INVESTORS' GUIDE
2010

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										
		2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Statements of Income Data	%	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)
Total revenues	4.1	285,480	277,557	273,889	259,218	247,461	233,982	217,923	200,490	170,367	127,508	113,332
Total revenues increase(%)	–	2.90	1.3	5.7	4.8	5.8	7.4	8.7	17.7	33.6	12.5	16.5
Cost of sales	4.2	192,797	188,043	186,491	175,596	167,191	157,107	145,177	134,703	114,130	85,175	76,635
Selling, general, and administrative expenses	4.1	77,611	74,798	71,808	68,102	65,645	63,369	59,886	54,303	45,316	34,255	29,482
Operating income	2.2	15,072	14,716	15,591	15,520	14,624	13,506	12,860	11,484	10,920	8,078	7,216
Operating income increase (%)	–	2.4	△ 6	1	6	8.3	5.0	12.0	5.2	35.2	12.0	17.8
Income before income taxes and minority interests	0.1	12,474	11,495	14,431	15,466	13,731	12,438	12,292	11,288	9,672	7,186	6,093
Net income	△3.9	6,460	6,421	8,293	9,257	8,706	7,899	7,175	6,224	5,635	3,965	3,328
Net income increase(%)	–	0.6	△ 23	△ 10	6	10.2	10.1	15.3	10.5	42.1	19.1	35.9
Earnings per share	△3.2	126.39	124	157	175	163.56	148.35	136.88	118.68	123.18	88.19	75.96
Earnings per share increase(%)	–	1.70	△ 21	△ 10	10	10.3	8.4	15.3	-3.7	39.7	16.1	28.6
Weighted average number of shares outstanding (thousand)	–	51,113	51,672	52,890	52,890	52,889	52,892	52,061	51,959	45,748	44,962	43,814
Gross margin-% of revenues	–	32.5	32.3	31.9	32.3	32.4	32.9	33.4	32.8	33.0	33.2	32.4
SG&A expenses-% of revenues	–	27.2	26.9	26.2	26.3	26.5	27.1	27.5	27.1	26.6	26.9	26.0
Operating margin-% of revenues	–	5.3	5.3	5.7	6.0	5.9	5.8	5.9	5.7	6.4	6.3	6.4
Net interest expense-% of revenues	–	0.4	0.5	0.2	0.2	0.1	0.2	0.2	0.3	0.5	0.4	0.5
Income before income taxes-% of revenues	–	4.4	4.1	6.0	6.0	5.5	5.3	5.6	5.6	5.7	5.6	5.4
Net income-% of revenues	–	2.3	2.3	3.0	3.6	3.5	3.4	3.3	3.1	3.3	3.1	2.9
Balance Sheet Data and Financial Ratios	%	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)
Total assets	4.9	239,832	242,290	229,783	219,178	201,084	188,855	180,887	167,460	135,431	101,227	88,405
Merchandise inventories	7.3	83,755	80,070	76,074	75,222	65,364	58,809	55,362	49,902	38,621	30,026	27,381
Net property and equipment	8.9	139,266	124,286	113,518	104,958	96,436	90,895	89,428	83,361	64,178	48,802	40,892
Long-term liabilities	△4.3	18,935	23,516	18,897	23,758	22,517	23,554	26,773	30,344	20,640	20,812	19,317
Shareholders' equity	5.9	105,129	100,792	97,541	93,671	86,326	79,015	72,598	64,356	59,695	40,785	37,835
Book value per share (yen)	6.6	2,058.10	1,967	1,880	1,771	1,631	1,493	1,372	1,238	1,149	907	841
Long-term liabilities to equity (%)	–	151.2	134.9	158.7	150.7	140.4	134.6	132.6	136	142.9	132.5	139.6
Current ratio	–	0.87:1	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
Equity ratio(%)	–	43.8	41.6	42.5	42.7	42.9	41.8	38.4	38.4	44.1	40.3	42.8
Inventory turnover (month)	–	3.5	3.5	3.3	3.3	3.0	2.9	2.9	2.7	2.4	2.7	2.6
Return on equity (%)	–	6.3	6.5	8.7	10.3	10.5	10.4	10.5	10.0	11.2	10.1	10.8
Return on assets (%)	–	2.7	2.7	3.7	4.4	4.5	4.3	4.1	4.1	4.8	4.2	#REF!
Statement of Cash Flows Data	%	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)	(¥)
Depreciation and amortization	10.9	11,408	11,176	7,714	7,117	6,659	6,653	6,230	5,347	4,940	3,597	3,174
Operational cash flow	1.2	19,928	13,131	15,067	10,658	12,436	12,360	10,312	5,914	11,850	7,999	4,116
Investment cash flow	11.8	△ 8,056	△ 14,529	△ 15,702	△ 13,957	△ 11,445	△ 8335	△ 14,739	△ 9,499	△ 9,046	△ 11,528	△ 7,356
Financial cash flow	△23.9	△ 12,239	△ 252	560	3,309	△ 2,108	△ 987	4,146	1,393	2,353	3,542	4,249
Cash dividends per share (yen)	4.0	34.0	34.0	34.0	34.0	32.0	28.0	27	26	26	21	20
Store Data	%											
Number of stores (actual);	6.8	986	949	921	843	763	708	655	608	540	462	414
Komeri Home Center	9.8	139	139	138	137	88	87	85	80	75	72	62
Komeri Hard & Green	8.1	847	810	783	706	628	575	523	480	440	390	352
Stores operated by HC subsidiaries	–	0	14	14	14	47	46	47	48	25	–	–
Weighted average selling space (square meters)*	–	1,462,352	1,348,673	1,234,399	1,133,206	1,043,849	960,412	887,675	–	–	–	–
Weighted average number of employees(actual)	–	7,856	7,414	7,180	6,969	6,782	6,510	6,255	–	–	–	–
Sales per employee(thousands of yen)	–	36,339	37,437	37,788	37,196	36,488	35,942	34,840	–	–	–	–
Comparable store sales increase (%)*	–	0.8	△ 3	1	△ 0	1.6	1.3	-2.3	1.8	2.4	0.2	1.1

