INVESTORS' GUIDE
2006

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	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Statements of Income Data	%	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)
Total revenues	14.2	247,461	233,982	217,923	200,490	170,367	127,508	113,332	97,322	85,486	78,022
Total revenues increase(%)	—	5.8	7.4	8.7	17.7	33.6	12.5	16.5	13.8	9.6	14.4
Cost of sales	14.4	167,191	157,107	145,177	134,703	114,130	85,175	76,635	65,334	57,976	52,931
Selling, general, and administrative expenses	13.9	65,645	63,369	59,886	54,303	45,316	34,255	29,482	25,865	22,580	20,290
Operating income	12.6	14,624	13,506	12,860	11,484	10,920	8,078	7,216	6,123	4,929	4,801
Operating income increase (%)	—	8.3	5.0	12.0	5.2	35.2	12.0	17.8	24.2	2.7	18.5
Income before income taxes and minority interests	13.8	13,731	12,438	12,292	11,288	9,672	7,186	6,093	5,503	4,260	3,985
Net income	17.0	8,706	7,899	7,175	6,224	5,635	3,965	3,328	2,449	2,196	1,881
Net income increase(%)	—	10.2	10.1	15.3	10.5	42.1	19.1	35.9	11.5	16.7	2.6
Earnings per share	13.1	163.56	148.35	136.88	118.68	123.18	88.19	75.96	59.08	53.9	51.88
Earnings per share increase(%)	—	10.3	8.4	15.3	−3.7	39.7	16.1	28.6	9.6	3.9	−8.7
Weighted average number of shares outstanding (thousand)	3.3	52,889	52,892	52,061	51,959	45,748	44,962	43,814	41,462	40,740	36,254
Gross margin-% of revenues	—	32.4	32.9	33.4	32.8	33.0	33.2	32.4	32.9	32.2	32.2
SG&A expenses-% of revenues	—	26.5	27.1	27.5	27.1	26.6	26.9	26.0	26.6	26.4	26.0
Operating margin-% of revenues	—	5.9	5.8	5.9	5.7	6.4	6.3	6.4	6.3	5.8	6.2
Net interest expense-% of revenues	—	0.1	0.2	0.2	0.3	0.5	0.4	0.5	0.6	0.7	0.7
Income before income taxes-% of revenues	—	5.5	5.3	5.6	5.6	5.7	5.6	5.4	5.7	5.0	5.1
Net income-% of revenues	—	3.5	3.4	3.3	3.1	3.3	3.1	2.9	2.5	2.6	2.4
Balance Sheet Data and Financial Ratios	%	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)
Total assets	14.7	201,084	188,855	180,887	167,460	135,431	101,227	88,405	77,681	67,767	60,385
Merchandise inventories	16.8	65,364	58,809	55,362	49,902	38,621	30,026	27,381	22,308	19,538	16,522
Net property and equipment	14.6	96,436	90,895	89,428	83,361	64,178	48,802	40,892	37,381	31,991	27,581
Long-term liabilities	1.6	22,517	23,554	26,773	30,344	20,640	20,812	19,317	19,660	15,853	12,898
Shareholders' equity	16.2	86,326	79,015	72,598	64,356	59,695	40,785	37,835	23,745	22,073	19,180
Book value per share (yen)	12.5	1,631	1,493	1,372	1,238	1,149	907	841	573	532	521
Long-term liabilities to equity (%)	—	26.1	29.8	36.9	47.2	34.6	51	51.1	82.8	71.8	67.2
Current ratio	—	0.92:1	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
Equity Ratio(%)	—	43.0	41.8	38.4	38.4	44.1	40.3	42.8	30.6	32.6	31.8
Inventory turnover (month)	—	4.5	4.4	4.4	3.9	3.6	4.0	3.9	3.8	3.7	3.7
Return on equity (%)	—	10.5	10.9	10.5	10.0	11.2	10.1	10.8	10.7	10.6	10.2
Return on assets (%)	—	4.5	4.4	4.1	4.1	4.8	4.2	4	3.4	3.4	3.3
Statement of Cash Flows Data	%	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)
Depreciation and amortization	13.1	6,659	6,653	6,230	5,347	4,940	3,597	3,174	2,762	2,086	1,855
Operational cash flow	—	12,436	12,360	10,312	5,914	11,850	7,999	4,116	—	—	—
Investment cash flow	—	−11,445	−8,335	−14,739	−9,499	−9,046	−11,528	−7,356	—	—	—
Financial cash flow	—	−2,108	−987	4,146	1,393	2,353	3,542	4,249	—	—	—
Cash dividends per share (yen)	8.8	32.0	28.0	27.0	26.0	26.0	21.0	20.0	18.0	17.5	16.0
Store Data	%										
Number of stores (actual);	10.6	763	708	655	608	540	462	414	369	311	271
Komeri Home Center	4.1	88	87	85	80	75	72	62	55	50	46
Komeri Hard & Green	10.0	628	575	523	480	440	390	352	314	261	225
Stores operated by HC subsidiaries	—	47	46	47	48	25	—	—	—	—	—
Weighted average selling space (square meters)*	—	1,043,849	960,412	887,675	—	—	—	—	—	—	—
Weighted average number of employees(actual)	—	6,782	6,510	6,255	—	—	—	—	—	—	—
Sales per employee(thousands of yen)	—	36,488	35,942	34,840	—	—	—	—	—	—	—
Comparable store sales increase (%)*	—	1.6	1.3	−2.3	1.8	2.4	0.2	1.1	0.9	−3.1	19.1

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

Management policy

1. Fundamental management policy

The Group operates retail businesses focusing on the household segment of consumer lifestyles, with hardware merchandise including hardware, tools, and building materials and green merchandise including gardening, plants, and agricultural materials as its main merchandise groups. The Group's fundamental management policy is to create an innovative distribution structure in these fields using a chain store system. Our aim is to contribute to the realization of a rich society by providing customers with high value.

KOMERI's Wish

Our wish is for our business to exist
for the happiness of the people in society,
for the happiness of the people gathered here, and
for the happiness of all our stakeholders.

Our Group's philosophy is that "A company exists for society." This means that a company should serve the purpose of making people happy, and by making people happy, of supporting society, and should be able to do this continuously. Accordingly, a company should choose actions that are fair and optimal for various stakeholders, while at the same time fulfilling its responsibility as a corporate citizen. As the social environment changes with the times, the expectations placed on retailers change as well, and our Group aims to fulfill these obligations through continuous innovation from within, while constantly meeting the needs of the times.

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 degree of profitability and dividend payouts 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 further vitalize the 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 paid a year-end dividend of 18.00 yen for the fiscal year under review (for an annual dividend of 32.00 yen), an amount representing a four-yen increase from the previous fiscal year. In addition, we are introducing a new shareholder benefit from the previous fiscal year as we work to enhance returns to shareholders proactively. Under this program, shareholders who own more than 100 shares of the Company's stocks will be presented with gift certificates or special regional items from the Komeri Sancyoku Ichiba Internet shopping site, the value of which will be proportional to the number of shares owned.

