INVESTORS' GUIDE 2009

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										
		2009	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**
Statements of Income Data	%	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)
Total revenues	5.0	277,557	273,889	259,218	247,461	233,982	217,923	200,490	170,367	127,508	113,332	97,322
Total revenues increase(%)	—	1.3	5.7	4.8	5.8	7.4	8.7	17.7	33.6	12.5	16.5	13.8
Cost of sales	5.3	188,043	186,491	175,596	167,191	157,107	145,177	134,703	114,130	85,175	76,635	65,334
Selling, general, and administrative expenses	4.5	74,798	71,808	68,102	65,645	63,369	59,886	54,303	45,316	34,255	29,482	25,865
Operating income	2.7	14,716	15,591	15,520	14,624	13,506	12,860	11,484	10,920	8,078	7,216	6,123
Operating income increase (%)	—	−5.6	0.5	6.1	8.3	5.0	12.0	5.2	35.2	12.0	17.8	24.2
Income before income taxes and minority interests	−1.3	11,495	14,431	15,466	13,731	12,438	12,292	11,288	9,672	7,186	6,093	5,503
Net income	−2.2	6,421	8,293	9,257	8,706	7,899	7,175	6,224	5,635	3,965	3,328	2,449
Net income increase(%)	—	−22.6	−10.4	6.3	10.2	10.1	15.3	10.5	42.1	19.1	35.9	11.5
Earnings per share	−1.9	124.27	157.19	175.02	163.56	148.35	136.88	118.68	123.18	88.19	75.96	59.08
Earnings per share increase(%)	—	−20.9	−10.2	10.3	10.3	8.4	15.3	−3.7	39.7	16.1	28.6	9.6
Weighted average number of shares outstanding (thousand)	—	51,672	52,890	52,890	52,889	52,892	52,061	51,959	45,748	44,962	43,814	41,462
Gross margin-% of revenues	—	32.3	31.9	32.3	32.4	32.9	33.4	32.8	33.0	33.2	32.4	32.9
SG&A expenses-% of revenues	—	26.9	26.2	26.3	26.5	27.1	27.5	27.1	26.6	26.9	26.0	26.6
Operating margin-% of revenues	—	5.3	5.7	6.0	5.9	5.8	5.9	5.7	6.4	6.3	6.4	6.3
Net interest expense-% of revenues	—	0.5	0.2	0.2	0.1	0.2	0.2	0.3	0.5	0.4	0.5	0.6
Income before income taxes-% of revenues	—	4.1	6.0	6.0	5.5	5.3	5.6	5.6	5.7	5.6	5.4	5.7
Net income-% of revenues	—	2.3	3.0	3.6	3.5	3.4	3.3	3.1	3.3	3.1	2.9	2.5
Balance Sheet Data and Financial Ratios	%	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)
Total assets	6.0	242,290	229,783	219,178	201,084	188,855	180,887	167,460	135,431	101,227	88,405	77,681
Merchandise inventories	7.7	80,070	76,074	75,222	65,364	58,809	55,362	49,902	38,621	30,026	27,381	22,308
Net property and equipment	6.8	124,286	113,518	104,958	96,436	90,895	89,428	83,361	64,178	48,802	40,892	37,381
Long-term liabilities	−2.6	23,516	18,897	23,758	22,517	23,554	26,773	30,344	20,640	20,812	19,317	19,660
Shareholders' equity	6.8	100,792	97,541	93,671	86,326	79,015	72,598	64,356	59,695	40,785	37,835	23,745
Book value per share (yen)	7.5	1,967	1,880	1,771	1,631	1,493	1,372	1,238	1,149	907	841	573
Long-term liabilities to equity (%)	—	23.3	19.4	25.4	26.1	29.8	36.9	47.2	34.6	51	51.1	82.8
Current ratio	—	0.83:0	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
Equity ratio(%)	—	41.6	42.5	42.7	42.9	41.8	38.4	38.4	44.1	40.3	42.8	30.6
Inventory turnover (month)	—	3.5	3.3	3.3	3.0	2.9	2.9	2.7	2.4	2.7	2.6	2.6
Return on equity (%)	—	6.5	8.7	10.3	10.5	10.4	10.5	10.0	11.2	10.1	10.8	10.7
Return on assets (%)	—	5.8	3.7	4.4	4.5	4.3	4.1	4.1	4.8	4.2	4.0	3.4
Statement of Cash Flows Data	%	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)
Depreciation and amortization	12.4	11,176	7,714	7,117	6,659	6,653	6,230	5,347	4,940	3,597	3,174	2,762
Operational cash flow	5.0	13,131	15,067	10,658	12,436	12,360	10,312	5,914	11,850	7,999	4,116	—
Investment cash flow	−0.3	−14,529	−15,702	−13,957	−11,445	−8,335	−14,739	−9,499	−9,046	−11,528	−7,356	—
Financial cash flow		−252	560	3,309	−2,108	−987	4,146	1,393	2,353	3,542	4,249	—
Cash dividends per share (yen)	4.7	34.0	34.0	34.0	32.0	28.0	27.0	26.0	26.0	21.0	20.0	18.0
Store Data	%											
Number of stores (actual);	7.7	949	921	843	763	708	655	608	540	462	414	369
Komeri Home Center	10.3	139	138	137	88	87	85	80	75	72	62	55
Komeri Hard & Green	9.1	810	783	706	628	575	523	480	440	390	352	314
Stores operated by HC subsidiaries	—	14	14	14	47	46	47	48	25	—	—	—
Weighted average selling space (square meters)*	—	1,348,673	1,234,399	1,133,206	1,043,849	960,412	887,675	—	—	—	—	—
Weighted average number of employees(actual)	—	7,414	7,180	6,969	6,782	6,510	6,255	—	—	—	—	—
Sales per employee(thousands of yen)	—	37,437	37,788	37,196	36,488	35,942	34,840	—	—	—	—	—
Comparable store sales increase (%)*	—	−3.3	0.9	−0.3	1.6	1.3	−2.3	1.8	2.4	0.2	1.1	0.9