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 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, 2010, the ratio of ordinary profit to total assets stood at 6.0%.

(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 greater and greater influence on our lives in the years to come. As globalization advances, national borders 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.

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 PW, HC and H&G format stores and the expansion of our store network to establish a dominant position.

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.

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.

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 Group 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 85,310,000 yen during 2009, making a total contribution of 1,275,000,000 yen in the 20 years since its establishment.

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. Up until now, more than 10,000 employees have participated in these activities (more than 1,000 activities each year) since the program was introduced in 1999.

In 1996 the Group has 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 such as earthquakes, typhoons, and floods 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," an infrastructure for emergency activity, which is 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 disaster 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 provide support and materials in times of emergency. At the end of the year under review, we had entered into agreements with 234 local governments. We have also launched a “disaster network,” which is comprised of volunteers from our business partners, and 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.”

We have expanded its 1% social contribution activities from the initial greening program to those encompassing 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 2010]

Consolidated operating results

(Millions of yen)	Year ended March 31, 2009	Year ended March 31, 2010	Year-on-year comparison (%)
Operating revenue	277,557	285,479	102.9
Operating income	14,715	15,071	102.4
Ordinary profit	13,723	14,431	105.2
Net income	6,421	6,460	100.6

Non-consolidated operating results

(Millions of yen)	Year ended March 31, 2009	Year ended March 31, 2010	Year-on-year comparison (%)
Operating revenue	252,755	271,855	107.6
Operating income	11,159	11,804	105.8
Ordinary profit	10,784	11,887	110.2
Net income	4,869	5,628	115.6

In the Japanese economy during the fiscal year under review, although there were signs of economic recovery from the global financial crisis, there continues to be uncertainty concerning a recovery in the employment situation and personal income. Moreover, the business environment in the distribution-based retail industry was severe on account of unseasonal weather, weak sales in a deflationary environment and intensifying competition that transgressed the conventional boundaries of business fields and business formats.