3. Philosophy and fundamental policy regarding reductions in the size of the investment unit

In recognition of our obligation as a publicly listed company to reduce the size of the investment unit as a means of increasing liquidity and expanding our investor base, the

Company reduced the size of the investment unit for its shares in August 1998 from 1,000 shares to 100 shares. We will continue to study appropriate measures in the future, with the share price and per-share indices taken into consideration.

4. Target management indices

The Group emphasizes on the effective management of invested capital, striving to increase asset productivity and raise the ROE with the aim of achieving a ratio of ordinary profit to total assets of 10%.
As of March 31, 2006, the ratio stood at 7.8%.

5. Medium- and long-term management strategies and key tasks

Based on the understanding that we are in the vortex of "informatization," internationalization and rapid aging of the population amid low birthrates, and these phenomena will progress further from now on, we consider it important to create, in the area of retail business, a reasonable structure that reflects the viewpoint of customers and thus we, as an industry, aim to build a chain store system. Such endeavor focuses on the development of many stores in one of the following three formats: "H&G," our original specialty store format; "HC," a store format with a rich and specialized assortment of products, suitable even for professionals; and "Power," a subcategory of HC that has huge store space and a great assortment of goods. For the time being, we aim to have 1,000 stores representing a mixture of these three formats, with the particular format used depending on the size of the trade area.
To achieve this goal as soon as possible, it will become critical for us to enhance systematic use of information such as use of systems to manage stores, provision of information and sales of goods over the Internet, and provision of services by a card system. We need to work to establish a broader information infrastructure by gathering and analyzing information through construction of more sophisticated systems.
In an increasingly borderless world where information and money can move freely between countries, it is critical for us to build a mass merchandising system that encompasses planning, procurement, manufacturing, distribution and sales so that, to become more price competitive, the best items can be procured at the most reasonable prices from anywhere in the world.
Furthermore, amid the ongoing rapid aging of the population and low birthrate, it is essential that we provide services that satisfy customers through provision of materials and residential maintenance products as well as a wide variety of gardening goods, so that people can improve their home environment by remodeling and gardening. The Group will, as home centers in an information society, reform distribution in the areas of housing and agricultural industries and establish a true chain store industry by our enhanced product development capabilities and improved logistics in our main product areas such as materials, gardening and articles for daily use.

6. Status of Implementation Regarding Corporate Governance

Fundamental philosophy Regarding Corporate Governance

Based on the Komeri's fundamental concept that "Companies are public institutions," the Company strives to achieve a management structure that is responsible to all the Company's stakeholders and to increase corporate value over the long term. We recognize that one of the most important issues from the standpoint of a publicly listed company is to maintain sound management that protects the rights and benefits of shareholders, and to support this with management oversight functions and the timely and appropriate disclosure of information.

The details of the Company's organization and the status of establishment of internal control

(1) The execution of operation and the organization of auditing and supervising etc. are as follows

(a) Board of Directors

The Board of Directors consists of eight directors (including one external director). As the top decision-making body in management, it makes decisions concerning the stipulations of applicable laws and the Company's Articles of Incorporation and oversees the execution of operations. Regular meetings are held once a month.

In addition, a management structure was introduced in June 2003 that divided the functions previously concentrated in the Company president between a "Chairman and Chief Executive Officer" responsible for overall group integration, group strategy, and business strategy and a "President and Chief Operating Officer" responsible for overall execution of operations, including the stores, merchandise, logistics, and information. An executive officer system was introduced at the same time.

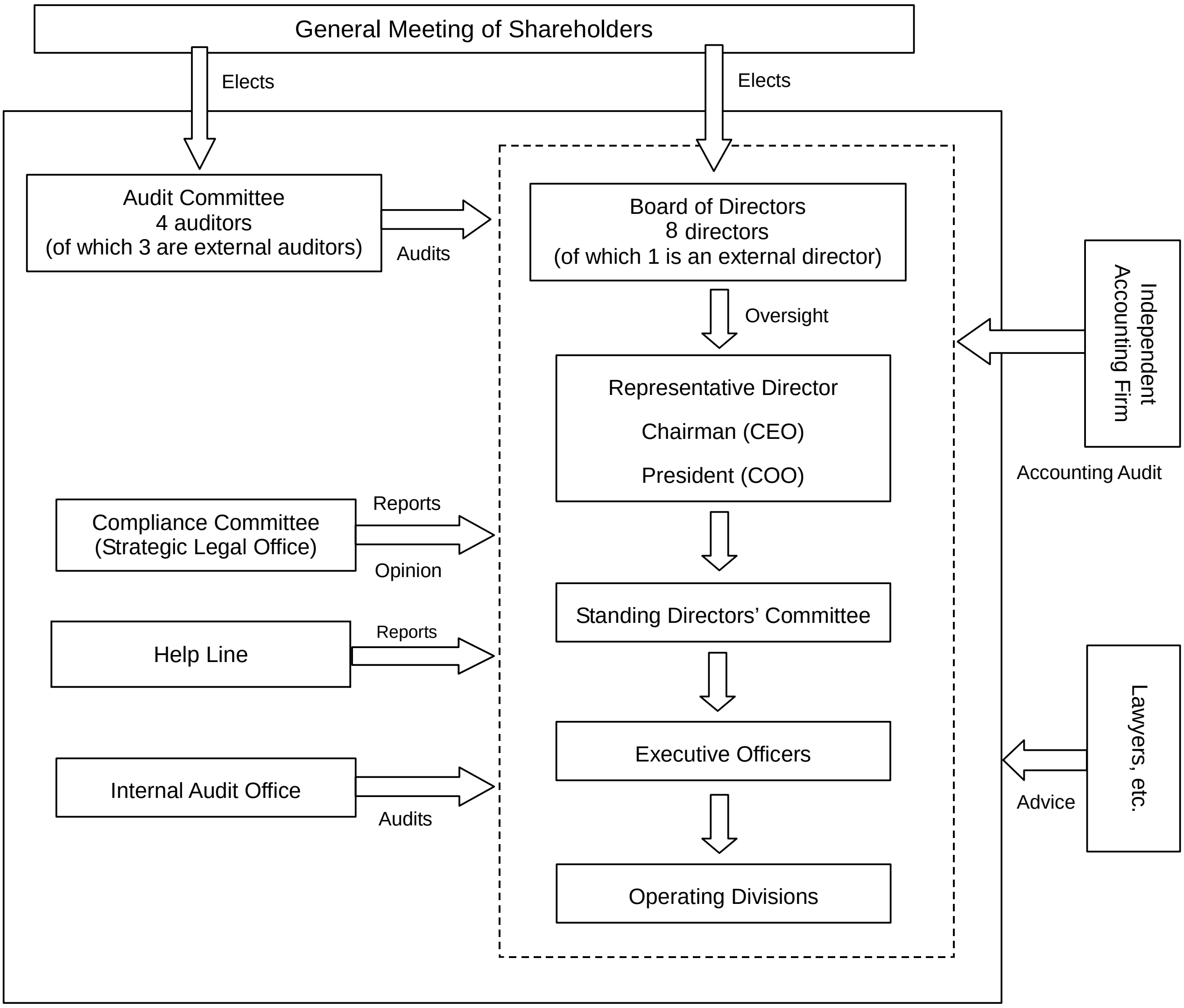
(b) Board of Standing Directors

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

(c) Board of Auditors

The Komeri employs the corporate auditor system. The Board of Auditors is made up of four corporate auditors (three of whom are external auditors). Based on the bylaws of the Board of Auditors, it determines the auditing policies for the corporate auditors in accordance with the relevant laws and the Company's Articles of Incorporation, as well as preparing auditing reports based on the reports of the individual corporate auditors. The corporate auditors supervise and inspect the decision-making process of the Board of Directors and the execution of operations by the directors by attending important meetings, including those of the Board of Directors, receiving briefings on the execution of operations from the directors, and inspecting important approval documents, etc.

