KOMERI

INVESTORS' GUIDE 2005

KOMERI

10-YEAR SUMMARY OF FINANCIAL AND OPERATING RESULTS

KOMERI Co., Ltd. and Subsidiaries

	5-Year Compound	Years ended March 31									
amounts in millions, except where noted	Annual Growth Rate	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Statements of Income Data	(%)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)
Total revenues	15.6	233,982	217,923	200,490	170,367	127,508	113,332	97,322	85,486	78,022	68,193
Total revenues increase(%)	—	7.4	8.7	17.7	33.6	12.5	16.5	13.8	9.6	14.4	16.3
Cost of sales	15.4	157,107	145,177	134,703	114,130	85,175	76,635	65,334	57,976	52,931	46,229
Selling, general, and administrative expenses	16.5	63,369	59,886	54,303	45,316	34,255	29,482	25,865	22,580	20,290	17,913
Operating income	13.4	13,506	12,860	11,484	10,920	8,078	7,216	6,123	4,929	4,801	4,052
Operating income increase (%)	—	5.0	12.0	5.2	35.2	12.0	17.8	24.2	2.7	18.5	15.3
Income before income taxes and minority interests	15.3	12,438	12,292	11,288	9,672	7,186	6,093	5,503	4,260	3,985	3,451
Net income	18.9	7,899	7,175	6,224	5,635	3,965	3,328	2,449	2,196	1,881	1,834
Net income increase(%)	—	10.1	15.3	10.5	42.1	19.1	35.9	11.5	16.7	2.6	35.6
Earnings per share	14.3	148.35	136.88	118.68	123.18	88.19	75.96	59.08	53.90	51.88	56.82
Earnings per share increase(%)	—	8.4	15.3	-3.7	39.7	16.1	28.6	9.6	3.9	-8.7	15.0
Weighted average number of shares outstanding (thousand)	3.8	52,892	52,061	51,959	45,748	44,962	43,814	41,462	40,740	36,254	32,280
Gross margin-% of revenues	—	32.9	33.4	32.8	33.0	33.2	32.4	32.9	32.2	32.2	32.2
SG&A expenses-% of revenues	—	27.1	27.5	27.1	26.6	26.9	26.0	26.6	26.4	26.0	26.3
Operating margin-% of revenues	—	5.8	5.9	5.7	6.4	6.3	6.4	6.3	5.8	6.2	5.9
Net interest expense-% of revenues	—	0.2	0.2	0.3	0.5	0.4	0.5	0.6	0.7	0.7	0.8
Income before income taxes-% of revenues	—	5.3	5.6	5.6	5.7	5.6	5.4	5.7	5.0	5.1	5.1
Net income-% of revenues	—	3.4	3.3	3.1	3.3	3.1	2.9	2.5	2.6	2.4	2.7
Balance Sheet Data and Financial Ratios		(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)
Total assets	15.4	180,887	180,887	167,460	135,431	101,227	88,405	77,681	67,767	60,385	55,251
Merchandise inventories	15.1	55,362	55,362	49,902	38,621	30,026	27,381	22,308	19,538	16,522	15,692
Net property and equipment	16.9	89,428	89,428	83,361	64,178	48,802	40,892	37,381	31,991	27,581	24,512
Long-term liabilities	6.7	26,773	26,773	30,344	20,640	20,812	19,317	19,660	15,853	12,898	11,242
Shareholders' equity	13.9	72,598	72,598	64,356	59,695	40,785	37,835	23,745	22,073	19,180	17,881
Book value per share (yen)	10.3	1,372	1,372	1,238	1,149	907	841	573	532	521	545
Long-term liabilities to equity (%)	—	36.9	36.9	47.2	34.6	51.0	51.1	82.8	71.8	67.2	62.9
Current ratio	—	0.91:1	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
Equity Ratio(%)	—	40.1	40.1	38.4	44.1	40.3	42.8	30.6	32.6	31.8	32.4
Inventory turnover (month)	—	4.2	4.4	3.9	3.6	4.0	3.9	3.8	3.7	3.7	3.9
Return on equity (%)	—	10.9	10.5	10.0	11.2	10.1	10.8	10.7	10.6	10.2	10.6
Return on assets (%)	—	4.4	4.1	4.1	4.8	4.2	4.0	3.4	3.4	3.3	3.5
Statement of Cash Flows Data		(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)
Depreciation and amortization	14.4	6,230	6,230	5,347	4,940	3,597	3,174	2,762	2,086	1,855	1,620
Operational cash flow	—	12,360	10,312	5,914	11,850	7,999	4,116	—	—	—	—
Investment cash flow	—	-8,335	-14,739	-9,499	-9,046	-11,528	-7,356	—	—	—	—
Financial cash flow	—	-987	4,146	1,393	2,353	3,542	4,249	—	—	—	—
Cash dividends per share (yen)	7.0	28.0	27.0	26.0	26.0	21.0	20.0	18.0	17.5	16.0	16.0
Store Data											
Number of stores (actual);	11.3	708	655	608	540	462	414	369	311	271	248
Komeri Home Center	7.0	87	85	80	75	72	62	55	50	46	39
Komeri Hard & Green	10.3	575	523	480	440	390	352	314	261	225	209
Stores operated by HC subsidiaries	—	46	47	48	25	—	—	—	—	—	—
Weighted average selling space (square meters)*	—	960,412	887,675	—	—	—	—	—	—	—	—
Weighted average number of employees(actual)*	—	5,739	5,458	—	—	—	—	—	—	—	—
Sales per employee(thousands of yen)*	—	37,800	36,988	—	—	—	—	—	—	—	—
Comparable store sales increase (%)*	—	1.3	-2.3	1.8	2.4	0.2	1.1	0.9	-3.1	19.1	0.1

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

1. Fundamental management policy

The Group operates retail businesses focusing on the home improvement segment with “hard” merchandise-- including hardware, tools, and building materials-- and “green” merchandise-- including gardening, plants, and agricultural materials-- as its main merchandise categories. The Group’s principal goal is to create an innovative distribution structure in those fields through a chain store system. We aim to contribute to the realization of an affluent society by providing customers with high value.

KOMERI’s Wish

We wish our business to exist
for the happiness of the people in society,
for the happiness of the people gathering here, and
for the happiness of the people having anything to do with us.

The Group’s philosophy is that “A company exists for society.” This means that a corporation should exist for the happiness of the people, otherwise it would lose a support from society, resulting in a failure as a going concern. Accordingly, a company should choose actions that are fair and optimal for various stakeholders, while fulfilling its responsibility as a corporate citizen at the same time. As the social environment changes with the times, the expectations placed on retailers might change as well. The Group aims to fulfill those obligations by constantly meeting the needs of the times through continuous innovation.

