Consolidated Financial Results for the Fiscal Year Ended February 28, 2014 [Japanese GAAP]

April 8, 2014

Company name: PAL CO., LTD.
Stock exchange listing: Tokyo Stock Exchange
Code number: 2726
URL: http://palgroup.co.jp
Representative: Ryuta Inoue, President and Representative Director
Contact: Yukio Utsunomiya, Managing Officer and General Manager of Administrative Department
Phone: +81-6-6227-0308
Scheduled date of ordinary general meeting of shareholders: May 28, 2014
Scheduled date of commencing dividend payments: May 29, 2014
Scheduled date of filing securities report: May 29, 2014
Availability of supplementary briefing material on financial results: Not available
Schedule of financial results briefing session: Scheduled (for analysts and institutional investors)

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

1. Consolidated Financial Results for the Fiscal Year Ended February 28, 2014 (March 1, 2013 to February 28, 2014)

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

	Net sales		Operating income		Ordinary income		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
Fiscal year ended February 28, 2014	100,033	8.2	5,969	(20.9)	6,013	(20.3)	2,910	(33.8)
Fiscal year ended February 28, 2013	92,479	8.3	7,549	(3.3)	7,542	(3.9)	4,396	27.9

(Note) Comprehensive income: Fiscal year ended February 28, 2014: ¥2,735 million [(35.1)%]
Fiscal year ended February 28, 2013: ¥4,216 million [24.9%]

	Net income per share	Diluted net income per share	Return on equity	Ordinary income to total assets	Operating income to net sales
	yen	yen	%	%	%
Fiscal year ended February 28, 2014	132.31	—	9.6	9.3	6.0
Fiscal year ended February 28, 2013	199.86	—	16.0	12.2	8.2

(Reference) Equity in earnings (losses) of affiliates: Fiscal year ended February 28, 2014: ¥(30) million
Fiscal year ended February 28, 2013: ¥(3) million

The Company split its common shares from one share into two shares, effective on March 1, 2013. Accordingly, the amount of net income per share has been calculated assuming the share split to have occurred at the beginning of the previous fiscal year.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	million yen	million yen	%	yen
As of February 28, 2014	66,180	33,231	47.2	1,420.58
As of February 28, 2013	63,435	31,624	46.3	1,335.25

(Reference) Equity: As of February 28, 2014: ¥31,247 million
As of February 28, 2013: ¥29,371 million

The Company split its common shares from one share into two shares, effective on March 1, 2013. Accordingly, the amount of net assets per share has been calculated assuming the share split to have occurred at the beginning of the previous fiscal year.

(3) Consolidated Cash Flows

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
	million yen	million yen	million yen	million yen
Fiscal year ended February 28, 2014	4,440	(1,174)	(2,759)	32,258
Fiscal year ended February 28, 2013	4,274	(169)	(2,683)	31,750

2. Dividends

	Annual dividends					Total dividends paid (annual)	Payout ratio (consolidated)	Dividends to net assets (consolidated)
	1st quarter -end	2nd quarter -end	3rd quarter -end	Year-end	Total			
	yen	yen	yen	yen	yen	million yen	%	%
Fiscal year ended February 28, 2013	—	0.00	—	100.00	100.00	1,099	25.0	4.0
Fiscal year ended February 28, 2014	—	0.00	—	50.00	50.00	1,099	37.8	3.6
Fiscal year ending February 28, 2015 (Forecast)	—	0.00	—	50.00	50.00		36.1	

The Company split its common shares from one share into two shares, effective on March 1, 2013. As the share split became effective on March 1, 2013, the amount stated for the year-end dividend for the fiscal year ended February 28, 2014 and fiscal year ending February 28, 2015 (forecast) takes into account the impact of the share split.

3. Consolidated Financial Results Forecast for the Fiscal Year Ending February 28, 2015 (March 1, 2014 to February 28, 2015)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
First half	52,380	8.0	3,070	12.4	3,010	8.8	1,440	3.4	65.47
Full year	106,300	6.3	6,520	9.2	6,480	7.8	3,050	4.8	138.66

*** Notes**

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

(2) Changes in accounting policies, changes in accounting estimates and corrections of errors
1) Changes in accounting policies due to the revision of accounting standards: Yes
2) Any changes other than 1) above: No
3) Changes in accounting estimates: Yes
4) Corrections of errors: No

Depreciation method has been changed from the fiscal year ended February 28, 2014, which falls under the case where changes in accounting policies are difficult to distinguish from changes in accounting estimates.

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

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

As of February 28, 2014	23,136,000 shares
As of February 28, 2013	23,136,000 shares

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

As of February 28, 2014	1,139,898 shares
As of February 28, 2013	1,139,322 shares

3) Average number of shares during the period:

Fiscal year ended February 28, 2014	21,996,311 shares
Fiscal year ended February 28, 2013	21,996,804 shares

The Company split its common shares from one share into two shares, effective on March 1, 2013. Accordingly, the total number of issued shares and treasury shares at the end of the period and the average number of shares during the period have been calculated assuming the share split to have occurred at the beginning of the previous fiscal year.