Operating under these circumstances, the Group continued to feel the pinch of a continuing slump in the construction related markets. However, the Group's sales for hardware, tools, and building materials showed signs of recovery, particularly in the area of consumables. Moreover, in merchandise development, the Group boosted its efforts in merchandising to realize merchandise assortment, price and services to suit customer needs.

In the gardening and agricultural goods product line, a strengthening of sales of mainly fertilizers and agrichemicals starting from the onset of spring contributed to lifting this product line's overall sales. In particular, in the area of agriculture, the Group established 19 agricultural advisors in 8 prefectures nationwide to answer farmers' needs and questions, and it is working to pioneer a new agricultural market.

Also, in the area of Group-developed merchandise, responding to constantly evolving needs, the Group merged existing brands to launch a new private label "KOMERI SELECT" and strove to achieve quality and pricing that satisfied the customers.

In the Group's existing stores, the Group carried out full-scale refurbishment of 172 stores, 1 large home center called Power (PW store), 4 home centers (HC stores), and 167 Hard & Green Stores (H&G stores) to enhance the merchandise assortment to better meet the broad range of needs of professional and general customers. As a result of such efforts, sales and the number of customers for all existing stores were 100.8% and 103.2% year on year, respectively.

Furthermore, 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 of merchandise in the Home Center business by 0.2% year on year.

As a result of the developments outlined above, operating revenue in the fiscal year under review rose 2.9% on a consolidated basis from the previous year to 285,479 million yen. Operating income rose 2.4% to 15,071 million yen, ordinary profit rose 5.2% to 14,431 million yen and net income rose 0.6% to 6,460 million yen.

<u>Home Center business</u>

Consolidated operating results

	Year ended March 31, 2009	Year ended March 31, 2010	Year-on-year comparison (%)
Net sales (Millions of yen)	258,810	269,161	104.0
Number of stores	949	986	-
Number of stores newly opened	34	41	-

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

Stores

In the fiscal year under review, the Group opened, in total, 41 stores, including 1 HC store with a floor space of about 6,000 square meters in Yaita City, Tochigi Prefecture, and 40 H&G stores (including 21 stores in Kyushu). As a result, the number of stores in Kyushu became 94 stores, further positioning the Group as the dominant player in that region. As 1 HC store and 3 H&G stores were closed, the total number of stores at the end of the fiscal year under review was 986, including 12 PW stores, 127 HC stores, and 847 H&G stores.

Operating results by product line

i. Hardware, tools and building materials

In the hardware, tools and building materials, the construction related market was severe with a decrease in the number of housing starts on account of the impact of the prolonged slump in construction. However, the demand from home owners wishing to reform began to show signs of a gradual recovery. We felt the impact of this trend with sales recovering mainly in the area of reform-related materials. As a result, sales in this product line rose 1.8% year on year to 76,749 million yen.

ii. Gardening and agricultural goods

In the gardening and agricultural goods product line, there was a strengthening of sales mainly in agrichemicals and fertilizers from the onset of spring, which contributed to lifting this product line’s overall sales. Particularly in the area of agriculture, we enhanced the merchandise assortment and strengthened the marketing system by establishing agricultural advisor. As a result, sales in this product line rose 6.5% year on year to 60,619 million yen.

iii. Household goods

In the household goods line, although the unit prices of products fell as the deflationary environment and price competition intensified, sales and the number of items sold were firm. As a result, sales in this product line rose 6.1% to 70,704 million yen.

iv. Office and leisure goods

In the office and leisure goods line, sales fell year on year due to the impact of a fall in unit prices of pet goods, the major product category in this line. Sales in the leisure and cycle goods line were also sluggish. As a result, sales in this product line fell 0.3% year on year to 42,577 million yen.

v. Other

In the other product line, kerosene, which composes the largest share of this product line, fared well in terms of quantity sold as a result of the drop in temperatures during the peak demand season from mid-December onwards. As a result, sales in this product line rose 7.7% to 18,510 million yen.

