# ABC-MART, INC.

## Annual Report 2015

## For the year ended February 28, 2015

# Contents

# Consolidated Balance Sheets

ABC-MART, INC. and consolidated subsidiaries
As of February 28, 2015 and 2014

| | Millions of yen | |
|---|---|---|
| **ASSETS** | 2015 | 2014 |
| Current Assets: | | |
| Cash and deposits (Notes 3, 5 and 12) | ¥ 96,493 | ¥ 78,884 |
| Notes and accounts receivable – trade (Note 5) | 7,873 | 6,463 |
| Less — allowance for doubtful accounts (Note 5) | (41) | (30) |
| Net trade receivables | 7,832 | 6,432 |
| Inventories (Note 4) | 49,367 | 39,455 |
| Deferred tax assets (Note 9) | 2,049 | 1,414 |
| Other (Note 18) | 4,555 | 3,355 |
| Total current assets | 160,298 | 129,542 |
| Noncurrent assets: | | |
| Property, plant and equipment (Notes 15 and 16): | | |
| Buildings and structures (Notes 12 and 18) | 25,395 | 22,758 |
| Tools, furniture and fixtures | 9,006 | 8,012 |
| Land (Notes 12 and 18) | 19,629 | 17,696 |
| Constructions in progress | 327 | 90 |
| Other | 438 | 593 |
| Total | 54,797 | 49,152 |
| Less accumulated depreciation | (18,681) | (16,367) |
| Net property, plant and equipment | 36,115 | 32,784 |
| Intangible assets: | | |
| Trademark | 2,948 | 2,682 |
| Goodwill | 7,511 | 7,195 |
| Other (Note 15) | 2,083 | 1,770 |
| Total intangible assets | 12,543 | 11,649 |
| Investments and other assets: | | |
| Investment in securities (Notes 5 and 6) | 60 | 125 |
| Investment in non-consolidated subsidiaries (Note 5) | 102 | 94 |
| Long-term loans receivable (Note 5) | 2,458 | 2,575 |
| Lease and guarantee deposits (Notes 5, 11 and 18) | 20,892 | 18,960 |
| Other (Note 9) | 1,208 | 1,150 |
| Less-allowance for doubtful accounts | (18) | (1) |
| Total investments and other assets | 24,704 | 22,904 |
| Total noncurrent assets | 73,363 | 67,338 |
| Total assets | ¥ 233,661 | ¥ 196,881 |

*See accompanying notes to consolidated financial statements.*

## Consolidated Balance Sheets

ABC-MART, INC. and consolidated subsidiaries
As of February 28, 2015 and 2014

| | Millions of yen | |
|---|---|---|
| **LIABILITIES** | **2015** | **2014** |
| Current Liabilities: | | |
| Notes and accounts payable: | | |
| Trade (Notes 5 and 12) | ¥ 14,176 | ¥ 8,551 |
| Facilities (Notes 5 and 12) | 722 | 778 |
| Short-term loans payable (Notes 5 and 8) | 6,355 | 3,278 |
| Current portion of long-term loans payable (Notes 5, 8 and 12) | 1,000 | 1,002 |
| Income taxes payable (Note 5) | 9,815 | 7,113 |
| Provision for bonuses | 702 | 654 |
| Provision | 291 | 234 |
| Asset retirement obligations (Note 11) | 14 | 26 |
| Other (Notes 8 and 18) | 7,992 | 5,722 |
| Total current liabilities | 41,070 | 27,362 |
| Noncurrent liabilities: | | |
| Convertible bonds (Notes 5 and 8) | 33,000 | 33,000 |
| Long-term loans payable (Notes 5, 8 and 12) | 500 | 1,500 |
| Provision | 113 | 658 |
| Net defined benefit liability (Note 10) | 870 | — |
| Asset retirement obligations (Note 11) | 291 | 243 |
| Other (Notes 8, 9 and 12) | 2,280 | 2,197 |
| Total noncurrent liabilities | 37,056 | 37,599 |
| Total liabilities | 78,126 | 64,961 |
| Commitments and contingent liabilities (Note 12) | | |
| NET ASSETS (Note 13) | | |
| Shareholders' equity: | | |
| Common stock, authorized 334,500,000 shares, issued 75,294,429 shares in 2015 and 2014 | 3,482 | 3,482 |
| Capital surplus | 7,488 | 7,488 |
| Retained earnings | 131,413 | 112,310 |
| Treasury stock, at cost, 208 and 164 shares in 2015 and 2014, respectively | (0) | (0) |
| Total shareholders' equity | 142,384 | 123,281 |
| Accumulated other comprehensive income (Note 14): | | |
| Net unrealized gains on available-for-sale securities | 14 | 23 |
| Foreign currency translation adjustments | 12,683 | 8,241 |
| Total accumulated other comprehensive income | 12,697 | 8,265 |
| Minority interests in consolidated subsidiaries | 453 | 372 |
| Total net assets | 155,535 | 131,919 |
| Total liabilities and net assets | ¥ 233,661 | ¥ 196,881 |

