ABC-MART, INC.

Annual Report 2014

For the year ended February 28, 2014

Contents

Consolidated Balance Sheets

ABC-MART, INC. and consolidated subsidiaries
As of February 28, 2014 and 2013

	Thousands of yen	
ASSETS	2014	2013
Current Assets:		
Cash and deposits (Notes 3, 4 and 11)	¥ 78,884,221	¥ 68,852,158
Notes and accounts receivable – trade (Note 4)	6,463,290	5,064,083
Less — allowance for doubtful accounts (Note 4)	(30,704)	(23,645)
Net trade receivables	6,432,586	5,040,438
Merchandise and finished goods	38,962,423	32,682,063
Work in process	13,583	44,833
Raw materials and supplies	479,689	485,939
Currency Option (Notes 4 and 7)	—	1,314,421
Deferred tax assets (Note 9)	1,414,815	1,166,442
Other	3,355,309	3,480,723
Total current assets	129,542,628	113,067,021
Noncurrent assets:		
Property, plant and equipment (Notes 6, 14 and 15):		
Buildings and structures	22,758,728	20,886,196
Tools, furniture and fixtures	8,012,820	6,266,116
Land (Note 11)	17,696,636	17,483,893
Constructions in progress	90,871	60,071
Other	593,253	468,848
Total	49,152,310	45,165,126
Less accumulated depreciation	(16,367,393)	(13,576,767)
Net property, plant and equipment	32,784,917	31,588,359
Intangible assets:		
Trademark	2,682,855	2,465,569
Goodwill	7,195,840	6,821,704
Other	1,770,403	1,506,138
Total intangible assets	11,649,099	10,793,412
Investments and other assets:		
Investment in securities (Notes 4 and 5)	125,485	109,651
Investment in non-consolidated subsidiaries (Note 4)	94,075	84,175
Long-term loans receivable (Note 4)	2,575,092	928,471
Lease and guarantee deposits (Notes 4, 11 and 17)	18,960,429	16,494,299
Other	1,150,443	1,094,030
Less-allowance for doubtful accounts	(1,138)	—
Total investments and other assets	22,904,387	18,710,627
Total noncurrent assets	67,338,404	61,092,399
Total assets	¥ 196,881,032	¥ 174,159,421

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

ABC-MART, INC. and consolidated subsidiaries
As of February 28, 2014 and 2013

	Thousands of yen	
LIABILITIES	2014	2013
Current Liabilities:		
Notes and accounts payable:		
Trade (Notes 4 and 11)	¥ 8,551,245	¥ 7,477,486
Facilities (Note 4)	778,252	936,279
Short-term loans payable (Notes 4, 8 and 11)	3,278,312	4,135,826
Current portion of long-term loans payable (Notes 4, 8 and 11)	1,002,800	1,002,800
Income taxes payable (Note 4)	7,113,474	7,455,270
Provision for bonuses	654,690	642,716
Provision	234,480	178,038
Asset retirement obligations (Note 10)	26,927	17,861
Other	5,722,294	4,114,601
Total current liabilities	27,362,478	25,960,880
Noncurrent liabilities:		
Convertible bonds (Notes 4 and 8)	33,000,000	33,000,000
Long-term loans payable (Notes 4, 8 and 11)	1,500,000	2,502,800
Provision	658,157	798,867
Asset retirement obligations (Note 10)	243,579	218,207
Currency option (Notes 4 and 7)	—	265,084
Other	2,197,632	1,648,895
Total noncurrent liabilities	37,599,368	38,433,856
Total liabilities	64,961,847	64,394,736
Commitments and contingent liabilities (Note 11)		
NET ASSETS (Note 12)		
Shareholders' equity:		
Common stock, authorized 334,500,000 shares, issued 75,294,429 shares in 2014 and 2013	3,482,930	3,482,930
Capital surplus	7,488,686	7,488,686
Retained earnings	112,310,302	96,311,831
Treasury stock, at cost, 164 shares in 2014 and 2013	(522)	(522)
Total shareholders' equity	123,281,397	107,282,926
Accumulated other comprehensive income (Note 13):		
Net unrealized gains (losses) on available-for-sale securities	23,248	13,432
Foreign currency translation adjustments	8,241,814	2,177,708
Total accumulated other comprehensive income	8,265,062	2,191,141
Minority interests in consolidated subsidiaries	372,724	290,616
Total net assets	131,919,185	109,764,684
Total liabilities and net assets	¥ 196,881,032	¥ 174,159,421

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

ABC-MART, INC. and consolidated subsidiaries
For the years ended February 28, 2014 and 2013

	Thousands of yen	
	2014	2013
Net sales	¥ 188,045,018	¥ 159,418,140
Cost of sales	84,317,067	68,109,105
Gross profit	103,727,951	91,309,034
Selling, general and administrative expenses:		
Packing and transportation expenses	2,162,656	2,210,771
Advertising expenses	7,263,553	6,931,745
Warehousing expenses	2,044,219	1,293,183
Directors' compensations, salaries and allowances	18,737,865	16,431,626
Bonuses	1,139,234	1,083,784
Provision for bonuses	647,109	640,700
Legal and employee benefits expenses	2,418,684	2,113,560
Rents	17,738,673	15,326,723
Depreciation and amortization	3,885,923	3,250,878
Utilities expenses	2,050,493	1,793,573
Commission fee	3,461,581	2,677,576
Taxes and dues	873,247	668,623
Allowance for doubtful accounts	796	1,820
Amortization of goodwill	1,023,343	549,441
Other	6,154,542	5,959,908
Total	69,601,927	60,933,917
Operating income	¥ 34,126,024	¥ 30,375,117

(Continued)

	Thousands of yen	
	2014	2013
Other income (expenses):		
Interest income	¥ 79,574	¥ 46,729
Interest expenses	(53,899)	(74,012)
Foreign exchange gains	60,923	80,501
Gain on valuation of derivatives	－	106,753
Gain on cancellation of derivatives	1,713	－
Loss on cancellation of derivatives	(1,051,049)	－
Rent income	664,362	481,790
Rent expenses	(347,882)	(271,275)
Advertising income	62,706	57,450
Gain on sales of noncurrent assets (Notes 14)	935	545
Loss on sales of noncurrent assets (Notes 14)	－	(343)
Loss on retirement of noncurrent assets (Note 14)	(175,150)	(114,733)
Loss on liquidation of business	－	(65,595)
Loss on valuation of golf club membership	－	(7,075)
Impairment loss (Note 15)	(263,840)	(408,046)
Loss on disposal of merchandise	(95,575)	－
Other, net	222,269	(55,781)
Total	(894,911)	(223,093)
Income before income taxes and minority interests	33,231,112	30,152,024
Income taxes (Note 9):		
Current	13,598,256	13,126,285
Deferred	(319,740)	(220,612)
Total	13,278,516	12,905,672
Income before minority interests	19,952,596	17,246,351
Minority interests	(36,470)	(51,225)
Net income	¥ 19,989,067	¥ 17,297,577

