------------|-------------|-----|------------------|--------|-----------------|--------|-------------|--------|
|                                     | million yen | %   | million yen      | %      | million yen     | %      | million yen | %      |
| Fiscal year ended February 29, 2016 | 95,315      | 5.7 | 6,137            | (21.7) | 6,077           | (21.6) | 3,342       | (19.4) |
| Fiscal year ended February 28, 2015 | 90,181      | 9.6 | 7,839            | 23.5   | 7,751           | 20.5   | 4,145       | 23.1   |

|                                     | Basic earnings per share | Diluted earnings per share |
|-------------------------------------|--------------------------|----------------------------|
|                                     | yen                      | yen                        |
| Fiscal year ended February 29, 2016 | 151.58                   | —                          |
| Fiscal year ended February 28, 2015 | 188.48                   | —                          |

(2) Non-consolidated Financial Position

|                         | Total assets | Net assets  | Equity ratio | Net assets per share |
|-------------------------|--------------|-------------|--------------|----------------------|
|                         | million yen  | million yen | %            | yen                  |
| As of February 29, 2016 | 67,647       | 34,646      | 51.2         | 1,574.89             |
| As of February 28, 2015 | 71,543       | 32,710      | 45.7         | 1,487.15             |

(Reference) Equity: As of February 29, 2016: ¥34,646 million

As of February 28, 2015: ¥32,710 million

**2. Non-consolidated Financial Results Forecast for the Fiscal Year Ending February 28, 2017 (March 1, 2016 to February 28, 2017)**

(% indicates changes from the previous corresponding period.)

|            | Net sales   |     | Ordinary income |      | Net income  |      | Basic earnings per share |
|------------|-------------|-----|-----------------|------|-------------|------|--------------------------|
|            | million yen | %   | million yen     | %    | million yen | %    | yen                      |
| First half | 48,700      | 5.0 | 3,530           | 5.6  | 2,100       | 23.0 | 95.46                    |
| Full year  | 101,060     | 6.0 | 7,340           | 20.8 | 4,380       | 31.1 | 199.10                   |

\* Presentation regarding the implementation status of the audit process

These consolidated financial results for the fiscal year ended February 29, 2016 are not covered by the audit procedure stipulated in the Financial Instruments and Exchange Act. At the time of the publication of these financial results, the audit procedure for financial statements has not been completed.

\* Explanation of the proper use of financial results forecast and other notes

The statements regarding financial results forecast in this report are based on the information that is available, as well as estimates, assumptions and projections that are believed to be reasonable at the time of publication. Therefore, there might be cases in which actual results differ from forecast values. For the premises of financial results forecast and the notes concerning the use of financial results forecast, please refer to “Analysis of Operating Results” on page 2 of the Appendix to this report.

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## 1. Analysis of Operating Results and Financial Position

### (1) Analysis of Operating Results

#### 1) Overview for the Fiscal Year Ended February 29, 2016

During the fiscal year ended February 29, 2016, the Japanese economy continued on a gradual recovery track driven partially by the economic stimulus policies by the government. However, consumer spending continued to be sluggish.

Under such a business environment, the Corporate Group made every effort to expand its operations and improve management efficiency by proactively keeping its business conditions entrenched and promoting the opening of new stores, while at the same time revitalizing existing stores by switching businesses and withdrawing unprofitable stores.

In the Apparel Business, the Group conducted proactive brand promotions while further pressing ahead with the reform of merchandising (MD) and improving the freshness of merchandise through agile introduction of items in stores, as well as the opening of 82 new stores. As a result, net sales increased by 3.3% year on year to ¥86,197 million.

In the Miscellaneous Goods/Accessories Business, we opened 45 new stores in response to robust demand for opening stores reflecting our rising visibility. As a result, net sales steadily continued to increase by 14.6% year on year to ¥28,073 million.

As a result of the above, net sales of the Corporate Group for the fiscal year ended February 29, 2016 increased by 5.8% year on year to ¥114,410 million.

In terms of profit, the gross profit margin decreased by 1.5 points year on year to 54.9% despite the further reform of merchandising (MD), etc. Additionally, in terms of selling, general and administrative expenses, SG&A ratio increased by 0.9 points year on year to 49.8% due to factors such as increases in rent expenses according to the increases in net sales and the opening of new stores.

As a result, operating income decreased by 27.7% year on year to ¥5,828 million, and ordinary income decreased by 27.9% year on year to ¥5,741 million. While a total amount of extraordinary income of ¥552 million was recorded, including gain on bargain purchase following the share exchange to make NICE CLAUP Co., LTD. a wholly owned subsidiary, a total amount of extraordinary losses of ¥816 million was recorded, including ¥230 million in loss on retirement of non-current assets due to the withdrawal of stores and the change in businesses, and ¥560 million as impairment loss. As a result, net income decreased by 19.6% year on year to ¥3,288 million.

#### 2) Sales Results by Segment for the Fiscal Year Ended February 29, 2016

| Segment                                  | Amount (million yen) | Changes from the previous fiscal year (%) |
|--|----------------------|---|
| Apparel Business                         | 86,197               | 103.3                                     |
| Miscellaneous Goods/Accessories Business | 28,073               | 114.6                                     |
| Other                                    | 139                  | 105.1                                     |
| Total                                    | 114,410              | 105.8                                     |

3) Status of Stores for the Fiscal Year Ended February 29, 2016 (March 1, 2015 to February 29, 2016)

|  |            |
|--|------------|
| Number of stores as of February 28, 2015 | 833 stores |
| Number of new stores                     | 127 stores |
| Number of closed stores                  | 61 stores  |
| Number of stores as of February 29, 2016 | 899 stores |

4) Outlook for Fiscal 2016

As for the outlook for fiscal 2016, the Company predicts increases in both sales and profits, expecting net sales to increase by 6.2% year on year to ¥121,490 million, operating income to increase by 36.2% year on year to ¥7,940 million, ordinary income to increase by 33.3% year on year to ¥7,650 million and net income to increase 34.4% year on year to ¥4,420 million.

(2) Analysis of Financial Position

1) Status of Assets, Liabilities and Net Assets

(Assets)

Current assets decreased by ¥7,305 million compared with the end of the previous fiscal year, due mainly to a decrease in cash and deposits by ¥8,328 million, despite an increase in merchandise and finished goods by ¥1,447 million.

Non-current assets increased by ¥2,201 million compared with the end of the previous fiscal year, due primarily to increases in buildings by ¥1,078 million and in guarantee deposits by ¥637 million.