(Reference) Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year Ended February 28, 2014 (March 1, 2013 to February 28, 2014)

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

	Net sales		Operating income		Ordinary income		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
Fiscal year ended February 28, 2014	82,280	10.0	6,347	(18.6)	6,435	(17.9)	3,368	(12.0)
Fiscal year ended February 28, 2013	74,807	11.5	7,796	1.5	7,836	1.3	3,827	0.2

	Net income per share	Diluted net income per share
	yen	yen
Fiscal year ended February 28, 2014	153.16	—
Fiscal year ended February 28, 2013	174.00	—

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	million yen	million yen	%	yen
As of February 28, 2014	58,426	29,663	50.8	1,348.60
As of February 28, 2013	55,056	27,338	49.7	1,242.84

(Reference) Equity: As of February 28, 2014: ¥29,663 million
As of February 28, 2013: ¥27,338 million

2. Non-consolidated Financial Results Forecast for the Fiscal Year Ending February 28, 2015 (March 1, 2014 to February 28, 2015)

(% indicates changes from the previous corresponding periods.)

	Net sales		Ordinary income		Net income		Net income per share
	million yen	%	million yen	%	million yen	%	yen
First half	43,700	10.0	3,280	6.1	1,740	2.3	79.10
Full year	88,400	7.4	6,780	5.4	3,520	4.5	160.03

* Presentation regarding the implementation status of the audit process

These consolidated financial results for the fiscal year ended February 28, 2014 are not covered by the audit procedure stipulated in the Financial Instruments and Exchange Act. At the time of the publication of these financial results, the audit procedure for financial statements has not been completed.

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

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

Appendix

1. Analysis of Operating Results and Financial Position 2
(1) Analysis of Operating Results 2
(2) Analysis of Financial Position 3
(3) Basic Policy for Distribution of Profit and Dividends for Fiscal 2013 and Fiscal 2014 4
(4) Risks Factors 4
(5) Significant Events Relating to Going Concern Assumption 5
2. Corporate Group Overview 6
3. Management Policy 8
(1) Basic Management Policy of the Company 8
(2) Targeted Management Indicators 8
(3) The Company's Medium- to Long-term Management Strategies and Issues to be Addressed 8
4. Consolidated Financial Statements 9
(1) Consolidated Balance Sheets 9
(2) Consolidated Statements of Income and Comprehensive Income 11
(3) Consolidated Statements of Changes in Net Assets 14
(4) Consolidated Statements of Cash Flows 16
5. Non-consolidated Financial Statements 18
(1) Non-consolidated Balance Sheets 18
(2) Non-consolidated Statements of Income 20
(3) Non-consolidated Statements of Changes in Net Assets 22

1. Analysis of Operating Results and Financial Position

(1) Analysis of Operating Results

1) Overview for the Fiscal Year Ended February 28, 2014

During the fiscal year ended February 28, 2014, the Japanese economy showed signs of gradual recovery driven partially by the economic stimulus measures implemented by the government. However, we still cannot afford to become optimistic about the situation of consumer spending.

As for the apparel retail industry, performance remained weak overall as consumer confidence remained weak due to inflation concerns and other conditions against the backdrop of stagnating income.

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

In the Apparel Business, while consumer appetite remained weak due to factors including the domestic economic climate described above, the Group conducted proactive brand promotions while refining 52-week merchandising (MD) and improving the freshness of merchandise through agile introduction of items in stores, as well as the opening of 90 new stores. As a result, net sales increased by 6.4% year on year to ¥78,970 million.

In the Miscellaneous Goods/Accessories Business, we opened 31 new stores in response to robust demand for opening stores reflecting our rising visibility. As a result, net sales steadily continued to increase by 15.5% year on year to ¥20,895 million.

As a result of the above, net sales of the Corporate Group for the fiscal year ended February 28, 2014 increased by 8.2% year on year to ¥100,033 million.

In terms of profit, the gross profit margin decreased by 1.8 points year on year to 54.7% despite inventory control promoted by refining 52-week MD. Additionally, in terms of selling, general and administrative expenses, SG&A ratio increased by 0.3 points year on year to 48.7% due to factors such as an increase in rent expenses according to the opening of new stores. As a result, operating income decreased by 20.9% year on year to ¥5,969 million, and ordinary income decreased by 20.3% year on year to ¥6,013 million. Total amount of extraordinary losses of ¥807 million was recorded, including ¥340 million in loss on retirement of noncurrent assets due to the withdrawal of 50 stores and the change in businesses of 8 stores, and ¥422 million as impairment loss for the fiscal year ended February 28, 2014. As a result, net income decreased by 33.8% year on year to ¥2,910 million.

