INVESTORS' GUIDE

2007

KOMERI

10-YEAR SUMMARY OF FINANCIAL AND OPERATING RESULTS

Komeri Co., Ltd. and subsidiaries

amounts in millions, except where noted	5-Year Compound Annual Growth Rate	Years ended March 31									
		2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**
Statements of Income Data	%	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)
Total revenues	8.8	259,218	247,461	233,982	217,923	200,490	170,367	127,508	113,332	97,322	85,486
Total revenues increase(%)	—	4.8	5.8	7.4	8.7	17.7	33.6	12.5	16.5	13.8	9.6
Cost of sales	9.0	175,596	167,191	157,107	145,177	134,703	114,130	85,175	76,635	65,334	57,976
Selling, general, and administrative expenses	8.5	68,102	65,645	63,369	59,886	54,303	45,316	34,255	29,482	25,865	22,580
Operating income	7.3	15,520	14,624	13,506	12,860	11,484	10,920	8,078	7,216	6,123	4,929
Operating income increase (%)	—	6.1	8.3	5.0	12.0	5.2	35.2	12.0	17.8	24.2	2.7
Income before income taxes and minority interests	9.8	15,466	13,731	12,438	12,292	11,288	9,672	7,186	6,093	5,503	4,260
Net income	10.4	9,257	8,706	7,899	7,175	6,224	5,635	3,965	3,328	2,449	2,196
Net income increase(%)	—	6.3	10.2	10.1	15.3	10.5	42.1	19.1	35.9	11.5	16.7
Earnings per share	7.3	175.02	163.56	148.35	136.88	118.68	123.18	88.19	75.96	59.08	53.9
Earnings per share increase(%)	—	10.3	10.3	8.4	15.3	−3.7	39.7	16.1	28.6	9.6	3.9
Weighted average number of shares outstanding (thousand)	—	52,890	52,889	52,892	52,061	51,959	45,748	44,962	43,814	41,462	40,740
Gross margin-% of revenues	—	32.3	32.4	32.9	33.4	32.8	33.0	33.2	32.4	32.9	32.2
SG&A expenses-% of revenues	—	26.3	26.5	27.1	27.5	27.1	26.6	26.9	26.0	26.6	26.4
Operating margin-% of revenues	—	6.0	5.9	5.8	5.9	5.7	6.4	6.3	6.4	6.3	5.8
Net interest expense-% of revenues	—	0.2	0.1	0.2	0.2	0.3	0.5	0.4	0.5	0.6	0.7
Income before income taxes-% of revenues	—	6.0	5.5	5.3	5.6	5.6	5.7	5.6	5.4	5.7	5.0
Net income-% of revenues	—	3.6	3.5	3.4	3.3	3.1	3.3	3.1	2.9	2.5	2.6
Balance Sheet Data and Financial Ratios	%	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)
Total assets	10.1	219,178	201,084	188,855	180,887	167,460	135,431	101,227	88,405	77,681	67,767
Merchandise inventories	14.3	75,222	65,364	58,809	55,362	49,902	38,621	30,026	27,381	22,308	19,538
Net property and equipment	10.3	104,958	96,436	90,895	89,428	83,361	64,178	48,802	40,892	37,381	31,991
Long-term liabilities	2.9	23,758	22,517	23,554	26,773	30,344	20,640	20,812	19,317	19,660	15,853
Shareholders' equity	9.4	93,671	86,326	79,015	72,598	64,356	59,695	40,785	37,835	23,745	22,073
Book value per share (yen)	9.0	1,771	1,631	1,493	1,372	1,238	1,149	907	841	573	532
Long-term liabilities to equity (%)	—	25.4	26.1	29.8	36.9	47.2	34.6	51	51.1	82.8	71.8
Current ratio	—	0.93:1	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
Equity Ratio(%)	—	42.7	42.9	41.8	38.4	38.4	44.1	40.3	42.8	30.6	32.6
Inventory turnover (month)	—	3.3	3.0	2.9	2.9	2.7	2.4	2.7	2.6	2.6	2.5
Return on equity (%)	—	10.3	10.5	10.4	10.5	10.0	11.2	10.1	10.8	10.7	10.6
Return on assets (%)	—	4.4	4.5	4.3	4.1	4.1	4.8	4.2	4.0	3.4	3.4
Statement of Cash Flows Data	%	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)
Depreciation and amortization	7.6	7,117	6,659	6,653	6,230	5,347	4,940	3,597	3,174	2,762	2,086
Operational cash flow	−2.1	10,658	12,436	12,360	10,312	5,914	11,850	7,999	4,116	—	—
Investment cash flow	9.1	−13,957	−11,445	−8,335	−14,739	−9,499	−9,046	−11,528	−7,356	—	—
Financial cash flow	7.1	3,309	−2,108	−987	4,146	1,393	2,353	3,542	4,249	—	—
Cash dividends per share (yen)	5.5	34.0	32.0	28.0	27.0	26.0	26.0	21.0	20.0	18.0	17.5
Store Data	%										
Number of stores (actual);	9.3	843	763	708	655	608	540	462	414	369	311
Komeri Home Center	12.8	137	88	87	85	80	75	72	62	55	50
Komeri Hard & Green	9.9	706	628	575	523	480	440	390	352	314	261
Stores operated by HC subsidiaries	—	14	47	46	47	48	25	—	—	—	—
Weighted average selling space (square meters)*	—	1,133,206	1,043,849	960,412	887,675	—	—	—	—	—	—
Weighted average number of employees(actual)	—	6,969	6,782	6,510	6,255	—	—	—	—	—	—
Sales per employee(thousands of yen)	—	37,196	36,488	35,942	34,840	—	—	—	—	—	—
Comparable store sales increase (%)*	—	−0.3	1.6	1.3	−2.3	1.8	2.4	0.2	1.1	0.9	−3.1

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

1. 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 "A company owes its existence to society." This means that as a company we should serve the purpose of making people happy, and through doing this, we will receive the support of society, which is essential for our long-term survival. 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) Target management indices

The Group emphasizes on the effective management of invested capital, striving to increase capital productivity and raise the ROE with the aim of achieving a ratio of ordinary profit to total assets of 10%.

As of March 31, 2007, the ratio stood at 7.7%.

(3) Issues to be addressed

a. Recognition of the Group's current situation, issues to be addressed, policies for handling these issues and specific efforts for them

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. Thus we, as an industry, aim to build a chain store system. Such endeavor focuses on the development many stores in one of the following three formats: "H&G" or Hard & Green, our original specialty store format; "HC" or Home Center, 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 so that we can generally respond to customer demand by taking advantage of the characteristics of our stores that make it economical to open outlets even in small trade areas. The Group expects to open 95 stores nationwide in the next fiscal year, mainly in Kyushu, where we opened the Kyushu Distribution Center in January 2007.

