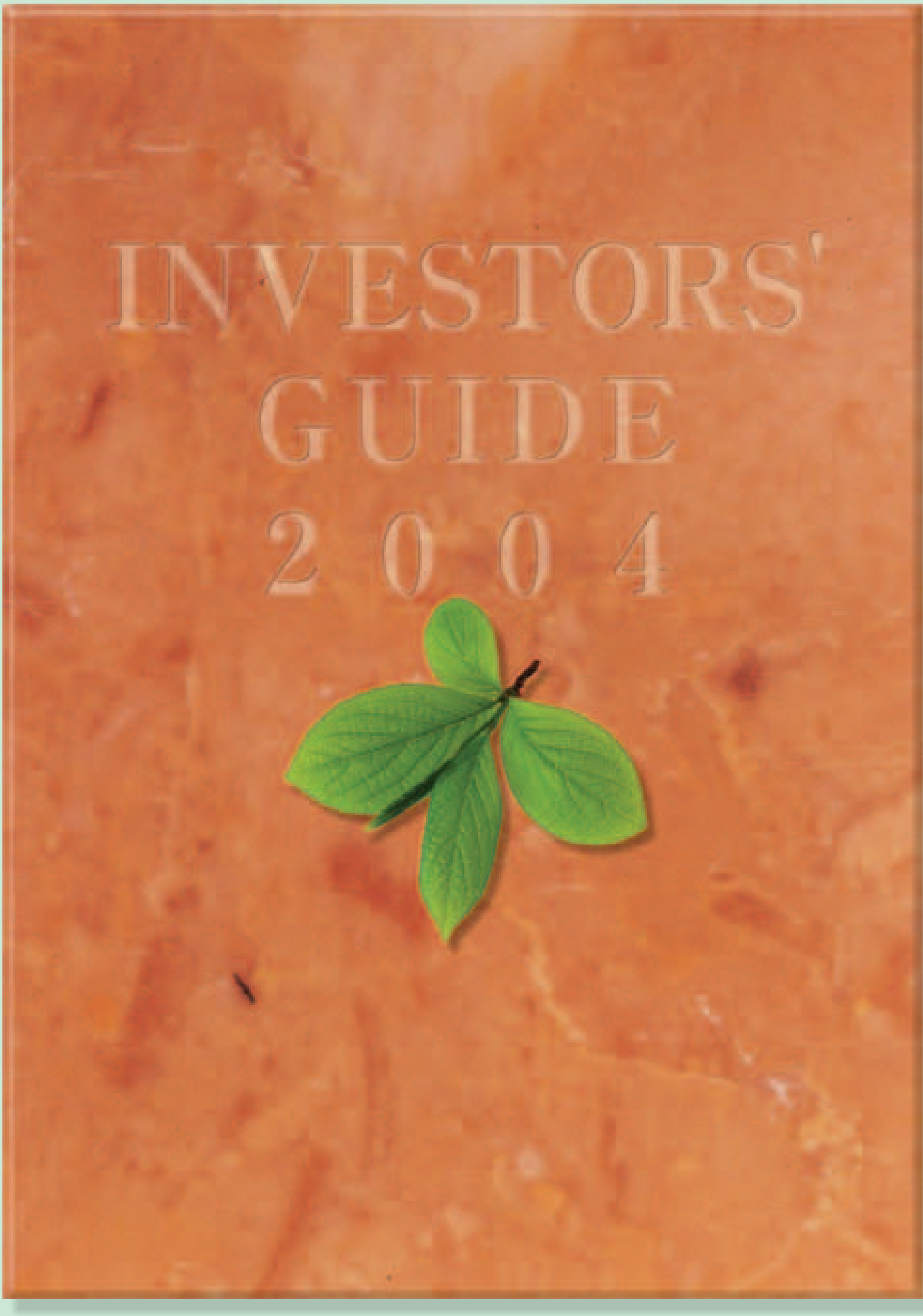



KOMERI

# Six Operating Divisions and Three Subsidiaries;

As of March 31, 2004

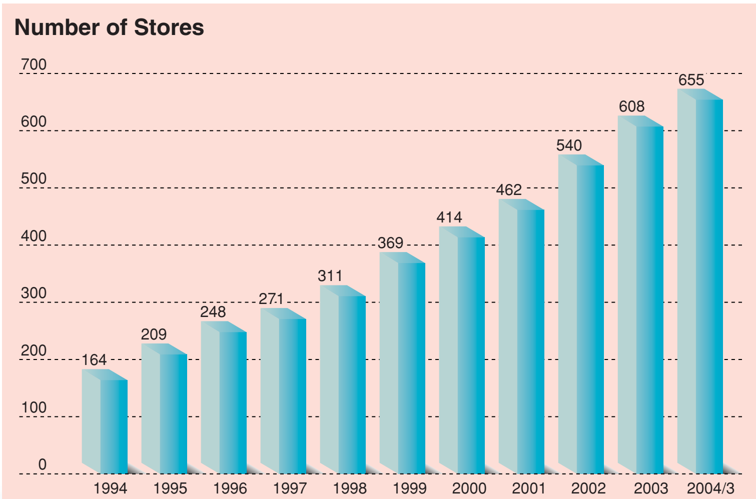
## BUSINESS TERRITORY AND STORE EXPANSION

As of the end of March 2004, Komeri Group operates 655 stores in 34 prefectures out of 47 prefectures in Japan. By establishing new divisional office for management and distribution center along with territory expansion, Komeri maintains favorable balance in management efficiency and realize more flexible operations corresponding to local conditions and requirements. In April 2003, the sixth divisional office and distribution center has opened in Okayama, one of the key points in western Japan. Komeri is going to accelerate its store openings and chain expansion towards 3,000 stores network in all over the nation.

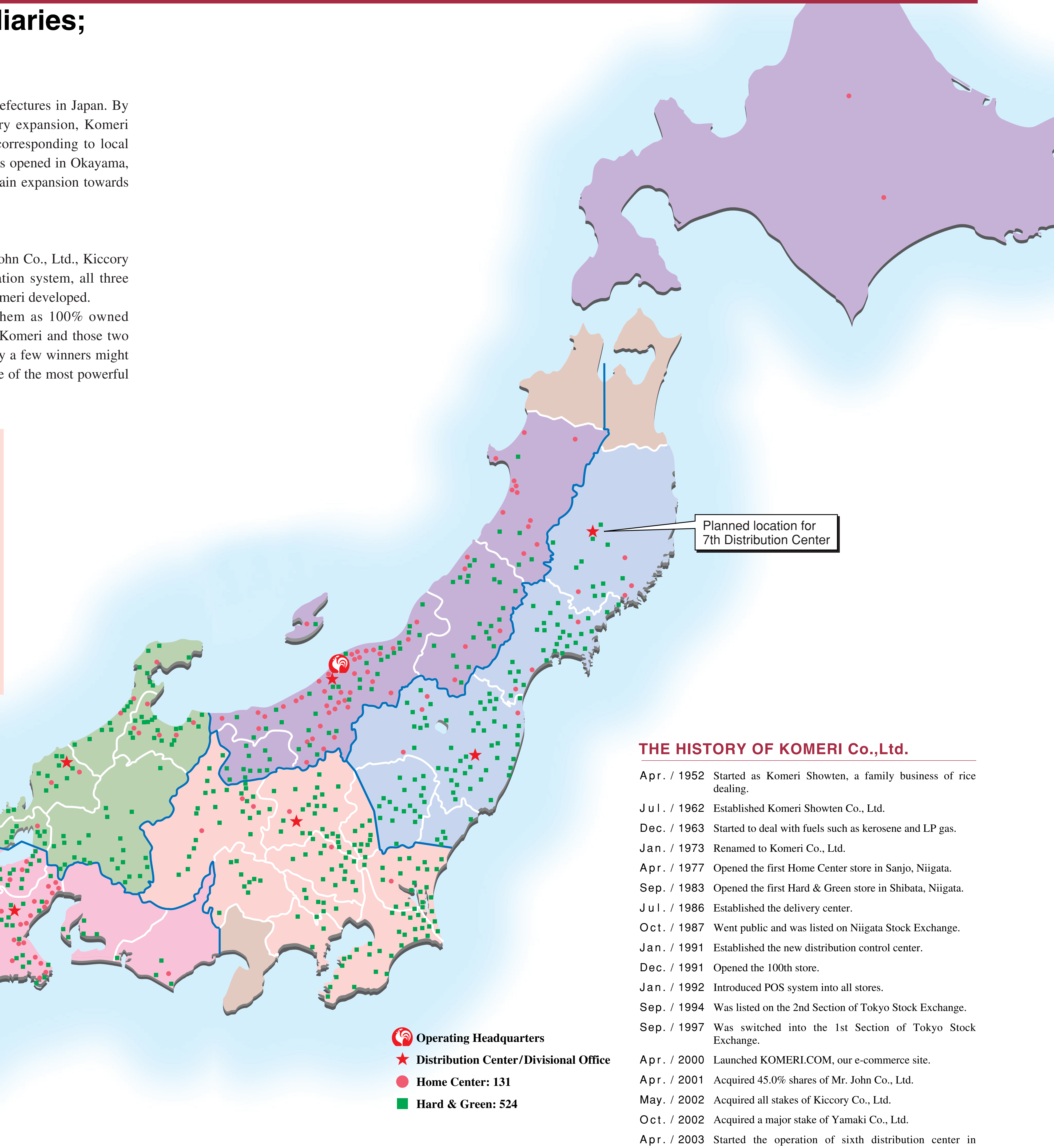
## THE PURSUIT OF FURTHER SYNERGY IN THE GROUP