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

1. Management policy

(1) Fundamental management policy

The Group operates businesses within the distribution chain focusing on the household segment, 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 higher 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, 2009, the ratio of ordinary profit to total assets stood at 5.8%.

(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 and the expansion of our store network to establish a dominant position, covering the medium-sized commercial areas through the H&G format, our original specialty store, the PW format, which is unbeatable in terms of floor space and product assortment, and the HC format.

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.

Through the Komeri Greenery Fund Association established in 1990, the Company uses 1%

of each year’s profit as funding to continue greening activities and other social contribution programs aimed at cultural and social promotion in locations where Komeri stores operate. The Group contributed 116,560,000 yen during 2008, making a total contribution of 1,189,940,000 yen in the 19 years since its establishment. Commencing June 2008, the Group’s social contribution programs carried out using this 1% funding has been renamed the “KOMERI 1% Club” and it shall continue to conduct community based activities.

1) Environmental efforts

In addition to the greening activities and social contribution activities to promote culture and society conducted via the Komeri Greenery Fund Association, the Group has established the “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.

In 1996 the Group has also established the “Greenery Aid Foundation,” which aims to support the research and development activities in the area of gardening and agriculture, in which the Group has long standing experience. 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 for observations of new species, but also highly significant in terms of protecting the environment. We published the results as an academic book in 2009.

2) Measures against disasters and cooperation with local governments

The Group 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 that occur each year in locations where KOMERI stores operate. 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 and materials for rebuilding. In 2005 we established the “Komeri Disaster Response Center NPO,” which an infrastructure for emergency activity, capable of stably providing support and materials for rebuilding in times of disaster.

Through this NPO, we have established a database of merchandise that we know to be required in times of emergency as a result of our past experience. Based on emergency support agreements we have established with the local governments in the areas that we operate stores, we have established a system that will enable us to quickly supply support and materials in times of emergency. At the end of the year under review, we had entered into agreements with 195 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.

Also on our website, we have released actual examples of each local government efforts during actual disasters and we disseminate a broad range of information such as distributing disaster prevention handbooks, and publishing a quarterly magazine called "Support."

The "KOMERI 1% Club," through these endeavors, has expanded its support activities from the initial greening program to encompass wider support to promote culture and society including research and development activities in the area of agriculture and providing materials in times of disaster.

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

2. Operating results

(1) Analysis of operating results

[Overview of operating results for the year ended March 2009]

Consolidated results

(Millions of yen)	Year ended March 31, 2008	Year ended March 31, 2009	Year-on-year comparison (%)
Operating revenue	273,889	277,557	101.3
Operating income	15,591	14,715	94.4
Ordinary profit	15,611	13,723	87.9
Net income	8,293	6,421	77.4

In the Japanese economy during the fiscal year under review, the first half of the year was characterized by rising prices of daily necessities such as food and gasoline as a result of soaring resource and material prices, leading consumers to tighten family budgets and generally cooling consumer sentiment. Then, from September onwards, after the collapse of a large U.S. financial institution, the Japanese economy experienced rapid economic slowdown. The sharp appreciation of the yen accelerated the deterioration in corporate earnings, particularly those of export-reliant companies, and brought about extremely trying circumstances that included labor and salary adjustments.

The distribution retail industry was also impacted by the serious economic slowdown. As consumers' appetite for spending further dampened, the business environment became even more severe for companies in this industry.

Operating under these circumstances, the Group's earnings were hit hard. Its sales for hardware, tools, and building materials struggled due to the slump in the construction related markets. Kerosene also performed weakly both in terms of sales and gross profit margin as not only did we experience a mild winter, but just as the peak season was approaching, its price plummeted.