(Liabilities)

Current liabilities decreased by ¥5,132 million compared with the end of the previous fiscal year, due mainly to decreases in income taxes payable by ¥1,703 million and notes and accounts payable - trade by ¥3,019 million, despite an increase in short-term loans payable by ¥1,058 million.

Non-current liabilities increased by ¥291 million compared with the end of the previous fiscal year, due primarily to an increase in long-term loans payable by ¥477 million, despite a decrease in long-term accounts payable - other by ¥644 million..

(Net assets)

Net assets decreased by ¥263 million compared with the end of the previous fiscal year, due mainly to decreases in treasury shares by ¥940 million and minority interests by ¥2,014 million, despite increases in capital surplus by ¥1,090 million and retained earnings by ¥1,832 million.

2) Status of Cash Flows

Cash and cash equivalents (hereinafter “cash”) at the end of the fiscal year ended February 29, 2016 decreased by ¥8,328 million compared with the end of the previous fiscal year to ¥35,174 million, due mainly to cash used in financing activities in the amount of ¥3,849 million.

Cash flows for the fiscal year ended February 29, 2016 are as follows.

(Net cash provided by (used in) operating activities)

While cash provided by operating activities was ¥13,084 million for the previous fiscal year, cash used in operating activities amounted to ¥1,308 million for the fiscal year ended February 29, 2016, due mainly to increases in notes and accounts payable – trade and inventories.

(Net cash provided by (used in) investing activities)

While cash used in investing activities was ¥543 million for the previous fiscal year, cash used in investing activities amounted to ¥3,171 million for the fiscal year ended February 29, 2016, due mainly to purchase of property, plant and equipment of ¥2,111 million.

(Net cash provided by (used in) financing activities)

While cash used in financing activities was ¥1,297 million for the previous fiscal year, cash used in financing activities amounted to ¥3,849 million for the fiscal year ended February 29, 2016, due mainly to cash dividends paid of ¥1,429 million and repayments of installment payables of ¥1,643 million.

(Reference) Cash flow-related indicators

|   | Fiscal year ended<br>February 29,<br>2012 | Fiscal year ended<br>February 28,<br>2013 | Fiscal year ended<br>February 28,<br>2014 | Fiscal year ended<br>February 28,<br>2015 | Fiscal year ended<br>February 29,<br>2016 |
|---|---|---|---|---|---|
| Equity ratio (%)                                    | 42.1                                      | 46.3                                      | 47.2                                      | 41.8                                      | 46.9                                      |
| Equity ratio<br>based on market<br>value (%)        | 59.5                                      | 72.3                                      | 59.4                                      | 87.2                                      | 73.0                                      |
| Interest-bearing<br>debt to cash<br>flows ratio (%) | 140.6                                     | 213.3                                     | 208.5                                     | 85.1                                      | —   |
| Interest-<br>coverage ratio<br>(times)              | 74.0                                      | 44.8                                      | 40.7                                      | 102.0                                     | —   |

Equity ratio: Equity / Total assets

Equity ratio based on market value: Market capitalization of shares / Total assets

Interest-bearing debt to cash flows ratio: Interest-bearing debt / Operating cash flows

Interest-coverage ratio: Operating cash flows / Interest payments

(Note) For the fiscal year ended February 29, 2016, the description of interest-bearing debt to cash flows ratio and interest-coverage ratio has been omitted as the operating cash flows were negative.

### (3) Basic Policy for Distribution of Profit and Dividends for Fiscal 2015 and Fiscal 2016

The Company considers the returning of profits to shareholders to be one of its most important management policies. The Company's basic policy is to reinforce and maintain the stability of its corporate structure by securing necessary profits from the expansion of its business as well as enhancing its internal reserves, thereby ensuring the continuance of long-term and stable payment of dividends to its shareholders.

For Fiscal 2015, the Company expects to pay an annual dividend of ¥70 per share, which is ¥5 higher than that of the previous fiscal year. For Fiscal 2016, the Company also expects to pay ¥70 per share.

### (4) Risks Factors

#### 1. Changes in fashion trends

Generally, fashion trends constantly undergo changes according to what is currently in vogue, thus as a member of the fashion apparel industry, it is difficult for the Corporate Group to eliminate the effects of

such trends on its performance. Moreover, competition with rival companies on the youth market, which makes up its main customers, is becoming increasingly intense.

The Corporate Group, by developing multiple brands, covers a broad range of fashion, and by holding weekly meetings of store managers by each business division and examining sales and inventory trends etc., it is making efforts to plan products and conduct purchasing reflecting what is currently in vogue.

## 2. Expansion policy

### 1) Expansion by renting space as a tenant

The Corporate Group expands its stores primarily by renting space in station buildings and commercial complexes as tenants. It follows this policy in order to ensure sales capacity by opening stores in station buildings and other locations, which draw large volumes of customers, and also to minimize the risk of holding excess noncurrent assets and facilities when practicing its policy of “scrap and build” through the timely opening and closing of stores in response to the changes in the surrounding environment and customer flow.

Going forward, the Corporate Group will continue to pursue its policy of proactive expansion mainly by renting space in station buildings and commercial complexes as tenants, while maintaining its store brand.

Additionally, the Corporate Group makes efforts to expand in an efficient manner by comprehensively taking into account the rent, the demographics of the trade area, and especially in the case of apparel, whether the potential store will be attractive to young people, its main customers, when selecting sites for new stores. If the Corporate Group fails to secure a satisfactory number of attractive store sites, it could lead to the scaling down of the number of stores, in addition to impacting the Corporate Group’s performance due to such factors as the number of stores, their locations and the timing of their opening.

Furthermore, as guarantee deposits are paid when renting space as tenants, guarantee deposits accounted for 17.4% of the total assets as of February 29, 2016. Although the Corporate Group mostly opens stores in the buildings of major developers, the Corporate Group is exposed to the risk of not being able to collect these guarantee deposits, in whole or in part, due to bankruptcy or other reasons pertaining to the lessor.

### 2) Costs associated with scrap and build

The Corporate Group captures changes in fashion trends accurately and in a timely manner and develops new businesses accordingly, while at the same time, actively reviews its outdated businesses. Generally in the retail industry, sales of existing stores tend to decline after their initial opening with the passage of time. Consequently, the Corporate Group is constantly making efforts to revitalize its stores as a whole by proactively practicing scrap and build including the opening of new stores, reviewing the product line-up at existing stores, changing the types of business, and closing stores, when necessary. The Corporate Group recognizes such costs associated with the rebuilding of its business will arise in the same manner as necessary expenses.

## 3. Management of customer information

Although the Corporate Group takes every precaution in managing its customer information, should such information be leaked, it could have an adverse impact on its performance as a result of a decline in the Corporate Group’s credibility, among others.