Trend by product line

Product line	Year ended March 31, 2009		Year ended March 31, 2010		Year-on-year comparison (%)
	Net sales (Millions of yen)	Percentage (%)	Net sales (Millions of yen)	Percentage (%)	
Hardware, tools and building materials	75,365	29.1	76,749	28.5	101.8
Gardening and agricultural goods	56,933	22.0	60,619	22.5	106.5
Household goods	66,610	25.7	70,704	26.3	106.1
Office and leisure goods	42,718	16.5	42,577	15.8	99.7
Other	17,182	6.7	18,510	6.9	107.7
Home Center business total	258,810	100.0	269,161	100.0	104.0

Other businesses

HOKUSEI SANGYO CO., LTD. operates 8 distribution centers spread across Japan, which function as the logistics bases of the KOMERI Group. The operational efficiency of the Kyushu Distribution Center, a recent target of investment by the Group, has also been improved as a result of new store openings concentrated in Kyushu.

Furthermore, by executing absorption-type mergers with Yamaki Co., Ltd. on April 1, 2009, and with ATHENA CO., LTD. on October 1, 2009, the Company further improved efficiency through business integration.

[Outlook for the year ending March 2011]

Consolidated operating results

(Millions of yen)	6 months	Year-on-year comparison	Annual	Year-on-year comparison
Operating revenue	152,000	104.1%	300,000	105.1%
Operating income	11,000	107.4%	16,500	109.5%
Ordinary profit	10,600	107.4%	15,800	109.5%
Net income	5,350	96.0%	6,600	102.2%

Non-consolidated operating results

(Millions of yen)	6 months	Year-on-year comparison	Annual	Year-on-year comparison
Operating revenue	146,000	105.3%	286,000	105.2%
Operating income	9,800	115.7%	13,800	116.9%
Ordinary profit	9,700	114.8%	13,700	115.3%
Net income	5,100	94.2%	5,650	100.4%

Looking at the economic outlook for Japan, although the risk of a double-dip recession is becoming less likely with respect to the global-scale financial instability and economic recession, it is expected to take a little while before a full-scale recovery is achieved. We also expect the business environment in the distribution retail market to be difficult on account of the lowering of product unit prices due to the deflationary environment, and other factors.

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 50 stores: 5 PW stores, 1 HC store and 44 H&G stores and it expects to exceed 1,000 stores in the first half of the year. In Kyushu, we plan to open

3 PW stores, the first large-scale stores in Kyushu, including one in Togitsu-cho, Nagasaki Prefecture, and about 20 H&G stores, which will raise the number of stores in Kyushu to above 100, further positioning the Group as a dominant player in that region.

We also plan to carry out full-scale refurbishment in about 120 existing stores in order to enhance the merchandise assortment to meet the broad range of needs of professional and general customers and revitalize the existing stores.

Our merchandising policy is to further improve our mass merchandising system, increase our sales and improve our gross profit margin by concentrating on our core-category 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 expand the placement of agricultural advisors and strengthen the merchandise assortment and marketing system to better respond to the needs of professional farming customers.

For our Internet business, we shall effectively utilize our network exceeding 1000 stores to provide convenience to customers. In particular, we shall strengthen merchandise assortment, and the service support system in H&G stores.

Also, in our card business, group company Komeri Capital Co., Ltd. shall operate the overall “KOMERI Card” and “KOMERI Business Card” business which started in 1998 and strive to further improve services and customer convenience.

Taking the abovementioned into consideration, for the year ending March 31, 2011, on a consolidated basis, the Group expects operating revenue to rise 5.1% year on year to 300,000 million yen, operating income to rise 9.5% year on year to 16,500 million yen, ordinary profit to rise 9.5% year on year to 15,800 million yen and net income to rise 2.2% 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 decreased by 2,457 million yen from the previous year-end to 239,832 million yen. The main factors were a rise of 2,275 million yen in current assets due to an increase in merchandise, and a fall of 4,732 million yen in fixed assets due to a decrease of tangible fixed assets.