2. Fundamental policy regarding the distribution of profits

The Company places the highest priority on increasing returns to shareholders by constantly raising its corporate value. As regards the distribution of profits, we aim to provide a stable dividend continuously while strengthening the Company’s operating base and financial structure, with the profitability and payout ratio taken fully into consideration.
As concerns internal reserves, we strive to allocate funds efficiently for investment in new stores as well as for expansions and renovations to vitalize existing stores, thereby achieving sales growth and a higher ROE, in order to increase returns to shareholders from a comprehensive, long-term perspective.
The Company is proposing a year-end dividend of 14.50 yen for the fiscal year under review (for an annual dividend of 28 yen), an amount representing a one-yen increase from the previous fiscal year. In addition, we are introducing a new shareholder benefit program this year as we work to enhance returns to shareholders proactively. Under this program, shareholders that own more than 100 shares of the Company will be presented with gift certificates or special regional items from the KOMERI Sancyoku Ichiba Internet shopping site. The value of the benefit will be proportional to the number of shares owned.

3. Fundamental policy regarding reductions in the size of the trading unit

In recognition of our obligation as a publicly listed company to reduce the size of the trading unit as a means of increasing liquidity and expanding our investor base, we downsized the trading unit from 1,000 shares to 100 shares in August 1998. We will continue to take appropriate measures in the future, considering the level of share price and per-share indices.

4. Target management indices

The Group emphasizes on the effective management of invested capital, with the aim of achieving a ratio of ordinary income to total assets of 10%. As of March 31, 2005, the ratio stood at 7.6%.

5. Medium and long-term management strategies

Based on the Fundamental Management Policy mentioned earlier, the Group aims to establish a nationwide chain store system. Store development will be centered on the H&G specialty store format that is originally developed by the Company, with unique large-scale HCs that can deploy their overwhelming merchandising power to meet even professional demand. To support low-cost operations at those stores, the Group is also independently creating, constructing and operating logistics and information systems.
As regards store openings, we are working to expand the geographic coverage of our store network by employing combinations of the H&G stores and HCs according to the size of the local market. Our goal for the time being is to operate 1,000 stores nationwide, and the Group is concentrating its development strengths to accelerate store development in order to achieve this goal quickly. In addition, we are making progress in developing a customer base with the Komeri.com internet shopping site in regions where stores have yet to open. Our merchandising policy focuses on the promotion of store label products development both in Japan and overseas, while constantly seeking better ways to rationalize and optimize our procurement channels using our proprietary distribution network. In this way, we aim to provide higher value to customers while maintaining price competitiveness and profit levels at the same time. The Group aims to serve customers in every region by taking advantage of a powerful store network covering the entire country as well as mass merchandising achieved through this.
At the same time as it is pursuing this nationwide development, the Group is working to expand its new segments of customers. Looking back over the past several years, Japanese home center industry has seen limited growth in total sales, and a company that focuses only on its current markets will be unable to avoid sluggish growth rates. The Group is therefore working to cultivate professional-use market as well.
In the home improvement sector, we have established a policy of carrying full lines of commercial-use construction materials, tools, hardware, etc., and providing services to satisfy professional customers, in addition to our traditional merchandise for DIY customers. Moreover, we are creating a structure capable of meeting a wide range of needs related to housing by providing home renovation services through our Komeri Reform division. In the area of agriculture, we are working to meet the demands of professional farmers. In addition to our product lineup for general gardening, our stores now carry products such as farming materials, fertilizers and chemicals, to meet general agricultural demand. We have also introduced a special credit program for farmers along with the pre-season reservation system for farming materials.

6. Fundamental philosophy regarding corporate governance and status of implementation

Fundamental philosophy Regarding Corporate Governance
Based on the Group’s fundamental concept that “Corporations are public existence,” we strive to achieve a management structure that is responsible to all of our stakeholders and to increase corporate value over the long term. We understand that one of the most important issues for a publicly listed company is to maintain sound management for protecting the rights and benefits of shareholders, as well as to support this with management supervise functions and timely disclosure of information.

Status of Implementation Regarding Corporate Governance

(1) Management organization and other corporate governance structures related to management decision-making, execution, and supervision

(a) Board of Directors

The Board of Directors consists of seven members including one external. It makes decisions on subjects concerning the stipulations of applicable laws and our Articles of Incorporation and supervises the operations. Regular meetings are held once a month.
In addition, new management structure was introduced in June 2003 that divided the functions previously concentrated in the Company president into two parts. A “Chairman and CEO ” is responsible for overall group control and business strategy, and a “President and COO ” is responsible for overall executions including store operations, merchandising, logistics, and information systems. An executive officer system was introduced at the same time. This resulted in a reduction in the number of directors from twelve to seven.

(b) Board of Standing Officers

The Board of Standing Officers is made up of standing directors and executive officers. It carries out decision-making related to daily operations. Regular meetings are held once a month.

(c) Board of Auditors

The Group employs the corporate auditor system developed in the Japanese management system. Our Board of Auditors is made up of four corporate auditors, three of whom are external auditors. It determines the auditing policies for its members in accordance with the relevant laws and the Company’s Articles of Incorporation, as well as preparing auditors’ reports based on individual reports of its members. The corporate auditors supervise and inspect the decision-making process of the Board of Directors and the operations executed by executive officers .
To do those duties sufficiently, auditors attend important meetings such as the Board of Directors, hold hearings from executive officers , inspect important approval documents, and so forth.

(d) Current Status of internal control and risk management systems

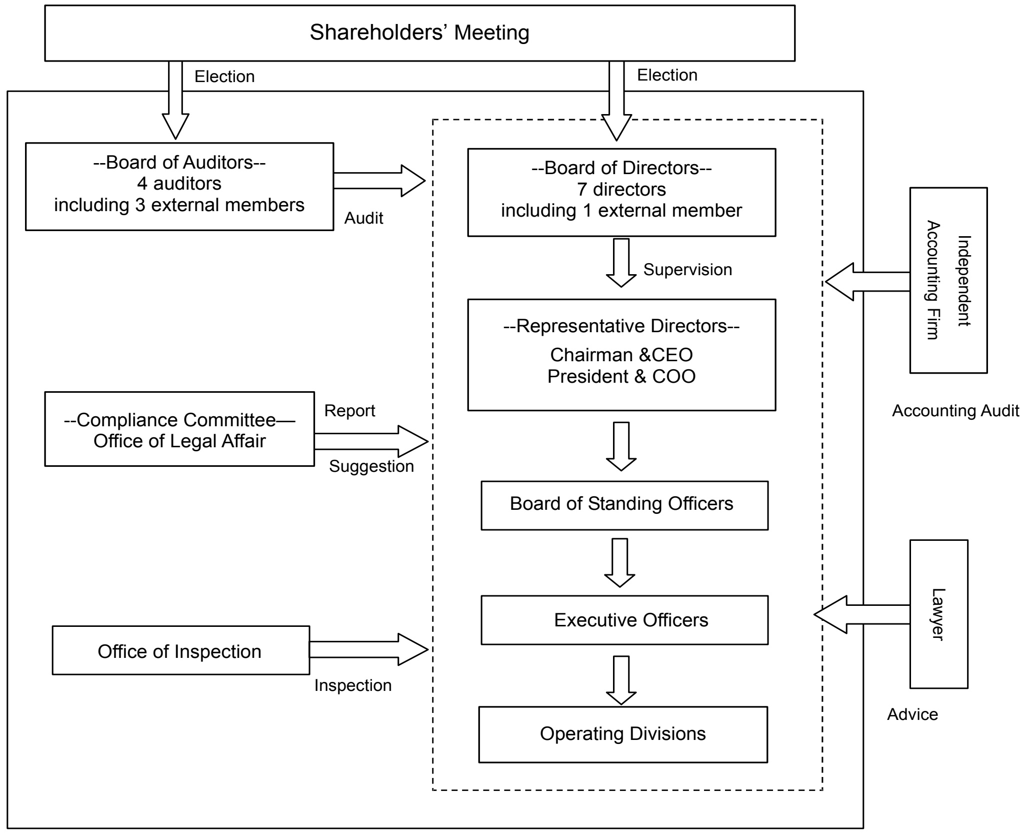
As the Group regards compliance as one of the most important issues for management, we have established the Office of Legal Affair as well as the Compliance Committee in order to ensure thorough compliance with laws and related regulations.
In addition, as an internal auditing function, the Office of Inspection conducts regular inspections of operations at each division, and makes suggestions for improvements.

