INVESTORS’ GUIDE
2008

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										
		2008	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**
Statements of Income Data	%	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)
Total revenues	6.4	273,889	259,218	247,461	233,982	217,923	200,490	170,367	127,508	113,332	97,322	85,486
Total revenues increase(%)	—	5.7	4.8	5.8	7.4	8.7	17.7	33.6	12.5	16.5	13.8	9.6
Cost of sales	6.7	186,491	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	5.7	71,808	68,102	65,645	63,369	59,886	54,303	45,316	34,255	29,482	25,865	22,580
Operating income	6.3	15,591	15,520	14,624	13,506	12,860	11,484	10,920	8,078	7,216	6,123	4,929
Operating income increase (%)	—	0.5	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	5.0	14,431	15,466	13,731	12,438	12,292	11,288	9,672	7,186	6,093	5,503	4,260
Net income	5.9	8,293	9,257	8,706	7,899	7,175	6,224	5,635	3,965	3,328	2,449	2,196
Net income increase(%)	—	-10.4	6.3	10.2	10.1	15.3	10.5	42.1	19.1	35.9	11.5	16.7
Earnings per share	5.8	157.19	175.02	163.56	148.35	136.88	118.68	123.18	88.19	75.96	59.08	53.9
Earnings per share increase(%)	—	-10.2	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	52,890	52,889	52,892	52,061	51,959	45,748	44,962	43,814	41,462	40,740
Gross margin-% of revenues	—	31.9	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	—	26.2	26.3	26.5	27.1	27.5	27.1	26.6	26.9	26.0	26.6	26.4
Operating margin-% of revenues	—	5.7	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	0.2	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	6.0	5.5	5.3	5.6	5.6	5.7	5.6	5.4	5.7	5.0
Net income-% of revenues	—	3.0	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	6.5	229,783	219,178	201,084	188,855	180,887	167,460	135,431	101,227	88,405	77,681	67,767
Merchandise inventories	8.8	76,074	75,222	65,364	58,809	55,362	49,902	38,621	30,026	27,381	22,308	19,538
Net property and equipment	6.4	113,518	104,958	96,436	90,895	89,428	83,361	64,178	48,802	40,892	37,381	31,991
Long-term liabilities	-9.0	18,897	23,758	22,517	23,554	26,773	30,344	20,640	20,812	19,317	19,660	15,853
Shareholders' equity	8.7	97,541	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)	8.7	1,880	1,771	1,631	1,493	1,372	1,238	1,149	907	841	573	532
Long-term liabilities to equity (%)	—	19.4	25.4	26.1	29.8	36.9	47.2	34.6	51	51.1	82.8	71.8
Current ratio	—	0.85:1	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(%)	—	42.5	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	3.3	3.0	2.9	2.9	2.7	2.4	2.7	2.6	2.6	2.5
Return on equity (%)	—	8.7	10.3	10.5	10.4	10.5	10.0	11.2	10.1	10.8	10.7	10.6
Return on assets (%)	—	3.7	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	7,714	7,117	6,659	6,653	6,230	5,347	4,940	3,597	3,174	2,762	2,086
Operational cash flow	20.6	15,067	10,658	12,436	12,360	10,312	5,914	11,850	7,999	4,116	—	—
Investment cash flow	10.6	-15,702	-13,957	-11,445	-8,335	-14,739	-9,499	-9,046	-11,528	-7,356	—	—
Financial cash flow	-16.7	560	3,309	-2,108	-987	4,146	1,393	2,353	3,542	4,249	—	—
Cash dividends per share (yen)	5.5	34.0	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);	8.7	921	843	763	708	655	608	540	462	414	369	311
Komeri Home Center	11.5	138	137	88	87	85	80	75	72	62	55	50
Komeri Hard & Green	10.3	783.0	706	628	575	523	480	440	390	352	314	261
Stores operated by HC subsidiaries	—	14	14	47	46	47	48	25	—	—	—	—
Weighted average selling space (square meters)*	—	1,234,399	1,133,206	1,043,849	960,412	887,675	—	—	—	—	—	—
Weighted average number of employees(actual)	—	7,248	6,969	6,782	6,510	6,255	—	—	—	—	—	—
Sales per employee(thousands of yen)	—	37,788	37,196	36,488	35,942	34,840	—	—	—	—	—	—
Comparable store sales increase (%)*	—	0.9	-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. Operating results

(1) Analysis of operating results

[Overview of operating results for the year ended March 2008]

Consolidated results

(Millions of yen)	Year ended March 31, 2007	Year ended March 31, 2008	Year-on-year comparison (%)
Operating revenue	259,218	273,889	105.7
Operating income	15,519	15,591	100.5
Ordinary profit	16,154	15,611	96.6
Net income	9,256	8,293	89.6

Non-consolidated results

(Millions of yen)	Year ended March 31, 2007	Year ended March 31, 2008	Year-on-year comparison (%)
Operating revenue	234,570	248,837	106.1
Operating income	12,424	12,466	100.3
Ordinary profit	13,541	12,818	94.7
Net income	8,312	6,807	81.9