In the area of agriculture, on the other hand, the Group energetically cultivated new agriculture-related markets concentrating on the issues of "food security and safety" and "Japan's percentage of domestically supplied foodstuffs." In November 2007, the Group joined as a participating member of the non profit organization, J-PAO (Japan Professional Agriculture total support Organization) and in September 2008, set up a "J-PAO Consulting Desk – for any agricultural business related problems" in 9 stores in Niigata Prefecture to provide various agricultural advices. Through this program, the Group deepened contacts with farmers and boosted its efforts in the merchandising of agriculture-related products such as agricultural materials, fertilizers and agrichemicals. In particular, the Group managed to secure stock of large-bag commercial fertilizer when supply of such materials was limited, and managed to maintain competitiveness both in terms of supply and price, gaining a strong level of consumer support.

Furthermore, since November, the Group has been following its "Living Support Declaration," which is to provide products required for daily living at bargain prices. Concentrating on daily goods, such as pet food and practical clothing, the Group has been providing a maximum of 2,720 items at bargain prices. This has provided the means for gradual recovery, even boosting the number of customers at struggling existing stores.

At "KOMERI.COM," the Group's Internet business, in addition to supplementing the merchandise assortment available in stores, it also expanded service businesses such as "Home Emergency Line" to solve troubles relating to home life such as "gardening problems" or "insect extermination" and strove to respond to a wide range of customer needs.

Also, the Group has been focusing efforts on improving the mark-up ratio by reviewing merchandise procurement and on expanding the share in sales of Group-developed merchandise in order to improve the gross profit margin of merchandise. As a result we increased our gross profit margin on merchandise in the Home Center business by 0.4% year on year.

As a result of the developments outlined above, operating revenue in the fiscal year under review rose 1.3% on a consolidated basis from the previous fiscal year to 277,557 million yen. Operating income decreased 5.6% to 14,715 million yen, ordinary profit decreased by 12.1% to 13,723 million yen, and net income decreased by 22.6% to 6,421 million yen.

Home Center business

Consolidated operating results

	Year ended March 31, 2008	Year ended March 31, 2009	Year-on-year comparison (%)
Net sales (Millions of yen)	255,357	258,810	101.4
Number of stores	921	949	—
Number of stores newly opened	80	34	—

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

Stores

In total, the Group opened 34 stores—3 large home centers called Power (PW stores), 1 home center (HC stores), and 30 Hard & Green Stores (H&G stores). PW stores, each with a sales floor area of about 13,220 square meters, were opened in Shibata City of Niigata Prefecture, Tateyama City of Chiba Prefecture and Saijo City of Ehime Prefecture. In Kyushu, 15 new H&G stores were opened to bring the total number of H&G stores in Kyushu to 73, further positioning the Group as a dominant player in that region.

As 2 HC stores and 4 HG stores were closed, the total number of stores in the Group at the end of the fiscal year under review was 949, including 12 PW stores, 127 HC stores, and 810 HG stores.

Operating results by product line

i. Hardware, tools and building materials

Due to the slump in the construction-related markets, the market for hardware, tools and building materials continued to be in a difficult situation. The Group's sales in this area were also weak, particularly in the areas of hand-tools, sawn wood products, work clothes, and work gear. As a result, sales in this product line rose 1.2% year on year to 75,365 million yen.

ii. Gardening and agricultural goods

In the gardening and agricultural goods product line, agrichemicals, fertilizers and agricultural materials maintained steady sales throughout the year and contributed to lifting this product line's overall sales. Furthermore, with food security and safety being a topical issue, home vegetable patches grew in popularity and vegetable seedlings also maintained steady sales. As a result, sales in this product line rose 9.4% year on year to 56,933 million yen.

iii. Household goods

The household goods product line was impacted by consumers concerned about their family budgets and up until October, customer numbers remained weak and sales were sluggish. However, as a result of our "Living Support Declaration," which we began executing in November, sales and customer numbers gradually recovered, particularly in the area of daily consumables. As a result, sales in this product line rose 0.9% year on year to 66,607 million yen.

iv. Office and leisure goods

In the office and leisure goods product line, sales were sluggish for car goods, furniture and storage cabinets, but pet goods, the major product category in this line, maintained a steady performance throughout the year. As a result, sales in this product line increased 2.5% year on year to 42,718 million yen.

v. Other

In the other product line, kerosene, the major product in this line, maintained a high unit price in the first half of the fiscal year due to the soaring crude oil prices but from November onwards, just as the peak demand season was starting, the sharp fall in crude oil prices led to a sudden drop in the unit price of kerosene. Kerosene sales, further impacted by the effects of a warm winter, declined considerably year on year. As a result, sales in this product line declined 18.6% to ¥17,185 million yen.

Sales by product line

Product line	Year ended March 31, 2008		Year ended March 31, 2009		Year-on-year comparison (%)
	Net sales (Millions of yen)	Percentage (%)	Net sales (Millions of yen)	Percentage (%)	
Hardware, tools and building materials	74,485	29.2	75,365	29.1	101.2
Gardening and agricultural goods	52,055	20.4	56,933	22.0	109.4
Household goods	66,031	25.9	66,607	25.7	100.9
Office and leisure goods	41,660	16.3	42,718	16.5	102.5
Other	21,124	8.2	17,185	6.7	81.4
Home Center business total	255,357	100.0	258,810	100.0	101.4

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 85 stores. During the year under review, we improved the operational efficiency of our distribution centers.