(2) Corporate Governance Structure



(3) The status of establishment of internal control is as follows:

(a) System to ensure Directors fulfill their duties and employees comply with laws and the Articles of Incorporation

Since the practice of compliance is one of the most important managerial issues, the Group will set up a "Compliance Committee." This Committee will, in accordance with the "Compliance Rules," conduct training and guidance for corporate ethics and compliance. The Group also will set up a "Help Line" (an internal reporting system) to promptly recognize any illegal conduct that is not compliant and minimize the risk of such illegal conduct occurring.

Further, as an internal audit function, the "Audit Department" will carry out regular audits on business operations at each division, and offer advice for business improvements.

(b) System for maintenance and control of information pertaining to Directors duties
In accordance with the “Information Security Policy,” the “Document Administration Rules,” the “Rules on Handling of Confidential Documents,” and the “Electronic Data Administration Rules,” information will be maintained and controlled in a manner so that it is readily searchable for a prescribed time period.

(c) Rules on control of risk of loss and other systems
Various risks associated with the business of the Company will be addressed by each department in accordance with the relevant laws and rules. Also, we will endeavor to avoid risks by making “Operation Manuals” that pertain to operations and revising, training employees in the use of, and inspecting such manuals if need be. In particular, the Group has set up the crisis management headquarters, headed by President, pursuant to the “Rules on Crisis Control and Management” and these headquarters will promptly respond to any natural disasters or unforeseeable accidents.

(d) System to ensure efficient execution of Directors duties
The Company will clearly define the responsibilities and powers of each position and have them executed in accordance with the “Rules on Organization and Division of Duties” and the “Rules on Duties and Powers.” In addition, the group will ensure that the will of the Group as a whole is unified and responsibilities are efficiently executed by setting up, in addition to the monthly regular board meetings, various meeting bodies such as standing officers meetings and executive meetings.

(e) System to ensure appropriateness of businesses in the group
The Group will act in accordance with the “Komeri Group Code of Conduct,” and control subsidiaries’ overall businesses at its “Affiliated Company Control Department.” In addition, all the Company’s rules on internal control cover the Group as a whole so that the Group can act based on shared understandings.

(f) System for employees who support Auditors if the Auditors request such employees
If Auditors request the assistance of employees to support them in their duties, the Group will make the necessary arrangements internally.

(g) Matters on independence of the employees from Directors under the preceding item
To secure independence of such employees from Directors, their appointment and appraisal will be made by deliberations with the Board of Auditors.

(h) System for Directors and employees to report to Auditors or the Board of Auditors and other systems for reporting to Auditors
Directors and employees will be required to report to the Board of Auditors on matters deliberated and agreed upon in advance between the Board of Auditors and Directors.

(i) Other system to secure effective audit by Auditors

Auditors will secure the effectiveness of their audit on the decision-making process of the Board of Directors and execution of responsibilities of Directors by attending major meetings such as meetings of the Board of Directors, receiving instruction from Directors on execution of responsibilities and perusing major documents on approval.

(4) State of internal audit and Auditors' audit

Auditors are working to make their audit more effective by holding regular meetings with accounting auditors. Additionally, as an internal audit function the "Audit Department," consisting of five employees, regularly audits the business operations of each division and gives advice on how to make business improvements. Auditors meet the Audit Department from time to time, and the Audit Department reports to the Auditors if necessary.

(5) State of accounting audit

The accounting audit operations of the Company are conducted by the audit corporation Tohmatsu Co., Ltd. The certified public accountants in charge were Shozo Yamazaki, Keiji Sakai and Isao Kashiro, and they have been in charge of auditing the Company for four years, four years and one year, respectively. There are five certified public accountants, five assistant certified public accountants and one other person who supported the audit operations of the Company.

The Accounting Auditors carry out closing audit, and then report to the board of auditors on the accounting audit.

(6) Relationship between the Company and Outside Directors and Outside Auditors

The Company has been promoting fair and transparent management by having the outside directors participate in management, in addition to employing the system of outside auditors adopted prior to the IPO.

Currently, one outside director and three outside auditors are supervising the management with their expertise as a certified public accountant, lawyer and professor, and their wider vision and wealth of experience.

The outside director and outside auditors hold shares in the Company as follows:

(Outside Director)	Shuichi Matsuda:	2,100 shares
(Outside Auditors)	Seiichi Nishitani:	1,535 shares
	Zenroku Fujita:	1,100 shares
	Shigeo Misaki:	2,100 shares

The outside auditor Zenroku Fujita is a lawyer, with whom the Company signed an advisory agreement.

There are no other personal or transactional relationships with the outside director or auditors.

State of improvement of risk control system

Since compliance is one of the most important managerial issues, the Company works to strictly comply with laws and relevant rules by taking the following measures:

(1) November 2004, "Strategic Legal Department" was set up to reinforce the monitoring function on compliance.
(2) December 2004, to reinforce internal organization for compliance with laws and corporate ethics, an officer in charge of compliance was appointed.
(3) April 2005, "Compliance Committee" across the organization was set up.
(4) April 2005, the code of conduct that must be followed by officers and employees of the Company was promulgated.
(5) October 2005, "Help Line," a consultation desk on law and code of conduct, was set up for officers and employees of Group companies to reinforce the compliance system.
(6) April 2006, the "Strategic Legal Department" was abolished to develop the "Legal Department," set up in May. In this way, the Group can make increasing efforts for promotion of compliance and responses to the new Corporation Law.

Compensation paid to Directors and Auditors

(1) Amount of compensation paid to Directors and Auditors

Directors: 7 persons 166 million yen (including 3 million yen paid to 1 Outside Director)

Auditors: 4 persons 31 million yen (including 16 million yen paid to 3 Outside Auditors)

(Note) In addition to the above, 16 million yen was paid to the persons above in their capacity as employees.