2) Sales Results by Segment for the Fiscal Year Ended February 28, 2014

Segment	Amount (million yen)	Changes from the previous fiscal year (%)
Apparel Business	78,970	106.4
Miscellaneous Goods/Accessories Business	20,895	115.5
Other	168	88.1
Total	100,033	108.2

3) Status of Stores for the Fiscal Year Ended February 28, 2014 (March 1, 2013 to February 28, 2014)

Number of stores as of February 28, 2013	693 stores
Number of new stores	121 stores
Number of closed stores	50 stores
Number of stores as of February 28, 2014	764 stores

4) Outlook for Fiscal 2014

As for the outlook for fiscal 2014, the Company predicts increases in both sales and profits, expecting net sales to increase by 6.3% year on year to ¥106,300 million, operating income to increase by 9.2% year on year to ¥6,520 million, ordinary income to increase by 7.8% year on year to ¥6,480 million and net income to increase 4.8% year on year to ¥3,050 million.

(2) Analysis of Financial Position

1) Status of Assets, Liabilities and Net Assets

(Assets)

Current assets increased by ¥1,228 million compared with the end of the previous fiscal year, due mainly to increases in cash and deposits by ¥473 million and in merchandise by ¥524 million.

Non-current assets increased by ¥1,516 million compared with the end of the previous fiscal year, due primarily to increases in buildings by ¥737 million and in guarantee deposits by ¥730 million.

(Liabilities)

Current liabilities increased by ¥1,637 million compared with the end of the previous fiscal year, due mainly to an increase in notes and accounts payable - trade by ¥569 million and in current portion of long-term loans payable by ¥1,111 million, despite a decrease in income taxes payable by ¥528 million.

Non-current liabilities decreased by ¥499 million compared with the end of the previous fiscal year, due primarily to a decrease in long-term loans payable by ¥1,022 million.

(Net assets)

Net assets increased by ¥1,607 million compared with the end of the previous fiscal year, due mainly to an increase in retained earnings, despite a decrease in minority interests by ¥268 million.

2) Status of Cash Flows

Cash and cash equivalents (hereinafter "cash") at the end of the fiscal year ended February 28, 2014 increased by ¥507 million compared with the end of the previous fiscal year to ¥32,258 million, due mainly to cash provided by operating activities in the amount of ¥4,440 million.

Cash flows for the fiscal year ended February 28, 2014 are as follows.

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

While cash provided by operating activities was ¥4,274 million for the previous fiscal year, cash provided by operating activities amounted to ¥4,440 million for the fiscal year ended February 28, 2014, due mainly to increases in notes and accounts payable - trade and income before income taxes and minority interests.

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

While cash used in investing activities was ¥169 million for the previous fiscal year, cash used in investing activities amounted to ¥1,174 million for the fiscal year ended February 28, 2014, due mainly to net expenditures of ¥737 million from the payments and repayments for guarantee deposits.

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

While cash used in financing activities was ¥2,683 million for the previous fiscal year, cash used in financing activities amounted to ¥2,759 million for the fiscal year ended February 28, 2014, due mainly to cash dividends paid of ¥1,099 million and repayments of installment payables of ¥1,408 million.

(Reference) Cash flow-related indicators

	Fiscal year ended February 28, 2010	Fiscal year ended February 28, 2011	Fiscal year ended February 29, 2012	Fiscal year ended February 28, 2013	Fiscal year ended February 28, 2014
Equity ratio (%)	37.6	42.0	42.1	46.3	47.2
Equity ratio based on market value (%)	39.3	66.4	59.5	72.3	59.4
Interest-bearing debt to cash flows ratio (%)	173.6	210.4	140.6	213.3	208.5
Interest-coverage ratio (times)	34.1	45.0	74.0	44.8	40.7

Equity ratio: Equity / Total assets

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

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

Interest-coverage ratio: Operating cash flows / Interest payments

(3) Basic Policy for Distribution of Profit and Dividends for Fiscal 2013 and Fiscal 2014

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

For Fiscal 2013, the Company expects to pay an annual dividend of ¥50 per share (after the share split (1:2) effective on March 1, 2013, which is equivalent to pre-share split value of ¥100 per share), which is equivalent to that of the previous fiscal year. For Fiscal 2014, the Company also expects to pay ¥50 per share.

(Note) The Company split its common shares from one share into two shares, effective on March 1, 2013.

(4) Risks Factors

1. Changes in fashion trends

Generally, fashion trends constantly undergo changes according to what is currently in vogue, thus as a member of the fashion apparel industry, it is difficult for the Corporate Group to eliminate the effects of such trends on its performance. Moreover, competition with rival companies on the youth market, which makes up its main customers, is becoming increasingly intense.

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

2. Expansion policy

1) Expansion by renting space as a tenant

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

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

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

Furthermore, as guarantee deposits are paid when renting space as tenants, guarantee deposits accounted for 17.8% of the total assets as of February 28, 2014. Although the Corporate Group mostly opens stores in the buildings of major developers, the Corporate Group is exposed to the risk of not being able to collect these guarantee deposits, in whole or in part, due to bankruptcy or other reasons pertaining to the lessor.