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 3.09 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 customers and one for farming customers; each one is designed to best suit the payment methods unique to the field.

[Outlook for the year ending March 2010]

Consolidated operating results

(Millions of yen)	6 months	Year-on-year comparison	Annual	Year-on-year comparison
Operating revenue	142,000	99.9%	281,500	101.4%
Operating income	9,120	89.2%	14,940	101.5%
Ordinary profit	8,600	85.6%	13,800	100.6%
Net income	4,650	84.0%	6,600	102.8%

The economic outlook for Japan is for the severe circumstances to continue as the global-scale financial instability and economic recession are still making it difficult to make any predictions concerning the future. We also expect the employment and income environment to continue to deteriorate and for consumer sentiment to remain weak. Consequently, we expect a difficult business environment in the distribution retail market.

Facing these circumstances, the Group will fall back on its fundamental management policy of “A company owes its existence to society.” 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.

The Group aims to open a total of 31 stores: 1 HC store and 30 H&G stores. In addition we plan to relocate two existing HC stores to increase their floor space. Of the H&G store openings, 15 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.

The Group also aims to refurbish about 180 existing stores and enrich our merchandise assortment to respond to the needs of not only our professional customers, but also a wide range of general customers.

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.

In the area of agricultural goods, we shall strengthen the merchandise assortment and marketing system to better respond to the needs of professional farming customers. Moreover, responding to today's needs, we shall play our part in helping boost Japan's agricultural productivity.

In addition, by revising our merchandise procurement, expanding sales of Group-developed merchandise, and optimizing inventories through more intricate merchandise control, we shall strive to improve profit margin.

For our Internet business, we shall effectively utilize our network of close to 1,000 stores to provide convenience to customers. Internet business can provide both merchandise that supplements the merchandise assortment of stores, for the so-called "long tail" customer demographic, and commodities that have high-volume sales on a daily basis. In addition to enriching product assortment, the Group is also energetically embracing the challenge of the latter: the commodity goods area.

Taking the abovementioned into consideration, for the year ending March 31, 2010, on a consolidated basis, the Group expects operating revenue to rise 1.4% year-on-year to 281,500 million yen, operating income to rise 1.5% year-on-year to 14,940 million yen, ordinary profit to rise 0.6% year on year to 13,800 million yen and net income to rise 2.8% year-on-year to 6,600 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 12,506 million yen from the previous year-end to 242,289 million yen. This was mainly due to an increase of 3,880 million yen in merchandise in current assets, and an increase of 11,234 million yen in lease assets in fixed assets.

Liabilities increased by 9,256 million yen from the previous year-end to 141,497 million yen. This was mainly because short-term bank loans grew by 10,500 million yen.

Net assets increased by 3,250 million yen from the previous year-end to 100,791 million yen. This was mainly due to an increase attributable to retained earnings of 4,659 million yen.

2) Consolidated cash flows

(Millions of yen)	Year ended March 31, 2008	Year ended March 31, 2009	Year-on-year comparison
Net cash provided by operating activities	15,066	13,130	(1,935)
Net cash used in investing activities	(15,702)	(14,528)	1,173
Net cash provided by (used in) financing activities	560	(252)	(812)
Decrease in cash and cash equivalents	(75)	(1,650)	(1,574)
Cash and cash equivalents at end of period	9,665	8,038	(1,626)

Cash and cash equivalents ("cash") as of the fiscal year-end totaled 8,038 million yen. Factors affecting cash flows include the following:

(Net cash provided by operating activities)

Cash generated by operating activities decreased by 1,935 million yen from the previous fiscal year to 13,130 million yen. This was mainly due to income before income taxes and minority interests amounted to 11,494 million yen, adjustments for depreciation amounted to 11,175 million yen, adjustments for income taxes paid of 6,989 million yen and interest expenses paid amounted to 1,395 million yen.

(Net cash used in investing activities)

Investment activities used cash in the amount of 14,528 million yen, a decrease of 1,173 million yen from the previous fiscal year. This decrease was primarily the result of an 819 million yen decrease, year on year, in acquisition of tangible fixed assets.

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

Cash used in financing activities was 252 million yen, a year-on-year cash decrease of 812 million yen. This was primarily due to a net decrease of 1,969 million yen in short-term loans payable, decreases of 3,072 million yen used for repayment of long-term loans payable and 863 million yen used for the acquisition of treasury stock, and an increase of 2,869 million yen used for repayment of lease obligations.