(2) Amount of bonuses paid in the form of appropriation of earnings

Directors: 7 persons 48 million yen (including 0 million yen paid to 1 Outside Director)

Auditors: 4 persons 4 million yen (including 1 million yen paid to 3 Outside Auditors)

Compensation for audit

Compensation pursuant to the business set forth in the Certified Public Accountant Law Article 2 paragraph 1 25 million yen

Compensation pursuant to the business other than the above 1 million yen

7. Responsibilities as a Corporate Citizen

The Komeri Group's philosophy is based on the concept that "Companies exist to make people happy, and thereby support society, on a continuing basis." This has not changed since the Company was founded.

Through the Komeri Greenery Fund Association established in 1990, the Company returns 1% of each year's ordinary profit to society via subsidies to local forestation projects. The fund has contributed a total of 821 million yen in the 16 years since its establishment, assisting a total of 3,164 projects. A portion of those contributions has supported academic research through the Greenery Education Foundation, in particular, the foundation, together with researchers including Mr. Hideaki Oba, former professor at the University of Tokyo and the leading scholar in plant taxonomy, implemented the Flowering Plant Investigation and Discovery Project in the Mustang Region of Nepal as a 5-year plan from 1999. The results of this project are recognized as not only academically valuable but also highly significant in terms of environment protection, and were published as a general book.

In addition, the Company has instituted a Greenery Fund Volunteer program to encourage many employees to participate directly in local forestation activities as part of efforts to promote proactive involvement in local society Companywide. More than 6,000 employees have participated in these activities since the program was introduced in 1999, and in 2005 the Company received the Worker Volunteer Nice Partner Niigata Award (*) presented to companies that proactively support volunteer activities by their employees.

Furthermore, because the Home Centers carry merchandise for people’s homes, they recognize their responsibility to play a meaningful role in regions affected by natural disasters in times of earthquakes, typhoons, floods, or blizzards. The Komeri Group places a highest priority on rebuilding stores and resuming operations quickly in areas affected by natural disasters and invests management resources from throughout the Company to achieve this. As a community citizen, the Komeri Group is expected to assist in regional reconstruction through its business activities, and we constantly strive to meet these expectations. When numerous major natural disasters occurred in Japan recently, in addition to working to repair our stores quickly, the Group distributed free recovery supplies affected regions and carried out fund-raising activities for emergency relief funds. In order to support these activities further, the Group has also established the Komeri Disaster Response Center as a certified nonprofit organization offering support for environmental protection and emergency relief activities following natural disasters. Through this nonprofit organization, we aim to provide continuous and flexible support to environment preservation activities and to emergency relief activities in times of natural disasters. The nonprofit organization prepares against contingencies by entering into agreements to support the supply of goods in the event of some serious problem occurring with local governments.

(*) The following three organizations have established the prize on behalf of the Ministry of Health, Labour and Welfare’s “Workers’ Multilife Support Project”:
Niigata Prefecture Social Welfare Council (social welfare corporation)
Niigata Association of Nonprofits (special nonprofit organization)
Niigata Employers’ Association (incorporated association)

Operating results and financial performance

1. Operating results

Overview of results for the year to March 2006

Consolidated Results

Millions of yen	March 31, 2005	March 31, 2006	Year-on-year comparison
Operating revenue	233,982	247,461	105.8
Operating income	13,505	14,624	108.3
Ordinary profit	14,104	15,234	108.0
Net income	7,899	8,706	110.2

Parent Results

Millions of yen	March 31, 2005	March 31, 2006	Year-on-year comparison
Operating revenue	180,229	196,631	109.1
Operating income	10,458	11,021	105.4
Ordinary profit	10,931	11,656	106.6
Net income	5,870	6,675	113.7

In the Japanese economy during the fiscal year under review, corporate earnings remained strong, lead by exporters and IT-related sectors, while investment in replacement of facilities showed an upward trend. Backed by strong corporate earnings, stock markets rose, employment and income improved, and personal consumption was brisk.

On the other hand, some measures were set up that will place an increasing burden on citizens, such as cutback and abolishment of fixed-rate across-the-board tax cuts and increases in social insurance premiums, so there is some uncertainty about the future.

In the retail business, while winter merchandise saw strong sales due to the lowest temperatures the country has experienced for 20 years, there are persistent concerns that personal consumption will be hampered by the rise in price of oil-based products such as heating oil and gasoline as a result of higher oil prices.

Against this background, the Group succeeded in achieving revenue and profit growth from the previous year thanks to, among other things, the development of new stores. Operations during the fiscal year under review saw strong sales of agricultural goods and construction materials owing to the fine weather during April and May, a period when the spring gardening season kicks off, and to strong demand for construction materials. During and after summer, despite the unstable weather that is becoming the norm, there were strong sales of agricultural goods, fertilizers and agrichemicals, and gardening goods. While demand for goods relating to heating and snow removal was stimulated by the record cold spell in the winter, sales stagnated just before the end of the fiscal year due to the delayed arrival of spring because of the exceptionally long spell of cold weather and snowfall.

Looking at profits, a jump in the price of raw materials and petroleum led to a 0.4 percentage point decline in the gross margin on revenue. Nevertheless, reduced SG&A

expenses due to the business integration of MR. JOHN CO., LTD. and YAMAKI CO., LTD. resulted in a 0.1 percentage point improvement in operating profit ratio.
As a result of the developments outlined above, operating revenue rose 5.8% on a consolidated basis from the previous fiscal year to 247,461 million yen. Ordinary profit grew by 8.0% to 15,234 million yen, and net income was 10.2% higher at 8,706 million yen. All these factors exerted an effect on profits, but the Company was nevertheless able to achieve revenue and profit growth for the 19th consecutive year since its listing.

Home Center business

Consolidated Results

Millions of yen	March 31, 2005	March 31, 2006	Year-on-year comparison
Net sales	216,933	230,017	106.0
Number of stores	708	763	-
Number of stores newly opened	56	62	-

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

Sales by the Home Center business grew by 6.0% from the previous fiscal year. In addition to strong same-store sales, which rose by 1.6%, the opening of 56 new stores in the previous fiscal year and 62 new stores in the fiscal year under review contributed to sales expansion.
The 62 new stores opened during the fiscal year to March 2005 consisted of three Home Centers and 59 H&G stores, while seven stores were closed.
As a result, at the end of the fiscal year under review the Group had 135 HC stores (including four Power stores) and 628 H&G stores, making 763 stores in total. The Group opened stores in Kochi Prefecture this year, expanding the Group’s store coverage to 37 prefectures.
The H&G stores were opened after experimenting to improve the sales floors and they are functioning with lower inventories, better productivity and reduced loss rates. The new Power stores were developed by trial and error, making it possible to manage the Power format in a more efficient manner.
If we look at each product line, while profit fell in the area of materials and building materials due to the rise in purchase prices because of higher costs of raw materials, the colder winter and heavier snow during the second half of the period lead to a greater demand for goods relating to cold protection and heating, and sales of heat insulation and anti-freezing goods were also strong. In the area of gardening and agricultural goods, we saw stronger demand due to the fine weather during the gardening season in spring. In the second half of the year, the rise in heating oil prices due to the higher crude oil prices boosted net sales, while sales of goods for snow removal, such as snowplows, were brisk.
In the Group, MR. JOHN CO., LTD. and KICCORY CO., LTD., which had been integrating their logistics, systems, products and purchasing, passed the resolution to be absorbed by the Group as of April 1, 2006 to achieve full integration.