In the past three years, Komeri acquired three local companies in home center industry--- Mr. John Co., Ltd., Kiccory Co., Ltd., and Yamaki Co., Ltd. By introducing Komeri's cutting-edged logistic and information system, all three subsidiaries experienced remarkable recovery, and proved the superiority of the system which Komeri developed.

In February 2004, Komeri acquired remaining stakes of Mr. John and Yamaki to make them as 100% owned subsidiaries as well as Kiccory. By this action, further consolidation became possible between Komeri and those two companies. Under tougher competition and weak consumer spending in Japan, it is said that only a few winners might survive in the future. With unique strategy and business model, Komeri Group is regarded as one of the most powerful candidates in the industry.




Note: Store count includes those of subsidiaries.




## THE HISTORY OF KOMERI Co.,Ltd.

| | |
|---|---|
| Apr. / 1952 | Started as Komeri Showten, a family business of rice dealing. |
| Jul. / 1962 | Established Komeri Showten Co., Ltd. |
| Dec. / 1963 | Started to deal with fuels such as kerosene and LP gas. |
| Jan. / 1973 | Renamed to Komeri Co., Ltd. |
| Apr. / 1977 | Opened the first Home Center store in Sanjo, Niigata. |
| Sep. / 1983 | Opened the first Hard & Green store in Shibata, Niigata. |
| Jul. / 1986 | Established the delivery center. |
| Oct. / 1987 | Went public and was listed on Niigata Stock Exchange. |
| Jan. / 1991 | Established the new distribution control center. |
| Dec. / 1991 | Opened the 100th store. |
| Jan. / 1992 | Introduced POS system into all stores. |
| Sep. / 1994 | Was listed on the 2nd Section of Tokyo Stock Exchange. |
| Sep. / 1997 | Was switched into the 1st Section of Tokyo Stock Exchange. |
| Apr. / 2000 | Launched KOMERI.COM, our e-commerce site. |
| Apr. / 2001 | Acquired 45.0% shares of Mr. John Co., Ltd. |
| May. / 2002 | Acquired all stakes of Kiccory Co., Ltd. |
| Oct. / 2002 | Acquired a major stake of Yamaki Co., Ltd. |
| Apr. / 2003 | Started the operation of sixth distribution center in Okayama. |

# 10-YEAR SUMMARY OF FINANCIAL AND OPERATING RESULTS

KOMERI Co., Ltd. and Subsidiaries

| amounts in millions, except where noted | 5-Year Compound Annual Growth Rate | Years ended March 31 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Statements of Income Data** | (%) | (¥) | (¥) | (¥) | (¥) | (¥) | (¥) | (¥) | (¥) | (¥) | (¥) |
| Total revenues | 17.5 | 217,923 | 200,490 | 170,367 | 127,508 | 113,332 | 97,322 | 85,486 | 78,022 | 68,193 | 58,629 |
| Total revenues increase(%) | — | 8.7 | 17.7 | 33.6 | 12.5 | 16.5 | 13.8 | 9.6 | 14.4 | 16.3 | 22.4 |
| Cost of sales | 17.3 | 145,177 | 134,703 | 114,130 | 85,175 | 76,635 | 65,334 | 57,976 | 52,931 | 46,229 | 39,878 |
| Selling, general, and administrative expenses | 18.3 | 59,886 | 54,303 | 45,316 | 34,255 | 29,482 | 25,865 | 22,580 | 20,290 | 17,913 | 15,237 |
| Operating income | 16.0 | 12,860 | 11,484 | 10,920 | 8,078 | 7,216 | 6,123 | 4,929 | 4,801 | 4,052 | 3,515 |
| Operating income increase (%) | — | 12.0 | 5.2 | 35.2 | 12.0 | 17.8 | 24.2 | 2.7 | 18.5 | 15.3 | 9.5 |
| Income before income taxes | 17.4 | 12,292 | 11,288 | 9,672 | 7,186 | 6,093 | 5,503 | 4,260 | 3,985 | 3,451 | 2,791 |
| Net income | 24.0 | 7,175 | 6,224 | 5,635 | 3,965 | 3,328 | 2,449 | 2,196 | 1,881 | 1,834 | 1,352 |
| Net income increase(%) | — | 15.3 | 10.5 | 42.1 | 19.1 | 35.9 | 11.5 | 16.7 | 2.6 | 35.6 | 0.9 |
| Earnings per share | 18.3 | 136.88 | 118.68 | 123.18 | 88.19 | 75.96 | 59.08 | 53.90 | 51.88 | 56.82 | 49.39 |
| Earnings per share increase(%) | — | 15.3 | -3.7 | 39.7 | 16.1 | 28.6 | 9.6 | 3.9 | -8.7 | 15.0 | -13.6 |
| Weighted average number of shares outstanding (thousand) | 4.7 | 52,061 | 51,959 | 45,748 | 44,962 | 43,814 | 41,462 | 40,740 | 36,254 | 32,280 | 27,379 |
| Gross margin-% of revenues | — | 33.4 | 32.8 | 33.0 | 33.2 | 32.4 | 32.9 | 32.2 | 32.2 | 32.2 | 32.0 |
| SG&A expenses-% of revenues | — | 27.5 | 27.1 | 26.6 | 26.9 | 26.0 | 26.6 | 26.4 | 26.0 | 26.3 | 26.0 |
| Operating margin-% of revenues | — | 5.9 | 5.7 | 6.4 | 6.3 | 6.4 | 6.3 | 5.8 | 6.2 | 5.9 | 6.0 |
| Net interest expense-% of revenues | — | 0.2 | 0.3 | 0.5 | 0.4 | 0.5 | 0.6 | 0.7 | 0.7 | 0.8 | 1.0 |
| Income before income taxes-% of revenues | — | 5.6 | 5.6 | 5.7 | 5.6 | 5.4 | 5.7 | 5.0 | 5.1 | 5.1 | 4.8 |
| Net income-% of revenues | — | 3.3 | 3.1 | 3.3 | 3.1 | 2.9 | 2.5 | 2.6 | 2.4 | 2.7 | 2.3 |
| **Balance Sheet Data and Financial Ratios** | | (¥) | (¥) | (¥) | (¥) | (¥) | (¥) | (¥) | (¥) | (¥) | (¥) |
| Total assets | 18.4 | 180,887 | 167,460 | 135,431 | 101,227 | 88,405 | 77,681 | 67,767 | 60,385 | 55,251 | 49,437 |
| Merchandise inventories | 19.9 | 55,362 | 49,902 | 38,621 | 30,026 | 27,381 | 22,308 | 19,538 | 16,522 | 15,692 | 14,709 |
| Net property and equipment | 19.1 | 89,428 | 83,361 | 64,178 | 48,802 | 40,892 | 37,381 | 31,991 | 27,581 | 24,512 | 21,883 |
| Long-term liabilities | 6.4 | 26,773 | 30,344 | 20,640 | 20,812 | 19,317 | 19,660 | 15,853 | 12,898 | 11,242 | 11,831 |
| Shareholders' equity | 25.0 | 72,598 | 64,356 | 59,695 | 40,785 | 37,835 | 23,745 | 22,073 | 19,180 | 17,881 | 16,565 |
| Book value per share (yen) | 19.1 | 1,372 | 1,238 | 1,149 | 907 | 841 | 573 | 532 | 521 | 545 | 580 |
| Long-term liabilities to equity (%) | — | 36.9 | 47.2 | 34.6 | 51.0 | 51.1 | 82.8 | 71.8 | 67.2 | 62.9 | 71.4 |
| Current ratio | — | 0.88:1 | 0.95:1 | 1.03:1 | 1.00:1 | 1.14:1 | 0.85:1 | 0.86:1 | 0.83:1 | 0.84:1 | 0.90:1 |
| Equity Ratio(%) | — | 40.1 | 38.4 | 44.1 | 40.3 | 42.8 | 30.6 | 32.6 | 31.8 | 32.4 | 33.5 |
| Inventory turnover (month) | — | 4.4 | 3.9 | 3.6 | 4.0 | 3.9 | 3.8 | 3.7 | 3.7 | 3.9 | 3.8 |
| Return on equity (%) | — | 10.5 | 10.0 | 11.2 | 10.1 | 10.8 | 10.7 | 10.6 | 10.2 | 10.6 | 10.1 |
| Return on assets (%) | — | 4.1 | 4.1 | 4.8 | 4.2 | 4.0 | 3.4 | 3.4 | 3.3 | 3.5 | 3.0 |
| **Statement of Cash Flows Data** | | (¥) | (¥) | (¥) | (¥) | (¥) | (¥) | (¥) | (¥) | (¥) | (¥) |
| Depreciation and amortization | 17.7 | 6,230 | 5,347 | 4,940 | 3,597 | 3,174 | 2,762 | 2,086 | 1,855 | 1,620 | 1,336 |
| Operational cash flow | — | 10,312 | 5,914 | 11,850 | 7,999 | 4,116 | — | — | — | — | — |
| Investment cash flow | — | -14,739 | -9,499 | -9,046 | -11,528 | -7,356 | — | — | — | — | — |
| Financial cash flow | — | 4,146 | 1,393 | 2,353 | 3,542 | 4,249 | — | — | — | — | — |
| Cash dividends per share (yen) | 8.4 | 27.0 | 26.0 | 26.0 | 21.0 | 20.0 | 18.0 | 17.5 | 16.0 | 16.0 | 16.0 |
| **Store Data** | | | | | | | | | | | |
| Number of stores (actual); | 12.2 | 655 | 608 | 540 | 462 | 414 | 369 | 311 | 271 | 248 | 209 |
| Komeri Home Center | 9.1 | 85 | 80 | 75 | 72 | 62 | 55 | 50 | 46 | 39 | 37 |
| Komeri Hard & Green | 10.7 | 523 | 480 | 440 | 390 | 352 | 314 | 261 | 225 | 209 | 172 |
| Stores operated by HC subsidiaries | — | 47 | 48 | 25 | — | — | — | — | — | — | — |
| Weighted average selling space (square meters)* | — | 887,675 | — | — | — | — | — | — | — | — | — |
| Weighted average number of employees(actual)* | — | 5,462 | — | — | — | — | — | — | — | — | — |
| Sales per employee(thousands of yen)* | — | 36,961 | — | — | — | — | — | — | — | — | — |
| Comparable store sales increase (%)* | — | -2.3 | 1.8 | 2.4 | 0.2 | 1.1 | 0.9 | -3.1 | 19.1 | 0.1 | -0.7 |