We will proactively press ahead with the renovation of existing stores to reflect in other stores the results of our repeated experiments at newly-opened stores, aiming to create stores that are friendlier to customers including companies and agricultural workers.

With our “Power” stores, the Company will pursue a store format with a rich and specialized assortment of products and inventories that accommodate high demand and reasonable pricing, suitable even for professionals. With our “Hard & Green” stores, we will strive to provide detailed services by gearing toward regional needs that have gained a foothold through the climate, culture and customs in the region and reinforcing our abilities to cultivate and supply products that customers want.

To provide products which customers can use with a sense of security at reasonable prices, we need to consecutively manage every phase of our retail business from planning, material procurement, manufacturing, and distribution to sales. Therefore, we established the Product Development Department and departments specialized in quality management and design, to optimize our product management by business category, and developed an infrastructure for building a mass merchandizing system.

The Company has been operating retail businesses and providing services focusing on the household segment including supplies and building materials, gardening and agricultural materials, and house renovation goods and services.

In operating our businesses in the above fields, we will further enhance our business structure through credit card and Internet businesses for settling payments and using information. And we will identify the targets we must accomplish in the construction and agricultural markets, which are a continuation of these businesses, to innovate the retail distribution by expanding our store network.

Thanks to the support of many people, we were able to achieve revenue and profit growth for the twentieth consecutive year since the listing. Based on such accomplishments, the entire Group will strive to reinforce its foundation for sustainable growth in the future and make concerted efforts to strongly promote innovation in its product distribution management system.

b. Basic policy on control of a joint stock company

1) Basic policy

Our Group’s philosophy is that as a company, we owe our existence to society, which means our very survival is reliant upon gaining society’s support. This means that as a company we should serve the purpose of making people happy, and through doing this, we will receive the support of society. Based on this philosophy, the Group has developed a chain store system in line with its unique strategy focusing on hardware, tools, building materials, and gardening, plants and agricultural materials as its main products. Such endeavor focuses on developing many stores in one of the following three formats: “Hard & Green,” our original specialty store format; “Home Center,” a store format with a rich and specialized assortment of products, suitable even for professionals; and “Power,” a subcategory of “Home Center” that has huge store space and a great assortment of goods. In addition, the Group has uniquely devised and developed systems for product procurement, distribution and information that support our stores. Only when the above systems function in an integrated manner will we be able to achieve strong product capability and low cost operation through mass merchandising.

Such unique management know-how of the Group, which our competitors cannot imitate, has become the source of our corporate value, and it is essential that we reinforce our activities in this business area to ensure and improve the Group's corporate value and common interest of our shareholders. Our basic policy on controlling the company is to expand and develop this target.

2) Measures for preventing inappropriate control over the Company and decision of the board of directors

Quite a few cases of large-scale share purchase do not improve the corporate values of the company whose shares have been purchased or the common interest of shareholders. In some cases, for instance, the corporate value and the common interest of shareholders are clearly impaired. In other cases, companies are not provided with sufficient time and information to examine the details of a large-scale purchase of shares or propose alternative plans.

While the directors of the Company and related parties own a high proportion of the Company's shares, about 40%, there is always the possibility that the liquidity of stocks will increase significantly in the future for reasons such as changes of shareholders when shares are inherited.

Given these circumstances, we believe it is consistent with the common interest of shareholders to establish certain procedures to cope with a large-scale purchase of the Company's shares.

We have implemented an advance-warning type of takeover defense plan, in which we activate countermeasures (free issue of equity warrants) in emergencies. The details of this plan are as follows:

i. Purchasers who intend to purchase shares and other securities issued by the Company to increase the percentage of their voting rights to 20% or higher must preliminarily submit information that we need to examine the details of the purchase.

ii. The Special Committee, which is an organization independent of the Board of Directors and was established to prevent the Board of Directors from making arbitrary decisions on the free issue or acquisition of equity warrants, closely checks the information submitted by the purchaser and may request additional information or ask the Board of Directors of the Company to submit opinions concerning the purchase and things such as supporting materials and alternative plans.

iii. After receiving the information and materials from the purchaser and the Board of Directors of the Company, the Special Committee, after obtaining the advice of external specialists where appropriate, shall evaluate and examine the details of the purchase and any alternative plans proposed by the Board of Directors of the

Company, and recommend the necessary actions that the Board of Directors of the Company should take.

iv. If the purchaser does not comply with certain procedures set by the Company or is deemed likely to materially impair the corporate value of the Company or the common interest of shareholders, the Board of Directors of the Company, after hearing the decision of the Special Committee, shall resolve to issue equity warrants free of charge.

v. If the Company issues equity warrants as a countermeasure, the equity warrants shall include terms of execution which prohibit the purchaser from executing rights, and a purchase provision which states that the Company shall be allowed to purchase equity warrants in exchange for the Company's shares from parties other than the purchaser.

The above-mentioned takeover defense plan obtained the approval of the majority of the voting rights of the shareholders at the 46th Ordinary General Meeting of Shareholders held on June 28, 2007 and has henceforth become effective.

(4) Business and other risks

a. Group's Store Opening Policies

The Group's store openings are decided based on the location surveys, accumulated experience from previous store openings, and the Company's proprietary store opening criteria, which take into account the surrounding population, rent expenses, etc. The Group aims to more aggressively 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.

b. 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 of 1,000 square meters or more. 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.

c. 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.

d. 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 to play to support people's lives is to be ready to provide recovery goods as soon as possible in the event of a disaster. The Group has therefore set up a system in which a recovery team will be established 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.

e. 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 food 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.

f. Protection of Personal Information

The Group's Aqua Co., Ltd., a subsidiary of the Company (whose name was changed to Komeri Capital Co., Ltd. on April 1, 2007), 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, 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 and the payment of compensation for damages resulting from the information leak.

g. Risk of foreign exchange fluctuation and country risk

The cost 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 cost price of various materials and therefore the results of the Group may be affected.

h. 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.

(5) Dividend Policy

The Company places the highest priority on increasing returns to shareholders by constantly raising its corporate value. We aim to continuously provide a stable dividend while strengthening the Company’s operating base and financial structure, while fully considering our profitability and dividend payout ratio.

The Company has a basic policy of distributing retained earnings twice a year through the interim dividend and the year-end dividend.

The General Meeting of Shareholders will act as a decision-making body for the year-end dividend, while the Board of Directors will do so for the interim dividend.

Based on the above policy, we decided to pay a dividend of ¥34 per share (including an interim dividend of ¥16) for the fiscal year under review.

We strive to efficiently allocate funds in our internal reserves for investment in new stores and for expansion and renovation to further vitalize the existing stores, thereby achieving sales growth and a higher ROE. This aims to increase returns to shareholders from a comprehensive, long-term perspective.

Our Articles of Incorporation specify that the Company shall be allowed to pay an interim-dividend by resolution of the Board of Directors, with the record date being September 30 each year.