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

ABC-MART, INC. and consolidated subsidiaries
For the years ended February 28, 2014 and 2013

	Thousands of yen	
	2014	2013
Income before minority interests	¥ 19,952,596	¥ 17,246,351
Other comprehensive income (Note 13):		
Net unrealized gains on available-for-sale securities	9,815	19,178
Foreign currency translation adjustments	6,113,174	3,651,247
Total other comprehensive income	6,122,990	3,670,426
Comprehensive Income	¥ 26,075,586	¥ 20,916,777
Comprehensive income attributable to:		
Shareholders of ABC-MART, INC.	¥ 26,062,988	¥ 20,926,789
Minority interests	12,598	(10,012)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

ABC-MART, INC. and consolidated subsidiaries
For the years ended February 28, 2014 and 2013

	Thousands of yen							
	Shareholders' equity				Accumulated other comprehensive income			
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized gains (losses) on available-for-sale securities	Foreign currency translation adjustments	Minority interests in consolidated subsidiaries	Total net assets
Balance at February 29, 2012	¥ 3,482,930	¥ 7,488,686	¥ 82,402,496	¥ (522)	¥ (5,746)	¥ (1,432,324)	¥ 300,628	¥ 92,236,148
Net income	–	–	17,297,577	–	–	–	–	17,297,577
Dividends from surplus	–	–	(3,388,241)	–	–	–	–	(3,388,241)
Net change during the year	–	–	–	–	19,178	3,610,033	(10,012)	3,619,200
Balance at February 28, 2013	3,482,930	7,488,686	96,311,831	(522)	13,432	2,177,708	290,616	109,764,684
Net income	–	–	19,989,067	–	–	–	–	19,989,067
Dividends from surplus	–	–	(3,990,596)	–	–	–	–	(3,990,596)
Net change during the year	–	–	–	–	9,815	6,064,106	82,108	6,156,029
Balance at February 28, 2014	**¥ 3,482,930**	**¥ 7,488,686**	**¥112,310,302**	**¥ (522)**	**¥ 23,248**	**¥ 8,241,814**	**¥ 372,724**	**¥ 131,919,185**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ABC-MART, INC. and consolidated subsidiaries
For the years ended February 28, 2014 and 2013

	Thousands of yen	
	2014	2013
Net cash provided by (used in) operating activities:		
Net income before income taxes and minority interests	¥ 33,231,112	¥ 30,152,024
Depreciation and amortization	3,885,923	3,250,878
Increase in provision for bonuses	8,583	62,672
Increase (decrease) in allowance for doubtful accounts	3,636	(12,264)
Interests and dividends income	(80,297)	(47,453)
Interest expenses	53,899	74,012
Foreign exchange gains	(85,952)	(104,166)
Loss on valuation of investment in securities	－	16,582
Gain on valuation of derivatives	－	(106,753)
Loss on cancellation of derivatives	1,049,336	－
Loss on sales and retirement of noncurrent assets	174,214	114,531
Impairment loss	263,840	408,046
Increase in notes and accounts receivable － trade	(853,310)	(620,481)
Increase in inventories	(4,455,464)	(5,362,064)
Increase (decrease) in notes and accounts payable － trade	659,116	(915,849)
Other	3,002,399	723,693
Subtotal	36,857,037	27,633,408
Interest and dividends received	56,908	32,920
Interest expenses paid	(52,708)	(76,415)
Income taxes paid	(13,863,300)	(12,193,959)
Net cash provided by operating activities	¥ 22,997,936	¥ 15,395,953

(Continued)

	Thousands of yen	
	2014	2013
Net cash provided by (used in) investing activities:		
Payment for time deposits	¥ —	¥ (5,400)
Proceeds from withdrawal of time deposits	33,236	120,526
Payment for purchase of property, plant and equipment	(3,862,523)	(4,093,447)
Proceeds from sales of property, plant and equipment	4,918	5,137
Payment for purchase of intangible assets	(466,501)	(419,560)
Payment for removal of stores	(92,037)	(55,935)
Increase in loans receivable	(1,770,000)	(185,000)
Proceeds from collection of loans receivable	85,233	83,062
Payment for purchase of investment in a subsidiary resulting in change in scope of consolidation	—	(10,999,115)
Payment for lease and guarantee deposits	(1,993,985)	(2,562,575)
Proceeds from collection of lease and guarantee deposits	586,420	1,011,240
Other, net	(98,194)	(102,608)
Net cash used in investing activities	(7,573,433)	(17,203,674)
Net cash provided by (used in) financing activities:		
Net increase (decrease) in short-term loans payable	(972,001)	864,471
Repayment of long-term loans payable	(1,002,800)	(2,259,060)
Cash dividends paid	(3,989,669)	(3,384,043)
Proceeds from share issuance to minority shareholders	69,510	—
Proceeds from issuance of convertible bonds	—	33,000,000
Other, net	(21,823)	(11,371)
Net cash provided by (used in) financing activities	(5,916,784)	28,209,995
Effect of exchange rate changes on cash and cash equivalents	475,789	378,867
Net increase in cash and cash equivalents	9,983,508	26,781,142
Cash and cash equivalents at beginning of period	68,772,082	41,990,939
Cash and cash equivalents at end of period (Note 3)	¥ 78,755,590	¥ 68,772,082

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements
ABC-MART, INC. and consolidated subsidiaries

1. Basis of Presentation and Financial Statement Translation

The accompanying consolidated financial statements of ABC-MART, INC. and consolidated subsidiaries ("the Group") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards ("IFRS"), and are compiled from the consolidated financial statements prepared by ABC-MART, INC. ("the Company") as required by the Financial Instruments and Exchange Act of Japan. Effective March 1, 2009, the Company adopted the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (PITF No. 18). In accordance with PITF No. 18, the accompanying consolidated financial statements for the years ended February 28, 2014 and 2013 have been prepared by using the accounts of foreign consolidated subsidiaries prepared in accordance with either IFRS or accounting principles generally accepted in the United States as adjusted for certain items.

In addition, for the convenience of readers outside Japan, the accompanying consolidated financial statements, including the notes thereof, have been reclassified and contain additional information which is not required under accounting principles generally accepted in Japan.