In the Japanese economy during the fiscal year under review, the first half of the year was characterized by strong corporate earnings, particularly from the export-related manufacturing sector, and firm expansion in capital expenditure. However, the influence of global financial uneasiness stemming from the U.S. subprime mortgage crisis, and the sudden fluctuations in foreign currency exchange rates that dominated the second half of the year have caused a notable slowdown in the economy. In addition, as a result of the enforcement of the revised Building Standard Law in June, 2007, the number of new residence construction project commencements was 1,060,000 residences for the year ended March 2008, which is the first time that this number has been recorded as being below 1,100,000 residences for forty years, causing significant repercussions in the residential construction related market. Furthermore, the skyrocketing price of crude oil has led to rising energy costs and raw material costs, which are causing the prices of consumer end-products to rise. Factors such as this are cooling consumer sentiment and making business environment of the retail industry very difficult.

Given these circumstances, the Group opened a total of 80 stores, 2 large home centers called Power (PW stores) and 78 Hard & Green stores (H&G stores), which means the Group has opened stores in 46 prefectures (all except Okinawa). This provides the Group with a strong base as a unique national chain in the home center industry.

Operations during the fiscal year under review saw strong sales in gardening and agricultural goods, particularly fertilizers and agrichemicals. In the third quarter, however, there was a dramatic drop in the number of residential construction project commencements because of the revised Building Standard Law coming into force, resulting in a noticeable drop in demand from construction related professionals and leading to a slump in sales of hardware, tools, and building materials, which are the primary merchandise of the Company. Furthermore, the climate in December 2007 was unseasonably warm, which caused a slump in sales of winter merchandise such as kerosene heaters. Also, the price of kerosene rose steeply during the peak demand period and the increased sales amount was countered by reduced profit margin. In the fourth quarter, sales amounts increased, particularly centering on gardening and agricultural goods and the sluggishly performing sales of hardware, tools and building materials gradually started to pick up but did not make up for the slump in the third quarter.

There were areas of SG&A expenses that threatened to rise as a result of the skyrocketing prices of crude oil, and faced with these pressures, the Group strove for low-cost operation.

As a result of the developments outlined above, operating revenue in the fiscal year under review rose 5.7% on a consolidated basis from the previous fiscal year to 273,889 million yen. Operating income grew by 0.5% to 15,591 million yen, and ordinary profit decreased by 3.4% to 15,611 million yen. Moreover the Group opted for the early adoption of the Accounting Standard for Measurement of Inventories, whose indicated initial year of adoption was from April 1, 2008, and adopted it for the fiscal year ended March 2008. As a result of the adoption of the aforementioned standard, the Group posted an extraordinary loss of 569 million yen in adjustments including inventories existing at the beginning of the year. Accordingly, net income was 10.4% lower at 8,293 million yen.

Home Center business

Consolidated operating results

	Year ended March 31, 2007	Year ended March 31, 2008	Year-on-year comparison (%)
Net sales (Millions of yen)	241,614	255,357	105.7
Number of stores	843	921	-
Number of stores newly opened	83	80	-

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

In total, the Group opened 80 stores—2 PW stores and 78 H&G stores—in 32 prefectures, including the opening of the first store of the prefecture in Kagoshima, Oita and Shimane prefectures. Out of these, 37 were new H&G openings in Kyushu raising the total number of H&G stores in Kyushu to 58 and bringing the Group closer to being in a dominant position in the Kyushu region.

The Group also closed one of its home centers (HC stores), as well as one H&G store. Consequently, at the end of the fiscal year under review, the Group had 9 PW stores, 129 HC stores and 783 H&G stores, making 921 stores in total (a year-on-year increase of 8.7% in aggregate store floor area).

Operating in a business environment under immense strain from the rising prices of crude oil and a wide range of other raw materials, the Group worked to strengthen its mass merchandising system by leveraging the merits of the mass-scale operation of more than 900 stores that share homogenous standards and utilizing uniquely customized logistics and information systems for the purpose of continuing to provide customers with the merchandise they need at a price that they are happy to pay. As the inflation of the price of goods becomes steeper, the Group began our “commitment to a freeze on prices” campaign for our Group-developed merchandise from December 2007, which strongly lifted sales results, thanks to a warm reception from many customers.

In addition, “KOMERI.COM,” the Group's Internet business performed strongly by not only augmenting the merchandise assortment of stores, but also by providing agricultural materials contracts and kerosene delivery services. Sales from “KOMERI.COM” rose 34.5% year-on-year to about 8,800 million yen.

Trend by product line

Product line	Year ended March 31, 2007		Year ended March 31, 2008		Year-on-year comparison (%)
	Net sales (Millions of yen)	Percentage (%)	Net sales (Millions of yen)	Percentage (%)	
Hardware, tools and building materials	73,839	30.5	75,551	29.6	102.3
Gardening and agricultural goods	47,919	19.8	52,055	20.4	108.6
Household goods	62,975	26.1	65,268	25.6	103.6
Office and leisure goods	40,040	16.6	41,363	16.2	103.3
Other	16,839	7.0	21,118	8.2	125.4
Home Center business total	241,614	100.0	255,357	100.0	105.7

Other businesses

HOKUSEI SANGYO CO., LTD. operates 8 distribution centers spread across Japan, which function as the logistics bases of the Komeri Group. The Kyushu Distribution Center, a recent target of investment by the Group, handles the distribution needs of 70 stores and its operating efficiency is proceeding according to plan.