*Note: Figures with asterisk(*) are total of Komeri and HC subsidiaries.*

## *REVENUES*

Net sales for the fiscal year ended March 31, 2004, rose 8.6% yoy to ¥210,356 million (US$1,984.5 million). The sales increase by store format was 8.8% yoy in Home Center (HC) stores, and 7.8% yoy in Hard & Green (H&G) stores.

New stores contributed to the sales increase, although comparable store sales decreased 2.3% yoy impacted by the cold spring, rainy summer and warm winter. The group opened 46 H&G and 9 HC stores, increasing new selling space by 93,000 square meters.

Sales of Yamaki Co., Ltd. pushed up net sales as well, because only sales from the second half of the year were counted into total revenue the previous year. Yamaki's contribution to the sales increase was approximately 3%. Other operating revenues increased 11.6% yoy to ¥7,567 million (US$71.4 million).

Total revenues improved 8.7% yoy to ¥217,923 million (US$2,055.9 million), and recorded the 17th consecutive year of growth since the company went public in 1987.

## *COSTS AND EXPENSES*

Operating income was ¥12,860 million (US$121.3 million), 12.0% higher than the previous term. Cost of sales as a percentage of total revenues decreased 0.6 percentage points to 66.6%, while selling, general and administrative (SG&A) expenses as a percentage of total revenues rose 0.4 percentage points to 27.5%. Consequently, the operating income margin went up 0.2 percentage points to 5.9%.

In spite of an increase in other expenses (net) of ¥372 million to ¥568 million (US$5.4 million), income before income taxes and minority interests grew 8.9% to ¥12,292 million (US$115.9 million). Net income increased 15.3% yoy to ¥7,175 million (US$67.7 million).

The net income margin improved by 0.2 percentage points to 3.3%, and net income per share increased by ¥18.2 to ¥136.88 (US$1.29). As the company raised the dividend by ¥1.00, the cash dividend this year was ¥27.00 (US$0.25) per share.

## *CASH FLOWS*

Net cash provided by operating activities was ¥10,312 million (US$97.3 million). In addition to an increase in income before income taxes, depreciation went up 16.5% yoy to ¥ 6,230 million (US$58.8 million). Also, the increase in inventories was ¥5,460 million (US$51.5 million), 29% lower than previous year. Net cash used in investing activities increased 55.2% yoy to ¥14,739 million (US$139.0 million). Purchases of property, plant and equipment rose 12.9% yoy to ¥13,417 million (US$126.6 million), as the company opened more large scale stores than the previous term. Also, other assets increased 130.8% yoy to ¥1,650 million (US$15.6 million), while leasehold deposits decreased by ¥328 million (US$3.0 million).

Net cash provided by financing activities was ¥4,146 million (US$39.1 million). Short-term bank loans increased to ¥11,196 million (US$105.6 million), and proceeds from long-term debt were ¥3,450 million (US$32.5 million), compared with ¥11,930 million the previous fiscal year. Repayments of long-term debt were ¥9,098 million (US$85.8 million).

In aggregate, cash and cash equivalents, at the end of the year, decreased by ¥281 million to ¥7,766 million (US$73.3 million).

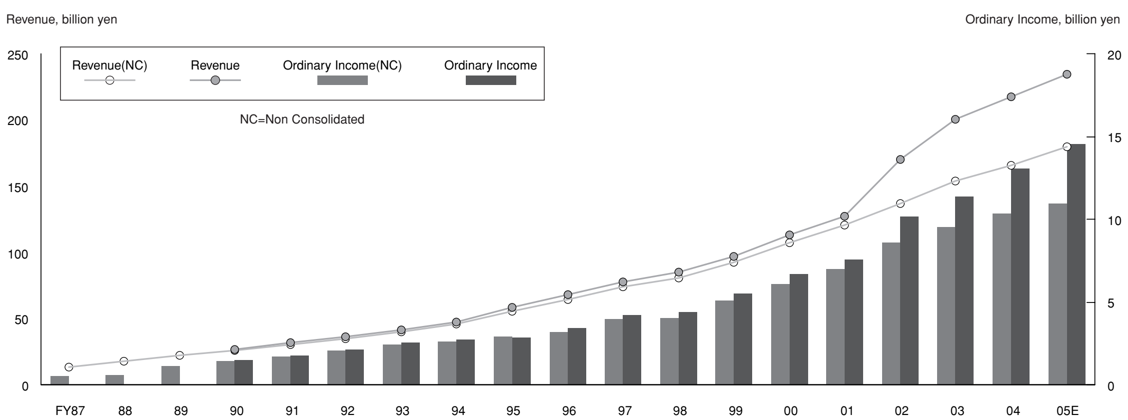
## *FINANCIAL POSITION*

Total current assets grew ¥6,154 million to ¥71,459 million (US$674.1 million), resulting mainly from a rise in merchandise inventories of ¥5,419 million, to ¥55,271 million (US$521.4 million). Total current liabilities increased ¥12,187 million to ¥81,265 million (US$766.7 million), as short-term bank loans went up ¥11,196 million (US$105.6 million). Trade notes and accounts payable rose by ¥1,840 million to ¥32,421 million (US$305.9 million) as well. The current ratio for the term was 0.88 times, compared with 0.95 for the previous fiscal year.

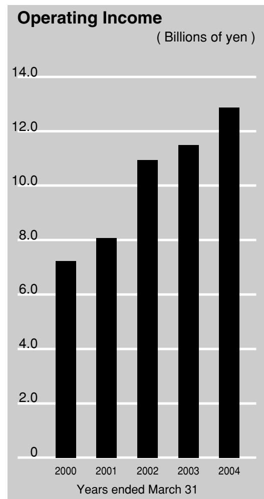
Long-term liabilities decreased by ¥3,571 million to ¥26,773 million (US$252.6 million). Total assets rose 8.0% yoy to ¥180,887 million (US$1,706.5 million). The opening of 55 new stores pushed net property, plant and equipment up ¥6,067 million to ¥89,428 million (US$843.7 million), accounting for 49.4% of total assets. Asset turnover was 1.2 times—the same level as the previous term. Return on average assets was 4.1%, unchanged as well.