The schedule for distributing retained earnings for the fiscal year under review is as follows:

Date of resolution	Aggregate amount of dividend (million yen)	Dividend per share (yen)
October 30, 2006 by the Board of Directors Meeting	846	16
June 28, 2007 by the Ordinary General Meeting of Shareholders	951	18

(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.

a. 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, supervising etc. are as follows

   i Board of Directors

   The Board of Directors consists of seven 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. (The Board of Directors consists of seven directors including one external director as of the reporting date.)

   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 (CEO)" responsible for overall group integration, group strategy, and business strategy and a "President and Chief Operating Officer (COO)" responsible for overall execution of operations, including the stores, merchandise, logistics, and information. An executive officer system was introduced at the same time.

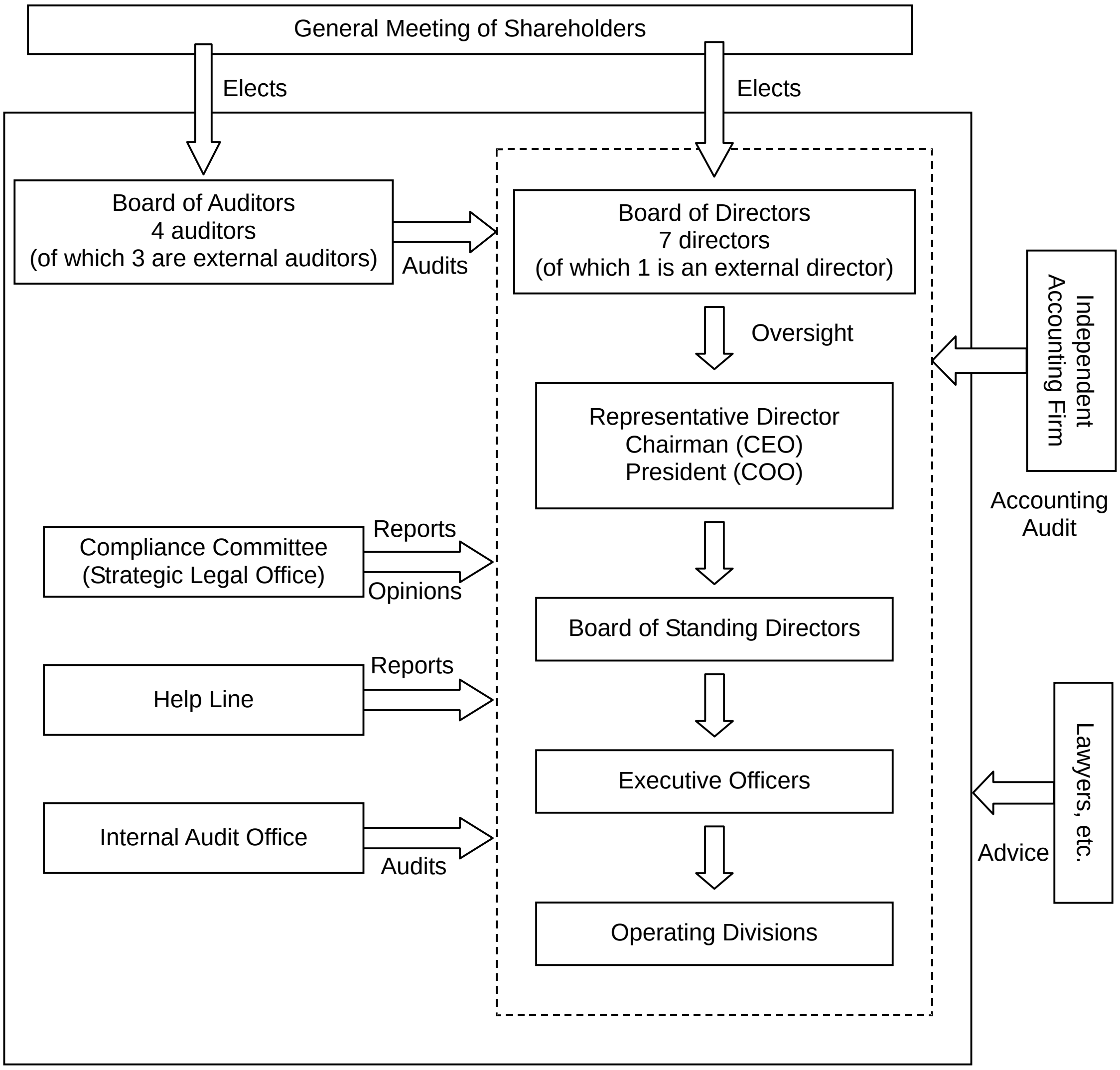
   ii Board of Standing Directors

   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.

   iii Board of Auditors

   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, inspecting important approval documents, etc.

2) Corporate Governance Structure



3) The status of establishment of internal control system is as follows (Established as a basic policy for developing internal control system on May 18, 2006):

i System to ensure Directors and employees perform their duties in compliance with laws and the Articles of Incorporation

Since the practice of compliance is one of the most important managerial issues, the Group will maintain 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 maintain 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.

ii System for maintenance and control of information pertaining to execution of 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.

iii 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.

iv 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.

v 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.

vi 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.

vii 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.

viii 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.

ix 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 Deloitte Touche Tohmatsu. 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 five years, five years and two years, 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 External Directors and External Auditors
The Company has been promoting fair and transparent management by having the external directors participate in management, in addition to employing the system of external auditors adopted prior to the IPO.

Currently, one external director and three external auditors are supervising the management with their expertise as a lawyer, professor and corporate executive, and their wider vision and wealth of experience.

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

(External Director)	Shuichi Matsuda:	2,100 shares
(External Auditors)	Zenroku Fujita:	1,100 shares
	Shigeo Misaki:	2,100 shares
	Takahiko Kagawa:	0 share

The Company has no personal or transactional relationships or other interest with the external directors or auditors.

b. 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.
7) January 2007, Internal Control Development Committee was established to prepare internal control reports.

c. Details of compensation paid to directors and Auditors

Amount of compensation paid annually to directors: 220 million yen (including 3 million yen paid to one external director)

Amount of compensation paid annually to auditors: 36 million yen (including 18 million yen paid to 3 external auditors)

Notes:

1. Besides the above, a total of 30 million yen was paid as salaries for directors concurrently working as employees.
2. The compensation paid to Director Hiroyuki Fukumoto, who retired on October 15, 2006, is included in the total amount of compensation paid and the amount corresponding to salaries of directors working concurrently as employees, as described in Note 1.
3. The amount of retirement allowance for one retiring director (Hiroyuki Fukumoto) and two retiring auditors (Kinji Sasage and Seiichi Nishitani) was 113 million yen, as resolved at the 46th Ordinary General Meeting of Shareholders held on June 28, 2007.
4. The maximum amount of compensation to be paid to directors was resolved to be not more than 400 million yen a year at the Ordinary General Meeting of Shareholders held on June 29, 2006.
5. The maximum amount of compensation to be paid to auditors was resolved to be not more than 60 million yen a year at the Ordinary General Meeting of Shareholders held on June 29, 2006.

d. Details of compensation paid for audit
Compensation pursuant to the business set forth in the Certified Public Accountant Law Article 2 paragraph 1: 26 million yen.