*See accompanying notes to consolidated financial statements.*

## Consolidated Statements of Income

ABC-MART, INC. and consolidated subsidiaries
For the years ended February 28, 2015 and 2014

| | Millions of yen | |
|---|---|---|
| | 2015 | 2014 |
| Net sales | ¥ 213,584 | ¥ 188,045 |
| Cost of sales | 98,523 | 84,317 |
| Gross profit | 115,060 | 103,727 |
| Selling, general and administrative expenses: | | |
| Packing and transportation expenses | 2,435 | 2,162 |
| Advertising expenses | 6,311 | 7,263 |
| Warehousing expenses | 2,226 | 2,044 |
| Directors' compensations, salaries and allowances | 20,235 | 18,737 |
| Bonuses | 1,561 | 1,139 |
| Provision for bonuses | 696 | 647 |
| Retirement benefit expenses (Note 10) | 523 | 104 |
| Legal and employee benefits expenses | 2,775 | 2,418 |
| Rents (Note 18) | 19,885 | 17,738 |
| Depreciation and amortization | 4,019 | 3,885 |
| Utilities expenses | 2,189 | 2,050 |
| Commission fee | 4,144 | 3,461 |
| Taxes and dues | 873 | 873 |
| Amortization of goodwill | 1,161 | 1,023 |
| Other | 6,369 | 6,051 |
| Total | 75,408 | 69,601 |
| Operating income | ¥ 39,651 | ¥ 34,126 |

*(Continued)*

| | Millions of yen | |
|---|---|---|
| | 2015 | 2014 |
| Other income (expenses): | | |
| Interest income | ¥ 169 | ¥ 79 |
| Interest expenses | (54) | (53) |
| Foreign exchange gains | — | 60 |
| Foreign exchange losses | (67) | — |
| Gain on cancellation of derivatives | — | 1 |
| Loss on cancellation of derivatives | — | (1,051) |
| Rent income | 743 | 664 |
| Rent expenses | (230) | (347) |
| Advertising income | 56 | 62 |
| Gain on sales of noncurrent assets (Note 15) | 4 | 0 |
| Loss on retirement of noncurrent assets (Note 15) | (171) | (175) |
| Impairment loss (Note 16) | (253) | (263) |
| Loss on disposal of merchandise | — | (95) |
| Other, net | 137 | 222 |
| Total | 333 | (894) |
| Income before income taxes and minority interests | 39,985 | 33,231 |
| Income taxes (Note 9): | | |
| Current | 16,100 | 13,598 |
| Deferred | (536) | (319) |
| Total | 15,564 | 13,278 |
| Income before minority interests | 24,421 | 19,952 |
| Minority interests | 47 | (36) |
| Net income | ¥ 24,373 | ¥ 19,989 |

*See accompanying notes to consolidated financial statements.*

## Consolidated Statements of Comprehensive Income

ABC-MART, INC. and consolidated subsidiaries
For the years ended February 28, 2015 and 2014

| | Millions of yen | |
|---|---|---|
| | 2015 | 2014 |
| Income before minority interests | ¥ 24,421 | ¥ 19,952 |
| Other comprehensive income (Note 14): | | |
| Net unrealized gains (losses) on available-for-sale securities | (8) | 9 |
| Foreign currency translation adjustments | 4,474 | 6,113 |
| Total other comprehensive income | 4,466 | 6,122 |
| Comprehensive Income | 28,887 | ¥ 26,075 |
| Comprehensive income attributable to: | | |
| Shareholders of ABC-MART, INC. | ¥ 28,806 | ¥ 26,062 |
| Minority interests | 80 | 12 |

*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, 2015 and 2014

| | Millions 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 28, 2013** | ¥ 3,482 | ¥ 7,488 | ¥ 96,311 | ¥ (0) | ¥ 13 | ¥ 2,177 | ¥ 290 | ¥ 109,764 |
| Net income | − | − | 19,989 | − | − | − | − | 19,989 |
| Dividends from surplus | − | − | (3,990) | − | − | − | − | (3,990) |
| Net change during the year | − | − | − | − | 9 | 6,064 | 82 | 6,156 |
| **Balance at February 28, 2014** | 3,482 | 7,488 | 112,310 | (0) | 23 | 8,241 | 372 | 131,919 |
| Net income | − | − | 24,373 | − | − | − | − | 24,373 |
| Dividends from surplus | − | − | (5,270) | − | − | − | − | (5,270) |
| Purchase of treasury stock | − | − | − | (0) | − | − | − | (0) |
| Net change during the year | − | − | − | (0) | (8) | 4,441 | 80 | 4,513 |
| **Balance at February 28, 2015** | ¥ 3,482 | ¥ 7,488 | ¥ 131,413 | ¥ (0) | ¥ 14 | ¥ 12,683 | ¥ 453 | ¥ 155,535 |