(2) Overview of personal, capital, and transactional relationships, along with other interests between the Company and its external director and external corporate auditors

The Company has introduced an external corporate auditor system prior to the Company’s initial public offering. In addition, the Company aims to have external directors in order to promote fair and transparent management.
The Company currently engages one external director and three external corporate auditors. These persons supervise the management, drawing on their specialized knowledge based on their wide range and depth of experience as certified public accountants, lawyers, university professors and so forth.

(3) Actions to enhance corporate governance during the past twelve months
(a) The Office of Legal Affairs was established in November 2004 to strengthen the supervising function with respect to compliance.
(b) One of our board members was given responsibility for compliance in December 2004 in order to enhance the Company's internal structure for compliance with laws and corporate ethics.
(c) Spanning the entire organization, The Compliance Committee was established in April 2005.

Corporate Governance Structure



7. Responsibilities as a Corporate Citizen

The Group's philosophy is based on the idea that "A Corporation should exist to make people happy, and thereby society admits it as a going concern." This has not changed since the Company was founded.
Since the Komeri Greenery Fund was established in 1990, the Company has returned 1% of ordinary income to society every year as subsidies to local tree planting activities. The fund has contributed a total of 712 million yen in the 15 years since its establishment, assisting a total of 2,436 projects. A portion of those contributions has supported academic research through the Greenery Aid Foundation, and the results of Plant Investigation Project in Mustang, Nepal were published in the fiscal year ended March 2005. In addition, the Company has instituted a Greenery Fund Volunteer program to encourage many employees to participate directly in local flower/tree planting activities as part of efforts to promote companywide involvement in local community. More than 5,000 employees have participated in such activities since the program was introduced in 1999, and in March 2005 the Company was awarded as a company that actively support volunteer activities by its employees.
Furthermore, as our stores mainly carry merchandise for home improvement, we understand our responsibility to play a meaningful role in regions struck by natural disasters such as earthquake, typhoon, flood, and so forth. The Group places a highest priority on resuming store operations as soon as possible in such areas and always tries to achieve this objective with all of our resources. As a corporate citizen in local community, the Group is expected to assist in regional reconstruction through its business activities, and we constantly strive to meet these expectations. Last year, Japan was hit by numerous major natural disasters, including the July 13 floods in Niigata and Fukushima, a record number of typhoons, and the Chuetsu Earthquake. In addition to working to repair our stores quickly, the Group supplied free commodities to the residents in the struck areas and carried out fund-raising activities for disaster relief funds.

Operating results and financial performance

1. Operating results
Overview of results for the year to March 2005

Consolidated Results

Millions of yen	March 31, 2004	March 31, 2005	Year-on-year comparison
Total revenues	217,922	233,982	107.4
Operating income	12,859	13,505	105.0
Ordinary income	13,081	14,104	107.8
Net income	7,174	7,899	110.1

Non-consolidated Results

Millions of yen	March 31, 2004	March 31, 2005	Year-on-year comparison
Total revenues	166,174	180,229	108.5
Operating income	9,999	10,458	104.6
Ordinary income	10,358	10,931	105.5
Net income	5,654	5,870	103.8

Although macroeconomic indices during the fiscal year under review suggested a trend toward economic recovery, the implementation of consumption tax-inclusive price displays and a jump in crude oil prices, coupled with an increase in pension liabilities and a partial abolition of tax reductions, made it difficult to say that there was an overall turnaround in consumer sentiment. In addition, numbers of natural disasters, including floods, typhoons, and earthquakes, further affected consumption trends in a variety of ways.
Against this background, the Group achieved revenue and profit growth from the previous year.
We spent a difficult first quarter because of substantial price cuts for some merchandise accompanying the introduction of consumption tax-inclusive price displays. Limited sales growth in gardening merchandise resulted from poor weather in early spring affected our results as well. However, record-setting hot summer weather led to solid sales growth for seasonal items in the second quarter, and gardening-related merchandise exhibited a degree of recovery. During the third quarter, Japan was hit by numerous major natural disasters in the form of typhoons and earthquakes, and many of our stores were struck too. But, successful efforts to restore operations in the shortest time possible enabled these stores to provide support to the people in the affected areas. As these disasters added some extra demand for rebuilding houses and farms, sales of construction materials and agricultural materials expanded. Concerning the winter season, seasonal merchandise struggled in the beginning as the weather remained warm through December, but record-breaking cold waves and snowfalls in January led to a recovery in sales. Although lower-than-average temperatures at the end of the fiscal year meant a slow start for gardening and agricultural-related demand, same-store sales for the fiscal year grew by 1.3% from the previous fiscal year.
Concerning profits, as mentioned above, some merchandise saw substantial price reductions, high-margin gardening-related merchandise struggled, and a jump in prices for commercial raw materials including iron and petroleum led to a 0.6 % decline in the gross margin on revenue. However, this decline affected profit margins quite slightly as SG&A expenses improved 0.5% against revenues. This improvement came from an expense reduction with the inclusion of MR. JOHN and YAMAKI as 100% subsidiaries, and a renovation of our Shirone Logistics Center aimed at more efficient distribution.
As a result of those business environments and our own efforts mentioned above, total revenues rose 7.4% on a consolidated basis from the previous fiscal year to 233,982 million yen. Ordinary income grew by 7.8% to 14,104 million yen (a 10.1% increase on a corporate tax-equivalent basis), and net income was 10.1% higher at 7,899 million yen. The introduction of a pro forma standard tax increased SG&A expenses, and the early implementation of asset impairment accounting created an extraordinary loss in the amount of 1,044 million yen. Although these factors affected our profits, the Company has achieved both revenue and profit growth for the 18th consecutive year since its listing.