Liabilities decreased by 6,794 million yen from the previous year-end to 134,703 million yen. This was mainly because of repayment of short-term and long-term bank loans.

Net assets increased by 4,337 million yen from the previous year-end to 105,128 million yen. This was mainly due to an increase in retained earnings of 4,721 million yen.

2) Consolidated cash flows

(Millions of yen)	Year ended March 31, 2009	Year ended March 31, 2010	Year-on-year comparison
Net cash provided by operating activities	13,130	19,928	6,797
Net cash used in investing activities	(14,528)	(8,317)	6,211
Net cash used in financing activities	(252)	(12,238)	(11,986)
Decrease in cash and cash equivalents	(1,650)	(627)	1,022
Cash and cash equivalents at end of period	8,038	7,410	(627)

Cash and cash equivalents ("cash") as of the fiscal year-end totaled 7,410 million yen. Factors affecting cash flows include the following:

(Net cash provided by operating activities)

Net cash provided by operating activities increased by 51.8% from the previous fiscal year to 19,928 million yen. This was mainly due to income before income taxes and minority interests of 12,473 million yen, adjustments for depreciation of 11,407 million yen, and adjustments for income taxes paid of 5,339 million yen.

(Net cash used in investing activities)

Net cash used in investing activities decreased 42.7% from the previous fiscal year to 8,317 million yen. This decrease was primarily the result of a 6,575 million yen decrease from the previous fiscal year in payments for the acquisition of tangible fixed assets.

(Net cash used in financing activities)

Net cash used in financing activities was 12,238 million yen, compared with 252 million yen used in the previous fiscal year. This was primarily due to short-term loans payable decreasing by 2,970 million yen, 4,036 million yen used for repayments of long-term loans payable, and 3,166 million yen used for repayments of lease obligations.

Trends in Cash Flow Indices

	March 31, 2006	March 31, 2007	March 31, 2008	March 31, 2009	March 31, 2010
Equity ratio	42.9%	42.7%	42.5%	41.6%	43.8%
Equity ratio based on market prices	115.9%	91.5%	54.4%	40.0%	51.9%
Years required to redeem liabilities	4.3 years	5.5 years	4.2 years	6.2 years	3.7 years
Interest-coverage ratio	34.3	24.1	24.6	9.4	20.4

(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 issued shares 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, 2010 and 2009, 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, 2010 and 2009, 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, 2010 and 2009, 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 LLC

June 11, 2010

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheets
March 31, 2010 and 2009

ASSET	Millions of Yen 2010	Millions of Yen 2009	Thousands of U.S. Dollars (Note 1) 2010
CURRENT ASSETS:			
Cash and cash equivalents (Note 12)	¥ 7,411	¥ 8,039	$ 79,651
Short-term investments (Notes 3, 4 and 12)	261	269	2,808
Receivables (Note 12):			
Trade notes and accounts	6,182	6,691	66,449
Allowance for doubtful receivables	(30)	(23)	(327)
Inventories (Note 5)	83,755	80,070	900,208
Deferred tax assets (Note 10)	1,575	1,583	16,931
Prepaid expenses and other current assets	1,412	1,663	15,172
Total current assets	100,566	98,292	1,080,892
PROPERTY, PLANT AND EQUIPMENT (Notes 6 and 7):			
Land	23,929	24,194	257,188
Buildings and structures	148,094	144,080	1,591,730
Machinery and equipment	7,686	7,451	82,608
Lease assets (Note 11)	15,231	14,119	163,704
Construction in progress	1,186	2,124	12,745
Other	9,182	8,754	98,691
Total	205,308	200,722	2,206,666
Accumulated depreciation	(85,428)	(76,436)	(918,190)
Net property, plant and equipment	119,880	124,286	1,288,476
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 12)	371	401	3,988
Investments in unconsolidated subsidiaries	295	292	3,175
Intangible assets	5,404	5,261	58,085
Leasehold deposits	7,949	8,188	85,438
Deferred tax assets (Note 10)	3,673	3,666	39,482
Other assets	1,694	1,904	18,195
Total investments and other assets	19,386	19,712	208,363
TOTAL	¥ 239,832	¥ 242,290	$ 2,577,731