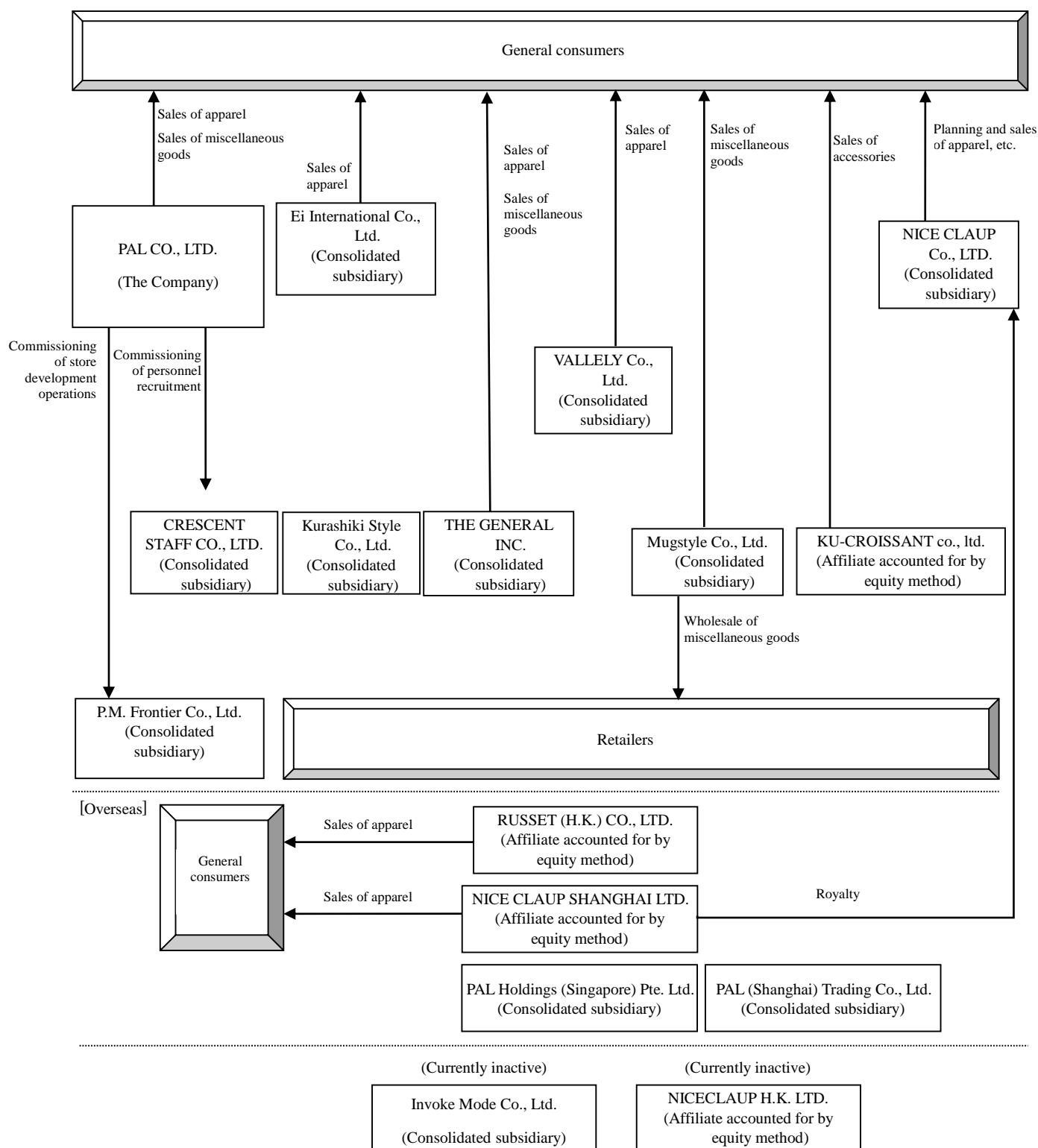


(5) Significant Events Relating to Going Concern Assumption  
Not applicable.

## 2. Corporate Group Overview

As of the end of the fiscal year ended February 29, 2016, the Corporate Group comprised the Company, 11 consolidated subsidiaries, three affiliates and one non-consolidated subsidiary. The Corporate Group is mainly engaged in the in-store sales of apparel to the general consumer, in addition to the sales of miscellaneous goods and other businesses.

An outline of the Corporate Group's businesses is as follows.



- (Notes) 1 NICECLAUP H.K. LTD., an affiliate accounted for by equity method, has suspended operations since September 2008.
- 2 Invoke Mode Co., Ltd., a consolidated subsidiary, has suspended operations since January 2011.
- 3 Kurashiki Style Co., Ltd., a consolidated subsidiary, and PAL (Shanghai) Trading Co., Ltd., a consolidated subsidiary were established during the fiscal year ended February 29, 2016.
- 4 RUSSET (H.K.) CO., LTD., an affiliate accounted for by equity method, was dissolved during the fiscal year ended February 29, 2016.

### 3. Management Policy

#### (1) Basic Management Policy of the Company

The Company's motto is "To contribute to society by constantly proposing new fashionable ways of life." To this end, we have made it our basic policy to grow and win the trust of not only our customers, but also shareholders, business partners, and the society in every aspect of our business including our products, services, sales technique, financial constitution and the quality of our employees.

#### (2) Targeted Management Indicators

The Company aims to reinforce its corporate foundations and enhance its high-profit company structure, while engaging in corporate management based on the ROE (Return on Equity) as its key indicator.

#### (3) The Company's Medium- to Long-term Management Strategies and Issues to be Addressed

The Corporate Group will make every effort 1) to pursue both price appeal and profitability by promoting the supply of products of high-sensitivity and high profit margins in line with globalization of production, while 2) ensuring the optimal allocation of management resources by promoting greater efficiency in staff assignments and store management. The Corporate Group also intends 3) to engage in companywide activities in order to improve Customer Satisfaction (CS) and win the support of its customers.

Additionally, 4) under the theme of "Let's become top notch," the approximately 50 brands of the Corporate Group have set their own targets in accordance with their individual brand concepts and are striving to further improve operating efficiency in terms of sales and profits, etc., in addition to implementing various measures in order to become "top notch" in brand image and CS.

Through the implementation of the above measures, the Corporate Company intends to expand its management base and aim for stable growth.

### 4. Rationale behind the Choice of Accounting Standards

To sustain comparability of consolidated financial statements between periods as well as between companies, the Company prepares consolidated financial statements under the Japanese GAAP.

We will appropriately respond to the application of the International Financial Reporting Standards (IFRS) considering various circumstances in Japan and overseas.