No compensation is paid pursuant to the business other than the above.

e. Outline of the limitation of liability agreement
The Company changed its Articles of Incorporation at the 45th Ordinary General Meeting of Shareholders held on June 29, 2006, and established regulations on the limitation of liability for external directors and auditors. Based on the aforementioned Articles of Incorporation, we concluded a limitation of liability agreement with external director Shuichi Matsuda and external auditors Seiichi Nishitani, Zenroku Fujita and Shigeo Misaki, the details of which are described below:

i Limitation of liability agreement for external directors

External directors, upon concluding the limitation of liability agreement, shall assume liability stipulated in Article 423, paragraph 1 of the Company Law for damage against the Company and the relevant liability for damage shall be limited to the minimum liability for damage as stipulated in Article 425, paragraph 1 of the Company Law, provided that the said persons execute their duties as external directors of the Company in good faith and without serious negligence.

ii Limitation of liability agreement for external auditors

External auditors, upon concluding the limitation of liability agreement, shall assume liability stipulated in Article 423, paragraph 1 of the Company Law for damage against the Company and the relevant liability for damage shall be limited to the minimum liability for damage as stipulated in Article 425, paragraph 1 of the Company Law, provided that the said persons execute their duties as external auditors of the Company in good faith and without serious negligence.

(7) Responsibilities as a Corporate Citizen
The KOMERI Group's philosophy is based on the concept 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." 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 937 million yen in the 18 years since its establishment, assisting a total of 4,257 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. They have already discovered six new species of plants and the results of this project are recognized as not only academically valuable but also highly significant in terms of protecting the environment. We are aiming to publish the results as an academic book in 2007.

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 company-wide efforts to promote proactive involvement in local society. More than 10,000 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 in 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 the Komeri Disaster Response Center, a certified nonprofit organization, we are committed to providing continuous and agile support for rescue activities in times of disaster and protecting the environment. To this end, the Company is working toward entering into agreements with local governments in areas where we have stores to provide disaster support, in which we will supply goods on a preferential basis in times of disaster. In addition, we have launched a “disaster network,” which is comprised of volunteers from our business partners, and therefore we are preparing for contingencies using the overall network between the Company and its business partners.

(*) 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)

2. Operating results and financial performance

(1) Analysis of operating results

Overview of results for the year to March 2007

Consolidated Results

Millions of yen	Year ended March 31, 2006	Year ended March 31, 2007	Year-on-year comparison (%)
Operating revenue	247,461	259,218	104.8
Operating income	14,624	15,519	106.1
Ordinary profit	15,234	16,154	106.0
Net income	8,706	9,256	106.3

Parent Results

Millions of yen	Year ended March 31, 2006	Year ended March 31, 2007	Year-on-year comparison (%)
Operating revenue	196,631	234,570	119.3
Operating income	11,021	12,424	112.7
Ordinary profit	11,656	13,541	116.2
Net income	6,675	8,312	124.5

During the fiscal year under review, the Japanese economy continued to grow, albeit mildly, backed by strong corporate earnings that drove expansion in capital expenditure and upturns in employment and income, despite lingering concerns about oil and material prices, which have remained high, and increases in interest payments from additional rate hikes.

The circumstances surrounding the retail industry remain the same, with rising corporate goods prices and a slump in consumer prices. In addition, we saw intensified competition and an excess number of stores in all industries and business categories. Moreover, we have seen a considerable influence on the seasonal product segment during the fiscal year under review, from factors such as extreme fluctuations in the climate and abnormally high temperatures in autumn and winter.

Given these circumstances, the Group (the Company and its consolidated subsidiaries) opened the Kyushu Distribution Center in Fukuoka Prefecture in January 2007, as our store development base in the Kyushu area, in addition to our seven existing distribution centers. This is an effort to further promote the development of many stores. At the same time, the Group developed a system to more forcefully promote productivity improvement measures such as reducing physical distribution costs and improving store operations.

Operations during the fiscal year under review saw strong sales in the main merchandise groups, backed by support from companies and agricultural workers. This resulted from our efforts to reinforce sales, target companies, and promote low-price strategies for hardware merchandise including hardware, tools and building materials, and boost sales of production materials for gardening and agriculture. In the green merchandise group, our endeavors to reinforce the purchase of stocks in the regional headquarters geared to the needs of each region have yielded results.

On the other hand, sales of goods relating to heating and snow removal in winter were sluggish because of an abnormally warm winter.

Looking at profits, a jump in purchase prices owing to factors such as prices of raw materials remaining high, led to a 0.2 percentage point decline year on year in the gross profit margin.

In addition, our efforts to reduce costs resulted in a 0.3 percentage point decline in SG&A ratio and a 0.1 percentage point improvement in operating income ratio compared with the previous fiscal year.

As a result of the developments outlined above, operating revenue rose 4.8% on a consolidated basis from the previous fiscal year to 259,218 million yen. Ordinary profit grew by 6.0% to 16,154 million yen, and net income was 6.3% higher at 9,256 million yen.

Consequently, the Company was able to achieve revenue and profit growth for the twentieth consecutive year since its listing.

Home Center business

Consolidated Results

Millions of yen	Year ended March 31, 2006	Year ended March 31, 2007	Year-on-year comparison (%)
Net sales	230,017	241,614	105.0
Number of stores	763	843	–
Number of stores newly opened	62	83	–

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

During the fiscal year under review, the Group opened new “Power” stores, which are large-scale home centers, in Hanamaki City, Iwate Prefecture, in April 2006; in Tsuyama City, Okayama Prefecture, in July 2006; and in Semboku City, Akita Prefecture, in December 2006. In addition, we opened total of 80 new “H&G” stores in 34 prefectures during the fiscal year to March 2007. Specifically, the Group opened six new H&G stores in Aomori Prefecture, with the Hanamaki Distribution Center which opened in February 2006 as the hub for our physical distribution. In the Kyushu area, we opened 21 new H&G stores in five prefectures in the area, including seven new stores in Kumamoto Prefecture, since the start-up of the Kyushu Distribution Center in January 2007. As a result, the Group opened a total of 83 new “HC” and “H&G” stores, which is the largest number ever, during the fiscal year under review. We also closed one “HC” store and two “H&G” stores. Consequently, at the end of the fiscal year under review the Group had 137 “HC” stores and 706 “H&G” stores, making 843 stores in total.

In terms of our merchandise policy, the Group strives to manage merchandise in accordance with the characteristics of each store format through organizational reform, and accomplish well-balanced mass merchandising by reinforcing product development and low-cost operations, to improve our gross profit margin.