*See accompanying notes to consolidated financial statements.*

## Consolidated Statements of Cash Flows

ABC-MART, INC. and consolidated subsidiaries
For the years ended February 28, 2015 and 2014

| | Millions of yen | |
|---|---|---|
| | 2015 | 2014 |
| Net cash provided by (used in) operating activities: | | |
| Net income before income taxes and minority interests | ¥ 39,985 | ¥ 33,231 |
| Depreciation and amortization | 4,019 | 3,885 |
| Increase in provision for bonuses | 46 | 8 |
| Increase in allowance for doubtful accounts | 24 | 3 |
| Interests and dividends income | (170) | (80) |
| Interest expenses | 54 | 53 |
| Foreign exchange (gains) losses | 21 | (85) |
| Loss on cancellation of derivatives | ― | 1,049 |
| Loss on sales and retirement of noncurrent assets | 166 | 174 |
| Impairment loss | 253 | 263 |
| Increase in notes and accounts receivable ― trade | (1,816) | (853) |
| Increase in inventories | (7,980) | (4,455) |
| Increase in notes and accounts payable ― trade | 4,943 | 659 |
| Other, net | 3,317 | 3,002 |
| Subtotal | 42,866 | 36,857 |
| Interest and dividends received | 147 | 56 |
| Interest expenses paid | (55) | (52) |
| Income taxes paid | (13,267) | (13,863) |
| Net cash provided by operating activities | ¥ 29,691 | ¥ 22,997 |

*(Continued)*

| | Millions of yen | |
|---|---|---|
| | 2015 | 2014 |
| Net cash provided by (used in) investing activities: | | |
| Payment for time deposits | ¥ (506) | ¥ — |
| Proceeds from withdrawal of time deposits | — | 33 |
| Payment for purchase of property, plant and equipment | (6,099) | (3,862) |
| Proceeds from sales of property, plant and equipment | 5 | 4 |
| Payment for purchase of intangible assets | (366) | (466) |
| Payment for removal of stores | (89) | (92) |
| Increase in loans receivable | (65) | (1,770) |
| Proceeds from collection of loans receivable | 101 | 85 |
| Payment for purchase of investment in a subsidiary | (8) | — |
| Payment for purchase of investment in a subsidiary resulting in change in scope of consolidation | (1,314) | — |
| Payment for lease and guarantee deposits | (2,526) | (1,993) |
| Proceeds from collection of lease and guarantee deposits | 1,316 | 586 |
| Other, net | (16) | (98) |
| Net cash used in investing activities | (9,568) | (7,573) |
| Net cash provided by (used in) financing activities: | | |
| Net increase (decrease) in short-term loans payable | 2,617 | (972) |
| Repayment of long-term loans payable | (1,003) | (1,002) |
| Cash dividends paid | (5,267) | (3,989) |
| Proceeds from share issuance to minority shareholders | — | 69 |
| Other, net | (22) | (21) |
| Net cash used in financing activities | (3,675) | (5,916) |
| Effect of exchange rate changes on cash and cash equivalents | 604 | 475 |
| Net increase in cash and cash equivalents | 17,051 | 9,983 |
| Cash and cash equivalents at beginning of period | 78,755 | 68,772 |
| Cash and cash equivalents at end of period (Note 3) | ¥ 95,807 | ¥ 78,755 |

*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, 2015 and 2014 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 million 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, 2014) with an exception of 3 non-consolidated subsidiaries due to immaterial impact on the consolidated financial statements in net sales, total assets, aggregated amount of net income and retained earnings. 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 (¥102 million and ¥94 million as of February 28, 2015 and 2014, respectively).

During the year ended February 28, 2015, the Company acquired a subsidiary of which the Company owns 100% of its shares. The subsidiary is not included in scope of consolidation due to immaterial impact 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 calculated using the declining-balance method, except for the buildings (excluding building facilities) acquired on or after April 1, 1998, which are depreciated based on the straight-line method.

Useful lives used for majority of assets are as follows:

| | |
|---|---|
| Buildings and structures | 7 to 50 years |
| Tools, furniture and fixtures | 5 to 10 years |

(b) Foreign subsidiaries:

Depreciation is calculated using the straight-line method.

(5) Intangible Assets

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

(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) Employees retirement benefit

(a) In determining the retirement benefit obligations, the Company adopts the benefit formula basis to attribute projected benefit obligations to the year ended February 28, 2015.

(b) Actuarial differences are to be charged to expenses immediately when it occurs.

(10) 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."

(11) 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.

(12) 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.