## 5. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

(Millions of yen)

|  | As of February 28, 2015 | As of February 29, 2016 |
|--|-------------------------|-------------------------|
| <b>Assets</b>                          |                         |                         |
| Current assets                         |                         |                         |
| Cash and deposits                      | 43,503                  | 35,174                  |
| Notes and accounts receivable - trade  | 5,603                   | 5,138                   |
| Merchandise and finished goods         | 7,701                   | 9,149                   |
| Raw materials and supplies             | 6                       | 11                      |
| Deferred tax assets                    | 580                     | 499                     |
| Other                                  | 589                     | 704                     |
| Allowance for doubtful accounts        | (3)                     | (1)                     |
| Total current assets                   | 57,981                  | 50,675                  |
| Non-current assets                     |                         |                         |
| Property, plant and equipment          |                         |                         |
| Buildings and structures               | 11,819                  | 13,449                  |
| Accumulated depreciation               | (4,833)                 | (5,384)                 |
| Buildings and structures, net          | 6,986                   | 8,064                   |
| Machinery, equipment and vehicles      | 14                      | 14                      |
| Accumulated depreciation               | (11)                    | (12)                    |
| Machinery, equipment and vehicles, net | 2                       | 1                       |
| Land                                   | 723                     | 779                     |
| Leased assets                          | 2,315                   | 2,359                   |
| Accumulated depreciation               | (903)                   | (943)                   |
| Leased assets, net                     | 1,412                   | 1,415                   |
| Other                                  | 262                     | 435                     |
| Accumulated depreciation               | (175)                   | (203)                   |
| Other, net                             | 86                      | 231                     |
| Total property, plant and equipment    | 9,211                   | 10,493                  |
| Intangible assets                      | 201                     | 315                     |
| Investments and other assets           |                         |                         |
| Investment securities                  | 843                     | 773                     |
| Guarantee deposits                     | 12,750                  | 13,388                  |
| Deferred tax assets                    | 513                     | 716                     |
| Other                                  | 641                     | 614                     |
| Allowance for doubtful accounts        | (119)                   | (58)                    |
| Total investments and other assets     | 14,628                  | 15,433                  |
| Total non-current assets               | 24,041                  | 26,242                  |
| Total assets                           | 82,023                  | 76,918                  |

(Millions of yen)

|   | As of February 28, 2015 | As of February 29, 2016 |
|---|-------------------------|-------------------------|
| <b>Liabilities</b>                                    |                         |                         |
| Current liabilities                                   |                         |                         |
| Notes and accounts payable - trade                    | 18,207                  | 15,188                  |
| Short-term loans payable                              | 1,459                   | 2,518                   |
| Current portion of long-term loans payable            | 2,725                   | 2,270                   |
| Accrued expenses                                      | 2,143                   | 2,039                   |
| Income taxes payable                                  | 2,363                   | 660                     |
| Provision for bonuses                                 | 1,122                   | 1,001                   |
| Provision for directors' bonuses                      | 281                     | 68                      |
| Provision for sales returns                           | 0                       | 0                       |
| Other   | 4,293                   | 3,716                   |
| Total current liabilities                             | 32,596                  | 27,463                  |
| Non-current liabilities                               |                         |                         |
| Long-term loans payable                               | 6,954                   | 7,432                   |
| Net defined benefit liability                         | 541                     | 736                     |
| Provision for directors' retirement benefits          | 115                     | 119                     |
| Provision for loss on guarantees                      | 71                      | 90                      |
| Long-term accounts payable - other                    | 2,856                   | 2,212                   |
| Lease obligations                                     | 1,092                   | 1,104                   |
| Asset retirement obligations                          | 1,424                   | 1,638                   |
| Deferred tax liabilities                              | 10                      | 13                      |
| Other   | 43                      | 54                      |
| Total non-current liabilities                         | 13,110                  | 13,401                  |
| Total liabilities                                     | 45,706                  | 40,865                  |
| <b>Net assets</b>                                     |                         |                         |
| Shareholders' equity                                  |                         |                         |
| Capital stock   | 3,181                   | 3,181                   |
| Capital surplus                                       | 3,379                   | 4,469                   |
| Retained earnings                                     | 28,563                  | 30,396                  |
| Treasury shares                                       | (1,146)                 | (2,087)                 |
| Total shareholders' equity                            | 33,977                  | 35,960                  |
| Accumulated other comprehensive income                |                         |                         |
| Valuation difference on available-for-sale securities | 261                     | 138                     |
| Foreign currency translation adjustment               | 6                       | 1                       |
| Remeasurements of defined benefit plans               | 56                      | (47)                    |
| Total accumulated other comprehensive income          | 324                     | 92                      |
| Minority interests                                    | 2,014                   | —                       |
| Total net assets                                      | 36,316                  | 36,053                  |
| <b>Total liabilities and net assets</b>               | <b>82,023</b>           | <b>76,918</b>           |

## (2) Consolidated Statements of Income and Comprehensive Income

## Consolidated Statements of Income

(Millions of yen)

|   | Fiscal year ended<br>February 28, 2015 | Fiscal year ended<br>February 29, 2016 |
|---|--|--|
| Net sales   | 108,089                                | 114,410                                |
| Cost of sales   | 47,145                                 | 51,558                                 |
| Gross profit  | 60,944                                 | 62,852                                 |
| Provision for sales returns                                   | (0)                                    | (0)                                    |
| Gross profit - net  | 60,944                                 | 62,852                                 |
| Selling, general and administrative expenses                  |  |  |
| Advertising and promotion expenses                            | 2,394                                  | 2,685                                  |
| Transportation and warehousing expenses                       | 2,738                                  | 3,023                                  |
| Provision of allowance for doubtful accounts                  | (0)                                    | (5)                                    |
| Salaries, allowances and bonuses                              | 15,628                                 | 16,886                                 |
| Provision for bonuses   | 1,122                                  | 1,001                                  |
| Provision for directors' bonuses                              | 281                                    | 68                                     |
| Retirement benefit expenses                                   | 45                                     | 54                                     |
| Provision for directors' retirement benefits                  | 3                                      | 3                                      |
| Welfare expenses  | 2,752                                  | 3,031                                  |
| Rent expenses   | 18,109                                 | 19,348                                 |
| Lease expenses  | 209                                    | 197                                    |
| Other   | 9,592                                  | 10,728                                 |
| Total selling, general and administrative expenses            | 52,877                                 | 57,023                                 |
| Operating income  | 8,066                                  | 5,828                                  |
| Non-operating income  |  |  |
| Interest income   | 11                                     | 2                                      |
| Rent income   | 10                                     | 6                                      |
| Share of profit of entities accounted for using equity method | 21                                     | 16                                     |
| Amortization of negative goodwill                             | 9                                      | —                                      |
| Reversal of allowance for doubtful accounts                   | 37                                     | —                                      |
| Foreign exchange gains  | —                                      | 5                                      |
| Compensation income   | —                                      | 17                                     |
| Other   | 40                                     | 59                                     |
| Total non-operating income                                    | 132                                    | 107                                    |
| Non-operating expenses  |  |  |
| Interest expenses   | 128                                    | 148                                    |
| Loss on investments in partnership                            | 9                                      | 2                                      |
| Provision for loss on guarantees                              | 71                                     | 19                                     |
| Other   | 25                                     | 25                                     |
| Total non-operating expenses                                  | 235                                    | 195                                    |
| Ordinary income   | 7,963                                  | 5,741                                  |
| Extraordinary income  |  |  |
| Gain on sales of non-current assets                           | 15                                     | —                                      |
| Gain on bargain purchase                                      | —                                      | 552                                    |
| Total extraordinary income                                    | 15                                     | 552                                    |