Trends in Cash Flow Indices

	March 31, 2005	March 31, 2006	March 31, 2007	March 31, 2008	March 31, 2009
Equity ratio	41.8%	42.9%	42.7%	42.5%	41.6%
Equity ratio based on market prices	79.4%	115.9%	91.5%	54.4%	40.0%
Years required to redeem liabilities	4.4 years	4.3 years	5.5 years	4.2 years	6.2 years
Interest-coverage ratio	27.5	34.3	24.1	24.6	9.4

(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.

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Financial Statements for the Years Ended March 31, 2009 and 2008, 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, 2009 and 2008, 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, 2009 and 2008, 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 12, 2009

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheets
March 31, 2009 and 2008

ASSETS	Millions of Yen 2009	Millions of Yen 2008	Thousands of U.S. Dollars (Note 1) 2009
CURRENT ASSETS:			
Cash and cash equivalents	¥ 8,039	¥ 9,665	$ 81,810
Short-term investments (Notes 3 and 4)	269	209	2,733
Receivables:			
Trade notes and accounts	6,691	7,996	68,100
Allowance for doubtful receivables	(23)	(23)	(237)
Inventories (Note 5)	80,070	76,074	814,875
Deferred tax assets (Note 10)	1,583	1,546	16,109
Prepaid expenses and other current assets	1,663	1,622	16,927
Total current assets	98,292	97,089	1,000,317
PROPERTY, PLANT AND EQUIPMENT (Notes 6 and 7):			
Land	24,194	23,748	246,219
Buildings and structures	144,080	137,698	1,466,315
Machinery and equipment	7,451	7,143	75,830
Lease assets	14,119		143,686
Construction in progress	2,124	3,522	21,621
Other	8,754	8,763	89,089
Total	200,722	180,874	2,042,760
Accumulated depreciation	(76,436)	(67,356)	(777,889)
Net property, plant and equipment	124,286	113,518	1,264,871
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	401	497	4,085
Investments in unconsolidated subsidiaries	292	543	2,976
Intangible assets	5,261	5,091	53,542
Leasehold deposits	8,188	8,950	83,326
Deferred tax assets (Note 10)	3,666	2,877	37,307
Other assets	1,904	1,218	19,377
Total investments and other assets	19,712	19,176	200,613
TOTAL	¥ 242,290	¥ 229,783	$ 2,465,801

LIABILITIES AND EQUITY	Millions of Yen 2009	Millions of Yen 2008	Thousands of U.S. Dollars (Note 1) 2009
CURRENT LIABILITIES:			
Short-term bank loans (Note 7)	¥ 57,180	¥ 46,680	$ 581,926
Current portion of long-term debt (Note 7)	7,153	4,726	72,802
Payables:			
Trade notes and accounts	40,159	41,575	408,698
Construction and other	7,497	13,077	76,299
Income taxes payable	2,527	3,804	25,715
Accrued expenses	2,004	2,043	20,390
Liability for obligations to customers	466	432	4,743
Other current liabilities	996	1,008	10,139
Total current liabilities	117,982	113,345	1,200,712
LONG-TERM LIABILITIES:			
Long-term debt (Note 7)	16,371	12,070	166,612
Liability for retirement benefits (Note 8)	3,515	3,122	35,769
Retirement benefits for directors and corporate auditors (Note 8)	993	957	10,101
Lease deposits from lessees	1,979	2,094	20,137
Negative goodwill		237	
Deferred tax liabilities (Note 10)	187	56	1,902
Other long-term liabilities	471	361	4,803
Total long-term liabilities	23,516	18,897	239,324
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 11 and 12)			
EQUITY (Note 9):			
Common stock—authorized, 131,000,000 shares; issued, 54,409,168 shares in 2009 and 2008	18,802	18,802	191,351
Capital surplus	25,260	25,260	257,076
Retained earnings	64,844	60,185	659,921
Unrealized gain on available-for-sale securities	18	56	181
Deferred loss on derivatives under hedge accounting	(209)	(175)	(2,124)
Treasury stock—at cost, 3,177,909 shares in 2009 and 2,519,530 shares in 2008	(7,923)	(6,587)	(80,640)
Total equity	100,792	97,541	1,025,765
TOTAL	¥ 242,290	¥ 229,783	$ 2,465,801

See notes to consolidated financial statements.

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
REVENUES:			
Net sales	¥ 267,825	¥ 264,304	$ 2,725,675
Other operating revenues	9,732	9,586	99,048
Total revenues	277,557	273,890	2,824,723
COST OF SALES	188,043	186,491	1,913,735
Gross profit	89,514	87,399	910,988
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	74,798	71,808	761,224
Operating income	14,716	15,591	149,764
OTHER INCOME (EXPENSES):			
Interest and dividend income	82	74	830
Interest expense	(1,405)	(610)	(14,299)
Loss on disposal of property, plant and equipment	(167)	(66)	(1,697)
Amortization of negative goodwill	259	462	2,636
Loss on impairment of long-lived assets (Note 6)	(1,921)	(395)	(19,554)
Loss on casualty	(9)	(50)	(89)
Loss on revaluation of inventories		(6)	
Other—net	(60)	(569)	(607)
Other expenses—net	(3,221)	(1,160)	(32,780)
INCOME BEFORE INCOME TAXES	11,495	14,431	116,984
INCOME TAXES (Note 10):			
Current	5,719	6,598	58,201
Deferred	(645)	(460)	(6,566)
Total income taxes	5,074	6,138	51,635
NET INCOME	¥ 6,421	¥ 8,293	$ 65,349

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.o):			
Basic net income	¥ 124.27	¥ 157.19	$ 1.26
Cash dividends applicable to the year	34.00	34.00	0.35

See notes to consolidated financial statements.