2) Costs associated with scrap and build

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

3. Management of customer information

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

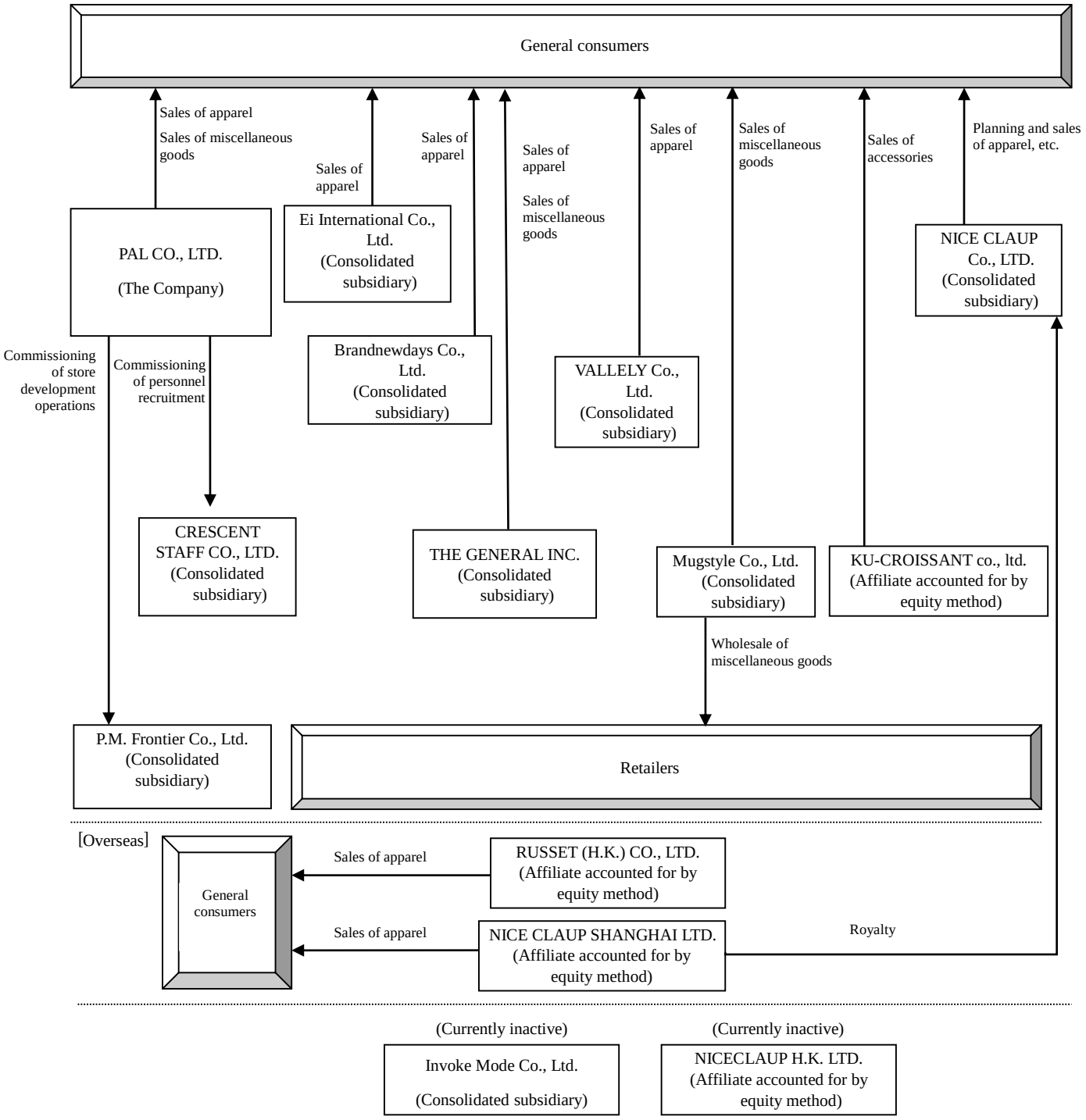
(5) Significant Events Relating to Going Concern Assumption

Not applicable.

2. Corporate Group Overview

As of the end of the fiscal year ended February 28, 2014, the Corporate Group comprised the Company, nine consolidated subsidiaries, five affiliates and one non-consolidated subsidiary. The Corporate Group is mainly engaged in the in-store sales of apparel to the general consumer, in addition to the sales of miscellaneous goods and other businesses.

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



(Notes) 1 NICECLAUP H.K. LTD., an affiliate accounted for by equity method, has suspended operations since September 2008.

2 Invoke Mode Co., Ltd., a consolidated subsidiary, has suspended operations since January 2011.

3 Acca Co., Ltd., a consolidated subsidiary, has changed its name to THE GENERAL INC. on October 15, 2013 and restarted their operations.