(Millions of yen)

|   | Fiscal year ended<br>February 28, 2015 | Fiscal year ended<br>February 29, 2016 |
|---|--|--|
| Extraordinary losses                              |  |  |
| Loss on retirement of non-current assets          | 197                                    | 230                                    |
| Loss on cancellation of leases                    | 6                                      | 17                                     |
| Impairment loss                                   | 350                                    | 560                                    |
| Loss on valuation of investment securities        | 100                                    | —                                      |
| Other   | 8                                      | 6                                      |
| Total extraordinary losses                        | 664                                    | 816                                    |
| Income before income taxes and minority interests | 7,313                                  | 5,477                                  |
| Income taxes - current                            | 3,358                                  | 2,192                                  |
| Income taxes - deferred                           | (140)                                  | (7)                                    |
| Total income taxes                                | 3,217                                  | 2,185                                  |
| Income before minority interests                  | 4,095                                  | 3,292                                  |
| Minority interests in income                      | 3                                      | 3                                      |
| Net income  | 4,092                                  | 3,288                                  |



# Consolidated Statements of Comprehensive Income

(Millions of yen)

|   | Fiscal year ended<br>February 28, 2015 | Fiscal year ended<br>February 29, 2016 |
|---|--|--|
| Income before minority interests  | 4,095                                  | 3,292                                  |
| Other comprehensive income  |  |  |
| Valuation difference on available-for-sale securities                             | 9                                      | (120)                                  |
| Remeasurements of defined benefit plans, net of tax                               | —                                      | (108)                                  |
| Foreign currency translation adjustment   | —                                      | (3)                                    |
| Share of other comprehensive income of entities accounted for using equity method | 1                                      | (1)                                    |
| Total other comprehensive income  | 10                                     | (234)                                  |
| Comprehensive income  | 4,106                                  | 3,057                                  |
| Comprehensive income attributable to  |  |  |
| Comprehensive income attributable to owners of parent                             | 4,099                                  | 3,056                                  |
| Comprehensive income attributable to minority interests                           | 7                                      | 0                                      |

(3) Consolidated Statements of Changes in Net Assets  
Fiscal year ended February 28, 2015

(Millions of yen)

|  | Shareholders' equity |                 |                   |                 |                            |
|--|----------------------|-----------------|-------------------|-----------------|----------------------------|
|  | Capital stock        | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of current period               | 3,181                | 3,379           | 25,571            | (1,145)         | 30,986                     |
| Cumulative effects of changes in accounting policies |                      |                 |                   |                 | —                          |
| Restated balance                                     | 3,181                | 3,379           | 25,571            | (1,145)         | 30,986                     |
| Changes of items during period                       |                      |                 |                   |                 |                            |
| Dividends of surplus                                 |                      |                 | (1,099)           |                 | (1,099)                    |
| Net income   |                      |                 | 4,092             |                 | 4,092                      |
| Purchase of treasury shares                          |                      |                 |                   | (1)             | (1)                        |
| Disposal of treasury shares                          |                      |                 |                   |                 | —                          |
| Net changes of items other than shareholders' equity |                      |                 |                   |                 |                            |
| Total changes of items during period                 | —                    | —               | 2,992             | (1)             | 2,991                      |
| Balance at end of current period                     | 3,181                | 3,379           | 28,563            | (1,146)         | 33,977                     |

(Millions of yen)

|  | Accumulated other comprehensive income                |   |   |  | Minority interests | Total net assets |
|--|---|---|---|--|--------------------|------------------|
|  | Valuation difference on available-for-sale securities | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income |                    |                  |
| Balance at beginning of current period               | 254   | 5                                       | —                                       | 260  | 1,984              | 33,231           |
| Cumulative effects of changes in accounting policies |   |   |   |  |                    | —                |
| Restated balance                                     | 254   | 5                                       | —                                       | 260  | 1,984              | 33,231           |
| Changes of items during period                       |   |   |   |  |                    |                  |
| Dividends of surplus                                 |   |   |   |  |                    | (1,099)          |
| Net income   |   |   |   |  |                    | 4,092            |
| Purchase of treasury shares                          |   |   |   |  |                    | (1)              |
| Disposal of treasury shares                          |   |   |   |  |                    | —                |
| Net changes of items other than shareholders' equity | 6   | 1                                       | 56                                      | 64   | 29                 | 93               |
| Total changes of items during period                 | 6   | 1                                       | 56                                      | 64   | 29                 | 3,085            |
| Balance at end of current period                     | 261   | 6                                       | 56                                      | 324  | 2,014              | 36,316           |

Fiscal year ended February 29, 2016

(Millions of yen)

|  | Shareholders' equity |                 |                   |                 |                            |
|--|----------------------|-----------------|-------------------|-----------------|----------------------------|
|  | Capital stock        | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of current period               | 3,181                | 3,379           | 28,563            | (1,146)         | 33,977                     |
| Cumulative effects of changes in accounting policies |                      |                 | (26)              |                 | (26)                       |
| Restated balance                                     | 3,181                | 3,379           | 28,537            | (1,146)         | 33,951                     |
| Changes of items during period                       |                      |                 |                   |                 |                            |
| Dividends of surplus                                 |                      |                 | (1,429)           |                 | (1,429)                    |
| Net income   |                      |                 | 3,288             |                 | 3,288                      |
| Purchase of treasury shares                          |                      |                 |                   | (1,283)         | (1,283)                    |
| Disposal of treasury shares                          |                      | 1,090           |                   | 343             | 1,433                      |
| Net changes of items other than shareholders' equity |                      |                 |                   |                 |                            |
| Total changes of items during period                 | —                    | 1,090           | 1,859             | (940)           | 2,008                      |
| Balance at end of current period                     | 3,181                | 4,469           | 30,396            | (2,087)         | 35,960                     |