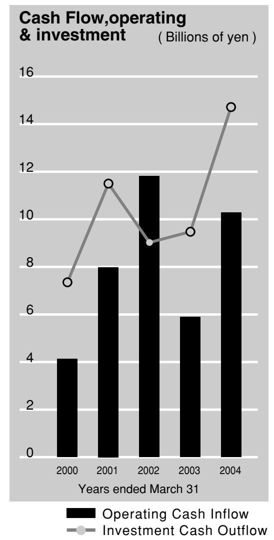
Total shareholders' equity increased 12.8% to ¥72,598 million (US$684.9 million). Return on average equity was 10.5%, 0.5 percentage points higher than the previous term.

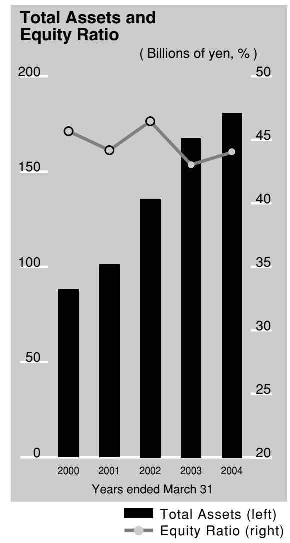
Komeri marks 17 year's consecutive growth in both revenue and income since its IPO in 1987;
It is the longest ongoing record(*) among the companies listed on TSE 1st/2nd.




* Non-consolidated revenue and ordinary income basis. Based on a survey made by Nomura Securities Co., Ltd. in 2001.



# Consolidated Balance Sheets

KOMERI Co., Ltd. and Consolidated Subsidiaries

*March 31, 2004 and 2003*

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| ASSETS | **2004** | 2003 | **2004** |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | **¥ 7,766** | ¥ 8,047 | **$ 73,262** |
| Short-term investments | **674** | 819 | **6,356** |
| Receivables: | | | |
| Trade notes and accounts | **4,757** | 4,280 | **44,883** |
| Allowance for doubtful receivables | **(5)** | (2) | **(49)** |
| Inventories (Note 4) | **55,362** | 49,902 | **522,280** |
| Deferred tax assets (Note 8) | **1,489** | 1,095 | **14,049** |
| Prepaid expenses and other current assets | **1,416** | 1,164 | **13,363** |
| Total current assets | **71,459** | 65,305 | **674,144** |
| PROPERTY, PLANT AND EQUIPMENT (Note 5): | | | |
| Land | **21,297** | 20,714 | **200,911** |
| Buildings and structures | **99,204** | 88,182 | **935,887** |
| Machinery and equipment | **4,337** | 3,889 | **40,917** |
| Construction in progress | **2,050** | 4,493 | **19,342** |
| Other | **6,690** | 4,998 | **63,112** |
| Total | **133,578** | 122,276 | **1,260,169** |
| Accumulated depreciation | **(44,150)** | (38,915) | **(416,511)** |
| Net property, plant and equipment | **89,428** | 83,361 | **843,658** |
| INVESTMENTS AND OTHER ASSETS: | | | |
| Investment securities (Notes 3 and 5) | **622** | 452 | **5,867** |
| Investments in unconsolidated subsidiaries | **289** | 289 | **2,726** |
| Intangible assets | **4,849** | 4,593 | **45,742** |
| Leasehold deposits (Note 5) | **10,134** | 10,489 | **95,606** |
| Deferred charges | **7** | 39 | **64** |
| Deferred tax assets (Note 8) | **1,142** | 996 | **10,778** |
| Other assets | **2,957** | 1,936 | **27,899** |
| Total investments and other assets | **20,000** | 18,794 | **188,682** |
| TOTAL | **¥ 180,887** | ¥ 167,460 | **$1,706,484** |

*See notes to consolidated financial statements.*

*March 31, 2004 and 2003*

| LIABILITIES AND SHAREHOLDERS' EQUITY | Millions of Yen 2004 | Millions of Yen 2003 | Thousands of U.S. Dollars (Note 1) 2004 |
|---|---|---|---|
| CURRENT LIABILITIES: | | | |
| Short-term bank loans (Note 5) | **¥ 28,320** | ¥ 17,214 | **$ 267,170** |
| Current portion of long-term debt (Note 5) | **8,002** | 8,736 | **75,488** |
| Payables: | | | |
| Trade notes and accounts | **32,421** | 30,581 | **305,857** |
| Construction and other | **6,363** | 7,378 | **60,025** |
| Income taxes payable | **2,951** | 2,770 | **27,842** |
| Accrued expenses | **1,961** | 1,816 | **18,504** |
| Other current liabilities | **1,247** | 673 | **11,768** |
| Total current liabilities | **81,265** | 69,078 | **766,654** |
| LONG-TERM LIABILITIES: | | | |
| Long-term debt (Note 5) | **17,562** | 22,475 | **165,675** |
| Liability for retirement benefits (Note 6) | **1,862** | 1,610 | **17,570** |
| Retirement benefits for directors and corporate auditors (Note 6) | **897** | 1,145 | **8,463** |
| Lease deposits from lessees | **2,251** | 2,404 | **21,230** |
| Liabilty for obligations to customers | **270** | 165 | **2,546** |
| Negative goodwill | **3,087** | 2,288 | **29,125** |
| Deferred tax liabilities (Note 8) | **151** | 162 | **1,427** |
| Other long-term liabilities | **693** | 95 | **6,540** |
| Total long-term liabilities | **26,773** | 30,344 | **252,576** |
| MINORITY INTERESTS | **251** | 3,682 | **2,365** |
| COMMITMENTS AND CONTINGENT LIABILITIES (Notes 10, 11 and 12) | | | |
| SHAREHOLDERS' EQUITY (Notes 7 and 13): | | | |
| Common stock—authorized, 131,000,000 shares; issued, 54,409,168 shares in 2004 and 51,961,693 shares in 2003 | **18,802** | 18,802 | **177,378** |
| Capital surplus | **25,260** | 18,570 | **238,305** |
| Retained earnings | **32,797** | 27,003 | **309,407** |
| Unrealized gain (loss) on available-for-sale securities | **103** | (3) | **970** |
| Total | **76,962** | 64,372 | **726,060** |
| Tresury stock—at cost, 1,515,132 shares in 2004 and 5,297 shares in 2003 | **(4,364)** | (16) | **(41,171)** |
| Total shareholders' equity | **72,598** | 64,356 | **684,889** |
| TOTAL | **¥ 180,887** | ¥ 167,460 | **$1,706,484** |

*See notes to consolidated financial statements.*

# Consolidated Statements of Income

KOMERI Co., Ltd. and Consolidated Subsidiaries

*Years Ended March 31, 2004 and 2003*

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2004** | 2003 | **2004** |
| REVENUES: | | | |
| Net sales | **¥ 210,356** | ¥ 193,708 | **$1,984,489** |
| Other operating revenues | **7,567** | 6,782 | **71,385** |
| Total revenues | **217,923** | 200,490 | **2,055,874** |
| COST OF SALES | **145,177** | 134,703 | **1,369,596** |
| Gross profit | **72,746** | 65,787 | **686,278** |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | **59,886** | 54,303 | **564,959** |
| Operating income | **12,860** | 11,484 | **121,319** |
| OTHER INCOME (EXPENSES): | | | |
| Interest and dividends | **43** | 35 | **412** |
| Interest expense | **(578)** | (660) | **(5,455)** |
| Loss on disposal of property, plant and equipment | **(273)** | (108) | **(2,577)** |
| Amortization of negative goodwill | **537** | 334 | **5,063** |
| Other—net | **(297)** | 203 | **(2,800)** |
| Other expenses—net | **(568)** | (196) | **(5,357)** |
| INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS | **12,292** | 11,288 | **115,962** |
| INCOME TAXES (Note 8): | | | |
| Current | **5,443** | 5,113 | **51,354** |
| Deferred | **(628)** | (234) | **(5,929)** |
| Total income taxes | **4,815** | 4,879 | **45,425** |
| MINORITY INTEREST IN NET INCOME | **(302)** | (185) | **(2,849)** |
| NET INCOME | **¥ 7,175** | ¥ 6,224 | **$ 67,688** |

| | Yen | | U.S. Dollars |
|---|---|---|---|
| PER SHARE OF COMMON STOCK (Note 2.n): | | | |
| Basic net income | **¥ 136.88** | ¥ 118.68 | **$ 1.29** |
| Cash dividends applicable to the year | **27.00** | 26.00 | **0.25** |