Trend by product line

Product Line \ Period	March 31, 2005 Net Sales (millions of yen)	March 31, 2005 Percentage (%)	March 31, 2006 Net Sales (millions of yen)	March 31, 2006 Percentage (%)	Year-on-year comparison (%)
Hardware, materials, and building materials	63,354	29.2	66,605	29.0	105.1
Gardening and agricultural goods	40,124	18.5	44,444	19.3	110.8
Household goods	61,144	28.2	62,452	27.2	102.1
Office and leisure goods	37,411	17.2	38,758	16.8	103.6
Others	14,899	6.9	17,757	7.7	119.2
Home Center business total	216,933	100.0	230,017	100.00	106.0

Other Businesses

In February this year, HOKUSEI SANGYO CO., LTD. commenced operation at Hanamaki Distribution Center in Hanamaki, Iwate prefecture. This realized more efficient logistics in the northern Tohoku region, and the Group is now prepared for accelerated store openings in this region in the future. In October 2005, the Group also secured the site for its Kyushu Distribution Center, which will be the Group's 8th such center with its area of 131,000 square meters, in Omuta, Fukuoka prefecture. The center is under preparation so that it can serve as a base for the Group's advancement to Kyushu, which has a higher percentage of agricultural population than any other region.
The membership of AQUA Card, the customer card of the Group, grew by about 450,000 during the fiscal year, reaching 1.85 million members at the end of the period. In addition to the AQUA Card which functions both as a general credit card and as a points card, the Group's customers are also using cards that we issue for specific purposes, such as cards for farmers, cards for business material buyers, and cards for corporate purchasers of office supplies.
To be able to provide customers with the most valuable services, each company within the Group has undertaken a role and worked to realize a synergy effect of the Group as a whole, aiming to establish a business infrastructure and improve operations.

2. Financial performance

Cash flows

Millions of yen	March 31, 2005	March 31, 2006	Year-on-year change
Net cash provided by operating activities	12,360	12,436	76
Net cash used in investment activities	(8,335)	(11,445)	(3,110)
Net cash used in financing activities	(987)	(2,108)	(1,120)
Increase (decrease) in cash and cash equivalents	3,037	(1,116)	(4,154)
Cash and cash equivalents at end of term	10,803	9,686	(1,116)

Cash and cash equivalents ("cash") as of the fiscal year-end totaled 9,686 million yen. Factors affecting cash flows include the following:

(Net cash provided by operating activities)

Cash generated by operating activities grew by 76 million yen from the previous fiscal year to 12,436 million yen. Primary items included growth in income before taxes and other adjustments and depreciation expenses of 1,293 million yen, increase in inventory assets of 2,630 million yen (a decrease in cash), and increase in purchase obligations of 1,680 million yen.

(Net cash used in investment activities)

Investment activities used cash in the amount of 11,445 million yen, an increase of 3,110 million yen from the previous fiscal year. The increase primarily resulted from the acquisition of tangible and intangible fixed assets for opening some new stores and the Hanamaki Distribution Center.

(Net cash used in financing activities)

Financing activities used cash in the amount of 218 million yen. This primarily resulted from the redemption of borrowings

Trends in Cash Flow Indices

	March 31, 2003	March 31, 2004	March 31, 2005	March 31, 2006
Equity ratio	38.4%	40.1%	41.8%	42.9%
Equity ratio based on market prices	70.4%	85.5%	79.4%	115.9%
Years required to redeem liabilities	8.2 years	5.3 years	4.4 years	4.3 years
Interest-coverage ratio	8.9	17.9	27.5	34.3

(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 2007

Consolidated Results

Millions of yen	Interim	Year-on-year comparison	Annual	Year-on-year comparison
Operating revenue	127,000	103.3	261,000	105.5
Ordinary profit	9,500	100.2	16,400	107.7
Net income	5,300	100.5	9,300	106.8

Parent Results

Millions of yen	Interim	Year-on-year comparison	Annual	Year-on-year comparison
Operating revenue	115,000	118.6	236,000	120.0
Ordinary profit	7,850	109.4	13,600	116.7
Net income	4,850	117.4	8,300	124.3

(Note) The forecast figures in non-consolidated results are for the period after the merger with MR. JOHN CO., LTD. and KICCORY CO., LTD.

The Group expects to open 100 new stores in the next fiscal year, which will probably be made up of three HC stores and 97 H&G stores.

Starting with the opening in April of “Power Hanamaki” with its 13,240 m^2 sales floor adjacent to the Hanamaki Distribution Center, which started operating in February this year, we will open new stores intensively in the northern Tohoku area and thereby expand our dominant area, and work to improve the capacity utilization of the distribution center.

We will also proceed with the construction of the distribution center on the site we secured in Omuta, Fukuoka Prefecture, and using it as a base for our logistics network in Kyushu, we will try to open many new stores in the whole of Kyushu. By so doing, we will have opened stores in an area that stretches from Hokkaido to Kyushu.

Furthermore, we will extend to larger HC’s the improvements of sales floors that we have achieved at H&G stores such as reduction in inventories, improvement in productivity, and reduction in loss rates, and thereby realize greater effects.

With the understanding that, to be supported by customers, it is critical for us to provide products that fit the weather, climate, and customs of each geographic area, we will develop stores that are closely adapted to the relevant area by proposing products that respect the life cycle of local products, while at the same time actively develop markets for business use, and advance toward the goal of a truly national chain that can respond to the needs of customers and provide convenience for them.

Based on the foregoing, the Company’s consolidated results forecast for the fiscal year to March 2006 calls for a 5.5% increase in operating revenue to 261.0 billion yen, with 7.7% growth in ordinary profit to 16.4 billion yen and a 6.8% increase in net income to 9.3 billion yen.

4. Business and other risks

Group's Store Opening Policies

The Group's store openings are decided based on the Company's proprietary store opening criteria, which take into account location surveys, accumulated experience from previous store openings, the surrounding population, rent expenses, etc. The Group aims to more aggressively to open both Home Centers and H&G stores and to establish areas of dominance. In cases in which time is required to secure appropriate locations for stores, however, the delay could exert an effect on the Group's results.

Legal Regulations Regarding Store Openings

The KOMERI Group had 763 stores in operation as of March 31, 2006, of which 135 were Home Centers with sales area floor space exceeding 1,000 square meters. The Group intends to continue to open large-scale Home Centers as part of its emphasis of cultivating the commercial-use market by securing inventory and carrying merchandise for professional customers.
If laws, and amendments or otherwise thereto require coordination with local citizens or governments and as a result, the time period required to open a store is extended or the cost of opening a store increases, the Group will not be able to open the store as scheduled and this may affect the Group's results and financial conditions.