(Millions of yen)

|  | Accumulated other comprehensive income                |   |   |  | Minority interests | Total net assets |
|--|---|---|---|--|--------------------|------------------|
|  | Valuation difference on available-for-sale securities | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income |                    |                  |
| Balance at beginning of current period               | 261   | 6                                       | 56                                      | 324  | 2,014              | 36,316           |
| Cumulative effects of changes in accounting policies |   |   |   |  |                    | (26)             |
| Restated balance                                     | 261   | 6                                       | 56                                      | 324  | 2,014              | 36,290           |
| Changes of items during period                       |   |   |   |  |                    |                  |
| Dividends of surplus                                 |   |   |   |  |                    | (1,429)          |
| Net income   |   |   |   |  |                    | 3,288            |
| Purchase of treasury shares                          |   |   |   |  |                    | (1,283)          |
| Disposal of treasury shares                          |   |   |   |  |                    | 1,433            |
| Net changes of items other than shareholders' equity | (122)   | (5)                                     | (104)                                   | (232)  | (2,014)            | (2,246)          |
| Total changes of items during period                 | (122)   | (5)                                     | (104)                                   | (232)  | (2,014)            | (237)            |
| Balance at end of current period                     | 138   | 1                                       | (47)                                    | 92   | —                  | 36,053           |

## (4) Consolidated Statements of Cash Flows

(Millions of yen)

|  | Fiscal year ended<br>February 28, 2015 | Fiscal year ended<br>February 29, 2016 |
|--|--|--|
| Cash flows from operating activities                                 |  |  |
| Income before income taxes and minority interests                    | 7,313                                  | 5,477                                  |
| Depreciation   | 1,744                                  | 1,947                                  |
| Impairment loss  | 350                                    | 560                                    |
| Amortization of negative goodwill                                    | (9)                                    | —                                      |
| Gain on bargain purchase   | —                                      | (552)                                  |
| Increase (decrease) in allowance for doubtful accounts               | (37)                                   | (5)                                    |
| Interest and dividend income   | (15)                                   | (6)                                    |
| Interest expenses  | 128                                    | 148                                    |
| Foreign exchange losses (gains)                                      | (1)                                    | 0                                      |
| Share of (profit) loss of entities accounted for using equity method | (21)                                   | (16)                                   |
| Decrease (increase) in notes and accounts receivable - trade         | (1,457)                                | 465                                    |
| Decrease (increase) in inventories                                   | (1,745)                                | (1,443)                                |
| Increase (decrease) in notes and accounts payable - trade            | 6,803                                  | (3,039)                                |
| Increase (decrease) in provision for bonuses                         | 167                                    | (120)                                  |
| Increase (decrease) in provision for directors' retirement benefits  | 3                                      | 3                                      |
| Increase (decrease) in provision for directors' bonuses              | 48                                     | (213)                                  |
| Increase (decrease) in provision for retirement benefits             | (629)                                  | —                                      |
| Increase (decrease) in net defined benefit liability                 | 632                                    | 14                                     |
| Increase (decrease) in provision for sales returns                   | (0)                                    | (0)                                    |
| Increase (decrease) in provision for loss on guarantees              | 71                                     | 19                                     |
| Loss on retirement of property, plant and equipment                  | 204                                    | 248                                    |
| Loss (gain) on sales of non-current assets                           | (15)                                   | 6                                      |
| Loss (gain) on sales of investment securities                        | —                                      | 1                                      |
| Loss (gain) on valuation of investment securities                    | 100                                    | —                                      |
| Loss (gain) on investments in partnership                            | 9                                      | 2                                      |
| Increase (decrease) in accrued consumption taxes                     | 777                                    | (713)                                  |
| Other, net   | 803                                    | (116)                                  |
| Subtotal   | 15,225                                 | 2,667                                  |
| Interest and dividend income received                                | 13                                     | 5                                      |
| Interest expenses paid   | (128)                                  | (148)                                  |
| Income taxes (paid) refund   | (2,026)                                | (3,832)                                |
| Net cash provided by (used in) operating activities                  | 13,084                                 | (1,308)                                |

(Millions of yen)

|  | Fiscal year ended<br>February 28, 2015 | Fiscal year ended<br>February 29, 2016 |
|--|--|--|
| Cash flows from investing activities   |  |  |
| Purchase of property, plant and equipment  | (334)                                  | (2,111)                                |
| Proceeds from sales of property, plant and equipment   | 67                                     | 1                                      |
| Proceeds from sales and redemption of short-term and long-term investment securities           | 15                                     | 99                                     |
| Purchase of short-term and long-term investment securities                                     | —                                      | (237)                                  |
| Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation | —                                      | 1                                      |
| Payments of loans receivable   | (7)                                    | —                                      |
| Collection of loans receivable   | 185                                    | 4                                      |
| Purchase of intangible assets  | (152)                                  | (87)                                   |
| Decrease (increase) in time deposits   | 785                                    | —                                      |
| Payments for guarantee deposits  | (2,004)                                | (1,589)                                |
| Proceeds from collection of guarantee deposits   | 1,057                                  | 1,042                                  |
| Purchase of shares of subsidiaries   | —                                      | (55)                                   |
| Payments for transfer of business  | —                                      | (108)                                  |
| Payments for asset retirement obligations  | (155)                                  | (131)                                  |
| Net cash provided by (used in) investing activities  | (543)                                  | (3,171)                                |
| Cash flows from financing activities   |  |  |
| Net increase (decrease) in short-term loans payable  | 677                                    | 1,058                                  |
| Proceeds from long-term loans payable  | 2,830                                  | 1,886                                  |
| Repayments of long-term loans payable  | (1,628)                                | (1,864)                                |
| Proceeds from sales of treasury shares   | —                                      | 0                                      |
| Purchase of treasury shares  | (1)                                    | (1,283)                                |
| Purchase of treasury shares of subsidiaries  | (0)                                    | (0)                                    |
| Cash dividends paid  | (1,099)                                | (1,429)                                |
| Cash dividends paid to minority shareholders   | (16)                                   | (15)                                   |
| Repayments of installment payables   | (1,568)                                | (1,643)                                |
| Repayments of finance lease obligations  | (490)                                  | (558)                                  |
| Net cash provided by (used in) financing activities  | (1,297)                                | (3,849)                                |
| Effect of exchange rate change on cash and cash equivalents                                    | 1                                      | (0)                                    |
| Net increase (decrease) in cash and cash equivalents   | 11,245                                 | (8,328)                                |
| Cash and cash equivalents at beginning of period   | 32,258                                 | 43,503                                 |
| Cash and cash equivalents at end of period   | 43,503                                 | 35,174                                 |