As permitted under the Financial Instruments and Exchange Law of Japan, amounts of less than one thousand yen have been omitted. As a result, the totals shown in the accompanying Consolidated Financial Statements do not necessarily agree with the sums of the individual amounts. Certain reclassifications have been made to prior year balances in order to conform to the current year presentation.

2. Summary of Significant Accounting Policies

(1) Basis of Consolidation

The accompanying Consolidated Financial Statements include the accounts of the Company and 12 subsidiaries (12 subsidiaries as of February 28, 2013) with an exception of 2 non-consolidated subsidiaries due to immaterial impact on the consolidated financial statements. The investments in the non-consolidated subsidiaries are not accounted for by the equity-method because of the immaterial impact on the consolidated financial statements in aggregated amount of net income and retained earnings, and therefore carried at cost (¥94,075 thousand and ¥84,175 thousand as of February 28, 2014 and 2013, respectively).

During the year ended February 28, 2014, the Company established a subsidiary of which the Company owns 100% of its shares. The subsidiary is not included in scope of consolidation due to immaterial effects on the consolidated results.

The year end at ABC-MART KOREA, INC., ABC-MART TAIWAN, INC., LaCrosse Footwear, Inc. and its 6 subsidiaries is December 31. The financial statements as of December 31 are used in preparing the consolidated financial statements for the subsidiaries. All material transactions during the period from January 1 to balance sheet date are adjusted for in the consolidation process.

(2) Securities

Available-for-sale securities are classified into two categories, where (a) the fair value is available and (b) the fair value is not available.

(a) Securities whose fair value is available are valued at the quoted market price prevailing at the end of the year. Net unrealized gains or losses on these securities are reported as a separate component of net assets at a net-of-tax amount. Cost of sales is determined using the moving-average method.

(b) Securities whose fair value is not available are valued at cost and the cost is determined using the moving-average method.

(3) Inventories

Inventories held for sale in the ordinary course of business are stated at cost. The book value of inventories is reduced on the basis of declines in profitability and is determined principally by the average method for merchandise, the FIFO method for finished goods, work in process and raw materials and supplies in overseas subsidiaries, and the specific identification method for raw materials and supplies in the Company and its domestic subsidiaries.

(4) Property, Plant and Equipment

(a) The Company and its domestic subsidiaries

Property, plant and equipment are stated at cost. Depreciation is mainly calculated using the declining-balance method at rates based on the estimated useful lives and residual values as prescribed by Japanese tax laws, except for the buildings (excluding building facilities) acquired on or after April 1, 1998, which are depreciated based on the straight-line method.

(Change in accounting policies)

Following the revision of the Corporate Tax Act, the Company and its domestic consolidated subsidiaries changed the depreciation method for property, plant and equipment which were acquired on and after March 1, 2013 to comply with the revised Corporate Tax Act in the year ended February 28, 2014. The impact of this change on consolidated result is immaterial.

(b) Foreign subsidiaries:

Depreciation is calculated using the straight-line method.

(5) Intangible Assets

Intangible assets, excluding software for internal use and goodwill, are amortized using the straight-line method over the estimated useful lives as prescribed by Japanese tax laws. Software for internal use is amortized using the straight-line method over an estimated useful life of five years. The useful life of goodwill is individually estimated based on a reasonable determination. Goodwill is amortized using the straight-line method over the period determined.

(6) Leased assets

Depreciation of leased assets from finance lease transactions that are deemed to transfer ownership of the leased property is calculated using the same method applied to noncurrent assets of which the Company has ownership. Depreciation of leased assets from finance lease transactions that are not deemed to transfer ownership of the leased property is calculated using the straight-line method with no residual value except for the finance lease transactions executed prior to March 1, 2009 which are accounted for by the same method as that applied to ordinary operating leases.

(7) Allowances for Doubtful Accounts

Allowances for doubtful accounts are provided in amounts management considers sufficient to cover possible losses on collection. With respect to normal trade accounts receivable, it is stated at an amount based on the actual rate of historical bad debts, and for certain doubtful receivables, the uncollectible amount is individually estimated.

(8) Provision for Bonuses

As a provision for the payment of bonuses to employees, an appropriate portion of the estimated total bonus payment requirement has been accounted for in the year under review.

(9) Foreign Currency Translation

All assets and liabilities of the Company and its domestic consolidated subsidiaries denominated in foreign currencies are translated into Japanese yen at the exchange rate in effect at the respective balance sheet dates. Translation gains or losses are included in the accompanying Consolidated Statements of Income.

All balance sheet accounts of foreign subsidiaries are translated into Japanese yen at the exchange rate in effect at the respective balance sheet dates except for shareholders' equity, which is translated at the historical rates. All income and expense accounts are translated at the average exchange rate for the period. The resulting translation adjustments are included in the accompanying Consolidated Balance Sheets under "Foreign currency translation adjustments" and "Minority interests in consolidated subsidiaries."

(10) Derivative Transactions and Hedge Accounting

Derivative financial instruments are valued at fair value.

(a) Hedge accounting

If derivative financial instruments are used as hedges and meet certain hedge criteria, recognition of gains or losses resulting from changes in their fair value is deferred until the related losses or gains on the hedged items are recognized. Forward foreign exchange contracts which meet specific matching criteria are translated at the foreign exchange rate stipulated in the contracts.

(b) Hedging instruments and hedged items

- Hedging instruments – Derivative transactions (forward foreign exchange contracts)
- Hedged items – Hedged items are primary trade payables denominated in foreign currencies which have risks associated with adverse fluctuations in foreign currency.

(c) Hedge policy

Hedging transactions are being performed to mitigate future losses on the hedged items.

(d) Assessment of hedge effectiveness

Effectiveness of hedge is assessed by verifying if the foreign currency risks on the hedged items are mitigated.

(11) Cash and Cash Equivalents

Cash and cash equivalents in the accompanying Consolidated Statements of Cash Flows are comprised of cash on hand, demand deposits, and short term investments with maturities of three months or less from the date of acquisition, that are liquid, readily convertible into cash, and are subject to minimum risk of price fluctuation.

(12) Accounting for Consumption Taxes

The Japanese consumption taxes withheld and consumption taxes paid are not included in the accompanying Consolidated Statements of Income.