In addition, the Group is endeavoring to appropriately assess product life cycles in each trade area and develop stores that are close to the community and convenient for the people living there in order to meet product demands in each trade area through the Company's merit of many stores over a wide area.

Trend by product line

Product Line \ Period	Year ended March 31, 2006 Net Sales (millions of yen)	Year ended March 31, 2006 Percentage (%)	Year ended March 31, 2007 Net Sales (millions of yen)	Year ended March 31, 2007 Percentage (%)	Year ended March 31, 2007 Year-on-year comparison (%)
Hardware, materials, and building materials	68,098	29.6	73,839	30.5	108.4
Gardening and agricultural goods	44,444	19.3	47,919	19.8	107.8
Household goods	60,958	26.5	62,975	26.1	103.3
Office and leisure goods	38,758	16.9	40,040	16.6	103.3
Other	17,757	7.7	16,839	7.0	94.8
Home Center business total	230,017	100.0	241,614	100.0	105.0

Other Businesses

HOKUSEI SANGYO CO., LTD. commenced operations at the Kyushu Distribution Center as our hub for physical distribution in Kyushu in January this year, following the opening of the Hanamaki Distribution Center last February. In addition, the Company reinforced the facilities at the Takasaki Distribution Center. As a result, HOKUSEI SANGYO is better prepared now in terms of physical distribution network systems as an important core company in the Group which aims to develop many stores over a wide area.

The membership of "AQUA Card", the customer card of the Group operated by the Company's subsidiary Aqua Co., Ltd., grew by about 320,000 from the end of the previous fiscal year, reaching 2.17 million members in five years since the company's establishment. 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 for their convenience, such as the "AQUA Agri Card," a card for farmers that allows them to settle their balances in accordance with their farming cycles, and the "AQUA Pro Card" for business owners who need to pay for business materials. As of April 1, 2007, Aqua Co., Ltd. changed its corporate name to Komeri Capital Co., Ltd.

The Company absorbed the consolidated subsidiaries MR. JOHN CO., LTD. and KICCORY CO., LTD. as of April 1, 2006 and a consolidated subsidiary Breezy Green Co., Ltd. as of October 1, 2006, and is pressing on with efforts to improve efficiency through operational integration.

Outlook for the year to March 2008

Consolidated Results

Millions of yen	6 months	Year-on-year comparison	Annual	Year-on-year comparison
Operating revenue	137,000	105.8%	276,500	106.7%
Operating income	10,000	105.8%	16,600	107.0%
Ordinary profit	10,200	103.0%	16,800	104.0%
Net income	5,750	104.5%	9,600	103.7%

Parent Results

Millions of yen	6 months	Year-on-year comparison	Annual	Year-on-year comparison
Operating revenue	125,000	106.9%	251,000	107.0%
Operating income	8,450	110.4%	13,600	109.5%
Ordinary profit	8,800	103.0%	14,100	104.1%
Net income	5,400	101.4%	8,600	103.5%

(2) Analysis of financial position

1) Assets, liabilities and net assets

Total assets at the end of the fiscal year under review increased by 18,093 million yen from the previous year-end to 219,177 million yen. This was mainly due to an increase of 9,857 million yen in inventory assets, and an increase of 8,521 million yen in tangible fixed assets such as buildings, because we opened 83 new stores and established the Kyushu Distribution Center.

Liabilities at the end of the fiscal year under review increased by 10,799 million yen from the previous year-end to 125,507 million yen. This was mainly because long-term debt rose 4,492 million yen to finance capital expenditure, and trade notes and accounts payable grew by 4,585 million yen following an increase in inventory assets.

Net assets at the end of the fiscal year under review increased by 7,344 million yen from the previous year-end to 93,670 million yen. This was mainly due to an increase attributable to net income of 9,256 million yen and a decrease attributable to dividend payment of 1,798 million yen.

2) Consolidated cash flows

Millions of yen	Year ended March 31, 2006	Year ended March 31, 2007	Year-on-year change
Net cash provided by operating activities	12,436	10,657	(1,778)
Net cash used in investment activities	(11,445)	(13,956)	(2,511)
Net cash provided (used) in financing activities	(2,108)	3,308	5,416
Increase (decrease) in cash and cash equivalents	(1,116)	10	1,126
Cash and cash equivalents at end of term	9,686	9,697	10

Cash and cash equivalents ("cash") as of the fiscal year-end totaled 9,697 million yen. Factors affecting cash flows include the following:

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

Cash generated by operating activities decreased by 1,778 million yen from the previous fiscal year to 10,657 million yen. This was mainly because although income before taxes and other adjustments amounted to 15,466 million yen, there were increases in inventory assets (leading to a decrease in cash) and in income taxes paid.

(Net cash provided by [used in] investment activities)

Investment activities used cash in the amount of 13,956 million yen, an increase of 2,511 million yen from the previous fiscal year. This increase primarily resulted from the acquisition of tangible fixed assets to open new stores and the Kyushu Distribution Center.

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

Cash generated by financing activities was 3,308 million yen. This primarily resulted from an increase in long-term debt to finance capital expenditure.

Trends in Cash Flow Indices

	March 31, 2004	March 31, 2005	March 31, 2006	March 31, 2007
Equity ratio	40.1%	41.8%	42.9%	42.7%
Equity ratio based on market prices	85.5%	79.4%	115.9%	91.5%
Years required to redeem liabilities	5.3 years	4.4 years	4.3 years	5.5 years
Interest-coverage ratio	17.9	27.5	34.3	24.1

(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)Basic policy on distribution of profits and dividends for the fiscal year under review and the next fiscal year

The Company places the highest priority on increasing returns to shareholders by constantly raising its corporate value. To distribute profits we aim to continuously provide stable dividends while strengthening the Company's operating base and financial structure, while fully considering our profitability and dividend payout ratio.

We strive to efficiently allocate funds in our internal reserves 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 this way, we aim to increase returns to shareholders from a comprehensive, long-term perspective.

The Group celebrated the 30th anniversary of the Home Center business in April 2007. We sincerely appreciate the support of all relevant parties including our shareholders. To show our gratitude to our shareholders, we will pay a year-end dividend of 18 yen per share including a commemorative dividend of 2 yen per share for the fiscal year ended March 2007. As a result, the annual dividend will be 34 yen per share including an interim dividend of 16 yen per share.

For the next fiscal year, we plan to pay an annual dividend of 34 yen per share, which consists of an interim dividend of 17 yen per share and a year-end dividend of 17 yen per share.