## 6. Non-consolidated Financial Statements

### (1) Non-consolidated Balance Sheets

(Millions of yen)

|                                       | As of February 28, 2015 | As of February 29, 2016 |
|---------------------------------------|-------------------------|-------------------------|
| <b>Assets</b>                         |                         |                         |
| Current assets                        |                         |                         |
| Cash and deposits                     | 36,679                  | 28,830                  |
| Accounts receivable - trade           | 4,318                   | 3,992                   |
| Merchandise                           | 6,703                   | 8,034                   |
| Advance payments - trade              | 87                      | 118                     |
| Prepaid expenses                      | 237                     | 260                     |
| Deferred tax assets                   | 567                     | 439                     |
| Other                                 | 91                      | 215                     |
| Total current assets                  | 48,683                  | 41,890                  |
| Non-current assets                    |                         |                         |
| Property, plant and equipment         |                         |                         |
| Buildings                             | 6,207                   | 7,108                   |
| Vehicles                              | 2                       | 1                       |
| Tools, furniture and fixtures         | 8                       | 59                      |
| Land                                  | 944                     | 1,005                   |
| Leased assets                         | 1,331                   | 1,347                   |
| Total property, plant and equipment   | 8,494                   | 9,522                   |
| Intangible assets                     | 175                     | 261                     |
| Investments and other assets          |                         |                         |
| Investment securities                 | 674                     | 704                     |
| Shares of subsidiaries and associates | 1,944                   | 2,821                   |
| Long-term prepaid expenses            | 282                     | 310                     |
| Guarantee deposits                    | 10,637                  | 11,322                  |
| Deferred tax assets                   | 538                     | 705                     |
| Other                                 | 164                     | 111                     |
| Allowance for doubtful accounts       | (52)                    | (2)                     |
| Total investments and other assets    | 14,189                  | 15,973                  |
| Total non-current assets              | 22,859                  | 25,756                  |
| Total assets                          | 71,543                  | 67,647                  |

(Millions of yen)

|  | As of February 28, 2015 | As of February 29, 2016 |
|--|-------------------------|-------------------------|
| <b>Liabilities</b>                                       |                         |                         |
| Current liabilities                                      |                         |                         |
| Notes payable - trade                                    | 3,222                   | 2,924                   |
| Accounts payable - trade                                 | 12,258                  | 9,711                   |
| Current portion of long-term loans payable               | 2,527                   | 2,127                   |
| Accounts payable - other                                 | 770                     | 923                     |
| Current portion of long-term accounts payable-<br>other  | 1,306                   | 1,177                   |
| Accrued expenses   | 1,900                   | 1,790                   |
| Lease obligations  | 451                     | 491                     |
| Income taxes payable                                     | 2,242                   | 592                     |
| Accrued consumption taxes                                | 819                     | 256                     |
| Deposits received  | 129                     | 36                      |
| Provision for bonuses                                    | 1,026                   | 886                     |
| Provision for directors' bonuses                         | 278                     | 68                      |
| Asset retirement obligations                             | 9                       | 15                      |
| Other  | 13                      | 16                      |
| Total current liabilities                                | 26,956                  | 21,018                  |
| Non-current liabilities                                  |                         |                         |
| Long-term loans payable                                  | 6,510                   | 6,904                   |
| Provision for retirement benefits                        | 391                     | 448                     |
| Provision for directors' retirement benefits             | 115                     | 119                     |
| Long-term accounts payable - other                       | 2,593                   | 2,006                   |
| Lease obligations  | 1,023                   | 1,044                   |
| Provision for loss on guarantees                         | 71                      | 90                      |
| Asset retirement obligations                             | 1,140                   | 1,327                   |
| Other  | 29                      | 41                      |
| Total non-current liabilities                            | 11,875                  | 11,983                  |
| Total liabilities  | 38,832                  | 33,001                  |
| <b>Net assets</b>  |                         |                         |
| Shareholders' equity                                     |                         |                         |
| Capital stock  | 3,181                   | 3,181                   |
| Capital surplus  |                         |                         |
| Legal capital surplus                                    | 3,379                   | 3,379                   |
| Other capital surplus                                    | 0                       | 1,090                   |
| Total capital surpluses                                  | 3,379                   | 4,469                   |
| Retained earnings  |                         |                         |
| Legal retained earnings                                  | 21                      | 21                      |
| Other retained earnings                                  |                         |                         |
| General reserve  | 12,600                  | 12,600                  |
| Retained earnings brought forward                        | 14,413                  | 16,325                  |
| Total retained earnings                                  | 27,034                  | 28,947                  |
| Treasury shares  | (1,146)                 | (2,087)                 |
| Total shareholders' equity                               | 32,448                  | 34,511                  |
| Valuation and translation adjustments                    |                         |                         |
| Valuation difference on available-for-sale<br>securities | 262                     | 135                     |
| Total valuation and translation adjustments              | 262                     | 135                     |
| Total net assets   | 32,710                  | 34,646                  |
| Total liabilities and net assets                         | 71,543                  | 67,647                  |

## (2) Non-consolidated Statements of Income

(Millions of yen)

|  | Fiscal year ended<br>February 28, 2015 | Fiscal year ended<br>February 29, 2016 |
|--|--|--|
| Net sales                                    | 90,181                                 | 95,315                                 |
| Cost of sales                                | 38,942                                 | 42,230                                 |
| Gross profit                                 | 51,239                                 | 53,084                                 |
| Selling, general and administrative expenses | 43,400                                 | 46,946                                 |
| Operating income                             | 7,839                                  | 6,137                                  |
| Non-operating income                         |  |  |
| Interest income                              | 13                                     | 2                                      |
| Dividend income                              | 28                                     | 29                                     |
| Rent income                                  | 10                                     | 6                                      |
| Compensation income                          | —                                      | 17                                     |
| Foreign exchange gains                       | —                                      | 5                                      |
| Reversal of allowance for doubtful accounts  | 30                                     | —                                      |
| Other  | 28                                     | 30                                     |
| Total non-operating income                   | 111                                    | 91                                     |
| Non-operating expenses                       |  |  |
| Interest expenses                            | 106                                    | 120                                    |
| Provision for loss on guarantees             | 71                                     | 19                                     |
| Other  | 21                                     | 12                                     |
| Total non-operating expenses                 | 199                                    | 151                                    |
| Ordinary income                              | 7,751                                  | 6,077                                  |
| Extraordinary income                         |  |  |
| Gain on bargain purchase                     | —                                      | 45                                     |
| Total extraordinary income                   | —                                      | 45                                     |
| Extraordinary losses                         |  |  |
| Loss on retirement of non-current assets     | 129                                    | 170                                    |
| Impairment loss                              | 281                                    | 482                                    |
| Loss on valuation of investment securities   | 100                                    | —                                      |
| Other  | 9                                      | —                                      |
| Total extraordinary losses                   | 521                                    | 652                                    |
| Income before income taxes                   | 7,230                                  | 5,470                                  |
| Income taxes - current                       | 3,233                                  | 2,087                                  |
| Income taxes - deferred                      | (148)                                  | 41                                     |
| Total income taxes                           | 3,084                                  | 2,128                                  |
| Net income                                   | 4,145                                  | 3,342                                  |