(13) 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, 2015 and 2014 consist of the following:

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| Cash and deposits | ¥ | 96,493 | ¥ | 78,884 |
| Time deposits with maturities over three months | | (686) | | (128) |
| Cash and cash equivalents at end of period | ¥ | 95,807 | ¥ | 78,755 |

## 4. Inventories

Inventories as of February 28, 2015 and 2014 consist of the following:

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| Merchandise and finished goods | ¥ | 48,362 | ¥ | 38,962 |
| Work in process | | 44 | | 13 |
| Raw materials and supplies | | 960 | | 479 |
| Total | ¥ | 49,367 | ¥ | 39,455 |

## 5. 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 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 2 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 and guarantee deposits, 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, 2015 and 2014 are as follows. Financial instruments whose fair value is deemed highly difficult to measure are excluded from the table.

| | Millions of yen | | |
|---|---|---|---|
| | 2015 | | |
| | Book value | Fair value | Difference |
| Cash and deposits | ¥ 96,493 | ¥ 96,493 | ¥ — |
| Notes and accounts receivable – trade | 7,873 | | |
| Less — allowance for doubtful accounts | (41) | | |
| Net trade receivables | 7,832 | 7,832 | — |
| Investment in securities | 40 | 40 | — |
| Long-term loans receivable | 2,458 | 2,490 | 31 |
| Lease and guarantee deposits | 17,858 | 17,033 | (825) |
| Total assets | 124,683 | 123,889 | (793) |
| Notes and accounts payable – trade | 14,176 | 14,176 | — |
| Notes payable – facilities | 722 | 722 | — |
| Short-term loans payable | 6,355 | 6,355 | — |
| Income taxes payable | 9,815 | 9,815 | — |
| Convertible bonds | 33,000 | 48,592 | 15,592 |
| Long-term loans payable (including current portion) | 1,500 | 1,505 | 5 |
| Total liabilities | ¥ 65,569 | ¥ 81,167 | ¥ 15,597 |

| | Millions of yen | | |
|---|---|---|---|
| | 2014 | | |
| | Book value | Fair value | Difference |
| Cash and deposits | ¥ 78,884 | ¥ 78,884 | ¥ — |
| Notes and accounts receivable – trade | 6,463 | | |
| Less — allowance for doubtful accounts | (30) | | |
| Net trade receivables | 6,432 | 6,432 | — |
| Investment in securities | 105 | 105 | — |
| Long-term loans receivable | 2,575 | 2,600 | 24 |
| Lease and guarantee deposits | 15,232 | 14,505 | (727) |
| Total assets | 103,229 | 102,527 | (702) |
| Notes and accounts payable – trade | 8,551 | 8,551 | — |
| Notes payable – facilities | 778 | 778 | — |
| Short-term loans payable | 3,278 | 3,278 | — |
| Income taxes payable | 7,113 | 7,113 | — |
| Convertible bonds | 33,000 | 37,042 | 4,042 |
| Long-term loans payable (including current portion) | 2,502 | 2,513 | 10 |
| Total liabilities | ¥ 55,224 | ¥ 59,277 | ¥ 4,053 |

Note 1: Items relating to the calculation of the fair value of financial 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. 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

| | Millions of yen | |
|---|---|---|
| | **2015** | 2014 |
| Investment in securities: | | |
| Non-listed securities (*1) | ¥ **20** | ¥ 20 |
| Investment in non-consolidated subsidiary: | | |
| Non-listed securities (*2) | **102** | 94 |
| Lease and guarantee deposits (*3) | **3,033** | 3,727 |

(*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

| | Millions of yen | | | |
|---|---|---|---|---|
| | **2015** | | | |
| | Within one year | After one year within five years | After five years within ten years | After ten years |
| Deposits | ¥ **96,028** | ¥ **—** | ¥ **—** | ¥ **—** |
| Notes and accounts receivable – trade | **7,873** | **—** | **—** | **—** |
| Long-term loans receivable | **160** | **641** | **1,622** | **114** |
| Lease and guarantee deposits (*) | **3,206** | **13,428** | **871** | **352** |
| Total | ¥ **107,269** | ¥ **14,069** | ¥ **2,494** | ¥ **466** |

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2014 | | | |
| | Within one year | After one year within five years | After five years within ten years | After ten years |
| Deposits | ¥ 78,573 | ¥ — | ¥ — | ¥ — |
| Notes and accounts receivable – trade | 6,463 | — | — | — |
| Investment securities: | | | | |
| Available-for-securities with maturities: | | | | |
| Debt securities | 63 | — | — | — |
| Long-term loans receivable | 75 | 630 | 1,693 | 174 |
| Lease and guarantee deposits (*) | 2,800 | 11,030 | 1,020 | 380 |
| Total | ¥ 87,976 | ¥ 11,661 | ¥ 2,714 | ¥ 555 |

(*) 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".

## 6. Securities

Book value and acquisition cost of available-for-sale securities as of February 28, 2015 and 2014 are as follows:

| | Millions of yen | | |
|---|---|---|---|
| | 2015 | | |
| | Book value | Acquisition cost | Difference |
| Securities with book value exceeding acquisition cost: | | | |
| Equity securities | ¥ 40 | ¥ 17 | ¥ 22 |
| Debt securities | — | — | — |
| Other | — | — | — |
| Sub-total | 40 | 17 | 22 |
| Securities with book value not exceeding acquisition cost: | | | |
| Equity securities | — | — | — |
| Debt securities | — | — | — |
| Other | 20 | 20 | — |
| Sub-total | 20 | 20 | — |
| Total | ¥ 60 | ¥ 38 | ¥ 22 |

| | Millions of yen | | |
|---|---|---|---|
| | 2014 | | |
| | Book value | Acquisition cost | Difference |
| Securities with book value exceeding acquisition cost: | | | |
| Equity securities | ¥ 31 | ¥ 17 | ¥ 14 |
| Debt securities | 73 | 49 | 23 |
| Other | — | — | — |
| Sub-total | 105 | 67 | 37 |
| Securities with book value not exceeding acquisition cost: | | | |
| Equity securities | — | — | — |
| Debt securities | — | — | — |
| Other | 20 | 20 | — |
| Sub-total | 20 | 20 | — |
| Total | ¥ 125 | ¥ 87 | ¥ 37 |