Home Center business

Consolidated Results

Millions of yen	March 31, 2004	March 31, 2005	Year-on-year comparison
Net sales	201,883	216,933	107.5
Number of stores	655	708	-
Number of stores newly opened	55	56	-

(Note)The number of stores includes those of Group companies.

Sales by the Home Center business grew by 7.5% from the previous fiscal year. In addition to strong same-store sales, which rose by 1.3%, 55 stores that opened last year contributed on a full-year basis and 56 new stores in this fiscal year expanded total sales figures.
The Group opened two HCs and 54 H&Gs, while three stores were closed. One of the new HCs is the third store to employ our “Power” format. The Power is currently under development as our next generation format, and the third store has generated solid results since its opening. As a result, the total number of Group stores as of fiscal year-end exceeded 700, with 132 HCs and 576 H&Gs bringing the total to 708 stores. The first stores in Yamaguchi and Ehime prefectures were opened, expanding the Group’s store coverage to 36 prefectures.
Measures involving merchandising were implemented against a generally difficult background, including substantial price cuts to cope with the introduction of consumption tax-inclusive price displays as well as rising prices for raw materials such as iron and petroleum. However, further progress was made in merchandise import and store-brand development to minimize the decline in the gross profit margin. We also promoted further integration of merchandise procurement by three Home Center subsidiaries with ours, thus enhancing the economies of scale in purchase and helping to improve the profitability of entire Group.
While retail consumption rose and fell during the fiscal year, commercial-use materials — an area on which the Group is putting emphasis — showed solid growth. Synergies in sales were created with AQUA Pro Card/Agri Card, which provide credit sales to professionals, resulting in large sales growth in agricultural materials, fertilizers & chemicals, building materials, hardware, and so forth.
On the other hand, the Komeri.com internet shopping site launched a sister site, Komeri *Sancyoku Ichiba — in Japanese, directly shipped from the farm* — in August, while pre-season orders for farming materials also showed significant growth from the previous fiscal year. In addition, our home renovation business, Komeri Reform, expanded its store counts, contributing to the Group’s sales growth.

Other Businesses

HOKUSEI SANGYO CO., LTD., renovated and expanded its Shirone Logistic Center, that is located adjacent to the Group headquarters, thereby reducing its external warehousing costs and improving its distribution efficiency. As a result, HOKUSEI showed a rapid recovery in results and contributed to the improvement in consolidated incomes. At the same time, the number of membership in our AQUA Card grew to 1.4 million as of fiscal year-end, and this steady growth continues. Also, other Group companies have contributed to improve in the business infrastructure and operating efficiency as part of efforts to achieve overall Group synergies.

2. Financial performance

Cash flows

Millions of yen	March 31, 2004	March 31, 2005	Year-on-year change
Net cash provided by operating activities	10,311	12,360	2,048
Net cash used in investment activities	(14,739)	(8,335)	6,404
Net cash provided by financing activities	4,146	(987)	(5,133)
Increase (decrease) in cash and cash equivalents	(281)	3,037	3,319
Cash and cash equivalents at end of term	7,765	10,803	3,037

Cash and cash equivalents (“cash”) as of the fiscal year-end totaled 10,803 million yen. Factors affecting cash flows include the following:

Net cash provided by operating activities

Cash generated by operating activities grew by 2,048 million yen from the previous fiscal year to 12,360 million yen. Primary items included growth in income before taxes and other adjustments and depreciation expenses, the recording of impairment losses and loss arising from natural disasters, and a smaller increase in inventory assets compared with the previous fiscal year.

Net cash used in investment activities

Investment activities used cash in the amount of 8,335 million yen, a decrease of 6,404 million yen from the previous fiscal year. The decline came primarily from a 4,825 million yen reduction in outlays for the acquisition of tangible fixed assets for new store openings, etc.

Net cash provided by financing activities

Financing activities used cash in the amount of 987 million yen. In the previous fiscal year, a positive cash flow of 4,146 million yen was required because capital investment exceeded operating cash flow, but in the fiscal year under review, the amount of equipment investment was within the scope of operating cash flow.

Trends in Cash Flow Indices

	March 31, 2002	March 31, 2003	March 31, 2004	March 31, 2005
Equity ratio	44.1%	38.4%	40.1%	41.8%
Equity ratio based on market prices	112.2%	70.4%	85.5%	79.4%
Years required to redeem liabilities	2.9 years	8.2 years	5.3 years	4.4 years
Interest-coverage ratio	14.9	8.9	17.9	27.5

(Notes)
1. The calculation methods are as follows:
   Equity ratio: Shareholders’ equity/total assets
   Equity ratio based on market prices: Market capitalization/total assets
   Years required to redeem liabilities: Interest-bearing liabilities/operating cash flow
   Interest-coverage ratio: Operating cash flow/interest payments
2. Each of the foregoing ratios is calculated on the basis of consolidated financial data.
3. “Market capitalization” is calculated by multiplying the share price on the final day of the fiscal year by the number of shares outstanding on the same day (excluding treasury stock shares).
4. For “operating cash flow,” we use the figure for “cash flow provided by operating activities” in the consolidated statement of cash flows.
5. “Interest-bearing liabilities” refers to all liabilities on the consolidated balance sheet on which interest payments are made. For “interest payments,” we use the figure for “interest expenses” in the consolidated statement of cash flows.

3. Outlook for the year to March 2006

Consolidated Forecasts

Millions of yen	Interim	Year-on-year comparison	Annual	Year-on-year comparison
Total revenues	122,000	104.5	248,000	106.0
Ordinary income	8,200	106.5	15,500	109.9
Net income	4,500	108.4	8,700	110.1

Non-consolidated Forecasts

Millions of yen	Interim	Year-on-year comparison	Annual	Year-on-year comparison
Total revenues	96,000	108.6	195,000	108.2
Ordinary income	6,500	109.1	12,000	109.8
Net income	3,600	110.4	6,700	114.2

A target of 70 new store openings has been set for the fiscal year to March 2006, the largest number in the Group's history. While continuing to promote store openings in Western Japan, the Company will also emphasize store openings in the Tohoku region, a Northeastern Japan, with the start of construction of the Hanamaki Logistic Center. The breakdown of projected new store openings is six HCs and 64 H&Gs, with plans for three of the six HCs to apply the "Power" format with approximately 13,000 square meters of selling space.

The "Power" format was launched on an experimental basis in the spring of 2003. It has now been in effect for two years, and the three store openings planned for the fiscal year to March 2006 are expected to represent the completion of a standardized "Power" store model. In the H&G segment, the trial for sales area improvements, introduced into a couple of stores last year, has proved our hypothesis successfully. With this result, we determined to incorporate those concepts into the design of new stores and to retrofit existing stores. The Company plans to introduce these improvements into all H&G stores eventually, with expectations of higher gross margins and inventory turnover as well as operating cost reduction.