## (3) Non-consolidated Statements of Changes in Net Assets

Fiscal year ended February 28, 2015

(Millions of yen)

|  | Shareholders' equity |                       |                       |                         |                         |                         |                                   |                         |
|--|----------------------|-----------------------|-----------------------|-------------------------|-------------------------|-------------------------|-----------------------------------|-------------------------|
|  | Capital stock        | Capital surplus       |                       |                         | Retained earnings       |                         |                                   |                         |
|  |                      | Legal capital surplus | Other capital surplus | Total capital surpluses | Legal retained earnings | Other retained earnings |                                   | Total retained earnings |
|  |                      |                       |                       |                         |                         | General reserve         | Retained earnings brought forward |                         |
| Balance at beginning of current period               | 3,181                | 3,379                 | 0                     | 3,379                   | 21                      | 12,600                  | 11,367                            | 23,988                  |
| Changes of items during period                       |                      |                       |                       |                         |                         |                         |                                   |                         |
| Dividends of surplus                                 |                      |                       |                       |                         |                         |                         | (1,099)                           | (1,099)                 |
| Net income   |                      |                       |                       |                         |                         |                         | 4,145                             | 4,145                   |
| Purchase of treasury shares                          |                      |                       |                       |                         |                         |                         |                                   |                         |
| Disposal of treasury shares                          |                      |                       |                       |                         |                         |                         |                                   |                         |
| Net changes of items other than shareholders' equity |                      |                       |                       |                         |                         |                         |                                   |                         |
| Total changes of items during period                 | —                    | —                     | —                     | —                       | —                       | —                       | 3,046                             | 3,046                   |
| Balance at end of current period                     | 3,181                | 3,379                 | 0                     | 3,379                   | 21                      | 12,600                  | 14,413                            | 27,034                  |

(Millions of yen)

|  | Shareholders' equity |                            | Valuation and translation adjustments                 |   | Total net assets |
|--|----------------------|----------------------------|---|---|------------------|
|  | Treasury shares      | Total shareholders' equity | Valuation difference on available-for-sale securities | Total valuation and translation adjustments |                  |
| Balance at beginning of current period               | (1,145)              | 29,403                     | 259   | 259   | 29,663           |
| Changes of items during period                       |                      |                            |   |   |                  |
| Dividends of surplus                                 |                      | (1,009)                    |   |   | (1,099)          |
| Net income   |                      | 4,145                      |   |   | 4,145            |
| Purchase of treasury shares                          | (1)                  | (1)                        |   |   | (1)              |
| Disposal of treasury shares                          |                      |                            |   |   | —                |
| Net changes of items other than shareholders' equity |                      |                            | 2   | 2   | 2                |
| Total changes of items during period                 | (1)                  | 3,044                      | 2   | 2   | 3,047            |
| Balance at end of current period                     | (1,146)              | 32,448                     | 262   | 262   | 32,710           |

Fiscal year ended February 29, 2016

(Millions of yen)

|  | Shareholders' equity |                       |                       |                         |                         |                         |                                   |                         |
|--|----------------------|-----------------------|-----------------------|-------------------------|-------------------------|-------------------------|-----------------------------------|-------------------------|
|  | Capital stock        | Capital surplus       |                       |                         | Retained earnings       |                         |                                   |                         |
|  |                      | Legal capital surplus | Other capital surplus | Total capital surpluses | Legal retained earnings | Other retained earnings |                                   | Total retained earnings |
|  |                      |                       |                       |                         |                         | General reserve         | Retained earnings brought forward |                         |
| Balance at beginning of current period               | 3,181                | 3,379                 | 0                     | 3,379                   | 21                      | 12,600                  | 14,413                            | 27,034                  |
| Changes of items during period                       |                      |                       |                       |                         |                         |                         |                                   |                         |
| Dividends of surplus                                 |                      |                       |                       |                         |                         |                         | (1,429)                           | (1,429)                 |
| Net income   |                      |                       |                       |                         |                         |                         | 3,342                             | 3,342                   |
| Purchase of treasury shares                          |                      |                       |                       |                         |                         |                         |                                   |                         |
| Disposal of treasury shares                          |                      |                       | 1,090                 | 1,090                   |                         |                         |                                   |                         |
| Net changes of items other than shareholders' equity |                      |                       |                       |                         |                         |                         |                                   |                         |
| Total changes of items during period                 | —                    | —                     | 1,090                 | 1,090                   | —                       | —                       | 1,912                             | 1,912                   |
| Balance at end of current period                     | 3,181                | 3,379                 | 1,090                 | 4,469                   | 21                      | 12,600                  | 16,325                            | 28,947                  |

(Millions of yen)

|  | Shareholders' equity |                            | Valuation and translation adjustments                 |   | Total net assets |
|--|----------------------|----------------------------|---|---|------------------|
|  | Treasury shares      | Total shareholders' equity | Valuation difference on available-for-sale securities | Total valuation and translation adjustments |                  |
| Balance at beginning of current period               | (1,146)              | 32,448                     | 262   | 262   | 32,710           |
| Changes of items during period                       |                      |                            |   |   |                  |
| Dividends of surplus                                 |                      | (1,429)                    |   |   | (1,429)          |
| Net income   |                      | 3,342                      |   |   | 3,342            |
| Purchase of treasury shares                          | (1,283)              | (1,283)                    |   |   | (1,283)          |
| Disposal of treasury shares                          | 343                  | 1,433                      |   |   | 1,433            |
| Net changes of items other than shareholders' equity |                      |                            | (126)   | (126)                                       | (126)            |
| Total changes of items during period                 | (940)                | 2,062                      | (126)   | (126)                                       | 1,935            |
| Balance at end of current period                     | (2,087)              | 34,511                     | 135   | 135   | 34,646           |