## 7. Leases

(1) 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, 2015 and 2014 are as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| Due within one year | ¥ | 2,337 | ¥ | 1,692 |
| Due after one year | | 4,243 | | 4,010 |
| Total | ¥ | 6,581 | ¥ | 5,703 |

## 8. Short-Term and Long-Term Debt

Short-term and long-term debt as of February 28, 2015 and 2014 consist of the following:

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| Short-term loans payable | ¥ | 6,355 | ¥ | 3,278 |
| Current portion of long-term loans payable | | 1,000 | | 1,002 |
| Current portion of lease obligations | | 21 | | 21 |
| Long-term loans payable (excluding current portion) | | 500 | | 1,500 |
| Lease obligations (excluding current portion) | | 16 | | 38 |
| Convertible bonds | | 33,000 | | 33,000 |
| Total short-term and long-term debt | ¥ | 40,893 | ¥ | 38,840 |

| | | |
|---|---|---|
| Weighted-average rate of interest: | | |
| Short-term loans payable | 0.78% | 0.49% |
| Current portion of long-term loans payable | 0.88% | 0.88% |
| Current portion of lease obligations | 1.91% | 1.90% |
| Long-term loans payable (excluding current portion) | 0.88% | 0.88% |
| Lease obligations (excluding current portion) | 1.98% | 1.92% |
| Convertible bonds | — | — |

On February 5, 2013, the Company issued ¥ 33,000 million 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) (Note 1) | ¥ 4,588 |
| Number of shares of common stock (Note 2) | 7,192,676 |
| Issue price of bonds (millions of yen) | ¥ 33,000 |
| 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, 2015 | — |

Note 1: Conversion price has been changed from ¥ 4,588 to ¥ 4,556.50 on March 1, 2015 because the approval of a year-end cash dividend by the shareholders at the meeting held on May 27, 2015 corresponds to the adjustment clause of bonds guideline.

Note 2: 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, 2015.

Note 3: 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, 2015 are summarized as follows:

| | Millions of yen |
|---|---|
| **Year ending February 28 or 29,** | **2015** |
| 2017 | ¥ 500 |
| 2018 | 33,000 |
| 2019 | — |
| 2020 | — |
| Total long-term debt | ¥ 33,500 |

## 9. Income Taxes

(1) The significant components of deferred tax assets and liabilities as of February 28, 2015 and 2014 are as follows:

| | Millions of yen | |
|---|---|---|
| | 2015 | 2014 |
| Deferred tax assets: | | |
| Accrued enterprise tax | ¥ 615 | ¥ 490 |
| Provision for bonuses | 243 | 241 |
| Depreciation and amortization | 65 | 80 |
| Allowance for doubtful accounts | 17 | 12 |
| Loss on valuation of inventories | 771 | 320 |
| Impairment loss | 54 | 58 |
| Tax laws adopted foreign subsidiaries | 45 | 72 |
| Accrued social insurance | 35 | 34 |
| Accrued business office tax | 39 | 39 |
| Asset retirement obligation | 530 | 427 |
| Allowance for accrued pension and severance costs | — | 285 |
| Net defined benefit liability | 321 | — |
| Other | 570 | 461 |
| Total deferred tax assets before net of valuation allowances | 3,311 | 2,524 |
| Valuation allowances | (121) | (133) |
| Total deferred tax assets | 3,190 | 2,391 |
| Deferred tax liabilities: | | |
| Property, plant and equipment | (276) | (261) |
| Intangible assets | (1,662) | (1,510) |
| Other | (54) | (36) |
| Total deferred tax liabilities | (1,993) | (1,808) |
| Net deferred tax assets | ¥ 1,197 | ¥ 583 |

(2) The reconciliation of the difference between the statutory tax rate and the effective tax rate for the years ended February 28, 2015 and 2014 are as follows:

| | 2015 | 2014 |
|---|---|---|
| Statutory tax rate | 38.0% | 38.0% |
| Adjustments: | | |
| Income taxes on retained earnings of family company | 1.2% | 2.5% |
| Tax rate difference in subsidiaries | (1.5%) | (1.3%) |
| Amortization of goodwill | 1.1% | 1.2% |
| Other | 0.2% | (0.4%) |
| Effective tax rate | 38.9% | 40.0% |

(3) Correction of the amount of deferred tax assets and deferred tax liabilities due to the change of corporate tax rates, etc.