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity
Years Ended March 31, 2009 and 2008

	Number of Shares of Common Stock Outstanding	Millions of Yen						
		Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Treasury Stock	Total Equity
BALANCE, APRIL 1, 2007	52,887,713	¥ 18,802	¥ 25,260	¥ 53,742	¥ 215	¥ 37	¥ (4,385)	¥ 93,671
Net income				8,293				8,293
Cash dividends, ¥34 per share				(1,850)				(1,850)
Purchase of treasury stock	(998,240)						(2,202)	(2,202)
Disposal of treasury stock	165							
Net change in the year					(159)	(212)		(371)
BALANCE, MARCH 31, 2008	51,889,638	18,802	25,260	60,185	56	(175)	(6,587)	97,541
Net income				6,421				6,421
Cash dividends, ¥34 per share				(1,762)				(1,762)
Purchase of treasury stock	(658,810)						(1,337)	(1,337)
Disposal of treasury stock	431						1	1
Net change in the year					(38)	(34)		(72)
BALANCE, MARCH 31, 2009	51,231,259	¥ 18,802	¥ 25,260	¥ 64,844	¥ 18	¥ (209)	¥ (7,923)	¥ 100,792

	Thousands of U.S. Dollars (Note 1)						
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Treasury Stock	Total Equity
BALANCE, MARCH 31, 2008	$ 191,351	$ 257,077	$ 612,503	$ 573	$ (1,781)	$ (67,036)	$ 992,687
Net income			65,349				65,349
Cash dividends, $0.35 per share			(17,930)				(17,930)
Purchase of treasury stock						(13,615)	(13,615)
Disposal of treasury stock		(1)	(1)			11	9
Net change in the year				(392)	(343)		(735)
BALANCE, MARCH 31, 2009	$ 191,351	$ 257,076	$ 659,921	$ 181	$ (2,124)	$ (80,640)	$ 1,025,765

See notes to consolidated financial statements.

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
OPERATING ACTIVITIES:			
Income before income taxes	¥ 11,495	¥ 14,431	$ 116,984
Adjustments for:			
Income taxes—paid	(6,990)	(5,567)	(71,133)
Depreciation	11,176	7,714	113,739
Loss on impairment of long-lived assets	1,921	395	19,554
Amortization of negative goodwill	(259)	(462)	(2,636)
Loss on disposal of property, plant and equipment	167	66	1,697
Changes in assets and liabilities:			
Decrease (increase) in trade notes and accounts receivable	664	(839)	6,752
Increase in inventories	(3,998)	(1,427)	(40,687)
(Decrease) increase in trade notes and accounts payable	(1,421)	283	(14,463)
Increase in liability for retirement benefits	392	322	3,994
Increase (decrease) in retirement benefits for directors and corporate auditors	36	(58)	366
Other—net	(52)	209	(533)
Total adjustments	1,636	636	16,650
Net cash provided by operating activities	13,131	15,067	133,634
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(14,531)	(15,351)	(147,885)
Decrease in leasehold deposits	664	346	6,762
Increase in other assets	(662)	(697)	(6,738)
Net cash used in investing activities	(14,529)	(15,702)	(147,861)
FINANCING ACTIVITIES:			
Increase in short-term bank loans—net	10,461	12,430	106,461
Repayments of long-term debt	(7,615)	(7,818)	(77,495)
Repurchase of treasury stock	(1,338)	(2,202)	(13,615)
Dividends paid	(1,761)	(1,851)	(17,926)
Other—net	1	1	9
Net cash (used in) provided by financing activities	(252)	560	(2,566)
NET DECREASE IN CASH AND CASH EQUIVALENTS—(Forward)	¥ (1,650)	¥ (75)	$ (16,793)

(Continued)

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
NET DECREASE IN CASH AND CASH EQUIVALENTS— (Forward)	¥ (1,650)	¥ (75)	$ (16,793)
CASH AND CASH EQUIVALENTS OF AN UNCONSOLIDATED SUBSIDIARY MERGED BY A CONSOLIDATED SUBSIDIARY		43	
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARY, BEGINNING OF YEAR	24		240
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9,665	9,697	98,363
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 8,039	¥ 9,665	$ 81,810
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Properties and obligations by finance leases	¥ 22,073		$ 224,638

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 Act 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 2008 financial statements to conform to the classifications used in 2009.