The demand of professionals is being steadily cultivated through product lineup enhancement and marketing efforts, and the Group plans to continue to develop this attractive market going forward. In particular, we place specialists in each sales area in order to create a structure for offering more information to professional customers. The Group aims to be a leading company in this field with supports by Internet services and special credit programs for professional customers as well as the largest store network in our industry.

In the area of merchandising, the Group plans to expand overseas production of store label merchandise, while at the same time continuing to identify and introduce locally demanded goods aggressively. In addition, we will optimize product lineups by clearly distinguishing between customers' respective expectations in each store format.

The Group will also strive to maximize its internal synergies by having each Group company specialize in its own field, thereby achieving cost efficiencies for the entire Group and enhance its adaptability to possible changes in the business environment.

Based on the foregoing, the Group's consolidated forecast for the fiscal year to March 2006 calls for a 6.0% increase in total revenues to 248.0 billion yen, with 9.9% growth in ordinary income to 15.5 billion yen and a 10.1% increase in net income to 8.7 billion yen.

4. Business and other risks

Group's Store Opening Policies

The Group's store openings are determined based on its proprietary store opening criteria, which take into account location surveys, accumulated experience from previous store openings, the surrounding population, rent expenses, and so forth. The Group aims to open both HCs and H&Gs more aggressively for expanding its "dominant" areas. However, in cases in which time is required to secure appropriate locations for stores, the delay could exert an effect on the Group's results.

Legal Regulations Regarding Store Openings

Regulations regarding store openings are included in the Large Scale Retail Store Location Law (the "Store Location Law") enacted in June 2000. The regulations enforced by this law focus primarily on environmental measures, including local traffic, noise, and waste considerations, for stores with a selling space exceeding 1,000 square meters.

The Group had 708 stores in operation as of March 31, 2005, of which 132 were HCs with selling space exceeding 1,000 square meters. The Group intends to continue to open large-scale HCs as part of its emphasis of cultivating the professional market by securing inventory and carrying merchandise for such customers. Therefore, there is a possibility that the requirement of extended periods of time or increased costs to coordinate store openings with local citizens and governments may exert an effect on results. H&G stores have less than 1,000 square meters and are therefore not covered by the regulations.

Protection of Personal Information

The Group's subsidiary AQUA CO., LTD., provides various credit cards for use by customers and keeps customer information on computers. The Company also uses computers to manage information from operations related to credit sales and purchasing, etc.

This personal information of customers is handled as per "the Rules for Handling Personal Information" established by the Company. Careful attention is paid to the safekeeping and use of this information, which is tightly controlled.

Nevertheless, the possibility of leakage or divulgence of information resulting from criminal activity or computer system failure cannot be denied. If such an event were to occur, in addition to the Group suffering a loss of the social credibility , its business results might be affected by such events as a decline in total revenue or the payment of restitution resulting from the information leak.

(Note) The above risks are those determined to exist as of the end of the fiscal year under review.

Consolidated Balance Sheets

KOMERI Co., Ltd. and Consolidated Subsidiaries

March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	**2005**	2004	**2005**
CURRENT ASSETS:			
Cash and cash equivalents	**¥ 10,804**	¥ 7,766	**$ 100,967**
Short-term investments (Note 3)	**231**	674	**2,163**
Receivables:			
Trade notes and accounts	**5,610**	4,757	**52,428**
Allowance for doubtful receivables	**(3)**	(5)	**(33)**
Inventories (Note 5)	**58,809**	55,362	**549,616**
Deferred tax assets (Note 10)	**1,242**	1,489	**11,611**
Prepaid expenses and other current assets	**1,211**	1,416	**11,320**
Total current assets	**77,904**	71,459	**728,072**
PROPERTY, PLANT AND EQUIPMENT (Notes 6 and 7):			
Land	**22,288**	21,297	**208,302**
Buildings and structures	**105,222**	99,204	**983,388**
Machinery and equipment	**4,237**	4,337	**39,599**
Construction in progress	**1,376**	2,050	**12,856**
Other	**6,884**	6,690	**64,333**
Total	**140,007**	133,578	**1,308,478**
Accumulated depreciation	**(49,112)**	(44,150)	**(458,991)**
Net property, plant and equipment	**90,895**	89,428	**849,487**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 7)	**756**	622	**7,062**
Investments in unconsolidated subsidiaries	**289**	289	**2,705**
Intangible assets	**4,740**	4,849	**44,303**
Leasehold deposits	**10,076**	10,134	**94,173**
Deferred charges	**3**	7	**32**
Deferred tax assets (Note 10)	**2,162**	1,142	**20,203**
Other assets	**2,030**	2,957	**18,968**
Total investments and other assets	**20,056**	20,000	**187,446**
TOTAL	**¥ 188,855**	¥ 180,887	**$1,765,005**

See notes to consolidated financial statements.

Consolidated Statements of Income

KOMERI Co., Ltd. and Consolidated Subsidiaries

March 31, 2005 and 2004

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2005	Millions of Yen 2004	Thousands of U.S. Dollars (Note 1) 2005
CURRENT LIABILITIES:			
Short-term bank loans (Note 7)	¥ 33,160	¥ 28,320	$ 309,907
Current portion of long-term debt (Note 7)	6,431	8,002	60,102
Payables:			
Trade notes and accounts	33,724	32,421	315,174
Construction and other	6,895	6,363	64,444
Income taxes payable	2,823	2,951	26,380
Accrued expenses	2,122	1,961	19,836
Other current liabilities	861	1,247	8,044
Total current liabilities	86,016	81,265	803,887
LONG-TERM LIABILITIES:			
Long-term debt (Note 7)	14,759	17,562	137,931
Liability for retirement benefits (Note 8)	2,187	1,862	20,440
Retirement benefits for directors and corporate auditors (Note 8)	916	897	8,565
Lease deposits from lessees	2,287	2,251	21,379
Liability for obligations to customers	349	270	3,260
Negative goodwill	2,300	3,087	21,494
Deferred tax liabilities (Note 10)	131	151	1,222
Other long-term liabilities	625	693	5,838
Total long-term liabilities	23,554	26,773	220,129
MINORITY INTERESTS	270	251	2,527
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 11, 12 and 13)			
SHAREHOLDERS' EQUITY (Note 9):			
Common stock—authorized, 131,000,000 shares; issued, 54,409,168 shares in 2005 and 2004	18,802	18,802	175,721
Capital surplus	25,260	25,260	236,078
Retained earnings	39,193	32,797	366,293
Unrealized gain on available-for-sale securities	131	103	1,222
Total	83,386	76,962	779,314
Treasury stock—at cost, 1,517,557 shares in 2005 and 1,515,365 shares in 2004	(4,371)	(4,364)	(40,852)
Total shareholders' equity	79,015	72,598	738,462
TOTAL	¥ 188,855	¥ 180,887	$1,765,005

See notes to consolidated financial statements.