3. Management Policy

(1) Basic Management Policy of the Company

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

(2) Targeted Management Indicators

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

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

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

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

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

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of February 28, 2013	As of February 28, 2014
Assets		
Current assets		
Cash and deposits	32,570	33,044
Notes and accounts receivable - trade	3,997	4,146
Merchandise	5,431	5,955
Raw materials and supplies	8	6
Deferred tax assets	542	489
Other	567	744
Allowance for doubtful accounts	(5)	(46)
Total current assets	43,112	44,340
Non-current assets		
Property, plant and equipment		
Buildings and structures	9,624	10,690
Accumulated depreciation	(4,244)	(4,573)
Buildings and structures, net	5,379	6,116
Machinery, equipment and vehicles	11	14
Accumulated depreciation	(10)	(10)
Machinery, equipment and vehicles, net	1	4
Land	784	763
Leased assets	1,398	1,809
Accumulated depreciation	(479)	(733)
Leased assets, net	919	1,076
Other	323	280
Accumulated depreciation	(216)	(187)
Other, net	107	92
Total property, plant and equipment	7,191	8,053
Intangible assets		
Other	72	61
Total intangible assets	72	61
Investments and other assets		
Investment securities	1,034	955
Guarantee deposits	11,070	11,801
Deferred tax assets	433	464
Other	651	621
Allowance for doubtful accounts	(131)	(118)
Total investments and other assets	13,059	13,724
Total non-current assets	20,322	21,839
Total assets	63,435	66,180

(Millions of yen)

	As of February 28, 2013	As of February 28, 2014
Liabilities		
Current liabilities		
Notes and accounts payable - trade	10,886	11,455
Short-term loans payable	726	782
Current position of long-term loans payable	1,738	2,849
Accrued expenses	1,502	1,629
Income taxes payable	1,537	1,008
Provision for bonuses	828	955
Provision for directors' bonuses	298	233
Provision for sales returns	0	0
Other	2,705	2,946
Total current liabilities	20,224	21,861
Non-current liabilities		
Long-term loans payable	6,650	5,628
Provision for retirement benefits	569	629
Provision for directors' retirement benefits	117	112
Long-term accounts payable - other	2,202	2,546
Lease obligations	703	829
Asset retirement obligations	1,211	1,264
Negative goodwill	41	9
Deferred tax liabilities	15	13
Other	73	53
Total non-current liabilities	11,586	11,087
Total liabilities	31,811	32,949
Net assets		
Shareholders' equity		
Capital stock	3,181	3,181
Capital surplus	3,379	3,379
Retained earnings	23,760	25,571
Treasury shares	(1,143)	(1,145)
Total shareholders' equity	29,177	30,986
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	149	254
Deferred gains or losses on hedges	42	—
Foreign currency translation adjustment	1	5
Total accumulated other comprehensive income	193	260
Minority interests	2,253	1,984
Total net assets	31,624	33,231
Total liabilities and net assets	63,435	66,180

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Fiscal year ended February 28, 2013	Fiscal year ended February 28, 2014
Net sales	92,479	100,033
Cost of sales	40,214	45,322
Gross profit	52,264	54,710
Provision for sales returns	0	(0)
Gross profit - net	52,264	54,710
Selling, general and administrative expenses		
Advertising and promotion expenses	2,494	2,280
Transportation and warehousing expenses	2,131	2,411
Provision of allowance for doubtful accounts	2	(1)
Salaries, allowances and bonuses	13,173	14,426
Provision for bonuses	828	955
Provision for directors' bonuses	298	233
Provision for retirement benefits	123	108
Provision for directors' retirement benefits	4	3
Welfare expenses	2,244	2,476
Rent expenses	15,309	16,713
Lease expenses	290	254
Other	7,813	8,878
Total selling, general and administrative expenses	44,715	48,741
Operating income	7,549	5,969
Non-operating income		
Interest income	7	9
Rent income	28	21
Amortization of negative goodwill	32	32
Insurance premiums refunded cancellation	16	—
Foreign exchange gains	11	110
Other	38	57
Total non-operating income	134	231
Non-operating expenses		
Interest expenses	95	109
Share of loss of entities accounted for using equity method	3	30
Loss on investments in partnership	5	4
Commission fee	26	—
Provision of allowance for doubtful accounts	—	30
Other	10	11
Total non-operating expenses	141	187
Ordinary income	7,542	6,013

(Millions of yen)

	Fiscal year ended February 28, 2013	Fiscal year ended February 28, 2014
Extraordinary income		
Gain on bargain purchase	452	—
Total extraordinary income	452	—
Extraordinary losses		
Loss on retirement of non-current assets	277	340
Loss on cancellation of leases	16	12
Impairment loss	231	422
Loss on valuation of shares of subsidiaries and associates	50	29
Other	—	1
Total extraordinary losses	575	807
Income before income taxes and minority interests	7,420	5,206
Income taxes - current	3,128	2,553
Income taxes - deferred	288	(9)
Total income taxes	3,416	2,543
Income before minority interests	4,003	2,662
Minority interests in loss	(392)	(247)
Net income	4,396	2,910