The membership of “KOMERI Card,” the customer card of the Group operated by the Company’s subsidiary Komeri Capital Co., Ltd., grew by about 450,000 from the end of the previous fiscal year, reaching 2.63 million members. Striving to provide optimum convenience for customers of companies within the group, the Group issues, in addition to the individual consumer targeted “KOMERI Card,” which functions both as a general credit card and as a points card, special purpose cards, one for companies and construction-related business owners and one for farmers; each one is designed to best suit the payment methods unique to the field.

[Outlook for the year ending March 2009]

Consolidated operating results

(Millions of yen)	6 months	Year-on-year comparison	Annual	Year-on-year comparison
Operating revenue	143,500	106.0%	289,000	105.5%
Operating income	10,450	103.6%	16,600	106.5%
Ordinary profit	10,300	101.6%	16,150	103.5%
Net income	5,750	101.9%	9,150	110.3%

Non-consolidated operating results

(Millions of yen)	6 months	Year-on-year comparison	Annual	Year-on-year comparison
Operating revenue	131,000	106.4%	263,500	105.9%
Operating income	8,850	104.5%	13,300	106.7%
Ordinary profit	8,850	102.8%	13,400	104.5%
Net income	5,000	105.2%	7,700	113.1%

The economic outlook for Japan remains gloomy because of the risk of the U.S. falling into recession and financial instability on global markets. On top of this, we expect a combination of small personal income growth and rise prices of consumer goods to further dampen consumer spirits, and this will make for a very difficult business environment.

The Group's fundamental management policy is "A company owes its existence to society." In readying ourselves for such an operating environment, we will keep this philosophy in our hearts as we constantly strive to realize the essential home center format, providing people with the means to enrich their lives, and achieve innovation in the logistics of merchandise distribution.

We aim to open a total of 100 stores: 4 PW stores and 96 H&G stores. Of the H&G store openings, 30 stores are scheduled to be opened in Kyushu, to consolidate the Group's dominance in Kyushu and raise the operating efficiency of the Kyushu Distribution Center. Taking into account the planned closures of 1 HC store and 3 H&G stores, a total of 1,017 stores are expected to be operating by March 31, 2009, the end of the next fiscal year (an increase in aggregate store floor area by about 11%). We consider that 1,000 stores was a significant milestone for the Group and will continue to establish areas of dominance through further increasing the number of stores.

Our merchandising policy is to further improve our mass merchandising system, concentrating on the areas of (a) hardware, tools, and building materials and (b) gardening and agricultural goods, and striving to supply the merchandise required by general customers and professional customers at prices they are happy to pay. We also aim to improve our profit margin by expanding the sales of our Group-developed merchandise.

Concerning store management policy, for our PW stores, we aim to provide a broad merchandise assortment and keep large quantities in stock to meet high demand. We also aim to ensure that the stores satisfy the needs of professionals by offering a full range of services and selling merchandise at prices they are happy to pay.

For our H&G stores, we emphasize the store's roles as a specialist store in the small trade area, providing a full range of merchandise that meets the specific local needs of the area. In the area of agricultural goods especially, H&G stores offer a merchandise assortment and sales structure that suits local needs.

For our Internet business, "KOMERI.COM," we continue to maintain the existing roles of Internet sales and the augmentation of the merchandise assortment of stores. To this we have added direct-sales catalogs for (a) tools and building materials, and (b) gardening goods and plants, and introduced service businesses such as gardening services. We are also working towards fusing our Internet business with our network of national chain stores by building new business models for an information society.

Taking the abovementioned into consideration, for the year ending March 31, 2009, on a consolidated basis, the Group expects operating revenue to rise 5.5% year-on-year to 289,000 million yen, operating income to rise 6.5% year-on-year to 16,600 million yen, ordinary profit to rise 3.5% year-on-year to 16,150 million yen and net income to rise 10.3% year-on-year to 9,150 million yen.

(2) Analysis of financial position

1) Assets, liabilities and net assets

Total assets at the end of the fiscal year under review increased by 10,605 million yen from the previous year-end to 229,782 million yen. This was mainly due to an increase of 843 million yen in accounts receivable-trade by an increase in credit-based sales, and an increase of 8,560 million yen in tangible fixed assets such as buildings.

Liabilities increased by 6,734 million yen from the previous year-end to 132,241 million yen. This was mainly because short-term bank loans grew 12,430 million yen, construction and other payables grew by 1,562 million yen, and 7,817 million yen in long-term debt was repaid.

Net assets increased by 3,870 million yen from the previous year-end to 97,541 million yen. This was mainly due to an increase attributable to retained earnings of 6,442 million yen and an increase of 2,201 million yen in treasury stock due to active treasury stock acquisition.