*See notes to consolidated financial statements.*

# Consolidated Statements of Shareholders' Equity

KOMERI Co., Ltd. and Consolidated Subsidiaries

| *Years Ended March 31, 2004 and 2003* | Outstanding Number of Shares of Common Stock | Millions of Yen | | | | |
|---|---|---|---|---|---|---|
| | | Common Stock | Capital Surplus | Retained Earnings | Unrealized Gain (Loss) on Available-for-sale Securities | Treasury Stock |
| BALANCE, APRIL 1, 2002 | 51,960,781 | ¥ 18,802 | ¥ 18,570 | ¥ 22,311 | ¥ 15 | ¥ (3) |
| Net income | | | | 6,224 | | |
| Cash dividends, ¥26 per share | | | | (1,480) | | |
| Bonuses to directors and corporate auditors | | | | (52) | | |
| Increase in treasury stock | (4,385) | | | | | (13) |
| Net decrease in unrealized gain on available-for-sale securities | | | | | (18) | |
| BALANCE, MARCH 31, 2003 | 51,956,396 | 18,802 | 18,570 | 27,003 | (3) | (16) |
| Net income | | | | 7,175 | | |
| Exchange of stock | 2,447,475 | | 6,243 | 27 | | |
| Acquisition of consolidated company | | | 447 | | | |
| Cash dividends, ¥26 per share | | | | (1,351) | | |
| Bonuses to directors and corporate auditors | | | | (57) | | |
| Increase in treasury stock | (1,509,835) | | | | | (4,348) |
| Net increase in unrealized gain on available-for-sale securities | | | | | 106 | |
| BALANCE, MARCH 31, 2004 | **52,894,036** | **¥ 18,802** | **¥ 25,260** | **¥ 32,797** | **¥ 103** | **¥ (4,364)** |

| | Thousands of U.S. Dollars (Note 1) | | | | |
|---|---|---|---|---|---|
| | Common Stock | Capital Surplus | Retained Earnings | Unrealized Gain (Loss) on Available-for-sale Securities | Treasury Stock |
| BALANCE, MARCH 31, 2003 | $ 177,378 | $ 175,190 | $ 254,741 | $ (24) | $ (153) |
| Net income | | | 67,688 | | |
| Exchange of stock | | 58,901 | 262 | | |
| Acquisition of consolidated company | | 4,214 | | | |
| Cash dividends, $0.25 per share | | | (12,744) | | |
| Bonuses to directors and corporate auditors | | | (540) | | |
| Increase in treasury stock | | | | | (41,018) |
| Net increase in unrealized gain on available-for-sale securities | | | | 994 | |
| BALANCE, MARCH 31, 2004 | **$ 177,378** | **$ 238,305** | **$ 309,407** | **$ 970** | **$ (41,171)** |

*See notes to consolidated financial statements.*

# Consolidated Statements of Cash Flows

KOMERI Co., Ltd. and Consolidated Subsidiaries

*Years Ended March 31, 2004 and 2003*

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2004** | 2003 | **2004** |
| OPERATING ACTIVITIES: | | | |
| Income before income taxes and minority interests | **¥ 12,292** | ¥ 11,288 | **$ 115,962** |
| Adjustments for: | | | |
| Income taxes—paid | **(5,260)** | (5,165) | **(49,626)** |
| Depreciation | **6,230** | 5,347 | **58,775** |
| Amortization of negative goodwill—net | **(517)** | (314) | **(4,881)** |
| Loss on disposal of property, plant and equipment | **273** | 108 | **2,577** |
| Bonuses to directors and corporate auditors | **(57)** | (52) | **(540)** |
| Changes in assets and liabilities: | | | |
| Increase in trade accounts receivable | **(94)** | (254) | **(887)** |
| Increase in inventories | **(5,460)** | (7,643) | **(51,506)** |
| Increase in trade accounts payable | **1,840** | 2,187 | **17,354** |
| Increase in liability for retirement benefits | **252** | 233 | **2,380** |
| Increase (decrease) in retirement benefits for directors and corporate auditors | **(248)** | 57 | **(2,341)** |
| Other—net | **1,061** | 122 | **10,015** |
| Total adjustments | **(1,980)** | (5,374) | **(18,680)** |
| Net cash provided by operating activities | **10,312** | 5,914 | **97,282** |
| INVESTING ACTIVITIES: | | | |
| Purchases of property, plant and equipment | **(13,417)** | (11,885) | **(126,576)** |
| Decrease in leasehold deposits | **328** | 192 | **3,097** |
| Cash acquired from purchase of subsidiaries—net (Note 9) | | 2,909 | |
| Increase in other assets | **(1,650)** | (715) | **(15,570)** |
| Net cash used in investing activities | **(14,739)** | (9,499) | **(139,049)** |
| FINANCING ACTIVITIES: | | | |
| Increase in short-term bank loans—net | **11,196** | 4,994 | **105,623** |
| Proceeds from long-term debt | **3,450** | 11,930 | **32,547** |
| Repayments of long-term debt | **(9,098)** | (9,986) | **(85,830)** |
| Repayments of bond | | (4,000) | |
| Dividends paid | **(1,350)** | (1,482) | **(12,740)** |
| Dividends paid for minority | **(52)** | (63) | **(487)** |
| Net cash provided by financing activities | **4,146** | 1,393 | **39,113** |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | **¥ (281)** | ¥ (2,192) | **$ (2,654)** |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | **8,047** | 9,976 | **75,916** |
| CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR | | 263 | |
| CASH AND CASH EQUIVALENTS, END OF YEAR | **¥ 7,766** | ¥ 8,047 | **$ 73,262** |

*See notes to consolidated financial statements.*

*Years Ended March 31, 2004 and 2003*

**1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2003 financial statements to conform to the classifications used in 2004.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which KOMERI Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥106 to $1, the approximate rate of exchange at March 31, 2004. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***a. Consolidation***—The consolidated financial statements as of March 31, 2004, include the accounts of the Company and its 11 significant (12 in 2003) subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Parent, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in unconsolidated subsidiaries are accounted for on the cost basis. The effect in the consolidated financial statements of not applying the equity method for the investments in these unconsolidated subsidiaries is immaterial.

Consolidation negative goodwill, the differences of the cost between acquisition and the fair value of the net assets of the acquired subsidiary at the date of acquisition, are being amortized over 5 years.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. ***Cash Equivalents***—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include deposits in banks (including time deposits), all of which mature or become due within three months of the date of acquisition.

***c. Inventories***—Merchandise inventories in retail stores are stated at cost as determined by the retail method as generally applied by the retail industry in Japan. Supplies are stated at cost using the last purchase price method.

***d. Investment Securities***—Investment securities not classified, depending on management's intent, as either held-to-maturity securities or trading securities are classified as available-for-sale securities. The Group has no held-to-maturity nor trading securities.

Marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes and reported in a separate component of shareholders' equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary decline in fair value, investment securities are reduced to net realizable value by a charge to income.

***e. Property, Plant and Equipment***—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated subsidiaries is computed substantially by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings acquired after April 1, 1998. The range of useful lives is principally from 3 to 60 years for buildings and structures, and from 4 to 12 years for machinery and equipment.

***f. Stock Issue Cost***—Stock issue cost is reported in the balance sheet as deferred charges and amortized by the straight-line method over 3 years.

***g. Retirement and Pension Plans***—The Company and some subsidiaries have a non-contributory funded pension plan and an unfunded retirement benefit plan for employees who leave the Company upon reaching retirement age or death.

The gain or loss component of net periodic pension cost (the difference between the actual return on plan assets and the expected return on plan assets, etc.) is amortized for 5 years from the next fiscal year.

The Company also participates in a common industry association, multiemployer defined benefits plan. As to the multiemployer plan, the required contribution for the period is included in a net pension cost.

Retirement benefits to directors and corporate auditors are provided at the amount which would be required if all directors and corporate auditors retired at the balance sheet date.

***h. Liability for Obligations to Customers***—The Company has adopted a point service plan for its registered customers. In the point service plan, the pre-registered customers acquire service points in proportion to their actual purchases. The acquired service points are accumulated up to a certain level and then may be exchanged for gift certificates.

The Company recognizes a liability for obligations to customers when customers acquire the service points in amounts considered to be appropriate based on past experience.

***i. Leases***—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

***j. Income Taxes***—The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

***k. Appropriations of Retained Earnings***—Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

***l. Foreign Currency Transactions***—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the income statement to the extent that they are not hedged by forward exchange contracts.