Years Ended March 31, 2005 and 2004

	Millions of Yen 2005	Millions of Yen 2004	Thousands of U.S. Dollars (Note 1) 2005
REVENUES:			
Net sales	¥ 225,976	¥ 210,356	$2,111,928
Other operating revenues	8,006	7,567	74,823
Total revenues	233,982	217,923	2,186,751
COST OF SALES	157,107	145,177	1,468,298
Gross profit	76,875	72,746	718,453
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	63,369	59,886	592,231
Operating income	13,506	12,860	126,222
OTHER INCOME (EXPENSES):			
Interest and dividends	35	43	330
Interest expense	(447)	(578)	(4,180)
Loss on disposal of property, plant and equipment	(353)	(273)	(3,297)
Amortization of negative goodwill	796	537	7,437
Gain from casualty insurance	881		8,237
Loss on impairment	(1,044)		(9,762)
Loss on casualty	(965)		(9,022)
Other—net	29	(297)	275
Other expenses—net	(1,068)	(568)	(9,982)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	12,438	12,292	116,240
INCOME TAXES (Note 10):			
Current	5,330	5,443	49,815
Deferred	(811)	(628)	(7,585)
Total income taxes	4,519	4,815	42,230
MINORITY INTERESTS IN NET INCOME	(20)	(302)	(184)
NET INCOME	¥ 7,899	¥ 7,175	$ 73,826

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.o):			
Basic net income	¥ 148.35	¥ 136.88	$ 1.39
Cash dividends applicable to the year	27.00	27.00	0.25

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years Ended March 31, 2005 and 2004

	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, 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	(1,510,068)					(4,348)
Net increase in unrealized gain on available-for-sale securities					106	
BALANCE, MARCH 31, 2004	52,893,803	18,802	25,260	32,797	103	(4,364)
Net income				7,899		
Cash dividends, ¥27 per share				(1,454)		
Bonuses to directors and corporate auditors				(49)		
Increase in treasury stock	(2,192)					(7)
Net increase in unrealized gain on available-for-sale securities					28	
BALANCE, MARCH 31, 2005	**52,891,611**	**¥ 18,802**	**¥ 25,260**	**¥ 39,193**	**¥ 131**	**¥ (4,371)**

	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, 2004	$ 175,721	$ 236,078	$ 306,515	$ 961	$ (40,786)
Net income			73,826		
Cash dividends, $0.25 per share			(13,594)		
Bonuses to directors and corporate auditors			(454)		
Increase in treasury stock					(66)
Net increase in unrealized gain on available-for-sale securities				261	
BALANCE, MARCH 31, 2005	**$ 175,721**	**$ 236,078**	**$ 366,293**	**$ 1,222**	**$ (40,852)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	**2005**
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥ 12,438**	¥ 12,292	**$ 116,240**
Adjustments for:			
Income taxes—paid	**(5,734)**	(5,260)	**(53,587)**
Depreciation	**6,653**	6,230	**62,176**
Loss on impairment	**1,044**		**9,762**
Amortization of negative goodwill—net	**(787)**	(517)	**(7,358)**
Loss on disposal of property, plant and equipment	**353**	273	**3,295**
Bonuses to directors and corporate auditors	**(49)**	(57)	**(454)**
Changes in assets and liabilities:			
Increase in trade accounts receivable	**(383)**	(94)	**(3,578)**
Increase in inventories	**(3,930)**	(5,460)	**(36,727)**
Increase in trade accounts payable	**1,303**	1,840	**12,176**
Increase in liability for retirement benefits	**325**	252	**3,035**
Increase (decrease) in retirement benefits for directors and corporate auditors	**19**	(248)	**181**
Other—net	**1,108**	1,061	**10,356**
Total adjustments	**(78)**	(1,980)	**(723)**
Net cash provided by operating activities	**12,360**	10,312	**115,517**
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	**(8,591)**	(13,417)	**(80,292)**
Decrease in leasehold deposits	**58**	328	**539**
(Increase) decrease in other assets	**198**	(1,650)	**1,854**
Net cash used in investing activities	**(8,335)**	(14,739)	**(77,899)**
FINANCING ACTIVITIES:			
Increase in short-term bank loans—net	**4,840**	11,196	**45,234**
Proceeds from long-term debt	**4,000**	3,450	**37,383**
Repayments of long-term debt	**(8,374)**	(9,098)	**(78,260)**
Dividends paid	**(1,453)**	(1,350)	**(13,585)**
Dividends paid for minority		(52)	
Net cash provided by (used in) financing activities	**(987)**	4,146	**(9,228)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**3,038**	(281)	**28,390**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**7,766**	8,047	**72,577**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 10,804**	¥ 7,766	**$ 100,967**

See notes to consolidated financial statements.

Years Ended March 31, 2005 and 2004

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 2004 financial statements to conform to the classifications used in 2005.

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 ¥107 to $1, the approximate rate of exchange at March 31, 2005. 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, 2005, include the accounts of the Company and its 11 significant (11 in 2004) 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 3 (3 in 2004) unconsolidated subsidiaries are accounted for on the cost basis. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

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

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 are 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, 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 declines 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. Long-lived Assets—In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASB") issued ASB Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2004. The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The effect of adoption of the new accounting standard for impairment of fixed assets was to decrease income before income taxes and minority interests for the year ended March 31, 2005 by ¥1,044 million ($9,762 thousand).

g. 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.

h. 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.

i. 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.

j. 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.

k. 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.

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

m. 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 consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

n. 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 swaps (substantially functions as foreign exchange forward contracts) and interest rate swaps (including rate floors) 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.

o. 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. SHORT-TERM INVESTMENTS

Short-term investments as of March 31, 2005 and 2004, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Time deposits and banking agreements other than cash equivalents	**¥ 231**	¥ 674	**$ 2,163**

4. INVESTMENT SECURITIES

Investment securities as of March 31, 2005 and 2004, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Non-current:			
Marketable equity securities	**¥ 592**	¥ 545	**$ 5,532**
Trust fund investments and other	**164**	77	**1,530**
Total	**¥ 756**	¥ 622	**$ 7,062**

The carrying amounts and aggregate fair values of marketable investment securities at March 31, 2005 and 2004 were as follows:

	Millions of Yen								Thousands of U.S. Dollars			
	March 31, 2005				March 31, 2004				**March 31, 2005**			
	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	**¥ 360**	**¥ 233**	**¥ 1**	**¥ 592**	¥ 360	¥ 194	¥ 9	¥ 545	**$ 3,363**	**$ 2,177**	**$ 8**	**$ 5,532**
Trust fund investments and other	**34**	**3**	**2**	**35**	34	4	2	36	**317**	**27**	**18**	**326**

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2005 and 2004 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Available-for-sale—Equity securities	**¥ 40**	¥ 41	**$ 375**
Capital investments in investment business associations with limited liability or similar associations	**89**		**829**
Total	**¥ 129**	¥ 41	**$ 1,204**

5. INVENTORIES

Inventories at March 31, 2005 and 2004, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Merchandise	¥ 58,704	¥ 55,271	$ 548,639
Supplies	105	91	977
Total	¥ 58,809	¥ 55,362	$ 549,616

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of the year ended March 31, 2005 and, as a result, recognized an impairment loss of ¥1,044 million ($9,762 thousand) as other expense for certain unprofitable stores due to a continuous operating loss of that assets and the carrying amount of the assets of the relevant stores was written down to the recoverable amount. This broke down as ¥799 million ($7,467 thousand) for buildings and structures and ¥214 million ($1,999 thousand) for land, and ¥31 million ($296 thousand) for other items. The recoverable amount of this asset group was measured at its value in use and the discount rate used for computation of present value of future cash flows was 6%.