2) Consolidated cash flows

(Millions of yen)	Year ended March 31, 2007	Year ended March 31, 2008	Year-on-year comparison
Net cash provided by operating activities	10,657	15,066	4,408
Net cash used in investing activities	(13,956)	(15,702)	(1,745)
Net cash provided by financing activities	3,308	560	(2,748)
Increase (decrease) in cash and cash equivalents	10	(75)	(85)
Cash and cash equivalents at end of period	9,697	9,665	(31)

Cash and cash equivalents ("cash") as of the fiscal year-end totaled 9,665 million yen.
Factors affecting cash flows include the following:

(Net cash provided by operating activities)
Cash generated by operating activities increased by 4,408 million yen from the previous fiscal year to 15,066 million yen. This was mainly due to income before income taxes and minority interests amounted to 14,431 million yen, adjustments for depreciation amounted to 7,714 million yen, adjustments for income taxes paid of 5,567 million yen and an increase in inventories (leading to a decrease in cash) of 851 million yen.

(Net cash used in investing activities)
Investment activities used cash in the amount of 15,702 million yen, a decrease of 1,745 million

yen from the previous fiscal year. This decrease primarily resulted from the acquisition of tangible fixed assets to open new stores.

(Net cash provided by financing activities)
Cash generated by financing activities was 560 million yen, 2,748 million yen less than a year earlier. This primarily resulted from outlays of 7,817 million yen to repay long-term debt, 2,201 million yen for the acquisition of treasury stock and 1,851 million yen to pay dividends despite 12,430 million yen in short-term bank loans.

Trends in Cash Flow Indices

	March 31, 2005	March 31, 2006	March 31, 2007	March 31, 2008
Equity ratio	41.8%	42.9%	42.7%	42.4%
Equity ratio based on market prices	79.4%	115.9%	91.5%	54.4%
Years required to redeem liabilities	4.4 years	4.3 years	5.5 years	4.2 years
Interest-coverage ratio	27.5	34.3	24.1	24.6

(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 indices 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).
4. For "operating cash flow," we use the figure of "net cash 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 of "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. When distributing profits we aim to continuously provide stable dividends while strengthening the Company's operating base and financial structure, and fully consider 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 Company treats the acquisition of treasury stock as a means of obtaining greater flexibility not only in terms of capital investment for long-term growth and for improvement of capital efficiency, but also from the perspective of shareholder returns.

To show our gratitude to our shareholders, we will pay a year-end dividend of 17 yen per share. As a result, the annual dividend will be 34 yen per share including an interim dividend of 17 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.

2. Management policy

(1) Fundamental management policy

The Group operates businesses within the distribution chain 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 places emphasis on the effective management of invested capital, and strives 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, 2008, the ratio of ordinary profit to total assets stood at 7.0%.

(3) The medium-to-long-term management strategy and issues to be addressed

Today's society is caught up in a whirlwind of change; while embracing globalization and a new information-based culture, it faces a declining birthrate and aging population. We expect these phenomena to have a greater and greater influence our lives in the years to come. Operating businesses within the distribution chain, the Group aims to build the chain store system as an industry, and strives to create structures that are practical from the customers' point of view. At the center of this strategy is the opening of many new stores, both in the H&G format, our original specialty store, and the PW format, which is unbeatable in terms of floor space and product assortment. Each new store that is opened will be designed to match the scale of the local trade area.

To achieve the opening of many new stores in the future we will need to utilize information systems in a range of areas including the management of systems for store management, information provision and merchandise sales via the Internet, and the provision of services based on a card system. It is therefore essential to further advance our systems for information collection and analysis and establish a broad information backbone.

As globalization advances, national borders are become less meaningful; information and money pass across these borders with comparative freedom in today's society. The Group will keep this in mind as it carries out the crucial task of constructing a mass merchandizing system that incorporates planning, material procurement, manufacturing, distribution and sales. For example, the Group will seek greater price competitiveness by targeting every region in the

world in a quest to procure the best and most reasonable prices.
The Group is adapting to an aging society with a declining birthrate and places utmost importance on ensuring local customers are fully satisfied, not only by providing home-related materials, installation services, and a range of garden merchandise, but by proactively recruiting seniors who hold a wealth of experience to ensure appropriate customer service in sales.

As a home center in the information society, we aim to establish a true chain store industry by reforming the logistics of merchandise distribution for the housing industry and the agricultural sector by putting in place logistical systems to further strengthen merchandise development in the main areas of (a) hardware, tools, and building materials and (b) gardening and agricultural goods.

(4) 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, it will be supported by society, and thus remain a going concern.” This has not changed since the Company was founded.

Based on this thinking, the Group is fulfilling its social responsibilities as a corporate citizen in the areas of affirmative environmental efforts and disaster emergency relief activities.

1) Environmental efforts

Through the Komeri Greenery Fund Association established in 1990, the Company returns 1% of each year’s profit to society via subsidies to local greening businesses. The fund has contributed a total of 1,073 million yen in the 19 years since its establishment, assisting a total of 5,350 projects. A portion of those contributions has supported academic research through the Greenery Education Foundation.