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 were not be imposed from the years beginning on or after April l, 2014. As a result of this application, the effective tax rates, which were used to calculate deferred income taxes, was 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.

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

"Act for Partial revision of the Income tax Act, etc." (Act No. 9 of 2015) and "Act for Partial revision of the Local Taxation Act, etc." (Act No.2 of 2015) were promulgated on March 31, 2015, and it has been decided that corporate tax rates will be reduced in the year beginning on or after April 1, 2015. Associated with this, the statutory effective tax rate used for the calculation of deferred tax assets and deferred tax liabilities will be reduced from the previous 35.64% to 33.06% for temporary differences that are expected to be realized in the year beginning on March 1, 2016 and to 32.30% for temporary differences that are expected to be realized in or after the year beginning on March 1, 2017. The impact of this change in tax rate on consolidated financial statements is immaterial.

## 10. Retirement Benefits

(1) Retirement benefit plans adopted

A part of subsidiaries have a defined benefit pension plan and a defined contribution plan for employees' retirement benefit.

Under the defined benefit plan (funded plan), lump-sum payments and/or pension payments, the amounts of which are determined by reference to their basic salaries are to be made.

(2) Defined benefit plan

(a) The reconciliation of projected benefit obligations for the year ended February 28, 2015 is as follows:

| | Millions of yen | |
|---|---|---|
| | 2015 | |
| As of March 1, 2014 | ¥ | 2,424 |
| Service cost | | 222 |
| Interest cost | | 102 |
| Actuarial gain/loss | | 297 |
| Benefit paid | | (244) |
| Translation adjustments | | 372 |
| As of February 28, 2015 | ¥ | 3,175 |

(b) The reconciliation of plan assets for the year ended February 28, 2015 is as follows:

| | Millions of yen | |
|---|---|---|
| | 2015 | |
| As of March 1, 2014 | ¥ | 1,857 |
| Expected return on plan assets | | 134 |
| Actuarial gain/loss | | (59) |
| Employee contribution | | 347 |
| Benefit paid | | (241) |
| Translation adjustments | | 268 |
| Other | | (1) |
| As of February 28, 2015 | ¥ | 2,305 |

(c) The reconciliation between projected benefit obligations and plan assets, and net defined benefit liability as of February 28, 2015 is as follows:

| | Millions of yen | |
|---|---|---|
| | 2015 | |
| Projected benefit obligations | ¥ | 3,175 |
| Fair value of plan assets | | (2,305) |
| Net of pension assets and liabilities | ¥ | 870 |
| | | |
| Net defined benefit liabilities | ¥ | 870 |
| Net of pension assets and liabilities | ¥ | 870 |

(d) The components of net periodic benefit costs for the year ended February 28, 2015 are as follows:

| | Millions of yen | |
|---|---|---|
| | 2015 | |
| Service cost | ¥ | 222 |
| Interest cost | | 102 |
| Expected return on plan assets | | (134) |
| Recognized actuarial loss | | 258 |
| Other | | 1 |
| Total | ¥ | 450 |

(e) The allocation of the plan assets as of the end of February 28, 2015 is as follows:

| | Millions of yen |
|---|---|
| | 2015 |
| Debt securities | 49.9% |
| Equity securities | 33.0% |
| Cash and deposits | 17.1% |
| Other | – |
| Total | 100.0% |

In determining the expected rate of return on plan assets, the subsidiary considers the current and projected asset allocations, as well as expected investment returns for each category of the plan assets.

(f) Assumptions used as of the end of February 28, 2015 are as follows (shown in weighted average percentage):

| | |
|---|---|
| Discount rate | 3.6% |
| Expected rate of return on plan assets | 7.5% |
| Rate of salary increase | 5.0% |

(3) Defined contribution plan

The required contributions for the defined contribution plan for the consolidated subsidiaries are 73 million for the year ended February 28, 2015.

## 11. 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, 2015 and 2014

| | Millions of yen | |
|---|---|---|
| | 2015 | 2014 |
| As of March 1 | ¥ 270 | ¥ 236 |
| Increase due to acquisition of property, plant and equipment | 34 | 20 |
| Adjustment due to passage of time | 3 | 10 |
| Decrease due to settlement of asset retirement obligations | (23) | (22) |
| Others | 20 | 25 |
| As of February 28 | ¥ 305 | ¥ 270 |

(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 ¥916 million and ¥956 million as of February 28, 2015 and 2014, respectively.

## 12. Commitment and Contingencies

(1) Assets pledged

The amount of assets pledged as collateral by the Company and corresponding liabilities as of February 28, 2015 and 2014 are as follows:

**2015**

| Assets pledged: | Millions of yen | | Corresponding liabilities: | Millions of yen | |
|---|---|---|---|---|---|
| Buildings and structures and Land | ¥ | 711 | Accounts payable | ¥ | 201 |
| | | | Other non-current liabilities | | 42 |
| Cash and deposits | ¥ | 123 | Accounts payable | ¥ | 60 |
| | | | Bank loans | | 271 |

Note: Total assets of LaCrosse Footwear, Inc. (¥15,007 million) are pledged for a commitment line agreement.