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 ¥98 to $1, the approximate rate of exchange at March 31, 2009. 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, 2009, include the accounts of the Company and its nine significant (eight in 2008) 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 four (five in 2008) 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. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, all of which mature or become due within three months of the date of acquisition.

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

d. ***Marketable and Investment Securities—***Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in earnings, (2) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. ***Property, Plant and Equipment—***Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated subsidiaries is computed substantially by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings acquired after April 1, 1998. Lease assets are depreciated by the straight-line method over the respective lease periods. The range of useful lives is principally from 3 to 60 years for buildings and structures, and from 4 to 8 years for machinery and equipment. The useful lives for lease assets are the terms of the respective leases.

f. ***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.

g. ***Retirement and Pension Plans—***The Company and some subsidiaries have a non-contributory funded pension plan and an unfunded retirement benefit plan for employees 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.

h. ***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.

i. ***Leases***—In March 2007, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 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 previous accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were 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 to recognize lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be measured at the obligations under finance leases less interest expense at the transition date and recorded as acquisition cost of lease assets.

The Company applied the revised accounting standard effective April 1, 2008. In addition, the Company accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as acquisition cost of lease assets measured at the obligations under finance leases less interest expense at the transition date. The effect of this change was immaterial.

All other leases are accounted for as operating leases.

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

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

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

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

n. ***Derivatives and Hedging Activities***—The Group uses derivative financial instruments ("derivatives") to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts, currency swaps (substantially functions as foreign exchange forward contracts) and interest rate swaps (including rate floors) are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

The foreign exchange forward contracts employed to hedge foreign exchange exposures for import purchase are measured at the fair value and the unrealized gains or losses are recognized in income.

The interest rate swaps are utilized to hedge interest rate exposures of long-term debt. These swaps which qualify for hedge accounting (excluding those mentioned below) are measured at market value at the balance sheet date and the unrealized gains or losses are deferred until maturity as other liability or asset.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income.

o. ***Per Share Information—***Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share is not disclosed because of no dilutive potential common shares.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

p. ***New Accounting Pronouncement***

Asset Retirement Obligations—On March 31, 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

3. SHORT-TERM INVESTMENTS

Short-term investments as of March 31, 2009 and 2008, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Time deposits other than cash equivalents	¥ 264	¥ 209	$ 2,686
Marketable securities	5		47
Total	¥ 269	¥ 209	$ 2,733

4. MARKETABLE AND INVESTMENT SECURITIES

Investment securities as of March 31, 2009 and 2008, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Current—Trust fund investment	¥ 5		$ 47
Total	¥ 5		$ 47
Non-current:			
Marketable equity securities	¥ 359	¥ 421	$ 3,658
Trust fund investments and other	42	76	427
Total	¥ 401	¥ 497	$ 4,085

The carrying amounts and aggregate fair values of marketable investment securities at March 31, 2009 and 2008 were as follows:

	Millions of Yen			
March 31, 2009	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥ 279	¥ 42	¥ 6	¥ 315
Trust fund investments	18		7	11
March 31, 2008				
Securities classified as available-for-sale:				
Equity securities	284	99	6	377
Trust fund investments	18	1		19

March 31, 2009	Thousands of U.S. Dollars Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	$ 2,837	$ 427	$ 55	$ 3,209
Trust fund investments	181		68	113

Available-for-sale securities whose fair value was not readily determinable as of March 31, 2009 and 2008 were as follows:

	Carrying Amount Millions of Yen 2009	2008	Thousands of U.S. Dollars 2009
Available-for-sale—Equity securities	¥ 44	¥ 44	$ 449
Capital investments in investment business associations with limited liability or similar associations	36	56	360
Total	¥ 80	¥ 100	$ 809

5. INVENTORIES

Inventories at March 31, 2009 and 2008, consisted of the following:

	Millions of Yen 2009	2008	Thousands of U.S. Dollars 2009
Merchandise	¥ 79,954	¥ 75,950	$ 813,694
Supplies	116	124	1,181
Total	¥ 80,070	¥ 76,074	$ 814,875

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2009 and, as a result, recognized an impairment loss of ¥1,921 million ($19,554 thousand) as other expense for certain unprofitable stores due to continuous operating losses. The carrying amount of the assets of the relevant stores was written down to the recoverable amount. This amount is comprised of ¥1,634 million ($16,624 thousand) for buildings and structures and ¥287 million ($2,918 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, 2009 and 2008 consisted of notes to banks. The annual weighted average interest rate applicable to the short-term bank loans was 0.95% and 0.90% at March 31, 2009 and 2008.