3. Cash and Cash Equivalents

Cash and Cash equivalents as of February 28, 2014 and 2013 consist of the following:

	Thousands of yen	
	2014	2013
Cash and deposits	**¥ 78,884,221**	¥ 68,852,158
Time deposits with maturities over three months	**(128,630)**	(80,075)
Cash and cash equivalents at end of period	**¥ 78,755,590**	¥ 68,772,082

4. Financial Instruments

(1) Qualitative information on financial instruments

(a) Policies relating to financial instruments

The Group invests its funds mainly in short-term deposits and raises funds by loans from financial institutions and issuance of bonds. Derivative transactions are foreign exchange forward contracts which are only used to avoid the risks described below. The Group does not engage in derivative transactions for speculative purposes.

(b) Details of financial instruments and associated risk

Trade notes and accounts receivable, which are mostly related to tenant sales and credit card sales of commercial facilities, are exposed to credit risk of customers.

Investment securities, which are mostly related to foreign debt securities and stocks of financial institutions, are exposed to market price volatility risk and credit risk of issuers.

Investment in non-consolidated subsidiary does not have market price and is exposed to impairment risk due to financial result of the subsidiary.

Long-term loans receivable, which are related to loans to business partners and leasehold contracts of stores, are exposed to credit risk of borrowers.

Lease and guarantee deposits, which are mostly related to leasehold contracts of stores, are exposed to credit risk of lessors.

All notes and accounts payable and income taxes payable are due in one year.

Short-term loans payable are mostly related to funds used as payment of imported goods and Long-term loans payable are mostly related to capital expenditures. Loans are generally borrowed with fixed rate and therefore, there is no interest rate risk.

Convertible bonds are related to funds used as mid-term capital investment and the term of redemption of the convertible bonds are 3 years and 11 months at the longest.

Derivative transactions are foreign exchange forward contracts which are used to mitigate the risk of currency exchange rates fluctuations for receivables and payables denominated in foreign currencies. The Company also uses derivatives as hedging instruments, which is described in Note 2. “Summary of Significant Accounting Policies”.

(c) Risk management systems relating to financial instruments

(i) Management of credit risk (risk relating to non-performance of a contract obligation by a counterparty, etc.)

With respect to trade receivables related to credit card sales, credit risk is fairly low because counterparties are group of financial institutions. With respect to trade receivables related to tenant sales, as same as lease, guarantee deposits and construction assistance fund receivables, Store Development Department monitors the counterparty to reduce credit risk by early identification of a possible default caused by financial trouble of the counterparty.

With respect to long-term loans receivable related to loans to business partners, quarterly monitoring of financial condition of the borrowers are performed to reduce credit risk by early identification of a possible default caused by financial trouble.

The Company 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.

(ii) Management of market risks (risks associated with fluctuations in foreign currency exchange as well as interest rates, etc.)

With respect to investment securities and investment in non-consolidated subsidiary, the Group quarterly monitors fair values as well as the financial status of issuers (counterparties).

Basic policy of derivative transactions are decided by the Board of Directors and Import Team in Accounting Department performs and manages transactions. Balance of derivative transactions and status of gain and losses are periodically reported to the Board of Directors.

(iii) Management of liquidity risks associated with the procurement of funds (the risk of being unable to make payments on due dates)

The Group manages its liquidity risk by adequate preparation and update of financial planning depending on the status of funds.

(d) Supplementary explanation for fair values, etc. of financial instruments

Fair values of financial instruments are determined by market prices. If no market price is available, the fair value is based on the value that is calculated in a reasonable manner. The determination of such value contains variable factors, and the adoption of wide ranging and differing assumptions may cause values to change.

(2) Fair Value of financial instruments

Book values and fair values of the financial instruments on the Consolidated Balance Sheet on February 28, 2014 and 2013 are as follows. Financial instruments whose fair value is deemed highly difficult to measure are excluded from the table.

	Thousands of yen		
	2014		
	Book value	Fair value	Difference
Cash and deposits	¥ 78,884,221	¥ 78,884,221	¥ —
Notes and accounts receivable – trade	6,463,290		
Less — allowance for doubtful accounts	(30,704)		
Net trade receivables	6,432,586	6,432,586	—
Investment securities	105,050	105,050	—
Long-term loans receivable	2,575,092	2,600,078	24,985
Lease and guarantee deposits	15,232,984	15,592,520	359,536
Total assets	103,229,935	103,614,457	384,521
Notes and accounts payable – trade	8,551,245	8,551,245	—
Notes payable – facilities	778,252	778,252	—
Short-term loans payable	3,278,312	3,278,312	—
Income taxes payable	7,113,474	7,113,474	—
Convertible bonds	33,000,000	37,042,500	4,042,500
Long-term loans payable (including current portion)	2,502,800	2,513,645	10,845
Total liabilities	¥ 55,224,084	¥ 59,277,430	¥ 4,053,345

	Thousands of yen		
	2013		
	Book value	Fair value	Difference
Cash and deposits	¥ 68,852,158	¥ 68,852,158	¥ —
Notes and accounts receivable – trade	5,064,083		
Less — allowance for doubtful accounts	(23,645)		
Net trade receivables	5,040,438	5,040,438	—
Investment securities	89,216	89,216	—
Long-term loans receivable	928,471	946,670	18,199
Lease and guarantee deposits	12,725,554	13,014,689	289,135
Total assets	87,635,839	87,943,173	307,334
Notes and accounts payable – trade	7,477,486	7,477,486	—
Notes payable – facilities	936,279	936,279	—
Short-term loans payable	4,135,826	4,135,826	—
Income taxes payable	7,455,270	7,455,270	—
Convertible bonds	33,000,000	34,270,500	1,270,500
Long-term loans payable (including current portion)	3,505,600	3,529,476	23,876
Total liabilities	56,510,462	57,804,838	1,294,376
Derivative transactions *	¥ 1,049,336	¥ 1,049,336	¥ —

* The value of assets and liabilities arising from derivative transactions are shown by net value. Net liabilities are shown in parentheses.

Note 1: Items relating to the calculation of the fair value of financial instruments and derivative instruments

(Assets)

(1) Cash and deposits and notes and accounts receivable, trade

Given that those items are of short duration, their current value approximates their book value, and therefore the fair value is deemed to be that book value.

(2) Investment securities

Fair value of equity securities is based on quoted market prices, and fair value of debt securities is based on quoted market prices or quotes obtained from financial institutions. Additional information on securities classified by holding purpose is presented in Note 2. "Summary of Significant Accounting Policies".

(3) Long-term loans receivable

The fair value of long-term loans receivable is based on the present value, which is obtained by discounting the total of principal and interest by the interest rate that would be applied if similar new loans were entered into.

(4) Lease and guarantee deposits

Given that lease and guarantee deposits are considered redeemable after a fixed period, their market value is calculated at a present value discounted across the period to maturity at the government bonds interest rates closest to the maturity date.