2014

| Assets pledged: | Millions of yen | | Corresponding liabilities: | Millions of yen | |
|---|---|---|---|---|---|
| Land | ¥ | 584 | Accounts payable | ¥ | 79 |
| Cash and deposits | ¥ | 114 | Accounts payable | ¥ | 45 |
| | | | Bank loans | | 264 |

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

(2) Notes payable with maturities

Notes payable with maturities at the end of the year are processed at the date of exchange. Following notes payable with maturities as of February 28, 2015 are included in the consolidated balance sheet because February 28, 2015 was bank holiday.

| | Millions of yen | |
|---|---|---|
| | **2015** | |
| Notes payable: | | |
| Trade | ¥ | 2,598 |
| Facilities | | 162 |

## 13. 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 27, 2015, the shareholders approved cash dividends amounting to ¥4,517 million. Such appropriations have not been accrued in the Consolidated Financial Statements as of February 28, 2015. Such appropriations are recognized in the period in which they are approved by the shareholders.

## 14. 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, 2015 and 2014:

| | Millions of yen | |
|---|---|---|
| | 2015 | 2014 |
| Net unrealized gains (losses) on available-for-sale securities: | | |
| Amount arising during the year | ¥ (25) | ¥ 15 |
| Reclassification adjustments for gains and losses included in net income | 10 | ― |
| Net unrealized gains (losses) on available-for-sale securities before tax | (14) | 15 |
| Tax effects | 6 | (6) |
| Net unrealized gains (losses) on available-for-sale securities | (8) | 9 |
| Foreign currency translation adjustments: | | |
| Amount arising during the year | 4,474 | 6,113 |
| Total other comprehensive income | ¥ 4,466 | ¥ 6,122 |

## 15. Supplementary profit and loss information

(1) Components of gain on sales of noncurrent assets for the years ended February 28, 2015 and 2014 are as follows:

| | Millions of yen | |
|---|---|---|
| | 2015 | 2014 |
| Tools, furniture and fixtures | ¥ ― | ¥ 0 |
| Vehicles | 4 | 0 |
| Total | ¥ 4 | ¥ 0 |

(2) Components of loss on retirement of noncurrent assets for the years ended February 28, 2015 and 2014 are as follows:

| | Millions of yen | |
|---|---|---|
| | 2015 | 2014 |
| Buildings and structures | ¥ 10 | ¥ 27 |
| Tools, furniture and fixtures | 79 | 61 |
| Vehicles | 5 | ― |
| Software | 1 | 3 |
| Store removal expenses | 75 | 81 |
| Total | ¥ 171 | ¥ 175 |

## 16. Impairment loss on property, plant and equipment

For the years ended February 28, 2015 and 2014, the Company recognized ¥253 million and ¥263 million of impairment loss, respectively, on the following groups of assets:

| Description | Location | Classification | Millions of yen 2015 |
|---|---|---|---|
| Stores | Shinjuku, Tokyo and other 67 stores (Close, 12 stores and renewals, 55 stores). | Buildings | ¥ 233 |
| | | Tools, furniture and fixtures | 20 |
| | | Total impairment loss | ¥ 253 |

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

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 the values in use are calculated as nil.

## 17. Per Share Information

Net income and cash dividends per share for the years ended February 28, 2015 and 2014, and net assets per share as of February 28, 2015 and 2014 are as follows:

| | Yen 2015 | Yen 2014 |
|---|---|---|
| Net income per share: | | |
| Basic | ¥ 323.71 | ¥ 265.48 |
| Diluted (*) | 295.49 | 242.33 |
| Net assets per share: | | |
| Basic | ¥ 2,059.68 | ¥ 1,747.10 |
| Cash dividends per share | ¥ 100.00 | ¥ 55.00 |

Basis for the calculation of basic and diluted net income per share for the years ended February 28, 2015 and 2014 are as follows:

| | Millions of yen 2015 | Millions of yen 2014 |
|---|---|---|
| Basic: | | |
| Net income | ¥ 24,373 | ¥ 19,989 |
| Net income pertaining to common shareholders | 24,373 | 19,989 |
| Weighted-average number of shares of common stock outstanding (shares) | 75,294,263 | 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.

## 18. 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 million | 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 million | Real estate | — |

Transactions between the Company and the related parties for the years ended February 28, 2015 and 2014 are as follows:

| | Millions of yen | |
|---|---|---|
| | 2015 | 2014 |
| Balance of the transactions: | | |
| Masahiro Miki: | | |
| Prepaid expense | ¥ 17 | ¥ 16 |
| Lease and guarantee deposits | 147 | 147 |
| Michiko Miki: | | |
| Prepaid expense | 14 | 14 |
| Lease and guarantee deposits | 97 | 97 |
| E.M Planning, LLC.: | | |
| Prepaid expense | 40 | 39 |
| Lease and guarantee deposits | 378 | 377 |
| Accrued expenses | 0 | 0 |
| Hamanishi Building Co.: | | |
| Prepaid expense | 17 | 16 |
| Lease and guarantee deposits | 160 | 160 |
| | | |
| Transaction amounts: | | |
| Masahiro Miki: | | |
| Leasing of buildings | ¥ 191 | ¥ 191 |
| Transferee of real-estate | 1,891 | — |
| Michiko Miki: | | |
| Leasing of buildings | 165 | 165 |
| E.M Planning, LLC.: | | |
| Leasing of buildings | 458 | 436 |
| Advances | — | 28,800 |
| Receipt of commission | — | 0 |
| Hamanishi Building Co.: | | |
| Leasing of buildings | 192 | 192 |

Note 1:

(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.