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal year ended February 28, 2013	Fiscal year ended February 28, 2014
Income before minority interests	4,003	2,662
Other comprehensive income		
Valuation difference on available-for-sale securities	159	108
Deferred gains or losses on hedges	49	(42)
Share of other comprehensive income of entities accounted for using equity method	4	7
Total other comprehensive income	213	72
Comprehensive income	4,216	2,735
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	4,597	2,977
Comprehensive income attributable to minority interests	(380)	(241)

(3) Consolidated Statements of Changes in Net Assets

Fiscal year ended February 28, 2013

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of current period	3,181	3,379	20,024	(1,143)	25,441
Changes of items during period					
Dividends of surplus			(659)		(659)
Net income			4,396		4,396
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		0		0	0
Net changes of items other than shareholders' equity					
Total changes of items during period	—	0	3,736	(0)	3,736
Balance at the end of current period	3,181	3,379	23,760	(1,143)	29,177

(Millions of yen)

	Accumulated other comprehensive income				Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at the beginning of current period	(0)	(6)	(0)	(7)	3,826	29,259
Changes of items during period						
Dividends of surplus						(659)
Net income						4,396
Purchase of treasury shares						(0)
Disposal of treasury shares						0
Net changes of items other than shareholders' equity	149	49	2	200	(1,573)	(1,372)
Total changes of items during period	149	49	2	200	(1,573)	2,364
Balance at the end of current period	149	42	1	193	2,253	31,624

Fiscal year ended February 28, 2014

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of current period	3,181	3,379	23,760	(1,143)	29,177
Changes of items during period					
Dividends of surplus			(1,099)		(1,099)
Net income			2,910		2,910
Purchase of treasury shares				(1)	(1)
Disposal of treasury shares					—
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	1,810	(1)	1,808
Balance at the end of current period	3,181	3,379	25,571	(1,145)	30,986

(Millions of yen)

	Accumulated other comprehensive income				Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at the beginning of current period	149	42	1	193	2,253	31,624
Changes of items during period						
Dividends of surplus						(1,099)
Net income						2,910
Purchase of treasury shares						(1)
Disposal of treasury shares						—
Net changes of items other than shareholders' equity	105	(42)	4	67	(268)	(201)
Total changes of items during period	105	(42)	4	67	(268)	1,607
Balance at the end of current period	254	—	5	260	1,984	33,231

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal year ended February 28, 2013	Fiscal year ended February 28, 2014
Cash flows from operating activities		
Income before income taxes and minority interests	7,420	5,206
Depreciation	1,329	1,582
Impairment loss	231	422
Amortization of negative goodwill	(32)	(32)
Gain on bargain purchase	(452)	—
Increase (decrease) in allowance for doubtful accounts	1	28
Interest and dividend income	(10)	(13)
Interest expenses	95	109
Foreign exchange losses (gains)	(2)	(1)
Share of (profit) loss of entities accounted for using equity method	3	30
Decrease (increase) in notes and accounts receivable - trade	(227)	(148)
Decrease (increase) in inventories	(1,362)	(522)
Increase (decrease) in notes and accounts payable - trade	931	520
Increase (decrease) in provision for bonuses	(21)	126
Increase (decrease) in provision for directors' retirement benefits	4	(5)
Increase (decrease) in provision for directors' bonuses	(33)	(65)
Increase (decrease) in provision for retirement benefits	82	60
Increase (decrease) in provision for sales returns	0	(0)
Loss on valuation of shares of subsidiaries and associates	50	29
Loss on retirement of property, plant and equipment	293	353
Loss (gain) on investments in partnership	5	4
Increase (decrease) in accrued consumption taxes	34	(51)
Other, net	(240)	(3)
Subtotal	8,101	7,634
Interest and dividend income received	7	10
Proceeds from dividend income from entities accounted for using equity method	4	—
Interest expenses paid	(95)	(109)
Income taxes (paid) refund	(3,744)	(3,095)
Net cash provided by (used in) operating activities	4,274	4,440

(Millions of yen)