Weather conditions

The goods sold by the Group such as gardening and agricultural goods to name but a few, are highly seasonal, and therefore they tend to sell better the earlier the season they are aimed at arrives. On the other hand, if goods **sell** more slowly due to warm winters or cold summers, this may affect the results of the Group.

Risk of natural disaster

Because the Group develops stores over an extended geographic area, it is always exposed to the risk of natural disasters such as earthquakes, typhoons, floods, and heavy snow in any area of Japan. We understand that one of the roles of a home center is to be ready to provide recovery goods as soon as possible in the event of a disaster. The Group has therefore setup a system in which a recovery team will be dispatched and managed, in the event of a disaster, and we will supply goods to disaster-hit areas by using distribution centers in many areas.
However, depending on the magnitude of the disaster and the local circumstances, there is a strong possibility that recovering from the disaster may entail having to overcome considerable difficulties due to factors such as severed traffic networks, and destroyed or flooded facilities. In this case, the results of the Group may be affected.

Competition

While competition among home center companies is intensifying as a result of larger stores that can accommodate professional, remodeling and home fashion needs, competition among companies in the retail industry as a whole is also escalating; home center companies have been competing with GMS's and supermarkets primarily in the area of goods for daily use, while "Super Centers," a combination of a supermarket and

a home center, as well as foreign retail businesses advance, with “100 yen shops” and “drug stores” aggressively opening their new stores.
Although the Company is working to establish dominant geographic areas by developing many stores, if a rival that is competitive in a product area opens a large store in the same geographic area as one of our stores, the results of the Group may be affected.

Protection of Personal Information

The Group’s subsidiary Aqua Co., Ltd., issues various credit cards for use by customers and stores customer information concerning the cardholders on computers. The Company also uses computers to manage information from operations related to credit sales and purchasing, etc.
This personal information concerning customers and vendors is handled as per the Regulations for the Handling of Personal Information established by the Company. Careful attention is paid to the management and use of this information.
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 confidence in which it is held by society, there is a possibility that its results could be affected by such events as a decline in total revenue on the payment of compensation for damages resulting from the information leak.

Risk of foreign exchange fluctuation and country risk

The sales price of many of the goods the Group sells may be affected by international market conditions, such as conditions in the steel market, or changes in exchange rates.
The Group is taking measures to mitigate this kind of impact, such as carrying out direct buying, centralized buying in high volume, and foreign exchange contracts, if any market is disrupted by a development in international affairs such as a dispute between countries, then this could have a major impact on the sales price of various materials and therefore the results of the Group may be affected.

Risk of price fluctuation

The Group is focusing on the sale of heating oil by arranging facilities at most stores and providing heating oil by home delivery and other methods. The prices of petroleum products such as heating oil are particularly sensitive to price changes in the international crude oil market and exchange rates. Such changes may affect the results of the Group.

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

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Financial Statements for the Years Ended March 31, 2006 and 2005, and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of KOMERI Co., Ltd. (the "Company") and consolidated subsidiaries as of March 31, 2006 and 2005, 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, 2006 and 2005, 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, 2006

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheets
March 31, 2006 and 2005

ASSETS	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
CURRENT ASSETS:			
Cash and cash equivalents	¥ 9,687	¥ 10,804	$ 82,794
Short-term investments (Notes 3 and 4)	326	231	2,785
Receivables:			
Trade notes and accounts	6,450	5,610	55,132
Allowance for doubtful receivables	(4)	(3)	(33)
Inventories (Note 5)	65,364	58,809	558,665
Deferred tax assets (Note 10)	1,874	1,242	16,017
Prepaid expenses and other current assets	1,215	1,211	10,385
Total current assets	84,912	77,904	725,745
PROPERTY, PLANT AND EQUIPMENT (Notes 6 and 7):			
Land	22,117	22,288	189,031
Buildings and structures	114,559	105,222	979,140
Machinery and equipment	5,302	4,237	45,317
Construction in progress	1,455	1,376	12,434
Other	7,621	6,884	65,139
Total	151,054	140,007	1,291,061
Accumulated depreciation	(54,618)	(49,112)	(466,822)
Net property, plant and equipment	96,436	90,895	824,239
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 7)	928	756	7,935
Investments in unconsolidated subsidiaries	289	289	2,473
Intangible assets	4,877	4,740	41,679
Leasehold deposits	9,678	10,076	82,713
Deferred charges		3	
Deferred tax assets (Note 10)	2,260	2,162	19,317
Other assets	1,704	2,030	14,567
Total investments and other assets	19,736	20,056	168,684
TOTAL	¥ 201,084	¥ 188,855	$ 1,718,668

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
CURRENT LIABILITIES:			
Short-term bank loans (Note 7)	¥ 33,630	¥ 33,160	$ 287,436
Current portion of long-term debt (Note 7)	5,482	6,431	46,854
Payables:			
Trade notes and accounts	36,706	33,724	313,731
Construction and other	10,044	6,895	85,849
Income taxes payable	3,684	2,823	31,488
Accrued expenses	1,835	2,122	15,681
Other current liabilities	809	861	6,913
Total current liabilities	92,190	86,016	787,952
LONG-TERM LIABILITIES:			
Long-term debt (Note 7)	14,638	14,759	125,112
Liability for retirement benefits (Note 8)	2,492	2,187	21,298
Retirement benefits for directors and corporate auditors (Note 8)	968	916	8,277
Lease deposits from lessees	2,299	2,287	19,647
Liability for obligations to customers	392	349	3,353
Negative goodwill	1,513	2,300	12,928
Deferred tax liabilities (Note 10)	40	131	341
Other long-term liabilities	175	625	1,498
Total long-term liabilities	22,517	23,554	192,454
MINORITY INTERESTS	51	270	435
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 2006 and 2005	18,802	18,802	160,702
Capital surplus	25,260	25,260	215,900
Retained earnings	46,339	39,193	396,060
Unrealized gain on available-for-sale securities	305	131	2,601
Treasury stock—at cost, 1,519,904 shares in 2006 and 1,517,557 shares in 2005	(4,380)	(4,371)	(37,436)
Total shareholders' equity	86,326	79,015	737,827
TOTAL	¥ 201,084	¥ 188,855	$ 1,718,668

See notes to consolidated financial statements.

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
REVENUES:			
Net sales	¥ 238,883	¥ 225,976	$ 2,041,735
Other operating revenues	8,578	8,006	73,319
Total revenues	247,461	233,982	2,115,054
COST OF SALES	167,191	157,107	1,428,986
Gross profit	80,270	76,875	686,068
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	65,646	63,369	561,076
Operating income	14,624	13,506	124,992
OTHER INCOME (EXPENSES):			
Interest and dividend income	53	35	450
Interest expense	(346)	(447)	(2,959)
Loss on disposal of property, plant and equipment	(122)	(353)	(1,039)
Amortization of negative goodwill	796	796	6,801
Gain from casualty insurance		881	
Loss on impairment (Note 6)	(1,566)	(1,044)	(13,386)
Loss on casualty	(31)	(965)	(263)
Other—net	323	29	2,762
Other expenses—net	(893)	(1,068)	(7,634)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	13,731	12,438	117,358
INCOME TAXES (Note 10):			
Current	6,177	5,330	52,798
Deferred	(933)	(811)	(7,975)
Total income taxes	5,244	4,519	44,823
MINORITY INTERESTS IN NET INCOME	219	(20)	1,876
NET INCOME	¥ 8,706	¥ 7,899	$ 74,411

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.o):			
Basic net income	¥ 163.56	¥ 148.35	$ 1.4
Cash dividends applicable to the year	32.00	28.00	0.27

See notes to consolidated financial statements.