***m. Derivatives and Hedging Activities***—The Group uses derivative financial instruments ("derivatives") to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts, currency swap (substantially functions as foreign exchange forward contracts) and interest rate swap (including rate floor) are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.
The foreign exchange forward contracts employed to hedge foreign exchange exposures for import purchase are measured at the fair value and the unrealized losses are recognized in income.
The interest rate swaps are utilized to hedge interest rate exposures of long-term debt. These swaps which qualify for hedge accounting (excluding those mentioned below) are measured at market value at the balance sheet date and the unrealized gains or losses are deferred until maturity as other liability or asset.
The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income.

***n. Per Share Information***—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.
Diluted net income per share is not disclosed because of no dilutive potential common shares.
Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

**3. INVESTMENT SECURITIES**
Investment securities as of March 31, 2004 and 2003, consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2004** | 2003 | **2004** |
| Non-current: | | | |
| Marketable equity securities | **¥ 572** | ¥ 418 | **$ 5,398** |
| Trust fund investments and other | **50** | 34 | **469** |
| Total | **¥ 622** | ¥ 452 | **$ 5,867** |

The carrying amounts and aggregate fair values of marketable investment securities at March 31, 2004 and 2003 were as follows:

| | Millions of Yen | | | | | | | | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **March 31, 2004** | | | | March 31, 2003 | | | | **March 31, 2004** | | | |
| | Cost | Unrealized Gains | Unrealized Losses | Fair Value | Cost | Unrealized Gains | Unrealized Losses | Fair Value | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as available-for-sale: | | | | | | | | | | | | |
| Equity securities | **¥ 384** | **¥ 197** | **¥ 9** | **¥ 572** | ¥ 359 | ¥ 40 | ¥ 28 | ¥ 371 | **$ 3,619** | **$ 1,863** | **$ 84** | **$ 5,398** |
| Trust fund investments and other | **10** | | **2** | **8** | 49 | | 15 | 34 | **96** | | **19** | **77** |

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2004 and 2003 were as follows:

| | Carrying Amount | | |
|---|---|---|---|
| | Millions of Yen | | Thousands of U.S. Dollars |
| | **2004** | 2003 | **2004** |
| Available-for-sale—Equity securities | **¥ 42** | ¥ 47 | **$ 392** |

**4. INVENTORIES**
Inventories at March 31, 2004 and 2003, consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2004** | 2003 | **2004** |
| Merchandise | **¥ 55,271** | ¥ 49,852 | **$ 521,427** |
| Supplies | **91** | 50 | **853** |
| Total | **¥ 55,362** | ¥ 49,902 | **$ 522,280** |

**5. SHORT-TERM BANK LOANS AND LONG-TERM DEBT**
Short-term bank loans at March 31, 2004 and 2003 consisted of notes to banks. The annual weighted average interest rate applicable to the short-term bank loans was 0.53% and 1.1% at March 31, 2004 and 2003, respectively.
Long-term debt at March 31, 2004 and 2003 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2004** | 2003 | **2004** |
| Secured 2.4% domestic bonds due 2006 | **¥ 200** | ¥ 200 | **$ 1,887** |
| Secured 2.4% domestic bonds due 2007 | **100** | 100 | **943** |
| Secured 1.9% domestic bonds due 2005 | **100** | 100 | **943** |
| Loans from banks and other financial institutions, due serially to 2015 with weighted average interest rates 1.56% (2004) and 2.0% (2003): | | | |
| Collateralized | **16,186** | 18,754 | **152,692** |
| Unsecured | **8,978** | 12,057 | **84,698** |
| Total | **25,564** | 31,211 | **241,163** |
| Less current portion | **(8,002)** | (8,736) | **(75,488)** |
| Long-term debt, less current portion | **¥ 17,562** | ¥ 22,475 | **$ 165,675** |

Annual maturities of long-term debt at March 31, 2004 were as follows:

| Year Ending March 31 | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| 2005 | ¥ 8,002 | $ 75,488 |
| 2006 | 5,782 | 54,540 |
| 2007 | 4,616 | 43,545 |
| 2008 | 3,652 | 34,455 |
| 2009 | 1,238 | 11,680 |
| 2010 and thereafter | 2,274 | 21,455 |
| Total | ¥ 25,564 | $ 241,163 |

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥1,990 million ($18,774 thousand) and the above secured domestic bonds, also collateralized long-term debt at March 31, 2004, were as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Property, plant and equipment—net of accumulated depreciation | **¥ 29,772** | **$ 280,863** |
| Investment securities | **164** | **1,550** |
| Leasehold deposits | **141** | **1,333** |
| Total | **¥ 30,077** | **$ 283,746** |

As is customary in Japan, the Company maintains substantial deposit balances with banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal.

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Company has never been requested to provide any additional collateral.

**6. RETIREMENT AND PENSION PLANS**

The Company and its certain consolidated subsidiaries have severance payment plans for employees, directors and corporate auditors.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company and some consolidated subsidiaries, and in the form of annuity payments from a trustee for the other consolidated subsidiaries. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age. The liability for retirement benefits at March 31, 2004 for directors and corporate auditors is ¥897 million ($8,463 thousand). The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

The Company also participates in a common industry association, multiemployer defined benefit plan.

The liability for employees' retirement benefits at March 31, 2004 and 2003 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2004** | 2003 | **2004** |
| Projected benefit obligation | **¥2,286** | ¥ 2,074 | **$ 21,563** |
| Fair value of plan assets | **(261)** | (269) | **(2,459)** |
| Unrecognized actuarial gain | **(209)** | (257) | **(1,974)** |
| Prepaid pension cost | **46** | 62 | **440** |
| Net liability | **¥ 1,862** | ¥ 1,610 | **$ 17,570** |

The components of net periodic benefit costs for the years ended March 31, 2004 and 2003 are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2004** | 2003 | **2004** |
| Service cost | **¥ 341** | ¥ 297 | **$ 3,219** |
| Interest cost | **40** | 35 | **371** |
| Expected return on plan assets | **(4)** | (5) | **(38)** |
| Recognized actuarial loss | **59** | 37 | **557** |
| Required contribution for the multiemployer plan | **402** | 377 | **3,792** |
| Net periodic benefit costs | **¥ 838** | ¥ 741 | **$ 7,901** |

Assumptions used for the years ended March 31, 2004 and 2003, are set forth as follows:

| | **2004** | 2003 |
|---|---|---|
| Discount rate | **2.0%** | 2.0% |
| Expected rate of return on plan assets | **3.0%** | 3.0% |
| Recognition period of actuarial gain/loss | **5 years** | 5 years |

**7. SHAREHOLDERS' EQUITY**

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which various amendments have become effective since October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥22,555 million ($212,780 thousand) as of March 31, 2004, based on the amount recorded in the Company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

**8. INCOME TAXES**

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42% for the years ended March 31, 2004 and 2003.

On March 31, 2003, a tax reform law concerning enterprise tax was enacted in Japan which changed the normal effective statutory tax rate from 42% to 41%, effective for years beginning on or after April 1, 2004. The deferred tax assets and liabilities which will realize on or after April 1, 2004 are measured at the effective tax rate of 41% as at March 31, 2004 and 2003.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2004 and 2003, are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2004** | 2003 | **2004** |
| Deferred tax assets: | | | |
| Inventories | **¥ 138** | ¥ 125 | **$ 1,306** |
| Accrued enterprise taxes | **266** | 288 | **2,512** |
| Accrued bonuses | **446** | 326 | **4,207** |
| Liabilities for retirement benefits | **722** | 588 | **6,807** |
| Retirement benefits for directors and corporate auditors | **362** | 464 | **3,418** |
| Tax loss carryforwards | **1,076** | 1,158 | **10,154** |
| Other | **801** | 528 | **7,551** |
| Less valuation allowance | **(837)** | (1,111) | **(7,901)** |
| Total | **2,974** | 2,366 | **28,054** |
| Deferred tax liabilities: | | | |
| Property and equipment | **(197)** | (209) | **(1,856)** |
| Other | **(297)** | (228) | **(2,798)** |
| Total | **(494)** | (437) | **(4,654)** |
| Net deferred tax assets | **¥ 2,480** | ¥ 1,929 | **$ 23,400** |

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2004 and 2003, and the actual effective tax rates reflected in the accompanying consolidated statements of income are as follows:

| | **2004** | 2003 |
|---|---|---|
| Normal effective statutory tax rate | **42%** | 42% |
| Per capita portion | **3** | 2 |
| Tax loss carryforwards | **(2)** | |
| Amortization of negative goodwill | **(2)** | (1) |
| Other | **(2)** | |
| Actual effective tax rate | **39%** | 43% |

At March 31, 2004, certain subsidiaries have tax loss carryforwards aggregating approximately ¥2,760 million ($26,035 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

| Year Ending March 31 | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| 2005 | ¥ 136 | $ 1,287 |
| 2006 | 332 | 3,127 |
| 2007 | 86 | 814 |
| 2008 | 152 | 1,434 |
| 2009 and thereafter | 2,054 | 19,373 |
| Total | ¥ 2,760 | $ 26,035 |

### 9. CASH FLOWS

Cash acquired from purchase of subsidiaries—net at March 31, 2003 consisted of the following:

| | Millions of Yen |
|---|---|
| | **2003** |
| Current assets | **¥ 6,731** |
| Property, plant and equipment | **11,488** |
| Investments and other assets | **1,862** |
| Goodwill | **(2,313)** |
| Current liabilities | **(9,101)** |
| Long-term liabilities | **(5,387)** |
| Minority interests | **(2,027)** |
| Acquisition costs | **1,253** |
| Accepted cash and cash equivalents | **4,162** |
| Cash acquired from purchase of subsidiaries—net | **¥ 2,909** |

### 10. LEASES

The Group leases certain machinery, computer equipment, office space and other assets.