7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2005 and 2004 consisted of notes to banks. The annual weighted average interest rate applicable to the short-term bank loans was 0.36% and 0.53% at March 31, 2005 and 2004, respectively.
Long-term debt at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Secured 2.4% domestic bonds due 2007	¥ 300	¥ 300	$ 2,804
Secured 1.9% domestic bonds due 2006	100	100	935
Loans from banks and other financial institutions, due serially to 2015 with weighted average interest rates 1.48% (2005) and 1.56% (2004):			
Collateralized	9,596	16,186	89,680
Unsecured	11,194	8,978	104,614
Total	21,190	25,564	198,033
Less current portion	(6,431)	(8,002)	(60,102)
Long-term debt, less current portion	¥ 14,759	¥ 17,562	$ 137,931

Annual maturities of long-term debt at March 31, 2005 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2006	¥ 6,431	$ 60,102
2007	5,030	47,004
2008	5,144	48,073
2009	2,031	18,985
2010	1,372	12,822
2011 and thereafter	1,182	11,047
Total	¥ 21,190	$ 198,033

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥2,770 million ($25,888 thousand) and the above secured domestic bonds, also collateralized long-term debt at March 31, 2005, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Property, plant and equipment—net of accumulated depreciation	¥ 27,134	$ 253,584
Investment securities	184	1,723
Total	¥ 27,318	$ 255,307

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.

8. 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 or by death.
The liability for retirement benefits at March 31, 2005 for directors and corporate auditors is ¥916 million ($8,565 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, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Projected benefit obligation	¥2,594	¥ 2,286	$ 24,241
Fair value of plan assets	(281)	(261)	(2,624)
Unrecognized actuarial gain	(169)	(209)	(1,578)
Prepaid pension cost	43	46	401
Net liability	¥ 2,187	¥ 1,862	$ 20,440

The components of net periodic benefit costs for the years ended March 31, 2005 and 2004 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Service cost	¥368	¥ 341	$ 3,436
Interest cost	43	40	407
Expected return on plan assets	(4)	(4)	(40)
Recognized actuarial loss	63	59	592
Required contribution for the multiemployer plan	420	402	3,923
Net periodic benefit costs	¥ 890	¥ 838	$ 8,318

Assumptions used for the years ended March 31, 2005 and 2004, are set forth as follows:

	2005	2004
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.5%	3.0%
Recognition period of actuarial gain/loss	5 years	5 years

9. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code").
The Code requires that all shares of common stock are 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 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 Code allows Japanese companies to repurchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. 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 shareholders meeting.
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. The amount of retained earnings available for dividends under the Code was ¥26,917 million ($251,556 thousand) as of March 31, 2005, based on the amount recorded in the parent company's general books of account.
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.

10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 40% and 42% for the years ended March 31, 2005 and 2004, respectively.
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 40%, 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 40% as at March 31, 2004.
The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2005 and 2004, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Deferred tax assets:			
Inventories	¥ 125	¥ 138	$ 1,165
Loss on impairment	410		3,829
Accrued enterprise taxes	255	266	2,380
Accrued bonuses	490	446	4,581
Liabilities for retirement benefits	875	722	8,179
Retirement benefits for directors and corporate auditors	370	362	3,460
Tax loss carryforwards	806	1,076	7,529
Other	793	801	7,413
Less valuation allowance	(360)	(837)	(3,362)
Total	3,764	2,974	35,174
Deferred tax liabilities:			
Property and equipment	(216)	(197)	(2,017)
Other	(275)	(297)	(2,565)
Total	(491)	(494)	(4,582)
Net deferred tax assets	¥ 3,273	¥ 2,480	$ 30,592

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2005 and 2004 is as follows:

	2005	2004
Normal effective statutory tax rate	**40%**	42%
Per capita portion	**3**	3
Tax loss carryforwards	**(4)**	(2)
Amortization of negative goodwill	**(3)**	(2)
Other		(2)
Actual effective tax rate	**36%**	39%

At March 31, 2005, certain subsidiaries have tax loss carryforwards aggregating approximately ¥2,073 million ($19,377 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
2006	¥ 69	$ 645
2009	69	644
2010 and thereafter	1,935	18,088
Total	¥ 2,073	$ 19,377

11. LEASES

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

Total rental expenses for the years ended March 31, 2005 and 2004, were ¥11,091 million ($103,655 thousand) and ¥10,723 million, respectively, including ¥2,543 million ($23,769 thousand) and ¥2,550 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, 2005 and 2004, was as follows:

	Millions of Yen								Thousands of U.S. Dollars			
	2005				2004				2005			
	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**	**¥ 1,729**	**¥ 11,148**	**¥ 13,941**	¥ 1,064	¥ 1,584	¥ 11,457	¥ 14,105	**$ 9,941**	**$ 16,155**	**$104,188**	**$130,284**
Accumulated depreciation	**255**	**945**	**6,771**	**7,971**	197	811	6,570	7,578	**2,379**	**8,829**	**63,278**	**74,486**
Net leased property	**¥ 809**	**¥ 784**	**¥ 4,377**	**¥ 5,970**	¥ 867	¥ 773	¥ 4,887	¥ 6,527	**$ 7,562**	**$ 7,326**	**$ 40,910**	**$ 55,798**

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Due within one year	**¥ 1,917**	¥ 2,064	**$ 17,918**
Due after one year	**4,326**	4,771	**40,429**
Total	**¥ 6,243**	¥ 6,835	**$ 58,347**

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Depreciation expense	**¥ 2,285**	¥ 2,304	**$ 21,355**
Interest expense	**257**	271	**2,404**
Total	**¥ 2,542**	¥ 2,575	**$ 23,759**

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

The minimum rental commitments under noncancelable operating leases:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Due within one year	**¥ 59**	¥ 85	**$ 546**
Due after one year	**567**	691	**5,302**
Total	**¥ 626**	¥ 776	**$ 5,848**

12. DERIVATIVES

The Group enters into derivatives, including foreign exchange forward contracts and currency swaps, 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.