Long-term debt at March 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Loans from banks and other financial institutions, due serially to 2016 with weighted average interest rates 1.37% (2009) and 1.37% (2008):			
Collateralized	¥ 781	¥ 1,115	$ 7,950
Unsecured	11,271	15,681	114,704
Obligations under finance leases	11,472		116,760
Total	23,524	16,796	239,414
Less current portion	(7,153)	(4,726)	(72,802)
Long-term debt, less current portion	¥ 16,371	¥ 12,070	$ 166,612

Annual maturities of long-term debt, excluding finance leases (see Note 11), at March 31, 2009 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2010	¥ 4,037	$ 41,084
2011	4,213	42,876
2012	2,253	22,933
2013	501	5,103
2014 and thereafter	1,048	10,659
Total	¥ 12,052	$ 122,655

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥170 million ($1,730 thousand) and the above collateralized long-term debt at March 31, 2009, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Property, plant and equipment—net of accumulated depreciation	¥ 2,828	$ 28,777
Total	¥ 2,828	$ 28,777

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, 2009 for directors and corporate auditors was ¥993 million ($10,101 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, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Projected benefit obligation	¥ 3,714	¥ 3,307	$ 37,799
Fair value of plan assets	(100)	(102)	(1,024)
Unrecognized actuarial gain	(102)	(99)	(1,041)
Prepaid pension cost	3	16	35
Net liability	¥ 3,515	¥ 3,122	$ 35,769

The components of net periodic benefit costs for the years ended March 31, 2009 and 2008 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Service cost	¥ 429	¥ 393	$ 4,368
Interest cost	61	56	622
Recognized actuarial loss	35	52	358
Required contribution for the multiemployer plan	11	10	108
Net periodic benefit costs	¥ 536	¥ 511	$ 5,456

Assumptions used for the years ended March 31, 2009 and 2008, are set forth as follows:

	2009	2008
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 Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, 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 Companies Act 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 Companies Act 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 Companies Act 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 Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act 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 Companies Act 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 Companies Act, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity.

The Companies Act 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, 2009 and 2008.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2009 and 2008, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Deferred tax assets:			
Inventories	¥ 124	¥ 282	$ 1,257
Loss on impairment	1,784	1,097	18,159
Accrued enterprise taxes	263	306	2,673
Accrued bonuses	677	697	6,894
Liabilities for retirement benefits	1,435	1,273	14,608
Retirement benefits for directors and corporate auditors	401	386	4,081
Tax loss carryforwards	201	144	2,044
Other	1,079	772	10,974
Less valuation allowance	(248)	(250)	(2,524)
Total	5,716	4,707	58,166
Deferred tax liabilities:			
Property and equipment	(140)	(156)	(1,426)
Other	(514)	(183)	(5,226)
Total	(654)	(339)	(6,652)
Net deferred tax assets	¥ 5,062	¥ 4,368	$ 51,514

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, 2009 and 2008 is as follows:

	2009	2008
Normal effective statutory tax rate	40%	40%
Per capita portion	3	3
Tax loss carryforwards		1
Amortization of negative goodwill	(1)	(1)
Other—net	2	
Actual effective tax rate	44%	43%

At March 31, 2009, a subsidiary has tax loss carryforwards aggregating approximately ¥433 million ($4,409 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	$ 2,558
2014	28	287
2015	76	776
2016	78	788
Total	¥ 433	$ 4,409

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, 2009 and 2008, was ¥12,613 million ($128,361 thousand) and ¥12,211 million, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2009 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2009	2009
Due within one year	¥ 383	$ 3,897
Due after one year	491	5,002
Total	¥ 874	$ 8,899

Pro forma Information for the Year Ended March 31, 2008

Pro forma information for the year ended March 31, 2008 of leased property such as acquisition cost, accumulated depreciation, accumulated impairment loss, obligations under finance leases, 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 was as follows:

	Millions of Yen			
	2008			
	Building	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥ 1,064	¥ 1,837	¥ 12,802	¥ 15,703
Accumulated depreciation	414	1,102	7,181	8,697
Accumulated impairment loss			66	66
Net leased property	¥ 650	¥ 735	¥ 5,555	¥ 6,940

Obligations under finance leases:

	Millions of Yen
	2008
Due within one year	¥ 2,212
Due after one year	5,188
Total	¥ 7,400

Allowance for impairment loss on leased property of ¥20 million as of March 31, 2008 was not included in the obligations under finance leases.

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

	Millions of Yen
	2008
Depreciation expense	¥ 2,493
Interest expense	284
Total	¥ 2,777
Lease payments	¥ 2,728

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

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, 2009 and 2008:

	Millions of Yen		
March 31, 2009	Contract Amount	Fair Value	Unrealized Loss
Currency swaps—Receive U.S.$/pay yen	¥ 494	¥ 435	¥ (59)

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

March 31, 2009	Thousands of U.S. Dollars Contract Amount	 Fair Value	 Unrealized Loss
Currency swaps—Receive U.S.$/pay yen	$ 5,028	$ 4,430	$ (598)

Foreign currency forward contracts which qualify for hedge accounting for the years ended March 31, 2009 and 2008 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, 2009, which is subject to approval at the Company's shareholders meeting to be held on June 26, 2009:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥17 ($0.17) per share	¥ 871	$ 8,864

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 2009 and 2008 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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