Total rental expenses for the years ended March 31, 2004 and 2003, were ¥10,723 million ($101,160 thousand) and ¥9,453 million, respectively, including ¥2,550 million ($24,061 thousand) and ¥2,379 million of lease payments under finance leases.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, depreciation expense, interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2004 and 2003, are as follows:

| | Millions of Yen | | | | | | | | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **March 31, 2004** | | | | March 31, 2003 | | | | **March 31, 2004** | | | |
| | Building | Machinery and Equipment | Furniture and Fixtures | Total | Building | Machinery and Equipment | Furniture and Fixtures | Total | Building | Machinery and Equipment | Furniture and Fixtures | Total |
| Acquisition cost | **¥ 1,064** | **¥ 1,584** | **¥ 11,457** | **¥ 14,105** | ¥ 1,064 | ¥ 872 | ¥ 11,659 | ¥ 13,595 | **$ 10,034** | **$ 14,945** | **$108,084** | **$133,063** |
| Accumulated depreciation | **197** | **811** | **6,570** | **7,578** | 144 | 609 | 6,608 | 7,361 | **1,858** | **7,655** | **61,976** | **71,489** |
| Net leased property | **¥ 867** | **¥ 773** | **¥ 4,887** | **¥ 6,527** | ¥ 920 | ¥ 263 | ¥ 5,051 | ¥ 6,234 | **$ 8,176** | **$ 7,290** | **$ 46,108** | **$ 61,574** |

Obligations under finance leases:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2004** | 2003 | **2004** |
| Due within one year | **¥ 2,064** | ¥ 1,973 | **$ 19,469** |
| Due after one year | **4,771** | 4,514 | **45,013** |
| Total | **¥ 6,835** | ¥ 6,487 | **$ 64,482** |

Depreciation expense and interest expense under finance leases:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2004** | 2003 | **2004** |
| Depreciation expense | **¥ 2,304** | ¥ 2,161 | **$ 21,739** |
| Interest expense | **271** | 276 | **2,560** |
| Total | **¥ 2,575** | ¥ 2,437 | **$ 24,299** |

Depreciation expense and interest expense, which are not reflected in the accompanying statements of income, are computed by the straight-line method and the interest method, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2004:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Due within one year | **¥ 85** | **$ 797** |
| Due after one year | **691** | **6,522** |
| Total | **¥ 776** | **$ 7,319** |

### 11. DERIVATIVES

The Group enters into derivatives, including foreign exchange forward contracts, to hedge foreign exchange risk associated with a part of imported goods. The Group also enters into interest rate swap (including rate floor) agreements as a means of managing its interest rate exposures on certain liabilities.

Foreign exchange forward contracts and currency swaps are subject to foreign exchange risk. And interest rate swap (including rate floor) agreements are subject to interest rate exposures.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

The execution and control of derivatives are controlled by the Company's Accounting Department in accordance with its internal policies.

Market value information is not shown since all derivatives are assigned to associated assets or liabilities and are reflected on the balance sheets at March 31, 2004 and 2003.

### 12. CONTINGENT LIABILITIES

At March 31, 2004, the Group had the following contingent liabilities:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Guarantees of bank loans | **¥ 5** | **$ 46** |

**13. SUBSEQUENT EVENT**

The following appropriations of retained earnings at March 31, 2004, were approved at the Company's shareholders meeting held on June 29, 2004:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Year-end cash dividends, ¥14 ($0.13) per share | ¥ 741 | $ 6,986 |
| Bonuses to directors and corporate auditors | 47 | 444 |

**14. SEGMENT INFORMATION**

***(1) Industry Segments***

Information about industry segments is not shown since substantially all consolidated net sales, operating income and identifiable assets for 2004 and 2003 resulted from the primary business of the Group, which was to sell hardware, gardening tools, etc.

***(2) Geographical Segments***

There are no consolidated subsidiaries located in countries or areas other than Japan.

***(3) Sales to Foreign Customers***

The Group operates only in Japan and does not have export sales.

**Deloitte Touche Tohmatsu**

**Tohmatsu & Co.**
MS Shibaura Building
13-23, Shibaura 4-chome
Minatoku, Tokyo 108-8530,
JAPAN
Telephone :81-3-3457-7321
Facsimile :81-3-3769-8508

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
KOMERI Co., Ltd.:

We have audited the consolidated balance sheets of KOMERI Co., Ltd. and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of KOMERI Co., Ltd. and consolidated subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 2004

# Non-consolidated Balance Sheets

KOMERI Co., Ltd.

| *March 31, 2004 and 2003* | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| ASSETS | **2004** | 2003 | **2004** |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | **¥ 6,823** | ¥ 5,360 | **$ 64,364** |
| Short-term investments | **72** | 72 | **679** |
| Receivables: | | | |
| Trade notes and accounts | **3,475** | 3,251 | **32,784** |
| Subsidiaries | **2,314** | 2,050 | **21,829** |
| Allowance for doubtful receivables | **(6)** | (2) | **(59)** |
| Inventories | **43,419** | 39,369 | **409,609** |
| Deferred tax assets | **745** | 613 | **7,029** |
| Prepaid expenses and other current assets | **1,433** | 580 | **13,528** |
| Total current assets | **58,275** | 51,293 | **549,763** |
| PROPERTY, PLANT AND EQUIPMENT: | | | |
| Land | **8,759** | 8,161 | **82,631** |
| Buildings and structures | **68,905** | 61,389 | **650,045** |
| Machinery and equipment | **2,804** | 2,440 | **26,460** |
| Construction in progress | **589** | 2,759 | **5,555** |
| Other | **2,818** | 1,385 | **26,585** |
| Total | **83,875** | 76,134 | **791,276** |
| Accumulated depreciation | **(26,655)** | (22,815) | **(251,465)** |
| Net property, plant and equipment | **57,220** | 53,319 | **539,811** |
| INVESTMENTS AND OTHER ASSETS: | | | |
| Investment securities | **498** | 366 | **4,700** |
| Investments in and advances to subsidiaries | **13,495** | 6,260 | **127,316** |
| Intangible assets | **2,651** | 2,674 | **25,008** |
| Leasehold deposits | **6,675** | 6,922 | **62,971** |
| Deferred charges | **6** | 31 | **61** |
| Deferred tax assets | **1,187** | 909 | **11,201** |
| Other assets | **2,542** | 1,523 | **23,968** |
| Total investments and other assets | **27,054** | 18,685 | **255,225** |
| TOTAL | **¥ 142,549** | ¥ 123,297 | **$1,344,799** |