	Fiscal year ended February 28, 2013	Fiscal year ended February 28, 2014
Cash flows from investing activities		
Purchase of property, plant and equipment	(289)	(450)
Proceeds from sales of property, plant and equipment	—	24
Purchase of short-term and long-term investment securities	(261)	—
Proceeds from sales and redemption of short-term and long-term investment securities	108	212
Payments of loans receivable	(30)	(177)
Collection of loans receivable	13	73
Purchase of intangible assets	(28)	(4)
Decrease (increase) in time deposits	28	(0)
Proceeds from cancellation of insurance funds	963	—
Payments for guarantee deposits	(1,020)	(1,427)
Proceeds from collection of guarantee deposits	413	689
Purchase of shares of subsidiaries	—	(15)
Payments for asset retirement obligations	(67)	(152)
Proceeds from liquidation of subsidiaries	—	52
Other, net	(0)	0
Net cash provided by (used in) investing activities	(169)	(1,174)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	6	55
Proceeds from long-term loans payable	1,732	1,205
Repayments of long-term loans payable	(1,301)	(1,116)
Purchase of treasury shares	(0)	(1)
Proceeds from sales of treasury shares	0	—
Purchase of treasury shares of subsidiaries	(686)	(0)
Cash dividends paid	(660)	(1,099)
Cash dividends paid to minority shareholders	(53)	(31)
Proceeds from share issuance to minority shareholders	—	20
Repayments of installment payables	(1,441)	(1,408)
Repayments of finance lease obligations	(278)	(383)
Net cash provided by (used in) financing activities	(2,683)	(2,759)
Effect of exchange rate change on cash and cash equivalents	2	1
Net increase (decrease) in cash and cash equivalents	1,423	507
Cash and cash equivalents at beginning of period	30,326	31,750
Cash and cash equivalents at end of period	31,750	32,258

5. Non-consolidated Financial Statements

(1) Non-consolidated Balance Sheets

(Millions of yen)

	As of February 28, 2013	As of February 28, 2014
Assets		
Current assets		
Cash and deposits	27,092	28,181
Accounts receivable - trade	2,947	3,124
Merchandise	4,505	5,132
Advance payments - trade	82	136
Prepaid expenses	195	224
Deferred tax assets	551	466
Other	560	350
Allowance for doubtful accounts	(0)	(30)
Total current assets	35,934	37,585
Noncurrent assets		
Property, plant and equipment		
Buildings	7,511	8,579
Accumulated depreciation	(2,826)	(3,221)
Buildings, net	4,684	5,357
Vehicles	9	14
Accumulated depreciation	(8)	(10)
Vehicles, net	0	4
Tools, furniture and fixtures	30	31
Accumulated depreciation	(17)	(20)
Tools, furniture and fixtures, net	13	10
Land	943	943
Leased assets	1,357	1,743
Accumulated depreciation	(463)	(715)
Leased assets, net	893	1,027
Total property, plant and equipment	6,536	7,344
Intangible assets		
Trademark right	2	0
Telephone subscription right	17	17
Leased assets	15	11
Total intangible assets	35	29
Investments and other assets		
Investment securities	615	772
Shares of subsidiaries and associates	1,948	1,944
Long-term prepaid expenses	272	281
Guarantee deposits	9,123	9,854
Insurance funds	95	95
Deferred tax assets	476	491
Other	70	79
Allowance for doubtful accounts	(52)	(52)
Total investments and other assets	12,550	13,467
Total noncurrent assets	19,121	20,841
Total assets	55,056	58,426

(Millions of yen)

	As of February 28, 2013	As of February 28, 2014
Liabilities		
Current liabilities		
Notes payable - trade	1,520	2,077
Accounts payable - trade	7,859	8,179
Current portion of long-term loans payable	1,587	2,675
Accounts payable - other	570	639
Current portion of long-term accounts payable-other	1,102	1,161
Accrued expenses	1,301	1,430
Lease obligations	286	356
Income taxes payable	1,466	950
Accrued consumption taxes	202	169
Deposits received	39	35
Provision for bonuses	735	871
Provision for directors' bonuses	296	233
Provision for loss on liquidation of subsidiaries and associates	286	—
Asset retirement obligations	9	20
Other	28	10
Total current liabilities	17,292	18,810
Non-current liabilities		
Long-term loans payable	6,389	5,426
Provision for retirement benefits	292	337
Provision for directors' retirement benefits	117	112
Long-term accounts payable - other	1,968	2,249
Lease obligations	683	788
Asset retirement obligations	891	984
Other	82	53
Total non-current liabilities	10,426	9,952
Total liabilities	27,718	28,762
Net assets		
Shareholders' equity		
Capital stock	3,181	3,181
Capital surplus		
Legal capital surplus	3,379	3,379
Other capital surplus	0	0
Total capital surpluses	3,379	3,379
Retained earnings		
Legal retained earnings	21	21
Other retained earnings		
General reserve	12,600	12,600
Retained earnings brought forward	9,098	11,367
Total retained earnings	21,719	23,988
Treasury shares	(1,143)	(1,145)
Total shareholders' equity	27,136	29,403
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	159	259
Deferred gains or losses on hedges	42	—
Total valuation and translation adjustments	201	259
Total net assets	27,338	29,663
Total liabilities and net assets	55,056	58,426

(2) Non-consolidated Statements of Income

(Millions of yen)