LIABILITIES AND EQUITY	Millions of Yen 2010	Millions of Yen 2009	Thousands of U.S. Dollars (Note 1) 2010
CURRENT LIABILITIES:			
Short-term bank loans (Notes 7 and 12)	¥ 54,210	¥ 57,180	$ 582,653
Current portion of long-term debt (Notes 7 and 12)	7,106	7,153	76,375
Payables (Note 12):			
Trade notes and accounts	41,082	40,159	441,552
Construction and other	6,332	7,497	68,062
Income taxes payable (Note 12)	3,303	2,527	35,500
Accrued expenses	2,029	2,004	21,811
Liability for obligations to customers	552	466	5,937
Other current liabilities	1,154	996	12,391
Total current liabilities	115,768	117,982	1,244,281
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 12)	11,458	16,371	123,154
Liability for retirement benefits (Note 8)	3,974	3,515	42,718
Retirement benefits for directors and corporate auditors (Note 8)	1,021	993	10,970
Lease deposits from lessees	1,886	1,979	20,270
Deferred tax liabilities (Note 10)	80	187	856
Other long-term liabilities	516	471	5,551
Total long-term liabilities	18,935	23,516	203,519
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 11, 12 and 13)			
EQUITY (Note 9):			
Common stock—authorized, 131,000,000 shares; issued, 54,409,168 shares in 2010 and 2009	18,802	18,802	202,087
Capital surplus	25,260	25,260	271,499
Retained earnings	69,565	64,844	747,689
Unrealized gain on available-for-sale securities	14	18	154
Deferred loss on derivatives under hedge accounting	(263)	(209)	(2,832)
Treasury stock—at cost, 3,328,752 shares in 2010 and 3,177,909 shares in 2009	(8,249)	(7,923)	(88,666)
Total equity	105,129	100,792	1,129,931
TOTAL	¥ 239,832	¥ 242,290	$ 2,577,731

See notes to consolidated financial statements.

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
REVENUES:			
Net sales	¥ 275,813	¥ 267,825	$ 2,964,452
Other operating revenues	9,667	9,732	103,903
Total revenues	285,480	277,557	3,068,355
COST OF SALES	192,797	188,043	2,072,195
Gross profit	92,683	89,514	996,160
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	77,611	74,798	834,167
Operating income	15,072	14,716	161,993
OTHER INCOME (EXPENSES):			
Interest and dividend income	63	82	678
Interest expense	(1,014)	(1,405)	(10,897)
Loss on disposal of property, plant and equipment	(196)	(167)	(2,111)
Amortization of negative goodwill		259	
Loss on impairment of long-lived assets (Note 6)	(1,989)	(1,921)	(21,375)
Gain on compensation for expropriation	264	52	2,833
Other—net	274	(121)	2,950
Other expenses—net	(2,598)	(3,221)	(27,922)
INCOME BEFORE INCOME TAXES	12,474	11,495	134,071
INCOME TAXES (Note 10):			
Current	6,081	5,719	65,362
Deferred	(67)	(645)	(728)
Total income taxes	6,014	5,074	64,634
NET INCOME	¥ 6,460	¥ 6,421	$ 69,437

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.o):			
Basic net income	¥ 126.39	¥ 124.27	$ 1.36
Cash dividends applicable to the year	34.00	34.00	0.37

See notes to consolidated financial statements.