*March 31, 2004 and 2003*

| LIABILITIES AND SHAREHOLDERS' EQUITY | Millions of Yen 2004 | Millions of Yen 2003 | Thousands of U.S. Dollars 2004 |
|---|---|---|---|
| CURRENT LIABILITIES: | | | |
| Short-term bank loans | **¥ 18,550** | ¥ 8,250 | **$ 175,000** |
| Current portion of long-term debt | **3,733** | 4,638 | **35,221** |
| Payables: | | | |
| Trade notes and accounts | **25,211** | 22,905 | **237,838** |
| Subsidiaries | **1,617** | 1,410 | **15,260** |
| Construction and other | **4,627** | 6,115 | **43,649** |
| Income taxes payable | **2,274** | 2,372 | **21,450** |
| Accrued expenses | **1,433** | 1,269 | **13,515** |
| Other current liabilities | **830** | 386 | **7,831** |
| Total current liabilities | **58,275** | 47,345 | **549,764** |
| LONG-TERM LIABILITIES: | | | |
| Long-term debt | **8,069** | 10,803 | **76,125** |
| Liability for retirement benefits | **1,670** | 1,444 | **15,751** |
| Retirement benefits for directors and corporate auditors | **868** | 866 | **8,187** |
| Lease deposits from lessees | **1,408** | 1,546 | **13,282** |
| Liability for obligations to customers | **225** | 154 | **2,120** |
| Other long-term liabilities | **654** | 89 | **6,176** |
| Total long-term liabilities | **12,894** | 14,902 | **121,641** |
| CONTINGENT LIABILITIES | | | |
| SHAREHOLDERS' EQUITY: | | | |
| Common stock—authorized, 131,000,000 shares; issued and outstanding, 54,409,168 shares in 2004 and 51,961,693 shares in 2003 | **18,802** | 18,802 | **177,379** |
| Capital surplus | **28,908** | 18,570 | **272,717** |
| Retained earnings | **27,944** | 23,695 | **263,617** |
| Unrealized gain (loss) on available-for-sale securities | **90** | (1) | **852** |
| Total | **75,744** | 61,066 | **714,565** |
| Treasury stock—at cost, 1,515,132 shares in 2004 and 5,297 shares in 2003 | **(4,364)** | (16) | **(41,171)** |
| Total shareholders' equity | **71,380** | 61,050 | **673,394** |
| TOTAL | **¥ 142,549** | ¥ 123,297 | **$1,344,799** |

# Non-consolidated Statements of Income

KOMERI Co., Ltd.

*Years Ended March 31, 2004 and 2003*

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2004** | 2003 | **2004** |
| REVENUES: | | | |
| Net sales | **¥ 163,840** | ¥ 152,359 | **$1,545,663** |
| Other operating revenues | **2,335** | 2,004 | **22,024** |
| Total revenues | **166,175** | 154,363 | **1,567,687** |
| COSTS AND EXPENSES: | | | |
| Cost of sales | **116,088** | 108,215 | **1,095,175** |
| Selling, general and administrative expenses | **40,087** | 36,774 | **378,176** |
| Total costs and expenses | **156,175** | 144,989 | **1,473,351** |
| Operating income | **10,000** | 9,374 | **94,336** |
| OTHER INCOME (EXPENSES): | | | |
| Interest and dividend income | **471** | 297 | **4,443** |
| Interest expense | **(210)** | (230) | **(1,978)** |
| Other—net | **(547)** | (49) | **(5,158)** |
| Other income (expenses)—net | **(286)** | 18 | **(2,693)** |
| INCOME BEFORE INCOME TAXES | **9,714** | 9,392 | **91,643** |
| INCOME TAXES: | | | |
| Current | **4,532** | 4,438 | **42,753** |
| Deferred | **(473)** | (277) | **(4,457)** |
| Total income taxes | **4,059** | 4,161 | **38,296** |
| NET INCOME | **¥ 5,655** | ¥ 5,231 | **$ 53,347** |

| | Yen | | U.S. Dollars |
|---|---|---|---|
| PER SHARE OF COMMON STOCK: | | | |
| Basic net income | **¥ 107.37** | ¥ 99.61 | **$ 1.01** |
| Cash dividends applicable to the year | **27.00** | 26.00 | **0.25** |

# Directors and Auditors

**Chairman and Chief Executive Officer**
Kenichi Sasage

**President and Chief Operating Officer**
Yuichiro Sasage

**Senior Managing Director**
Toshimoto Kosugi

**Managing Director**
Takayoshi Itagaki

**Directors**
Shuichi Matsuda
Kazuhisa Yajima
Yoshihito Hasegawa

**Standing Statutory Auditor**
Kinji Sasage

**Statutory Auditors**
Seiichi Nishitani
Zenroku Fujita
Shigeo Misaki

# Executive Officers

Kenichi Sasage
Yuichiro Sasage
Toshimoto Kosugi
Takayoshi Itagaki
Kazuhisa Yajima
Yoshihito Hasegawa
Kazuo Sugita
Shojiro Sumiyoshi
Shigeki Sakamoto
Noboru Ishizawa
Takamitsu Moriyama

# Investor Information

(As of March 31, 2004)

**Paid-in Capital**
18,802 million

**Common Stock**
Authorized: 131,000,000 shares
Issued: 54,409,168 shares
Number of Shareholders: 4,494

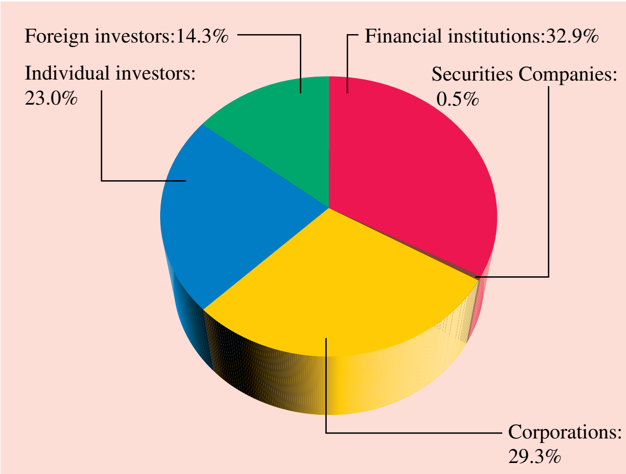
**Annual Meeting of Shareholders**
The annual meeting of shareholders of the Company is normally held in June each year in Niigata, Japan.

**Stock Exchange Listing**
Tokyo Stock Exchange ( first section, code 8218 )

**Transfer Agent for Common Stock**
The Chuo Mitsui Trust & Banking Co., Ltd.
33-1, Shiba 3-chome, Minato-ku, Tokyo 105-8574, Japan

**Independent Public Accountants**
Deloitte Touche Tohmatsu

**Composition of Shareholders**




**Officer of Investor Relations**
Yoshi Tomidokoro
Phone: 81-25-371-4113
E-Mail: ir@bit.or.jp

# Corporate Data

(As of March 31, 2004)

## KOMERI CO., LTD.

**Date of Foundation :** April 1952
**Date of Establishment :** July 1962

**Operating Headquarters :** 4453-1 Ibarasone, Shirone-shi, Niigata 950-1492, Japan
Phone: 81-25-371-4111
Fax: 81-25-371-4151
URL: http://www.komeri.bit.or.jp/
E-mail: Komeri@bit.or.jp

**Registered Head Office :** 4-1-28 Yoneyama, Niigata-shi, Niigata 950-0916, Japan

## KOMERI Group Companies

| Subsidiaries | Type of business | Paid-in Capital | Company's Share of Ownership |
|---|---|---|---|
| MR. JOHN CO., LTD. | HC business in western Japan | ¥ 1,592 million | 100.0%(*1) |
| YAMAKI CO., LTD. | HC business in northern Japan | ¥ 1,373 million | 100.0%(*1) |
| KICCORY CO., LTD. | HC business in Osaka | ¥ 300 million | 100.0% |
| LIFE KOMERI CO., LTD. | Wholesale/retail of fuels | ¥ 30 million | 100.0% |
| HOKUSEI SANGYO CO., LTD. | Group logistics | ¥ 336 million | 100.0% |
| BREEZY GREEN CO., LTD. | Plant sourcing & distribution | ¥ 150 million | 100.0% |
| MOVIE TIME CO., LTD. | Video rental and book store | ¥ 248 million | 100.0% |
| BIT-A CO., LTD. | Information systems | ¥ 50 million | 100.0% |
| AQUA CO., LTD. | Credit card services | ¥ 450 million | 100.0% |
| ATHENA CO., LTD. | Home fashion store | ¥ 400 million | 20.0 %(*2) |

**Foreign Subsidiary**

| | | | |
|---|---|---|---|
| DALIAN KOMERI HAICHEN MARKET CO., LTD. | HC business in China | US$ 2.55 million | 82.3 % |

Note: 1. In February 2004, Komeri acquired remaining stakes of Mr. John and Yamaki to make them as 100% owned subsidiaries.
2. In addition to 20.0% shares which Komeri owns directly, the group that has close relationship to Komeri holds 61.7%. Athena is listed here as a subsidiary because Komeri is regarded to hold actual control over it.

**KOMERI Co., Ltd.**

**Operating Headquarters**
4453-1 Ibarasone, Shirone-shi, Niigata 950-1492, Japan
phone: 81-25-371-4111

**Registered Head Office**
4-1-28 Yoneyama, Niigata-shi, Niigata 950-0916, Japan
phone: 81-25-247-3111

**Website**
http://www.komeri.bit.or.jp/

KOMERI