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Financial Statements for the Years Ended March 31, 2007 and 2006, 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, 2007 and 2006, and the related consolidated statements of income, changes in 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, 2007 and 2006, 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 28, 2007

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheets
March 31, 2007 and 2006

ASSETS	Millions of Yen 2007	Millions of Yen 2006	Thousands of U.S. Dollars (Note 1) 2007
CURRENT ASSETS:			
Cash and cash equivalents	¥ 9,697	¥ 9,687	$ 82,143
Short-term investments (Notes 3 and 4)	283	326	2,395
Receivables:			
Trade notes and accounts	7,006	6,450	59,352
Allowance for doubtful receivables	(5)	(4)	(46)
Inventories (Note 5)	75,222	65,364	637,202
Deferred tax assets (Note 10)	1,314	1,874	11,134
Prepaid expenses and other current assets	1,432	1,215	12,130
Total current assets	94,949	84,912	804,310
PROPERTY, PLANT AND EQUIPMENT (Notes 6 and 7):			
Land	22,137	22,117	187,524
Buildings and structures	127,463	114,559	1,079,741
Machinery and equipment	6,697	5,302	56,726
Construction in progress	871	1,455	7,375
Other	8,475	7,621	71,795
Total	165,643	151,054	1,403,161
Accumulated depreciation	(60,685)	(54,618)	(514,065)
Net property, plant and equipment	104,958	96,436	889,096
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	753	928	6,383
Investments in unconsolidated subsidiaries	370	289	3,134
Intangible assets	5,043	4,877	42,723
Leasehold deposits	9,301	9,678	78,789
Deferred tax assets (Note 10)	2,410	2,260	20,415
Other assets	1,394	1,704	11,803
Total investments and other assets	19,271	19,736	163,247
TOTAL	¥ 219,178	¥ 201,084	$ 1,856,653

LIABILITIES AND EQUITY	Millions of Yen 2007	Millions of Yen 2006	Thousands of U.S. Dollars (Note 1) 2007
CURRENT LIABILITIES:			
Short-term bank loans (Note 7)	¥ 34,250	¥ 33,630	$ 290,131
Current portion of long-term debt (Note 7)	7,815	5,482	66,204
Payables:			
Trade notes and accounts	41,292	36,706	349,781
Construction and other	12,443	10,044	105,407
Income taxes payable	2,764	3,684	23,419
Accrued expenses	2,014	1,835	17,058
Liability for obligations to customers	470	392	3,979
Other current liabilities	701	809	5,939
Total current liabilities	101,749	92,582	861,918
LONG-TERM LIABILITIES:			
Long-term debt (Note 7)	16,797	14,638	142,290
Liability for retirement benefits (Note 8)	2,801	2,492	23,724
Retirement benefits for directors and corporate auditors (Note 8)	1,015	968	8,598
Lease deposits from lessees	2,209	2,299	18,715
Negative goodwill	721	1,513	6,108
Deferred tax liabilities (Note 10)	68	40	572
Other long-term liabilities	147	175	1,245
Total long-term liabilities	23,758	22,125	201,252
MINORITY INTERESTS		51	
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 11, 12 and 13)			
EQUITY (Note 9):			
Common stock—authorized, 131,000,000 shares; issued, 54,409,168 shares in 2007 and 2006	18,802	18,802	159,273
Capital surplus	25,260	25,260	213,979
Retained earnings	53,742	46,339	455,251
Unrealized gain on available-for-sale securities	215	305	1,823
Deferred gain on derivatives under hedge accounting	37		310
Treasury stock—at cost, 1,521,455 shares in 2007 and 1,519,904 shares in 2006	(4,385)	(4,380)	(37,153)
Total equity	93,671	86,326	793,483
TOTAL	¥ 219,178	¥ 201,084	$ 1,856,653

See notes to consolidated financial statements.

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
REVENUES:			
Net sales	¥ 250,120	¥ 238,883	$ 2,118,763
Other operating revenues	9,098	8,578	77,073
Total revenues	259,218	247,461	2,195,836
COST OF SALES	175,596	167,191	1,487,473
Gross profit	83,622	80,270	708,363
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	68,102	65,646	576,894
Operating income	15,520	14,624	131,469
OTHER INCOME (EXPENSES):			
Interest and dividend income	54	53	455
Interest expense	(423)	(346)	(3,585)
Loss on disposal of property, plant and equipment	(93)	(122)	(784)
Amortization of negative goodwill	796	796	6,740
Loss on impairment of long-lived assets (Note 6)	(481)	(1,566)	(4,072)
Loss on casualty	(7)	(31)	(63)
Other—net	100	323	853
Other expenses—net	(54)	(893)	(456)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	15,466	13,731	131,013
INCOME TAXES (Note 10):			
Current	5,788	6,177	49,033
Deferred	472	(933)	3,999
Total income taxes	6,260	5,244	53,032
MINORITY INTERESTS IN NET INCOME	51	219	431
NET INCOME	¥ 9,257	¥ 8,706	$ 78,412

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.q):			
Basic net income	¥ 175.02	¥ 163.56	$ 1.48
Cash dividends applicable to the year	34.00	32.00	0.29

See notes to consolidated financial statements.

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity
Years Ended March 31, 2007 and 2006

		Millions of Yen								
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Deferred Gain on Derivatives under Hedge Accounting	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 2005	52,891,611	¥ 18,802	¥ 25,260	¥ 39,193	¥ 131		¥ (4,371)	¥ 79,015		¥ 79,015
Net income				8,706				8,706		8,706
Cash dividends, ¥28 per share				(1,507)				(1,507)		(1,507)
Bonuses to directors and corporate auditors				(53)				(53)		(53)
Increase in treasury stock	(2,347)						(9)	(9)		(9)
Net increase in unrealized gain on available-for-sale securities					174			174		174
BALANCE, MARCH 31, 2006	52,889,264	18,802	25,260	46,339	305		(4,380)	86,326		86,326
Reclassified balance as of March 31, 2006									¥ 51	51
Net income				9,257				9,257		9,257
Cash dividends, ¥34 per share				(1,799)				(1,799)		(1,799)
Bonuses to directors and corporate auditors				(55)				(55)		(55)
Purchase of treasury stock	(1,578)						(5)	(5)		(5)
Disposal of treasury stock	27									
Net change in the year					(90)	¥ 37		(53)	(51)	(104)
BALANCE, MARCH 31, 2007	52,887,713	¥ 18,802	¥ 25,260	¥ 53,742	¥ 215	¥ 37	¥ (4,385)	¥ 93,671		¥ 93,671

	Thousands of U.S. Dollars (Note 1)								
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Deferred Gain on Derivatives under Hedge Accounting	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, MARCH 31, 2006	$ 159,273	$ 213,979	$ 392,538	$ 2,578		$ (37,103)	$ 731,265		$ 731,265
Reclassified balance as of March 31, 2006								$ 431	431
Net income			78,412				78,412		78,412
Cash dividends, $0.29 per share			(15,232)				(15,232)		(15,232)
Bonuses to directors and corporate auditors			(467)				(467)		(467)
Purchase of treasury stock						(50)	(50)		(50)
Disposal of treasury stock									
Net change in the year				(755)	$ 310		(445)	(431)	(876)
BALANCE, MARCH 31, 2007	$ 159,273	$ 213,979	$ 455,251	$ 1,823	$ 310	$ (37,153)	$ 793,483		$ 793,483

See notes to consolidated financial statements.