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity
Years Ended March 31, 2010 and 2009

	Number of Shares of Common Stock Outstanding	Millions of Yen						
		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, APRIL 1, 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
Net income				6,460				6,460
Cash dividends, ¥34 per share				(1,739)				(1,739)
Purchase of treasury stock	(150,843)						(326)	(326)
Net change in the year					(4)	(54)		(58)
BALANCE, MARCH 31, 2010	51,080,416	¥ 18,802	¥ 25,260	¥ 69,565	¥ 14	¥ (263)	¥ (8,249)	¥ 105,129

	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, 2009	$ 202,087	$ 271,499	$ 696,946	$ 191	$ (2,244)	$ (85,164)	$ 1,083,315
Net income			69,437				69,437
Cash dividends, $0.35 per share			(18,694)				(18,694)
Purchase of treasury stock						(3,502)	(3,502)
Net change in the year				(37)	(588)		(625)
BALANCE, MARCH 31, 2010	$ 202,087	$ 271,499	$ 747,689	$ 154	$ (2,832)	$ (88,666)	$ 1,129,931

See notes to consolidated financial statements.

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
OPERATING ACTIVITIES:			
Income before income taxes	¥ 12,474	¥ 11,495	$ 134,071
Adjustments for:			
Income taxes—paid	(5,339)	(6,990)	(57,386)
Depreciation	11,408	11,176	122,612
Loss on impairment of long-lived assets	1,989	1,921	21,375
Amortization of negative goodwill		(259)	
Loss on disposal of property, plant and equipment	196	167	2,111
Changes in assets and liabilities:			
Decrease in trade notes and accounts receivable	502	664	5,391
Increase in inventories	(3,686)	(3,998)	(39,619)
Increase (decrease) in trade notes and accounts payable	923	(1,421)	9,925
Increase in liability for retirement benefits	460	392	4,942
Increase in retirement benefits for directors and corporate auditors	28	36	302
Other—net	974	(52)	10,470
Total adjustments	7,455	1,636	80,123
Net cash provided by operating activities	19,929	13,131	214,194
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(7,956)	(14,531)	(85,509)
Decrease in leasehold deposits	232	664	2,491
Increase in other assets	(594)	(662)	(6,382)
Net cash used in investing activities	(8,318)	(14,529)	(89,400)
FINANCING ACTIVITIES:			
(Decrease) increase in short-term bank loans—net	(2,970)	10,461	(31,922)
Repayments of long-term debt	(7,203)	(7,615)	(77,424)
Repurchase of treasury stock	(326)	(1,338)	(3,501)
Dividends paid	(1,740)	(1,761)	(18,696)
Other—net		1	
Net cash used in financing activities	(12,239)	(252)	(131,543)
NET DECREASE IN CASH AND CASH EQUIVALENTS—(Forward)	¥ (628)	¥ (1,650)	$ (6,749)

(Continued)

KOMERI Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
NET DECREASE IN CASH AND CASH EQUIVALENTS—(Forward)	¥ (628)	¥ (1,650)	$ (6,749)
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARY, BEGINNING OF YEAR		24	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,039	9,665	86,400
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 7,411	¥ 8,039	$ 79,651
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Properties and obligations resulting from finance leases	¥ 2,221	¥ 22,073	$ 23,875

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 from 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 2009 financial statements to conform to the classifications used in 2010.

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 ¥93 to $1, the approximate rate of exchange at March 31, 2010. 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, 2010, include the accounts of the Company and its seven significant (nine in 2009) subsidiaries (collectively, 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 2009) 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.

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 of 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 of 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 were deemed 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 was disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions 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 which 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 which 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.

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 (which substantially function 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 purchases are measured at 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. Those 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 there are no potential dilutive common shares.

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

p. ***New Accounting Pronouncements***

Business Combinations—In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows:

(1) The current accounting standard for business combinations allows companies to apply the pooling of interests method of accounting when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. The revised standard requires accounting for such business combinations by the purchase method, and the pooling of interests method of accounting is no longer allowed.

(2) The current accounting standard accounts for research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development (IPR&D) costs acquired in a business combination are capitalized as an intangible asset.

(3) The current accounting standard accounts for a bargain purchase gain (negative goodwill) to be systematically amortized within 20 years. Under the revised standard, the acquirer recognizes a bargain purchase gain in profit or loss on the acquisition date after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed with a review of such procedures used.