In particular, the foundation, together with researchers including Mr. Hideaki Oba, former professor at the University of Tokyo and the leading scholar in plant taxonomy, implemented the Flowering Plant Investigation and Discovery Project in the Mustang Region of Nepal as a 5-year plan from 1999. The results of this project are recognized as not only academically valuable but also highly significant in terms of protecting the environment. We are aiming to publish the results as an academic book in 2008.

In addition, we have 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 (about 1,000 activities each year) since the program was introduced in 1999.

2) Measures against disasters and cooperation with local governments

The Company recognizes it has an important social responsibility as a home center to play a meaningful role in regions affected by natural disasters in times of earthquakes, typhoons, floods, or blizzards. When such events occur, the highest priority is given in the Group to resuming operations of its stores in the disaster proximity as quickly as possible and providing assistance for rebuilding.

In 2005 we established the “Komeri Disaster Response Center” as a certified nonprofit organization to provide the infrastructure for emergency relief activities following natural disasters and provide long-term support for businesses carrying out environmental initiatives. Through this NPO, we are 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. At the end of the year under review, we had entered into agreements with 151 local governments. We have also 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.

During the Niigata Chuetsu Offshore Earthquake that occurred on July, 16, 2007, Komeri Disaster Response Center, responding to a request from a local government agency, supplied necessary materials to more than 50 evacuation centers using the logistics and information infrastructure of the Group.

Komeri Disaster Response Center disseminates a broad range of information such as publishing disaster related information on its website, distributing disaster prevention handbooks, and publishing a quarterly magazine called “Support.”

Through these activities, the Group is fulfilling its social responsibilities as a corporate citizen.

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Financial Statements for the Years Ended March 31, 2008 and 2007, 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, 2008 and 2007, 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, 2008 and 2007, 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 13, 2008

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheets
March 31, 2008 and 2007

ASSETS	Millions of Yen 2008	Millions of Yen 2007	Thousands of U.S. Dollars (Note 1) 2008
CURRENT ASSETS:			
Cash and cash equivalents	¥ 9,665	¥ 9,697	$ 96,469
Short-term investments (Notes 3 and 4)	209	283	2,090
Receivables:			
Trade notes and accounts	7,996	7,006	79,808
Allowance for doubtful receivables	(23)	(5)	(225)
Inventories (Note 5)	76,074	75,222	759,289
Deferred tax assets (Note 10)	1,546	1,314	15,429
Prepaid expenses and other current assets	1,622	1,432	16,191
Total current assets	97,089	94,949	969,051
PROPERTY, PLANT AND EQUIPMENT (Notes 6 and 7):			
Land	23,748	22,137	237,031
Buildings and structures	137,698	127,463	1,374,369
Machinery and equipment	7,143	6,697	71,298
Construction in progress	3,522	871	35,149
Other	8,763	8,475	87,459
Total	180,874	165,643	1,805,306
Accumulated depreciation	(67,356)	(60,685)	(672,279)
Net property, plant and equipment	113,518	104,958	1,133,027
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	497	753	4,960
Investments in unconsolidated subsidiaries	543	370	5,414
Intangible assets	5,091	5,043	50,816
Leasehold deposits	8,950	9,301	89,330
Deferred tax assets (Note 10)	2,877	2,410	28,719
Other assets	1,218	1,394	12,154
Total investments and other assets	19,176	19,271	191,393
TOTAL	¥ 229,783	¥ 219,178	$ 2,293,471

LIABILITIES AND EQUITY	Millions of Yen 2008	Millions of Yen 2007	Thousands of U.S. Dollars (Note 1) 2008
CURRENT LIABILITIES:			
Short-term bank loans (Note 7)	¥ 46,680	¥ 34,250	$ 465,915
Current portion of long-term debt (Note 7)	4,726	7,815	47,167
Payables:			
Trade notes and accounts	41,575	41,292	414,958
Construction and other	13,077	12,443	130,526
Income taxes payable	3,804	2,764	37,967
Accrued expenses	2,043	2,014	19,784
Liability for obligations to customers	432	470	4,309
Other current liabilities	1,008	701	10,676
Total current liabilities	113,345	101,749	1,131,302
LONG-TERM LIABILITIES:			
Long-term debt (Note 7)	12,070	16,797	120,467
Liability for retirement benefits (Note 8)	3,122	2,801	31,163
Retirement benefits for directors and corporate auditors (Note 8)	957	1,015	9,548
Lease deposits from lessees	2,094	2,209	20,896
Negative goodwill	237	721	2,368
Deferred tax liabilities (Note 10)	56	68	556
Other long-term liabilities	361	147	3,607
Total long-term liabilities	18,897	23,758	188,605
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 11 and 12)			
EQUITY (Note 9):			
Common stock—authorized, 131,000,000 shares; issued, 54,409,168 shares in 2008 and 2007	18,802	18,802	187,665
Capital surplus	25,260	25,260	252,125
Retained earnings	60,185	53,742	600,704
Unrealized gain on available-for-sale securities	56	215	561
Deferred gain (loss) on derivatives under hedge accounting	(175)	37	(1,746)
Treasury stock—at cost, 2,519,530 shares in 2008 and 1,521,455 shares in 2007	(6,587)	(4,385)	(65,745)
Total equity	97,541	93,671	973,564
TOTAL	¥ 229,783	¥ 219,178	$ 2,293,471

See notes to consolidated financial statements.