(Liabilities)

(1) Notes and accounts payable – trade, notes payable – facilities, short-term loans payable and income taxes payable

Given that those items are of short duration, their current value approximates their book value, and therefore the fair value is deemed to be that book value.

(2) Convertible bonds

The fair value of convertible bonds is based on market price.

(3) Long-term loans payable (including current portion)

The fair value of long-term loans payable is based on the present value, which is obtained by discounting the total of principal and interest by the interest rate that would be applied if similar new borrowings were entered into.

Note 2: Items for which fair value is deemed highly difficult to measure

	Thousands of yen	
	2014	2013
Investment securities:		
Non-listed securities (*1)	¥ **20,435**	¥ 20,435
Investment in non-consolidated subsidiary:		
Non-listed securities (*2)	**94,075**	84,175
Lease and guarantee deposits (*3)	**3,727,444**	3,768,744

(*1) Non-listed securities classified as investment securities are not included in “Investment securities” in the tables of fair value of financial instruments above since determining their estimated fair values was deemed to be highly difficult, due to the fact that these do not have market prices.

(*2) Investment in non-consolidated subsidiary are not included in the tables of fair value of financial instruments above since determining their estimated fair values was deemed to be highly difficult, due to the fact that these do not have market prices.

(*3) These are not included in “Lease and guarantee deposits” in the tables of fair value of financial instruments above since determining their fair values was deemed to be highly difficult, due to the fact that the amount to be refunded cannot be reasonably estimated.

Note 3: Redemption schedule for receivables and marketable securities with maturities

	Thousands of yen			
	2014			
	Within one year	After one year within five years	After five years within ten years	After ten years
Deposits	¥ **78,573,392**	¥ —	¥ —	¥ —
Notes and accounts receivable – trade	**6,463,290**	—	—	—
Investment securities:				
Available-for-securities with maturities:				
Debt securities	**63,606**	—	—	—
Long-term loans receivable	**75,583**	**630,988**	**1,693,849**	**174,671**
Lease and guarantee deposits (*)	**3,045,109**	**11,766,656**	**1,110,857**	**404,876**
Total	¥ **88,220,982**	¥ **12,397,644**	¥ **2,804,707**	¥ **579,547**

	Thousands of yen			
	2013			
	Within one year	After one year within five years	After five years within ten years	After ten years
Deposits	¥ 68,574,899	¥ —	¥ —	¥ —
Notes and accounts receivable – trade	5,064,083	—	—	—
Investment securities:				
Available-for-securities with maturities:				
Debt securities	—	56,848	—	—
Long-term loans receivable	70,032	291,155	347,063	220,220
Lease and guarantee deposits (*)	3,073,462	9,369,110	829,487	378,073
Total	¥ 76,782,478	¥ 9,717,114	¥ 1,176,550	¥ 598,293

(*) Items for which fair values is deemed to be highly difficult, due to the fact that the amount to be refunded cannot be reasonably estimated, are not included in “Lease and guarantee deposits”.

5. Securities

Book value and acquisition cost of available-for-sale securities as of February 28, 2014 and 2013 are as follows:

	Thousands of yen		
	2014		
	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost:			
Equity securities	¥ 31,959	¥ 17,788	¥ 14,170
Debt securities	73,091	49,759	23,332
Other	—	—	—
Sub-total	105,050	67,547	37,503
Securities with book value not exceeding acquisition cost:			
Equity securities	—	—	—
Debt securities	—	—	—
Other	20,435	20,435	—
Sub-total	20,435	20,435	—
Total	¥ 125,485	¥ 87,982	¥ 37,503

	Thousands of yen		
	2013		
	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost:			
Equity securities	¥ 25,627	¥ 17,788	¥ 7,839
Debt securities	63,589	49,759	13,830
Other	—	—	—
Sub-total	89,216	67,547	21,669
Securities with book value not exceeding acquisition cost:			
Equity securities	—	—	—
Debt securities	—	—	—
Other	20,435	20,435	—
Sub-total	20,435	20,435	—
Total	¥ 109,651	¥ 87,982	¥ 21,669

6. Leases

(1) Finance leases

Leased properties are store facilities (tools, furniture and fixtures) for retail business and leased intangible assets are software.

Finance lease transactions that are not deemed to transfer ownership of the leased property to the lessee and that were concluded prior to March 1, 2009 are accounted for by the same method as that applied to ordinary operating leases.

A summary of assumed amounts of acquisition cost, accumulated depreciation, and net book value, including the interest portion, as of February 28, 2014 and 2013 are as follows:

	Thousands of yen	
	2014	2013
Tools, furniture and fixtures:		
Acquisition costs	¥ 5,429	¥ 5,429
Accumulated depreciation	(4,848)	(4,072)
Net book value	581	1,357
Lease payments	¥ 775	¥ 1,347
Depreciation expense (*)	775	1,347

(*) Depreciation expense is computed using the straight-line method over the lease term assuming no residual value.

The future lease payments of the Company's finance leases, including the interest portion, as of February 28, 2014 and 2013 are as follows:

	Thousands of yen	
	2014	2013
Due within one year	¥ 581	¥ 775
Due after one year	–	581
Total	¥ 581	¥ 1,357

(2) Operating leases

The amounts of outstanding future lease payments under lease agreements other than finance leases, which are non-cancelable, including the interest portion, as of February 28, 2014 and 2013 are as follows:

	Thousands of yen	
	2014	2013
Due within one year	¥ 1,692,825	¥ 1,430,535
Due after one year	4,010,281	2,717,412
Total	¥ 5,703,107	¥ 4,147,947

7. Derivatives

There are no outstanding derivative transactions as of February 28, 2014. Outstanding derivatives transactions not applicable under hedge accounting criteria as of February 28, 2013 are summarized as follows:

	Thousands of yen			
	2013			
	Contract value			
	Total	After one year	Fair value	Gains
Currency option contracts:				
Sell, put – US dollar	¥ 103,140,600	¥ 76,373,400	¥ –	¥ –
Buy, call – US dollar	35,045,500	25,457,800	1,049,336	1,049,336
Total	¥ 138,186,100	¥ 101,831,200	¥ 1,049,336	¥ 1,049,336

Note 1: Currency option contracts are zero-cost option contracts and no option premium are paid and received. With respect to the zero-cost option contracts, fair value and gains of sell, put and buy, call contracts are shown in net amounts.

Note 2: Fair value of derivative transactions is based on quotes obtained from financial institutions.