The Group had the following derivatives contracts outstanding at March 31, 2005:

	Millions of Yen			Thousands of U.S. Dollars		
	Contract Amount	Fair Value	Unrealized Loss	Contract Amount	Fair Value	Unrealized Loss
Currency swaps—Receive U.S.$/pay yen	¥ 3,129	¥ 2,779	¥ 350	**$ 29,246**	**$ 25,977**	**$ 3,269**

Foreign currency forward contracts which qualify for hedge accounting for the year ended March 31, 2005 are excluded from the disclosure of market value information.

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

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

13. CONTINGENT LIABILITIES

At March 31, 2005, the Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees of bank loans	**¥ 4**	**$ 38**

14. SUBSEQUENT EVENT

The following appropriations of retained earnings at March 31, 2005, were approved at the Company's shareholders meeting held on June 29, 2005:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥14.5 ($0.14) per share	**¥ 767**	**$ 7,168**
Bonuses to directors and corporate auditors	**52**	**488**

15. SEGMENT INFORMATION

(1) Industry Segments

Information about industry segments is not shown, since substantially all consolidated net sales, operating income and identifiable assets for 2005 and 2004 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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of KOMERI Co., Ltd. and consolidated subsidiaries as of March 31, 2005 and 2004, 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, 2005 and 2004, 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.

As discussed in Note 2 to the consolidated financial statements, the Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2004.

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, 2005

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
Yoshihito Hasegawa
Kazuhisa Yajima

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, 2005)

Paid-in Capital
18,802 million

Common Stock
Authorized: 131,000,000 shares
Issued: 54,409,168 shares
Number of Shareholders: 4,878

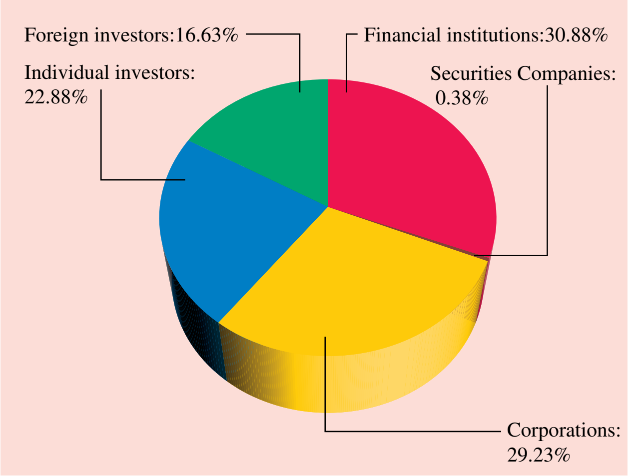
Annual Meeting of Shareholders
The annual meeting of shareholders of the Company is normally held in June each year in Niigata, Japan.

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, 2005)

KOMERI CO., LTD.

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

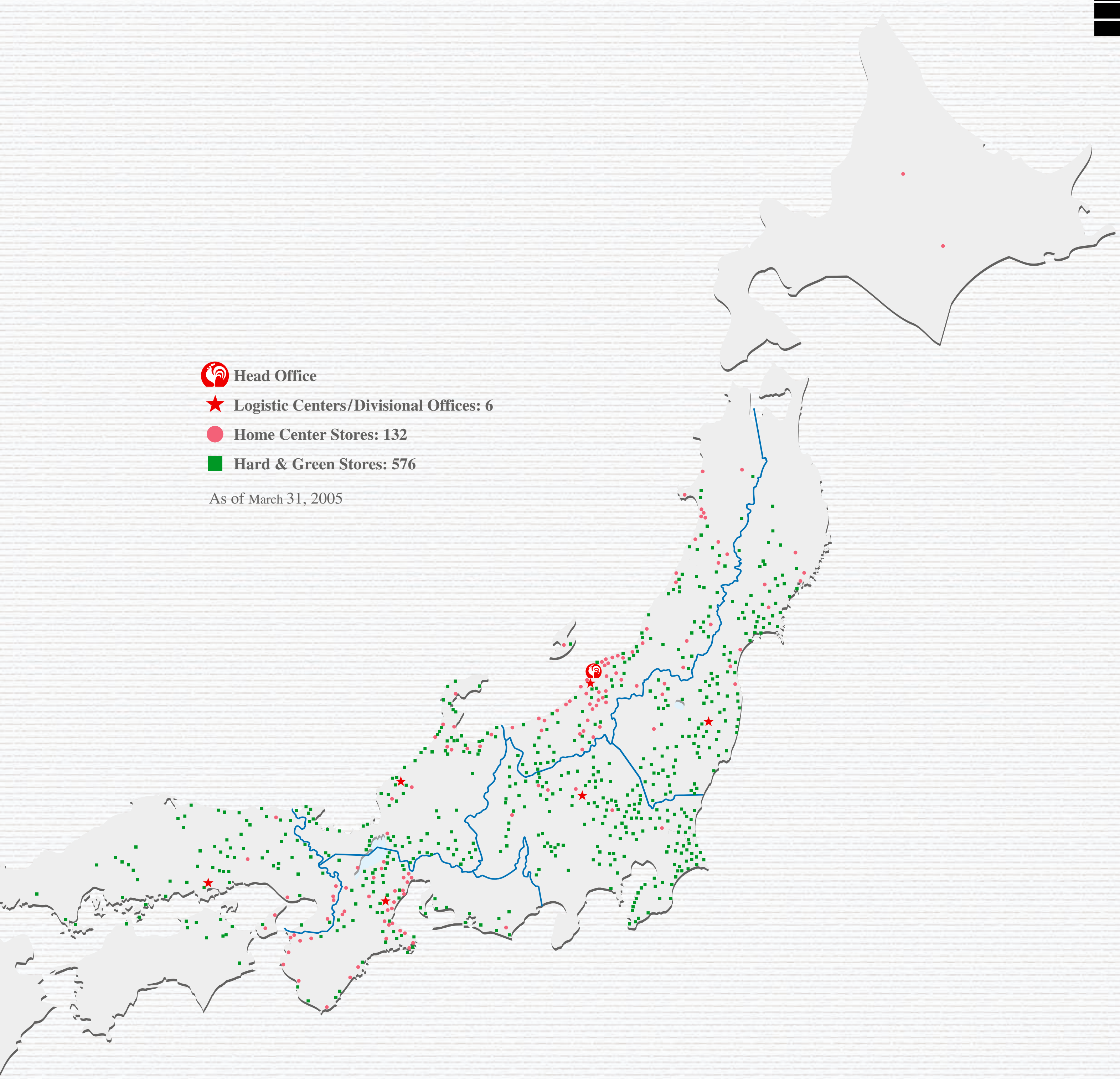
Head Office : 4501-1 Shimizu, Niigata-shi, Niigata 950-1492, Japan
Phone: 81-25-371-4111
Fax: 81-25-371-4151
URL: http://www.komeri.bit.or.jp/
E-mail: Komeri@bit.or.jp

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%
YAMAKI CO., LTD.	HC business in northern Japan	¥ 1,373 million	100.0%
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 %(*)

*Note: 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.

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Website

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KOMERI