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
REVENUES:			
Net sales	¥ 264,304	¥ 250,120	$ 2,638,022
Other operating revenues	9,586	9,098	95,682
Total revenues	273,890	259,218	2,733,704
COST OF SALES	186,491	175,596	1,861,370
Gross profit	87,399	83,622	872,334
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	71,808	68,102	716,713
Operating income	15,591	15,520	155,621
OTHER INCOME (EXPENSES):			
Interest and dividend income	74	54	737
Interest expense	(610)	(423)	(6,092)
Loss on disposal of property, plant and equipment	(66)	(93)	(662)
Amortization of negative goodwill	462	796	4,612
Loss on impairment of long-lived assets (Note 6)	(395)	(481)	(3,941)
Loss on casualty	(50)	(7)	(497)
Loss on revaluation of inventories	(6)		
Other—net	(569)	100	(5,739)
Other expenses—net	(1,160)	(54)	(11,582)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	14,431	15,466	144,039
INCOME TAXES (Note 10):			
Current	6,598	5,788	65,853
Deferred	(460)	472	(4,589)
Total income taxes	6,138	6,260	61,264
MINORITY INTERESTS IN NET INCOME		51	
NET INCOME	¥ 8,293	¥ 9,257	$ 82,775

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.q):			
Basic net income	¥ 157.19	¥ 175.02	$ 1.57
Cash dividends applicable to the year	34.00	34.00	0.34

See notes to consolidated financial statements.

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity
Years Ended March 31, 2008 and 2007

		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 (Loss) on Derivatives under Hedge Accounting	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 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
Net income				8,293				8,293		8,293
Cash dividends, ¥34 per share				(1,850)				(1,850)		(1,850)
Purchase of treasury stock	(998,240)						(2,202)	(2,202)		(2,202)
Disposal of treasury stock	165									
Net change in the year					(159)	(212)		(371)		(371)
BALANCE, MARCH 31, 2008	51,889,638	¥ 18,802	¥ 25,260	¥ 60,185	¥ 56	¥ (175)	¥ (6,587)	¥ 97,541		¥ 97,541

	Thousands of U.S. Dollars (Note 1)								
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, MARCH 31, 2007	$ 187,665	$ 252,125	$ 536,404	$ 2,148	$ 364	$ (43,775)	$ 934,931		$ 934,931
Net income			82,775				82,775		82,775
Cash dividends, $0.34 per share			(18,475)				(18,475)		(18,475)
Purchase of treasury stock						(21,970)	(21,970)		(21,970)
Disposal of treasury stock									
Net change in the year				(1,587)	(2,110)		(3,697)		(3,697)
BALANCE, MARCH 31, 2008	$ 187,665	$ 252,125	$ 600,704	$ 561	$ (1,746)	$ (65,745)	$ 973,564		$ 973,564

See notes to consolidated financial statements.

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 14,431	¥ 15,466	$ 144,039
Adjustments for:			
Income taxes—paid	(5,567)	(6,559)	(55,568)
Depreciation	7,714	7,117	76,995
Loss on impairment of long-lived assets	395	481	3,941
Amortization of negative goodwill	(462)	(796)	(4,612)
Loss on disposal of property, plant and equipment	66	93	634
Bonuses to directors and corporate auditors		(55)	
Changes in assets and liabilities:			
Increase in trade notes and accounts receivable	(839)	(676)	(8,377)
Increase in inventories	(1,427)	(9,860)	(14,240)
Increase in trade notes and accounts payable	283	4,585	2,825
Increase in liability for retirement benefits	322	309	3,210
Increase (decrease) in retirement benefits for directors and corporate auditors	(58)	46	(582)
Other—net	209	507	2,114
Total adjustments	636	(4,808)	6,340
Net cash provided by operating activities	15,067	10,658	150,379
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(15,351)	(13,693)	(153,215)
Decrease in leasehold deposits	346	376	3,452
Increase in other assets	(697)	(640)	(6,960)
Net cash used in investing activities	(15,702)	(13,957)	(156,723)
FINANCING ACTIVITIES:			
Increase in short-term bank loans—net	12,430	620	124,064
Proceeds from long-term debt		10,068	
Repayments of long-term debt	(7,818)	(5,575)	(78,026)
Repurchase of treasury stock	(2,202)	(6)	(21,974)
Dividends paid	(1,851)	(1,798)	(18,477)
Other—net	1		6
Net cash provided by financing activities	560	3,309	5,593
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS—(Forward)	¥ (75)	¥ 10	$ (751)

(Continued)

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS—(Forward)	¥ (75)	¥ 10	$ (751)
CASH AND CASH EQUIVALENTS OF AN UNCONSOLIDATED SUBSIDIARY MERGED BY A CONSOLIDATED SUBSIDIARY	43		434
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9,697	9,687	96,786
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 9,665	¥ 9,697	$ 96,469

See notes to consolidated financial statements.