	Fiscal year ended February 28, 2013	Fiscal year ended February 28, 2014
Net sales	74,807	82,280
Cost of sales		
Beginning goods	3,009	4,505
Cost of purchased goods	33,405	37,390
Total	36,415	41,895
Ending goods	4,505	5,132
Total cost of sales	31,910	36,763
Gross profit	42,897	45,516
Selling, general and administrative expenses		
Sales commission	697	785
Packing and transportation expenses	1,597	1,883
Advertising expenses	1,133	837
Provision of allowance for doubtful accounts	(11)	—
Directors' compensations	381	281
Salaries and allowances	9,497	10,751
Bonuses	669	733
Provision for bonuses	735	871
Provision for directors' bonuses	296	233
Provision for retirement benefits	71	64
Provision for directors' retirement benefits	4	3
Welfare expenses	1,786	2,017
Entertainment expenses	30	34
Traveling and transportation expenses	409	470
Taxes and dues	285	293
Depreciation	1,007	1,234
Technical development expenses	67	106
Rent expenses	12,065	13,470
Lease expenses	264	224
Utilities expenses	575	635
Commission fee	2,382	2,964
Miscellaneous expenses	1,154	1,271
Total selling, general and administrative expenses	35,101	39,169
Operating income	7,796	6,347
Non-operating income		
Interest income	14	6
Dividend income	53	54
Rent income	24	20
Foreign exchange gains	3	105
Other	26	29
Total non-operating income	122	216
Non-operating expenses		
Interest expenses	72	89
Provision of allowance for doubtful accounts	—	30
Other	9	9
Total non-operating expenses	82	128
Ordinary income	7,836	6,435

(Millions of yen)

	Fiscal year ended February 28, 2013	Fiscal year ended February 28, 2014
Extraordinary losses		
Loss on retirement of non-current assets	235	229
Loss on cancellation of leases	14	9
Impairment loss	205	292
Loss on valuation of shares of subsidiaries and associates	50	29
Provision for loss on liquidation of subsidiaries and associates	286	—
Loss on extinguishment of tie-in shares	258	—
Total extraordinary losses	1,050	561
Income before income taxes	6,785	5,873
Income taxes - current	2,999	2,465
Income taxes - deferred	(40)	40
Total income taxes	2,958	2,505
Net income	3,827	3,368

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

Fiscal year ended February 28, 2013

(Millions of yen)

	Shareholders' equity						
	Capital stock	Capital surplus			Retained earnings		
		Legal capital surplus	Other capital surplus	Total capital surpluses	Legal retained earnings	Other retained earnings	
						General reserve	Retained earnings brought forward
Balance at the beginning of current period	3,181	3,379	—	3,379	21	12,600	5,930
Changes of items during period							
Dividends of surplus							(659)
Net income							3,827
Purchase of treasury shares							
Disposal of treasury shares			0	0			
Net changes of items other than shareholders' equity							
Total changes of items during period	—	—	0	0	—	—	3,167
Balance at the end of current period	3,181	3,379	0	3,379	21	12,600	9,098

(Millions of yen)

	Shareholders' equity			Valuation and translation adjustments			Total net assets
	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
	Total retained earnings						
Balance at the beginning of current period	18,552	(1,143)	23,969	21	(6)	14	23,984
Changes of items during period							
Dividends of surplus	(659)		(659)				(659)
Net income	3,827		3,827				3,827
Purchase of treasury shares		(0)	(0)				(0)
Disposal of treasury shares		0	0				0
Net changes of items other than shareholders' equity				137	49	186	186
Total changes of items during period	3,167	(0)	3,167	137	49	186	3,354
Balance at the end of current period	21,719	(1,143)	27,136	159	42	201	27,338

Fiscal year ended February 28, 2014

(Millions of yen)

	Shareholders' equity						
	Capital stock	Capital surplus			Retained earnings		
		Legal capital surplus	Other capital surplus	Total capital surpluses	Legal retained earnings	Other retained earnings	
						General reserve	Retained earnings brought forward
Balance at the beginning of current period	3,181	3,379	0	3,379	21	12,600	9,098
Changes of items during period							
Dividends of surplus							(1,099)
Net income							3,368
Purchase of treasury shares							
Disposal of treasury shares							
Net changes of items other than shareholders' equity							
Total changes of items during period	—	—	—	—	—	—	2,269
Balance at the end of current period	3,181	3,379	0	3,379	21	12,600	11,367

(Millions of yen)

	Shareholders' equity			Valuation and translation adjustments			Total net assets
	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
	Total retained earnings						
Balance at the beginning of current period	21,719	(1,143)	27,136	159	42	201	27,338
Changes of items during period							
Dividends of surplus	(1,099)		(1,099)				(1,099)
Net income	3,368		3,368				3,368
Purchase of treasury shares		(1)	(1)				(1)
Disposal of treasury shares			—				—
Net changes of items other than shareholders' equity				100	(42)	58	58
Total changes of items during period	2,269	(1)	2,267	100	(42)	58	2,325
Balance at the end of current period	23,988	(1,145)	29,403	259	—	259	29,663