8. Short-Term and Long-Term Debt

Short-term and long-term debt as of February 28, 2014 and 2013 consist of the following:

	Thousands of yen	
	2014	2013
Short-term loans payable	**¥ 3,278,312**	¥ 4,135,826
Current portion of long-term loans payable	**1,002,800**	1,002,800
Current portion of lease obligations	**21,020**	—
Long-term loans payable (excluding current portion)	**1,500,000**	2,502,800
Lease obligations (excluding current portion)	**38,377**	—
Convertible bonds	**33,000,000**	33,000,000
Total short-term and long-term debt	**¥ 38,840,511**	¥ 40,641,426

Weighted-average rate of interest:		
Short-term loans payable	**0.49%**	0.96%
Current portion of long-term loans payable	**0.88%**	0.89%
Current portion of lease obligations	**1.90%**	—
Long-term loans payable (excluding current portion)	**0.88%**	0.89%
Lease obligations (excluding current portion)	**1.92%**	—
Convertible bonds	**—**	—

On February 5, 2013, the Company issued ¥ 33,000,000 thousand of Euro-yen convertible bonds with stock acquisition rights due in 2018. Summary of the convertible bonds with stock acquisition right are as follows:

Type of stock to be issued upon conversion	Common stock of ABC-MART, INC.
Issue price of stock acquisition rights	—
Conversion price (yen)	¥ 4,588
Number of shares of common stock (Note 1)	7,192,676
Issue price of bonds (thousands of yen)	¥ 33,000,000
Common stock issued upon conversion	—
Percentage of stock acquisition rights granted	100%
Exercise period of conversion	February 19, 2013 to January 22, 2018
Pledge	Unsecured
Redemption date	February 5, 2018
Balance of stock acquisition rights as of February 28, 2014	—

Note 1: Numbers of shares of common stock are calculated on the assumption that all convertible bonds with stock acquisition rights are converted as of February 28, 2014.

Note 2: Exercise of a stock acquisition right causes the corresponding bond to be cancelled in lieu of a cash payment of purchase of shares, and the amount of the convertible bonds with stock acquisition right is the same as the amount of issuance.

The aggregate annual maturities of long-term debt including convertible bonds within 5 years after the years of February 28, 2014 are summarized as follows:

	Thousands of yen
Year ending February 28 or 29,	2014
2016	¥ 1,021,405
2017	514,987
2018	33,000,276
2019	283
Total long-term debt	¥ 34,536,951

9. Income Taxes

(1) The significant components of deferred tax assets and liabilities as of February 28, 2014 and 2013 are as follows:

	Thousands of yen	
	2014	2013
Deferred tax assets:		
Accrued enterprise tax	¥ 490,270	¥ 489,207
Provision for bonuses	241,505	221,417
Depreciation and amortization	80,622	87,511
Allowance for doubtful accounts	12,036	3,682
Loss on valuation of inventories	320,148	229,991
Impairment loss	58,908	80,697
Tax laws adopted foreign subsidiaries	72,535	126,847
Accrued social insurance	34,716	31,402
Accrued business office tax	39,071	32,997
Asset retirement obligation	427,713	367,838
Allowance for accrued pension and severance costs	285,924	302,083
Other	461,166	254,676
Total deferred tax assets before net of valuation allowances	2,524,619	2,228,354
Valuation allowances	(133,212)	(110,735)
Total deferred tax assets	2,391,406	2,117,618
Deferred tax liabilities:		
Property, plant and equipment	(261,261)	(127,342)
Intangible assets	(1,510,655)	(1,288,719)
Other	(36,214)	(27,380)
Total deferred tax liabilities	(1,808,131)	(1,443,442)
Net deferred tax assets	¥ 583,275	¥ 674,176

(2) The reconciliation of the difference between the statutory tax rate and the effective tax rate for the years ended February 28, 2014 and 2013 are as follows:

	2014	2013
Statutory tax rate	38.0%	40.6%
Adjustments:		
Income taxes on retained earnings of family company	2.5%	2.1%
Tax rate difference in subsidiaries	(1.3%)	(0.9%)
Amortization of goodwill	1.2%	0.7%
Other	(0.4%)	0.3%
Effective tax rate	40.0%	42.8%

(3) Change in the income tax rate after the balance sheet date

Following the promulgation on March 31, 2014 of "Act for Partial revision of the Income Tax Act, etc." (Act No. 10 of 2014), the special corporate tax for reconstruction will not be imposed from the years beginning on or after April l, 2014. As a result of this application, the effective tax rates, which are used to calculate deferred income taxes, will be reduced from 38.01% to 35.64% for temporary differences that are expected to be eliminated in the year beginning on March 1, 2015. The impact of this change in tax rate on consolidated financial statements is immaterial.

10. Asset Retirement Obligations

(1) Asset retirement obligations recorded in the Consolidated Financial Statements.

(a) Summary of asset retirement obligations

The Company recorded asset retirement obligations mainly related to the obligation to return stores to their original condition upon termination of their lease contracts.

(b) Calculation method of the asset retirement obligations

In the calculation process of asset retirement obligations, the Company estimates terms of use between 3 and 6 years and use government bond interest rates as discount rates.

(c) Changes in the total amounts of applicable asset retirement obligations in the year ended February 28, 2014 and 2013

	Thousands of yen	
	2014	2013
As of March 1	¥ 236,069	¥ 147,762
Increase due to acquisition of property, plant and equipment	20,725	72,610
Adjustment due to passage of time	10,119	5,541
Decrease due to settlement of asset retirement obligations	(22,380)	(5,567)
Others	25,973	15,723
As of February 28	¥ 270,506	¥ 236,069

(2) Asset retirement obligations not included in the consolidated balance sheets

Asset retirement obligations for leasehold contracts of certain offices and stores, for which the related amount could not be reasonably estimated because the period of use of the properties is uncertain and there is no current plan to vacate the properties, are not included in the consolidated balance sheets.

For certain lease and guarantee deposits, instead of recording asset retirement obligations as liability, a reasonable estimate of the amount of deposits from rental properties, that cannot be recovered at the end of the leasehold contracts, is made, and the portion for the corresponding year is recorded as expenses. Lease and guarantee deposits that are expected not to be recovered at the end of the leasehold contracts are ¥956,151 thousand and ¥1,018,497 thousand as of February 28, 2014 and 2013, respectively.

11. Commitment and Contingencies

The amount of assets pledged as collateral by the Company and corresponding liabilities as of February 28, 2014 and 2013 are as follows:

2014

Assets pledged:	Thousands of yen	Corresponding liabilities:	Thousands of yen
Land	¥ 584,000	Accounts payable	¥ 79,570
Cash and deposits	¥ 114,630	Accounts payable	¥ 45,928
		Bank loans	264,040

Note: Total assets of LaCrosse Footwear, Inc. (¥9,891,249 thousand) are pledged for a commitment line agreement.