(Concluded)

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 Financial Instruments and Exchange Law (formerly, the Japanese Securities and Exchange Law) and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2007 financial statements to conform to the classifications used in 2008.

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 ¥100 to $1, the approximate rate of exchange at March 31, 2008. 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, 2008, include the accounts of the Company and its eight significant (eight in 2007) 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 five (four in 2007) 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 issued a Statement of Opinion, "Accounting for Business Combinations," and on December 27, 2005, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures." 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 three wholly owned subsidiaries to increase business efficiency by the integration of logistics, computer systems, purchases and back-offices in 2006. The Company accounted for this business combination as a combination of entities under common control and all intercompany transactions were eliminated in 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—***Prior to April 1, 2007, merchandise inventories in retail stores were stated at cost as determined by the retail method as generally applied by the retail industry in Japan. Supplies were stated at cost using the last purchase price method. 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 Company adopted the new accounting standard for measurement of inventories in the year ended March 31, 2008. The effect of adoption of this accounting standard was to decrease income before income taxes and minority interests for the year ended March 31, 2008 by ¥653 million ($6,520 thousand).

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—***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.

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 or assets, as the case may be, 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 was effective for fiscal years ending on or after May 1, 2006. The balances of such items as of March 31, 2006 were reclassified as separate components of equity as of April 1, 2006 in the consolidated statement of changes in equity.

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—***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. All other leases are accounted for as operating leases.

l. ***Bonuses to Directors and Corporate Auditors***—Bonuses to directors and corporate auditors are accrued at the year end to which such bonuses are attributable.

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 Pronouncement***

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. 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.

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.

3. SHORT-TERM INVESTMENTS

Short-term investments as of March 31, 2008 and 2007, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Time deposits other than cash equivalents	¥ 209	¥ 270	$ 2,090
Marketable securities		13	
Total	¥ 209	¥ 283	$ 2,090

4. MARKETABLE AND INVESTMENT SECURITIES

Investment securities as of March 31, 2008 and 2007, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Current—Trust fund investment		¥ 13	
Total		¥ 13	
Non-current:			
Marketable equity securities	¥ 421	¥ 663	$ 4,205
Trust fund investments and other	76	90	755
Total	¥ 497	¥ 753	$ 4,960

The carrying amounts and aggregate fair values of marketable investment securities at March 31, 2008 and 2007 were as follows:

	Millions of Yen			
March 31, 2008	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥ 284	¥ 99	¥ 6	¥ 377
Trust fund investments	18	1		19
March 31, 2007				
Securities classified as available-for-sale:				
Equity securities	284	345		629
Trust fund investments	24	15		39

	Thousands of U.S. Dollars			
March 31, 2008	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	$ 2,832	$ 988	$ 55	$ 3,765
Trust fund investments	178	10		188

Available-for-sale securities whose fair value was not readily determinable as of March 31, 2008 and 2007 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Available-for-sale—Equity securities	¥ 44	¥ 34	$ 440
Capital investments in investment business associations with limited liability or similar associations	56	65	567
Total	¥ 100	¥ 99	$ 1,007

5. INVENTORIES

Inventories at March 31, 2008 and 2007, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Merchandise	¥ 75,950	¥ 75,123	$ 758,052
Supplies	124	99	1,237
Total	¥ 76,074	¥ 75,222	$ 759,289

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2008 and, as a result, recognized an impairment loss of ¥395 million ($3,941 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 ¥364 million ($3,636 thousand) for buildings and structures and ¥31 million ($305 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, 2008 and 2007 consisted of notes to banks. The annual weighted average interest rate applicable to the short-term bank loans was 0.90% and 0.57% at March 31, 2008 and 2007.

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Loans from banks and other financial institutions, due serially to 2017 with weighted average interest rates 1.37% (2008) and 1.20% (2007):			
Collateralized	¥ 1,115	¥ 2,142	$ 11,129
Unsecured	15,681	22,470	156,505
Total	16,796	24,612	167,634
Less current portion	(4,726)	(7,815)	(47,167)
Long-term debt, less current portion	¥ 12,070	¥ 16,797	$ 120,467

Annual maturities of long-term debt at March 31, 2008 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2009	¥ 4,726	$ 47,167
2010	4,049	40,408
2011	3,219	32,128
2012	2,253	22,491
2013	491	4,905
2014 and thereafter	2,058	20,535
Total	¥ 16,796	$ 167,634

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥170 million ($1,697 thousand) and the above collateralized long-term debt at March 31, 2008, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Property, plant and equipment—net of accumulated depreciation	¥ 3,700	$ 36,348
Total	¥ 3,700	$ 36,348

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 certain of its 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 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, 2008 for directors and corporate auditors was ¥957 million ($9,548 thousand). The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

The liability for employees' retirement benefits at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Projected benefit obligation	¥ 3,307	¥ 3,020	$ 33,005
Fair value of plan assets	(102)	(103)	(1,016)
Unrecognized actuarial gain	(99)	(145)	(991)
Prepaid pension cost	16	29	165
Net liability	¥ 3,122	¥ 2,801	$ 31,163