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 15,466	¥ 13,731	$ 131,013
Adjustments for:			
Income taxes—paid	(6,559)	(5,310)	(55,565)
Depreciation	7,117	6,659	60,288
Loss on impairment	481	1,566	4,072
Amortization of negative goodwill	(796)	(787)	(6,740)
Loss on disposal of property, plant and equipment	93	102	784
Bonuses to directors and corporate auditors	(55)	(53)	(467)
Changes in assets and liabilities:			
Increase in trade notes and accounts receivable	(676)	(447)	(5,728)
Increase in inventories	(9,860)	(6,560)	(83,527)
Increase in trade notes and accounts payable	4,585	2,983	38,840
Increase in liability for retirement benefits	309	305	2,615
Increase in retirement benefits for directors and corporate auditors	46	52	395
Other—net	507	195	4,306
Total adjustments	(4,808)	(1,295)	(40,727)
Net cash provided by operating activities	10,658	12,436	90,286
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(13,693)	(11,098)	(115,994)
Decrease in leasehold deposits	376	191	3,188
Increase in other assets	(640)	(538)	(5,424)
Net cash used in investing activities	(13,957)	(11,445)	(118,230)
FINANCING ACTIVITIES:			
Increase in short-term bank loans—net	620	470	5,252
Proceeds from long-term debt	10,068	5,507	85,286
Repayments of long-term debt	(5,575)	(6,576)	(47,228)
Repurchase of treasury stock	(6)		(50)
Dividends paid	(1,798)	(1,509)	(15,230)
Net cash provided by (used in) financing activities	3,309	(2,108)	28,030
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10	(1,117)	86
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9,687	10,804	82,057
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 9,697	¥ 9,687	$ 82,143

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 ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

On December 27, 2005, the Accounting Standards Board of Japan (the "ASBJ") published a new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006. The consolidated statement of shareholders' equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under Japanese GAAP and has been renamed "the consolidated statement of changes in equity" in the current fiscal year.

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 2006 financial statements to conform to the classifications used in 2007.

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 ¥118 to $1, the approximate rate of exchange at March 31, 2007. 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, 2007, include the accounts of the Company and its 8 significant (11 in 2006) 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 4 (3 in 2006) 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 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. ***Business Combination—***In October 2003, the Business Accounting Council (the "BAC") issued a Statement of Opinion, "Accounting for Business Combinations," and on December 27, 2005, the ASBJ issued ASBJ Statement No. 7, "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.

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.

The Company merged 3 wholly owned subsidiaries to increase business efficiency by the integration of logistics, computer system, purchases and back-office in 2006. The Company accounted for this business combination as transaction under common control and all transactions were eliminated on the consolidated financial statements.

c. ***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.

d. ***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.

e. ***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 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.

f. ***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.

g. ***Long-lived Assets—***In August 2002, the BAC issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the 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.

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 5 years from the next fiscal year.

The Company and certain subsidiaries also participate in common industry associations, 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. ***Presentation of Equity—***On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights, minority interests, 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. The consolidated balance sheet as of March 31, 2007 is presented in line with this new accounting standard.

j. ***Liability for Obligations to Customers***—The Company and some subsidiaries have 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 and some subsidiaries recognize a liability for obligations to customers when customers acquire the service points in amounts considered to be appropriate based on past experience.

k. ***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.

l. ***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.

The Company adopted the new accounting standard for bonuses to directors and corporate auditors from the year ended March 31, 2007. The effect of adoption of this accounting standard was to decrease income before income taxes and minority interests for the year ended March 31, 2007 by ¥60 million ($507 thousand).

m. ***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.

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

o. ***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.

p. ***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.

q. ***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.

r. ***New Accounting Pronouncements***

Measurement of Inventories—Under Japanese GAAP, inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories," which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

Lease Accounting—On March 30, 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the existing accounting standard for lease transactions issued on June 17, 1993.

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements.

The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ PITF No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The new task force prescribes: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material;

(1) Amortization of goodwill
(2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
(3) Capitalization of intangible assets arising from development phases
(4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
(5) Retrospective application when accounting policies are changed
(6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

3. SHORT-TERM INVESTMENTS

Short-term investments as of March 31, 2007 and 2006, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Time deposits other than cash equivalents	¥ 270	¥ 315	$ 2,281
Marketable securities	13	11	114
Total	¥ 283	¥ 326	$ 2,395

4. MARKETABLE AND INVESTMENT SECURITIES

Investment securities as of March 31, 2007 and 2006, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Current—Trust fund investment	¥ 13	¥ 11	$ 114
Total	¥ 13	¥ 11	$ 114
Non-current:			
Marketable equity securities	¥ 663	¥ 776	$ 5,618
Trust fund investments and other	90	152	765
Total	¥ 753	¥ 928	$ 6,383

The carrying amounts and aggregate fair values of marketable investment securities at March 31, 2007 and 2006 were as follows:

	Millions of Yen		
March 31, 2007	Cost	Unrealized Gains	Fair Value
Securities classified as available-for-sale:			
Equity securities	¥ 284	¥ 345	¥ 629
Trust fund investments	24	15	39
March 31, 2006			
Securities classified as available-for-sale:			
Equity securities	284	492	776
Trust fund investments	34	18	52

	Thousands of U.S. Dollars		
March 31, 2007	Cost	Unrealized Gains	Fair Value
Securities classified as available-for-sale:			
Equity securities	$ 2,404	$ 2,925	$ 5,329
Trust fund investments	201	132	333

Proceeds from sales of available-for-sale securities for the year ended March 31, 2007 were ¥26 million ($217 thousand). Gross realized gains on these sales, computed on the moving average cost basis, were ¥9 million ($77 thousand) for the year ended March 31, 2007.

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2007 and 2006 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Available-for-sale—Equity securities	¥ 34	¥ 40	$ 289
Capital investments in investment business associations with limited liability or similar associations	65	71	546
Total	¥ 99	¥ 111	$ 835

5. INVENTORIES

Inventories at March 31, 2007 and 2006, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Merchandise	¥ 75,123	¥ 65,275	$ 636,366
Supplies	99	89	836
Total	¥ 75,222	¥ 65,364	$ 637,202

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of the year ended March 31, 2007 and, as a result, recognized an impairment loss of ¥481 million ($4,072 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 ¥383 million ($3,244 thousand) for buildings and structures and ¥98 million ($828 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, 2007 and 2006 consisted of notes to banks. The annual weighted average interest rate applicable to the short-term bank loans was 0.57% and 0.34% at March 31, 2007 and 2006, respectively.