2013

Assets pledged:	Thousands of yen	Corresponding liabilities:	Thousands of yen
Lease and guarantee deposits	¥ 810	Bank loans	¥ 580,484
Cash and deposits	¥ 140,317	Accounts payable	¥ 42,058
		Bank loans	280,009

Note: Total assets of LaCrosse Footwear, Inc. (¥7,871,203 thousand) are pledged for a commitment line agreement.

12. Net Assets

Net assets comprise three subsections, which are shareholders' equity, accumulated other comprehensive income, and minority interests in consolidated subsidiaries.

The Japanese Corporate Law (the "Law") became effective on May 1, 2006, replacing the Japanese Commercial Code (the "Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006, and for the years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of its board of directors, designate an amount not exceeding one-half of the prices of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying Consolidated Balance Sheets.

Under the Code, a company is required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the board of directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by a resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that a company can distribute as dividends is calculated based on the Non-Consolidated Financial Statements of the Company in accordance with the Law.

At the annual shareholders' meeting, held on May 28, 2014, the shareholders approved cash dividends amounting to ¥2,258,827 thousand. Such appropriations have not been accrued in the Consolidated Financial Statements as of February 28, 2014. Such appropriations are recognized in the period in which they are approved by the shareholders.

13. Other comprehensive income

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income for the year ended February 28, 2014 and 2013:

	Thousands of yen	
	2014	2013
Net unrealized gains on available-for-sale securities:		
Amount arising during the year	¥ 15,834	¥ 14,760
Reclassification adjustments for gains and losses included in net income	—	16,582
Net unrealized gains on available-for-sale securities before tax	15,834	31,342
Tax effects	(6,018)	(12,163)
Net unrealized gains on available-for-sale securities	9,815	19,178
Foreign currency translation adjustments:		
Amount arising during the year	6,113,174	3,651,247
Total other comprehensive income	¥ 6,122,990	¥ 3,670,426

14. Supplementary profit and loss information

(1) Components of gain on sales of noncurrent assets for the years ended February 28, 2014 and 2013 are as follows:

	Thousands of yen	
	2014	2013
Tools, furniture and fixtures	¥ 46	¥ —
Vehicles	889	545
Total	¥ 935	¥ 545

(2) Components of loss on sales of noncurrent assets for the years ended February 28, 2014 and 2013 are as follows:

	Thousands of yen	
	2014	2013
Vehicles	¥ —	¥ 343
Total	¥ —	¥ 343

(3) Components of loss on retirement of noncurrent assets for the years ended February 28, 2014 and 2013 are as follows:

	Thousands of yen	
	2014	2013
Buildings and structures	¥ 27,781	¥ 9,943
Tools, furniture and fixtures	61,623	49,313
Software	3,909	76
Store removal expenses	81,835	55,399
Total	¥ 175,150	¥ 114,733

15. Impairment loss on property, plant and equipment

For the years ended February 28, 2014 and 2013, the Company recognized ¥263,840 thousand and ¥408,046 thousand of impairment loss, respectively, on the following groups of assets:

			Thousands of yen
Description	Location	Classification	2014
Stores	Utazu town, Ayauta, Kagawa. and other. 75 stores (Close, 21 stores and renewals, 54 stores).	Buildings	¥ 247,358
		Tools, furniture and fixtures	16,481
		Total impairment loss	¥ 263,840

			Thousands of yen
Description	Location	Classification	2013
Stores	Isezaki city, Gunma. and other. 74 stores (Close, 20 stores and renewals, 54 stores).	Buildings	¥ 372,672
		Tools, furniture and fixtures	35,374
		Total impairment loss	¥ 408,046

Note: No impairment loss was allocated to leased properties for the years ended February 28, 2014 and 2013.

The Company groups its fixed assets by store, which is the minimum cash-generating unit. The book values of stores which are expected to close or renew, or which incurred consecutive operating losses were reduced to recoverable amounts, and such deducted amounts were recorded as an impairment loss. Values in use were used as recoverable amounts and relevant assets were evaluated by discounting estimated future cash flows to which the 5% discount rates was applied.

16. Per Share Information

Net income and cash dividends per share for the years ended February 28, 2014 and 2013, and net assets per share as of February 28, 2014 and 2013 are as follows:

	Yen	
	2014	2013
Net income per share:		
Basic	**¥ 265.48**	¥ 229.73
Diluted (*)	**242.33**	228.30
Net assets per share:		
Basic	**¥ 1,747.10**	¥ 1,453.95
Cash dividends per share	**¥ 50.00**	¥ 50.00

Basis for the calculation of basic and diluted net income per share for the years ended February 28, 2014 and 2013 are as follows:

	Thousands of yen	
	2014	2013
Basic:		
Net income	**¥ 19,989,067**	¥ 17,297,577
Net income pertaining to common shareholders	**19,989,067**	17,297,577
Weighted-average number of shares of common stock outstanding (shares)	**75,294,265**	75,294,265
Diluted:		
Adjustments of net income	—	—
Effect of dilutive securities – convertible bonds (shares)	**7,192,676**	7,192,676

Note: There is no item which had not been included in the calculation of diluted net income per share due to no dilutive effect.

17. Related Party Transaction

Information of the related parties is as follows:

Related party	Classification	Address	Capital and investments	Business	Voting rights (held)
Masahiro Miki	Major shareholder	—	—	—	Directly 28.39%
Michiko Miki	Major shareholder	—	—	—	Directly 12.59%
E.M Planning, LLC.	Company in which major shareholders and their relatives own majority of voting rights	Shibuya ward, Tokyo	¥ 10,000 thousand	Real estate	Directly 27.39%
Hamanishi Building Co.	Company in which major shareholders and their relatives own majority of voting rights	Nishi ward, Yokohama	¥ 43,440 thousand	Real estate	—

Transactions between the Company and the related parties for the years ended February 28, 2014 and 2013 are as follows:

	Thousands of yen	
	2014	2013
Balance of the transactions:		
Masahiro Miki:		
Prepaid expense	¥ 16,747	¥ 16,747
Lease and guarantee deposits	147,500	147,500
Michiko Miki:		
Prepaid expense	14,437	14,437
Lease and guarantee deposits	97,500	97,500
E.M Planning, LLC.:		
Prepaid expense	39,350	24,725
Lease and guarantee deposits	377,856	247,000
Accrued expenses	541	—
Hamanishi Building Co.:		
Prepaid expense	16,800	16,800
Lease and guarantee deposits	160,000	160,000
Transaction amounts:		
Masahiro Miki:		
Leasing of buildings	¥ 191,400	¥ 191,400
Michiko Miki:		
Leasing of buildings	165,000	165,000
E.M Planning, LLC.:		
Leasing of buildings	436,377	282,571
Advances	28,800,000	—
Receipt of commission	828	—
Hamanishi Building Co.:		
Leasing of buildings	192,000	192,000

Note 1: Monthly rent and lease deposit in lease contracts are determined based on prevailing market prices. A part of leasing transactions of buildings is nominally conducted via trust bank.