The components of net periodic benefit costs for the years ended March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Service cost	¥ 393	¥ 387	$ 3,928
Interest cost	56	46	556
Recognized actuarial loss	52	75	514
Required contribution for the multiemployer plan	10	326	102
Net periodic benefit costs	¥ 511	¥ 834	$ 5,100

Assumptions used for the years ended March 31, 2008 and 2007, are set forth as follows:

	2008	2007
Discount rate	2.0%	2.0%
Recognition period of actuarial gain/loss	5 years	5 years

9. EQUITY

Since May 1, 2006, Japanese companies have been subject to the Corporate Law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan. The significant provisions 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, 2008 and 2007.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2008 and 2007, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Deferred tax assets:			
Inventories	¥ 282	¥ 18	$ 2,814
Loss on impairment	1,097	1,001	10,950
Accrued enterprise taxes	306	268	3,051
Accrued bonuses	697	645	6,958
Liabilities for retirement benefits	1,273	1,136	12,701
Retirement benefits for directors and corporate auditors	386	410	3,857
Tax loss carryforwards	144	157	1,435
Other	772	651	7,703
Less valuation allowance	(250)	(164)	(2,491)
Total	4,707	4,122	46,978
Deferred tax liabilities:			
Property and equipment	(156)	(194)	(1,560)
Other	(183)	(271)	(1,825)
Total	(339)	(465)	(3,385)
Net deferred tax assets	¥ 4,368	¥ 3,657	$ 43,593

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, 2008 and 2007 is as follows:

	2008	2007
Normal effective statutory tax rate	40%	40%
Per capita portion	3	2
Tax loss carryforwards	1	2
Amortization of negative goodwill	(1)	(2)
Other—net		(2)
Actual effective tax rate	43%	40%

At March 31, 2008, a subsidiary has tax loss carryforwards aggregating approximately ¥355 million ($3,552 thousand) which are available to be offset against taxable income of such a subsidiary 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
2013	¥ 251	$ 2,509
2014	28	282
2015	76	761
Total	¥ 355	$ 3,552

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, 2008 and 2007, was ¥12,211 million ($121,879 thousand) and ¥11,754 million, respectively.

For the year ended March 31, 2007, a consolidated subsidiary recorded an impairment loss of ¥66 million on certain leased property held under finance leases that do not transfer ownership, 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, 2008 and 2007, was as follows:

	Millions of Yen							
	2008				2007			
	Building	Machinery and Equipment	Furniture and Fixtures	Total	Building	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥ 1,064	¥ 1,837	¥ 12,802	¥ 15,703	¥ 1,064	¥ 1,921	¥ 11,738	¥ 14,723
Accumulated depreciation	414	1,102	7,181	8,697	361	906	6,730	7,997
Accumulated impairment loss			66	66			66	66
Net leased property	¥ 650	¥ 735	¥ 5,555	¥ 6,940	¥ 703	¥ 1,015	¥ 4,942	¥ 6,660

	Thousands of U.S. Dollars			
	2008			
	Building	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	$ 10,616	$ 18,335	$ 127,783	$ 156,734
Accumulated depreciation	4,133	10,998	71,678	86,809
Accumulated impairment loss			661	661
Net leased property	$ 6,483	$ 7,337	$ 55,444	$ 69,264

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Due within one year	¥ 2,212	¥ 2,105	$ 22,080
Due after one year	5,188	4,982	51,776
Total	¥ 7,400	¥ 7,087	$ 73,856

Allowance for impairment loss on leased property of ¥20 million ($204 thousand) as of March 31, 2008 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
	2008	2007	2008
Depreciation expense	¥ 2,493	¥ 2,343	$ 24,883
Interest expense	284	265	2,834
Total	¥ 2,777	¥ 2,608	$ 27,717
Lease payments	¥ 2,728	¥ 2,573	$ 27,231
Impairment loss		66	

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
	2008	2007	2008
Due within one year	¥ 494	¥ 83	$ 4,933
Due after one year	24	507	242
Total	¥ 518	¥ 590	$ 5,175

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, 2008 and 2007:

	Millions of Yen		
March 31, 2008	Contract Amount	Fair Value	Unrealized Gain/Loss
Currency swaps—Receive U.S.$/pay yen	¥ 1,153	¥ 1,033	¥ (120)
March 31, 2007			
Currency swaps—Receive U.S.$/pay yen	1,812	1,842	30

	Thousands of U.S. Dollars		
March 31, 2008	Contract Amount	Fair Value	Unrealized Gain/Loss
Currency swaps—Receive U.S.$/pay yen	$ 11,507	$ 10,313	$ (1,194)

Foreign currency forward contracts which qualify for hedge accounting for the years ended March 31, 2008 and 2007 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. SUBSEQUENT EVENT

The Board of Directors have proposed the following appropriation of retained earnings at March 31, 2008, which is subject to approval at the Company's shareholders meeting to be held on June 27, 2008:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥17 ($0.17) per share	¥ 882	$ 8,805

14. SEGMENT INFORMATION

(1) Industry Segments

Information about industry segments is not shown, since substantially all consolidated net sales, operating income and identifiable assets for 2008 and 2007 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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