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Shareholders' Equity
Years Ended March 31, 2006 and 2005

	Outstanding Number of Shares of Common Stock	Millions of Yen				
		Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Treasury Stock
BALANCE, APRIL 1, 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)
Net income				8,706		
Cash dividends, ¥28 per share				(1,507)		
Bonuses to directors and corporate auditors				(53)		
Increase in treasury stock	(2,347)					(9)
Net increase in unrealized gain on available-for-sale securities					174	
BALANCE, MARCH 31, 2006	52,889,264	¥ 18,802	¥ 25,260	¥ 46,339	¥ 305	¥ (4,380)

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Treasury Stock
BALANCE, MARCH 31, 2005	$ 160,702	$ 215,900	$ 334,985	$ 1,118	$ (37,360)
Net income			74,411		
Cash dividends, $0.24 per share			(12,884)		
Bonuses to directors and corporate auditors			(452)		
Increase in treasury stock					(76)
Net increase in unrealized gain on available-for-sale securities				1,483	
BALANCE, MARCH 31, 2006	$ 160,702	$ 215,900	$ 396,060	$ 2,601	$ (37,436)

See notes to consolidated financial statements.

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 13,731	¥ 12,438	$ 117,358
Adjustments for:			
Income taxes—paid	(5,310)	(5,734)	(45,382)
Depreciation	6,659	6,653	56,919
Loss on impairment	1,566	1,044	13,386
Amortization of negative goodwill—net	(787)	(787)	(6,729)
Loss on disposal of property, plant and equipment	102	353	869
Bonuses to directors and corporate auditors	(53)	(49)	(452)
Changes in assets and liabilities:			
Increase in trade accounts receivable	(447)	(383)	(3,823)
Increase in inventories	(6,560)	(3,930)	(56,067)
Increase in trade accounts payable	2,983	1,303	25,495
Increase in liability for retirement benefits	305	325	2,605
Increase (decrease) in retirement benefits for directors and corporate auditors	52	19	443
Other—net	195	1,108	1,673
Total adjustments	(1,295)	(78)	(11,063)
Net cash provided by operating activities	12,436	12,360	106,295
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(11,098)	(8,591)	(94,857)
Decrease in leasehold deposits	191	58	1,631
Increase in other assets	(538)	198	(4,596)
Net cash used in investing activities	(11,445)	(8,335)	(97,822)
FINANCING ACTIVITIES:			
Increase in short-term bank loans—net	470	4,840	4,017
Proceeds from long-term debt	5,507	4,000	47,064
Repayments of long-term debt	(6,576)	(8,374)	(56,205)
Dividends paid	(1,509)	(1,453)	(12,893)
Net cash used in financing activities	(2,108)	(987)	(18,017)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,117)	3,038	(9,544)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	10,804	7,766	92,338
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 9,687	¥ 10,804	$ 82,794

See notes to consolidated financial statements.

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 2005 financial statements to conform to the classifications used in 2006.

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 ¥117 to $1, the approximate rate of exchange at March 31, 2006. 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, 2006, include the accounts of the Company and its 11 significant (11 in 2005) subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, 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 three (three in 2005) unconsolidated subsidiaries are stated at cost. 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 five 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 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. ***Marketable and Investment Securities—***Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in earnings, (2) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and (3) available-for-sale securities, which are not classified as either of the aforementioned 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 ("BAC") issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements were 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.

g. ***Stock Issue Cost—***Stock issue cost is reported in the balance sheet as deferred charges and amortized by the straight-line method over three 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 covering substantially all employees.

   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 five 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 gains or 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.

p. New Accounting Pronouncements

Business combination and business separation

In October 2003, the BAC issued a Statement of Opinion, "Accounting for Business Combinations," and on December 27, 2005 the ASBJ issued "Accounting Standard for Business Separations" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Separations." These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

(a) the consideration for the business combination consists solely of common shares with voting rights,

(b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and

(c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

Stock options

On December 27, 2005, the ASBJ issued "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of shareholders' equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

Bonuses to directors and corporate auditors

Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors," which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

3. SHORT-TERM INVESTMENTS

Short-term investments as of March 31, 2006 and 2005, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Time deposits and banking agreements other than cash equivalents	¥ 315	¥ 231	$ 2,693
Marketable securities	11		92
Total	¥ 326	¥ 231	$ 2,785

4. MARKETABLE AND INVESTMENT SECURITIES

Investment securities as of March 31, 2006 and 2005, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Current—Trust fund investment	¥ 11		$ 92
Total	¥ 11		$ 92
Non-current:			
Marketable equity securities	¥ 776	¥ 592	$ 6,635
Trust fund investments and other	152	164	1,300
Total	¥ 928	¥ 756	$ 7,935

The carrying amounts and aggregate fair values of marketable investment securities at March 31, 2006 and 2005 were as follows:

	Millions of Yen			
March 31, 2006	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥ 284	¥ 492		¥ 776
Trust fund investments	34	18		52
March 31, 2005				
Securities classified as available-for-sale:				
Equity securities	360	233	¥ 1	592
Trust fund investments	34	3	2	35

	Thousands of U.S. Dollars			
March 31, 2006	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	$ 2,428	$ 4,207		$ 6,635
Trust fund investments	202	148		350

Proceeds from sales of available-for-sale securities for the year ended March 31, 2006 were ¥191 million ($1,631 thousand). Gross realized gains on these sales, computed on the moving average cost basis, were ¥105 million ($901 thousand) for the year ended March 31, 2006.

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2006 and 2005 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Available-for-sale—Equity securities	¥ 40	¥ 40	$ 344
Capital investments in investment business associations with limited liability or similar associations	71	89	606
Total	¥ 111	¥ 129	$ 950

5. INVENTORIES

Inventories at March 31, 2006 and 2005, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Merchandise	¥ 65,275	¥ 58,704	$ 557,903
Supplies	89	105	762
Total	¥ 65,364	¥ 58,809	$ 558,665

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of the year ended March 31, 2006 and, as a result, recognized an impairment loss of ¥1,566 million ($13,386 thousand) as other expense for certain unprofitable stores due to continuous operating losses of certain assets. The carrying amount of the assets of the relevant stores was written down to the recoverable amount. This broke down as ¥1,159 million ($9,909 thousand) for buildings and structures and ¥231 million ($1,976 thousand) for land, and ¥176 million ($1,501 thousand) for other items. The recoverable amount of this asset group was measured at its value in use and the discount rate used for the computation of the present value of future cash flows was 6%.