(2) Purchase price of the real-estate are determined based on appraisal of real estate appraiser.

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

## 19. 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

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | 2015 | | | | |
| | Reportable segments | | | | Consolidated total |
| | Domestic | Overseas | Total | Adjustments | |
| Sales: | | | | | |
| Customers | ¥ 159,456 | ¥ 54,128 | ¥ 213,584 | ¥ — | ¥ 213,584 |
| Intersegment | 669 | 238 | 908 | (908) | — |
| Total revenue | ¥ 160,126 | ¥ 54,366 | ¥ 214,492 | ¥ (908) | ¥ 213,584 |
| Segment income | ¥ 36,124 | ¥ 3,495 | ¥ 39,620 | ¥ 31 | ¥ 39,651 |
| Segment assets | 174,283 | 59,558 | 233,842 | (180) | 233,661 |
| Other items: | | | | | |
| Depreciation and amortization | 2,274 | 1,744 | 4,019 | — | 4,019 |
| Amortization of goodwill | — | 1,161 | 1,161 | — | 1,161 |
| Net increase in property, plant and equipment and intangible assets | 5,573 | 2,906 | 8,480 | — | 8,480 |

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | 2014 | | | | |
| | Reportable segments | | | | Consolidated total |
| | Domestic | Overseas | Total | Adjustments | |
| Sales: | | | | | |
| Customers | ¥ 145,187 | ¥ 42,857 | ¥ 188,045 | ¥ — | ¥ 188,045 |
| Intersegment | 534 | 233 | 768 | (768) | — |
| Total revenue | ¥ 145,721 | ¥ 43,091 | ¥ 188,813 | ¥ (768) | ¥ 188,045 |
| Segment income | ¥ 31,358 | ¥ 2,782 | ¥ 34,140 | ¥ (14) | ¥ 34,126 |
| Segment assets | 149,087 | 47,903 | 196,991 | (110) | 196,881 |
| Other items: | | | | | |
| Depreciation and amortization | 2,349 | 1,536 | 3,885 | — | 3,885 |
| Amortization of goodwill | — | 1,023 | 1,023 | — | 1,023 |
| Net increase in property, plant and equipment and intangible assets | 2,991 | 1,977 | 4,969 | — | 4,969 |

Note 1: The adjustments of ¥31 million and ¥(14) million for segment income and ¥(180) million and ¥(110) million for segment assets are eliminations of intersegment transactions for the years ended February 28, 2015and 2014, 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, 2015 and 2014 is as follows:

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | **2015** | | | | |
| | Domestic | Overseas | Total | Adjustments | Consolidated total |
| Impairment loss | **¥ 249** | **¥ 4** | **¥ 253** | **¥ –** | **¥ 253** |

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | 2014 | | | | |
| | Domestic | Overseas | Total | Adjustments | Consolidated total |
| Impairment loss | ¥ 263 | ¥ – | ¥ 263 | ¥ – | ¥ 263 |

(5) Information on amortization and outstanding balance of goodwill by reportable segment for the year ended February 28, 2015 and 2014 is as follows:

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | **2015** | | | | |
| | Domestic | Overseas | Total | Adjustments | Consolidated total |
| Amortization | **¥ –** | **¥ 1,161** | **¥ 1,161** | **¥ –** | **¥ 1,161** |
| Balance at the end of year | **¥ –** | **¥ 7,511** | **¥ 7,511** | **¥ –** | **¥ 7,511** |

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | 2014 | | | | |
| | Domestic | Overseas | Total | Adjustments | Consolidated total |
| Amortization | ¥ – | ¥ 1,023 | ¥ 1,023 | ¥ – | ¥ 1,023 |
| Balance at the end of year | ¥ – | ¥ 7,195 | ¥ 7,195 | ¥ – | ¥ 7,195 |

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

None

## 20. Subsequent Event

Subsequent to February 28, 2015, the Company's Board of Directors declared a year-end cash dividend of ¥ 4,517 million to be payable on May 28, 2015 to shareholders on record on February 28, 2015. The dividend declared was approved by the shareholders at the meeting held on May 27, 2015.

Grant Thornton

Grant Thornton Taiyo LLC

# 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, 2015 and 2014, 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, 2015 and 2014, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Grant Thornton Taiyo LLC

**May 28, 2015**
**Tokyo, Japan**

ABC-MART, INC.

| | |
|---|---|
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