Note 2: The transaction amount is exclusive of consumption taxes.

18. Segment Information

(1) Overview of reportable segments

With respect to its reportable segments, the Company is able to obtain delineated financial data from its structural units. Its segments are subject to periodical review for the purpose of making decisions on allocation of managerial resources and evaluating business performance by the Board of Directors.

The Group operates shoes retail stores, "ABC-MART" all over the world and sells retail products mainly shoes. In Japan, The Company, ABC-MART, INC., operates its business, and in overseas, ABC-MART, KOREA, ABC-MART, TAIWAN and LaCrosse Footwear, Inc. (U.S.A) operate their business independently as management units. Therefore, the Group consists of geographical reportable segments such as "Domestic" and "Overseas". Each reportable segment sells shoes and other shoes related clothing and accessories.

(2) Calculation methodology for revenues from operations, income or losses, assets and liabilities, and other items for each reportable segment

The accounting treatment of each reportable segment is in line with Note 2. "Summary of Significant Accounting Policies". Segment income as reported in this section is based on operating income. Intersegment revenues and transfers are calculated at prevailing market prices.

(3) Information on sales, income, assets and other monetary items for each reportable segment

	Thousands of yen				
	2014				
	Reportable segments				Consolidated total
	Domestic	Overseas	Total	Adjustments	
Sales:					
Customers	¥ 145,187,331	¥ 42,857,687	¥ 188,045,018	¥ —	¥ 188,045,018
Intersegment	534,661	233,886	768,547	(768,547)	—
Total revenue	¥ 145,721,992	¥ 43,091,574	¥ 188,813,566	¥ (768,547)	¥ 188,045,018
Segment income	¥ 31,358,352	¥ 2,782,149	¥ 34,140,501	¥ (14,477)	¥ 34,126,024
Segment assets	149,087,596	47,903,934	196,991,530	(110,498)	196,881,032
Other items:					
Depreciation and amortization	2,349,827	1,536,096	3,885,923	—	3,885,923
Amortization of goodwill	—	1,023,343	1,023,343	—	1,023,343
Net increase in property, plant and equipment and intangible assets	2,991,859	1,977,519	4,969,378	—	4,969,378

	Thousands of yen				
	2013				
	Reportable segments				Consolidated total
	Domestic	Overseas	Total	Adjustments	
Sales:					
Customers	¥ 131,773,827	¥ 27,644,313	¥ 159,418,140	¥ —	¥ 159,418,140
Intersegment	358,218	86,252	444,470	(444,470)	—
Total revenue	¥ 132,132,045	¥ 27,730,565	¥ 159,862,610	¥ (447,470)	¥ 159,418,140
Segment income	¥ 28,759,548	¥ 1,611,556	¥ 30,371,104	¥ 4,012	¥ 30,375,117
Segment assets	135,687,435	39,097,224	174,784,659	(625,238)	174,159,421
Other items:					
Depreciation and amortization	2,308,166	942,711	3,250,878	—	3,250,878
Amortization of goodwill	—	549,441	549,441	—	549,441
Net increase in property, plant and equipment and intangible assets	3,385,938	11,734,330	15,120,269	—	15,120,269

Note 1: The adjustments of ¥(14,477) thousand and ¥4,012 thousand for segment income and ¥(110,498) thousand and ¥(625,238) thousand for segment assets are eliminations of intersegment transactions for the years ended February 28, 2014 and 2013, respectively.

Note 2: Segment income and segment assets are reconciled with the operating income in the Consolidated Statements of Income and total assets in Consolidated Balance Sheet, respectively.

(Related information)

(1) Information by products and services

Information is omitted since sales to customers of single category of products and services exceed 90% of consolidated net sales.

(2) Information by region

Information is omitted since it is described in the segment information.

(3) Information by major customers

Information is omitted since there is no customer accounting for 10% or more of consolidated net sales.

(4) Information regarding impairment loss on fixed assets by reportable segment for the year ended February 28, 2014 and 2013 is as follows:

	Thousands of yen				
	2014				
	Domestic	Overseas	Total	Adjustments	Consolidated total
Impairment loss	¥ 263,840	¥ —	¥ 263,840	¥ —	¥ 263,840

	Thousands of yen				
	2013				
	Domestic	Overseas	Total	Adjustments	Consolidated total
Impairment loss	¥ 395,001	¥ 13,045	¥ 408,046	¥ —	¥ 408,046

(5) Information on amortization and outstanding balance of goodwill by reportable segment for the year ended February 28, 2014 and 2013 is as follows:

	Thousands of yen				
	2014				
	Domestic	Overseas	Total	Adjustments	Consolidated total
Amortization	¥ —	¥ 1,023,343	¥ 1,023,343	¥ —	¥ 1,023,343
Balance at the end of year	¥ —	¥ 7,195,840	¥ 7,195,840	¥ —	¥ 7,195,840

	Thousands of yen				
	2013				
	Domestic	Overseas	Total	Adjustments	Consolidated total
Amortization	¥ —	¥ 549,441	¥ 549,441	¥ —	¥ 549,441
Balance at the end of year	¥ —	¥ 6,821,704	¥ 6,821,704	¥ —	¥ 6,821,704

(6) Information regarding gain on negative goodwill by reportable segment

None

19. Subsequent Event

Subsequent to February 28, 2014, the Company's Board of Directors declared a year-end cash dividend of ¥2,258,827 thousand to be payable on May 29, 2014 to shareholders on record on February 28, 2014. The dividend declared was approved by the shareholders at the meeting held on May 28, 2014.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of ABC-MART, INC.

We have audited the accompanying consolidated financial statements of ABC-MART, INC. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at February 28, 2014 and 2013, and the consolidated statement of income, comprehensive income, statement of changes in net assets and statement of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ABC-MART, INC. and its consolidated subsidiaries as at February 28, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Grant Thornton Taiyo ASG LLC

May 29, 2014
Tokyo, Japan

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