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

Short-term bank loans at March 31, 2006 and 2005 consisted of notes to banks. The annual weighted average interest rate applicable to the short-term bank loans was 0.34% and 0.36% at March 31, 2006 and 2005, respectively.

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Secured 2.4% domestic bonds due 2007		¥ 300	
Secured 1.9% domestic bonds due 2006		100	
Loans from banks and other financial institutions, due serially to 2015 with weighted average interest rates 1.24% (2006) and 1.48% (2005):			
Collateralized	¥ 8,516	9,596	$ 72,784
Unsecured	11,604	11,194	99,182
Total	20,120	21,190	171,966
Less current portion	(5,482)	(6,431)	(46,854)
Long-term debt, less current portion	¥ 14,638	¥ 14,759	$ 125,112

Secured 2.4% domestic bonds due 2007 were redeemed prior to maturity as at March 31, 2006.

Annual maturities of long-term debt at March 31, 2006 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2007	¥ 5,482	$ 46,854
2008	5,894	50,376
2009	2,786	23,815
2010	2,098	17,928
2011	2,268	19,384
2012 and thereafter	1,592	13,609
Total	¥ 20,120	$ 171,966

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥430 million ($3,675 thousand) and the above collateralized long-term debt at March 31, 2006, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Property, plant and equipment—net of accumulated depreciation	¥ 16,938	$ 144,772
Investment securities	278	2,375
Total	¥ 17,216	$ 147,147

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, 2006 for directors and corporate auditors is ¥968 million ($8,277 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, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Projected benefit obligation	¥ 2,844	¥ 2,594	$ 24,305
Fair value of plan assets	(303)	(281)	(2,592)
Unrecognized actuarial gain	(89)	(169)	(762)
Prepaid pension cost	40	43	347
Net liability	¥ 2,492	¥ 2,187	$ 21,298

The components of net periodic benefit costs for the years ended March 31, 2006 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Service cost	¥ 384	¥ 368	$ 3,282
Interest cost	48	43	415
Expected return on plan assets	(4)	(4)	(38)
Recognized actuarial loss	66	63	563
Required contribution for the multiemployer plan	564	420	4,824
Net periodic benefit costs	¥ 1,058	¥ 890	$ 9,046

Assumptions used for the years ended March 31, 2006 and 2005, are set forth as follows:

	2006	2005
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.5%	2.5%
Recognition period of actuarial gain/loss	5 years	5 years

9. SHAREHOLDERS' EQUITY

Through May 1, 2006, Japanese companies are subject to the Commercial Code of Japan (the "Code").

The Code requires that all shares of common stock be issued 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 are required to be presented 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 by way of 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 of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25% of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. 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 purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥32,024 million ($273,705 thousand) as of March 31, 2006, 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 end of 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.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

a. Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as: (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

10. 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 40% for the years ended March 31, 2006 and 2005.

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, 2006 and 2005, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Deferred tax assets:			
Inventories	¥ 107	¥ 125	$ 915
Loss on impairment	946	410	8,085
Accrued enterprise taxes	327	255	2,794
Accrued bonuses	580	490	4,961
Liabilities for retirement benefits	1,023	875	8,742
Retirement benefits for directors and corporate auditors	391	370	3,343
Tax loss carryforwards	782	806	6,681
Other	613	793	5,244
Less valuation allowance	(133)	(360)	(1,137)
Total	4,636	3,764	39,628
Deferred tax liabilities:			
Property and equipment	(197)	(216)	(1,683)
Other	(345)	(275)	(2,952)
Total	(542)	(491)	(4,635)
Net deferred tax assets	¥ 4,094	¥ 3,273	$ 34,993

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the years ended March 31, 2006 and 2005 is as follows:

	2006	2005
Normal effective statutory tax rate	40%	40%
Per capita portion	2	3
Tax loss carryforwards	(2)	(4)
Amortization of negative goodwill	(2)	(3)
Actual effective tax rate	38%	36%

At March 31, 2006, certain subsidiaries have tax loss carryforwards aggregating approximately ¥1,937 million ($16,557 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
2009	¥ 14	$ 115
2010	1,672	14,293
2013	251	2,149
Total	¥ 1,937	$ 16,557

11. LEASES

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

Total rental expenses for the years ended March 31, 2006 and 2005, were ¥11,284 million ($96,446 thousand) and ¥11,091 million, respectively, including ¥2,596 million ($22,187 thousand) and ¥2,543 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, 2006 and 2005, was as follows:

	Millions of Yen							
	2006				2005			
	Building	Machinery and Equipment	Furniture and Fixtures	Total	Building	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥ 1,064	¥ 2,268	¥ 11,571	¥ 14,903	¥ 1,064	¥ 1,729	¥ 11,148	¥ 13,941
Accumulated depreciation	308	984	7,186	8,478	255	945	6,771	7,971
Net leased property	¥ 756	¥ 1,284	¥ 4,385	¥ 6,425	¥ 809	¥ 784	¥ 4,377	¥ 5,970

	Thousands of U.S. Dollars			
	2006			
	Building	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	$9,091	$ 19,383	$ 98,900	$ 127,374
Accumulated depreciation	2,630	8,412	61,419	72,461
Net leased property	$ 6,461	$ 10,971	$ 37,481	$ 54,913

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥ 1,989	¥ 1,917	$ 16,997
Due after one year	4,765	4,326	40,726
Total	¥ 6,754	¥ 6,243	$ 57,723

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Depreciation expense	¥ 2,367	¥ 2,285	$ 20,231
Interest expense	259	257	2,211
Total	¥ 2,626	¥ 2,542	$ 22,442

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
	2006	2005	2006
Due within one year	¥ 83	¥ 59	$ 707
Due after one year	566	567	4,837
Total	¥ 649	¥ 626	$ 5,544

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. 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, 2006 and 2005:

	Millions of Yen		
March 31, 2006	Contract Amount	Fair Value	Unrealized Loss
Currency swaps—Receive U.S.$/pay yen	¥ 2,470	¥ 2,440	¥ 30
March 31, 2005			
Currency swaps—Receive U.S.$/pay yen	3,129	2,779	350

	Thousands of U.S. Dollars		
March 31, 2006	Contract Amount	Fair Value	Unrealized Loss
Currency swaps—Receive U.S.$/pay yen	$ 21,116	$ 20,857	$ 259

Foreign currency forward contracts which qualify for hedge accounting for the years ended March 31, 2006 and 2005 are excluded from the disclosure of market value information.

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, 2006, the Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees of bank loans	¥2	$ 18

14. SUBSEQUENT EVENT

The following appropriations of retained earnings at March 31, 2006, were approved at the Company's shareholders meeting held on June 29, 2006:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥18 ($0.15) per share	¥ 952	$ 8,137
Bonuses to directors and corporate auditors	54	465

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 2006 and 2005 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.

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