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Loans from banks and other financial institutions, due serially to 2015 with weighted average interest rates 1.20% (2007) and 1.24% (2006):			
Collateralized	¥ 2,142	¥ 8,516	$ 18,147
Unsecured	22,470	11,604	190,347
Total	24,612	20,120	208,494
Less current portion	(7,815)	(5,482)	(66,204)
Long-term debt, less current portion	¥ 16,797	¥ 14,638	$ 142,290

Annual maturities of long-term debt at March 31, 2007 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2008	¥ 7,815	$ 66,204
2009	4,738	40,136
2010	4,040	34,219
2011	4,208	35,650
2012	2,237	18,950
2013 and thereafter	1,574	13,335
Total	¥ 24,612	$ 208,494

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥170 million ($1,440 thousand) and the above collateralized long-term debt at March 31, 2007, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Property, plant and equipment—net of accumulated depreciation	¥ 3,809	$ 32,267
Total	¥ 3,809	$ 32,267

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, 2007 for directors and corporate auditors is ¥1,015 million ($8,598 thousand). The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

A consolidated subsidiary also participates in a common industry association, multiemployer defined benefit plan.

The Company withdrew from Japan DIY Employees' Pension Fund on September 30, 2006. An extraordinary premium of ¥153 million ($1,299 thousand) was paid in accordance with withdrawal.

The liability for employees' retirement benefits at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Projected benefit obligation	¥ 3,020	¥ 2,844	$ 25,583
Fair value of plan assets	(103)	(303)	(876)
Unrecognized actuarial gain	(145)	(89)	(1,224)
Prepaid pension cost	29	40	241
Net liability	¥ 2,801	¥ 2,492	$ 23,724

The components of net periodic benefit costs for the years ended March 31, 2007 and 2006 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Service cost	¥ 387	¥ 384	$ 3,276
Interest cost	46	48	390
Expected return on plan assets		(4)	
Recognized actuarial loss	75	66	633
Required contribution for the multiemployer plan	326	564	2,764
Net periodic benefit costs	¥ 834	¥ 1,058	$ 7,063

Assumptions used for the years ended March 31, 2007 and 2006, are set forth as follows:

	2007	2006
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. EQUITY

On and after May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan with various revisions that are, for the most part, 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) at any time during the fiscal year 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. The Corporate Law 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 Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. 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 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 equity or deducted directly from stock acquisition rights.

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, 2007 and 2006.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2007 and 2006, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Deferred tax assets:			
Inventories	¥ 18	¥ 107	$ 149
Loss on impairment	1,001	946	8,478
Accrued enterprise taxes	268	327	2,274
Accrued bonuses	645	580	5,465
Liabilities for retirement benefits	1,136	1,023	9,624
Retirement benefits for directors and corporate auditors	410	391	3,473
Tax loss carryforwards	157	782	1,326
Other	651	613	5,510
Less valuation allowance	(164)	(133)	(1,385)
Total	4,122	4,636	34,914
Deferred tax liabilities:			
Property and equipment	(194)	(197)	(1,645)
Other	(271)	(345)	(2,294)
Total	(465)	(542)	(3,939)
Net deferred tax assets	¥ 3,657	¥ 4,094	$ 30,975

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, 2007 and 2006 is as follows:

	2007	2006
Normal effective statutory tax rate	40%	40%
Per capita portion	2	2
Tax loss carryforwards	2	(2)
Amortization of negative goodwill	(2)	(2)
Other—net	(2)	
Actual effective tax rate	40%	38%

At March 31, 2007, certain subsidiaries have tax loss carryforwards aggregating approximately ¥388 million ($3,290 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
2010	¥ 109	$ 922
2013	251	2,129
2014	28	239
Total	¥ 388	$ 3,290

11. LEASES

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

Total rental expense including lease payments for the years ended March 31, 2007 and 2006, was ¥11,754 million ($99,572 thousand) and ¥11,284 million, respectively.

For the year ended March 31, 2007, a consolidated subsidiary recorded an impairment loss of ¥66 million ($561 thousand) on certain leased property held under finance leases that does not transfer ownership and an allowance for impairment loss on leased property, which is included in other long-term liabilities.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, accumulated impairment loss, obligation under finance lease, depreciation expense, interest expense and other information 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, 2007 and 2006, was as follows:

	Millions of Yen							
	2007				2006			
	Building	Machinery and Equipment	Furniture and Fixtures	Total	Building	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥ 1,064	¥ 1,921	¥ 11,738	¥ 14,723	¥ 1,064	¥ 2,268	¥ 11,571	¥ 14,903
Accumulated depreciation	361	906	6,730	7,997	308	984	7,186	8,478
Accumulated impairment loss			66	66				
Net leased property	¥ 703	¥ 1,015	¥ 4,942	¥ 6,660	¥ 756	¥ 1,284	¥ 4,385	¥ 6,425

	Thousands of U.S. Dollars			
	2007			
	Building	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	$ 9,010	$ 16,276	$ 99,430	$ 124,716
Accumulated depreciation	3,057	7,676	57,004	67,737
Accumulated impairment loss			561	561
Net leased property	$ 5,953	$ 8,600	$ 41,865	$ 56,418

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Due within one year	¥ 2,105	¥ 1,989	$ 17,830
Due after one year	4,982	4,765	42,200
Total	¥7,087	¥ 6,754	$ 60,030

Allowance for impairment loss on leased property of ¥43 million ($363 thousand) as of March 31, 2007 is not included in the obligations under finance leases.

Depreciation expense, interest expense and other information under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Depreciation expense	¥ 2,343	¥ 2,367	$ 19,845
Interest expense	265	259	2,246
Total	¥ 2,608	¥ 2,626	$ 22,091
Lease payments	¥ 2,573	¥ 2,595	$ 21,798
Impairment loss	66		561

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
	2007	2006	2007
Due within one year	¥ 83	¥ 83	$ 701
Due after one year	507	566	4,298
Total	¥ 590	¥ 649	$ 4,999

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, 2007 and 2006:

	Millions of Yen		
March 31, 2007	Contract Amount	Fair Value	Unrealized Gain/Loss
Currency swaps—Receive U.S.$/pay yen	¥ 1,812	¥1,842	¥ 30
March 31, 2006			
Currency swaps—Receive U.S.$/pay yen	2,470	2,440	(30)

	Thousands of U.S. Dollars		
March 31, 2007	Contract Amount	Fair Value	Unrealized Gain/Loss
Currency swaps—Receive U.S.$/pay yen	$ 15,347	$ 15,600	$ 253

Foreign currency forward contracts which qualify for hedge accounting for the years ended March 31, 2007 and 2006 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, 2007, the Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees of bank loans	¥2	$ 13

14. SUBSEQUENT EVENT

The following appropriations of retained earnings at March 31, 2007, were approved at the Company's shareholders meeting held on June 28, 2007:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥18 ($0.15) per share	¥ 952	$ 8,064

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 2007 and 2006 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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