This standard will be applicable to business combinations undertaken on or after April 1, 2010, with early adoption permitted for fiscal years beginning on or after April 1, 2009.

Asset Retirement Obligations—In March 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 the 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 will be 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.

Accounting Changes and Error Corrections—In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows:

(1) *Changes in accounting policies*

When a new accounting policy is applied with revision of accounting standards, a new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

(2) *Changes in presentation*

When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.

(3) *Changes in accounting estimates*

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) *Corrections of prior period errors*

When an error in prior period financial statements is discovered, those statements are restated.

This accounting standard and the guidance will be applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

Segment Information Disclosures—In March 2008, the ASBJ revised ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and issued ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures." Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance will be applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010.

3. SHORT-TERM INVESTMENTS

Short-term investments as of March 31, 2010 and 2009, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Time deposits other than cash equivalents	¥ 261	¥ 264	$ 2,808
Marketable securities		5	
Total	¥ 261	¥ 269	$ 2,808

4. MARKETABLE AND INVESTMENT SECURITIES

Investment securities as of March 31, 2010 and 2009, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Current—Trust fund investment		¥ 5	
Total		¥ 5	
Non-current:			
Marketable equity securities	¥ 348	¥ 359	$ 3,737
Trust fund investments and other	23	42	251
Total	¥ 371	¥ 401	$ 3,988

The costs and aggregate fair values of marketable investment securities at March 31, 2010 and 2009 were as follows:

	Millions of Yen			
March 31, 2010	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥ 279	¥ 52	¥ 24	¥ 307
Trust fund investments	12		3	9

March 31, 2009	Millions of Yen 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, 2010	Thousands of U.S. Dollars Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	$ 3,000	$ 561	$ 264	$ 3,297
Trust fund investments	131		40	91

Available-for-sale securities whose fair value was not readily determinable as of March 31, 2009 were as follows. The similar information for 2010 is disclosed in Note 12.

March 31, 2009	Carrying Amount Millions of Yen
Available-for-sale—Equity securities	¥ 44
Capital investments in investment business associations with limited liability or similar associations	36
Total	¥ 80

The impairment losses on available-for-sale equity securities for the years ended March 31, 2010 and 2009 were ¥3 million ($31 thousand) and ¥5 million, respectively.

5. INVENTORIES

Inventories at March 31, 2010 and 2009, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Merchandise	¥ 83,668	¥ 79,954	$ 899,266
Supplies	87	116	942
Total	¥ 83,755	¥ 80,070	$ 900,208

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2010 and, as a result, recognized an impairment loss of ¥1,989 million ($21,375 thousand) as other expense for certain unprofitable stores due to continuous operating losses and idle assets. The carrying amount of the assets of the relevant stores was written down to the recoverable amount. This amount is comprised of ¥1,165 million ($12,522 thousand) for buildings and structures and ¥824 million ($8,853 thousand) for other items. The recoverable amount of this asset group was measured at its value in use or the anticipated net selling price at disposition, 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, 2010 and 2009 consisted of notes to banks. The annual weighted average interest rate applicable to the short-term bank loans was 0.55% and 0.95% at March 31, 2010 and 2009.

Long-term debt at March 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Loans from banks and other financial institutions, due serially through 2016 with weighted average interest rates of 1.43% (2010) and 1.37% (2009):			
Collateralized	¥ 570	¥ 781	$ 6,131
Unsecured	7,445	11,271	80,016
Obligations under finance leases	10,549	11,472	113,382
Total	18,564	23,524	199,529
Less current portion	(7,106)	(7,153)	(76,375)
Long-term debt, less current portion	¥ 11,458	¥ 16,371	$ 123,154

Annual maturities of long-term debt at March 31, 2010 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2011	¥ 7,106	$ 76,375
2012	4,552	48,923
2013	2,199	23,637
2014	1,387	14,905
2015	878	9,434
2016 and thereafter	2,442	26,255
Total	¥ 18,564	$ 199,529

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥170 million ($1,827 thousand) and the above collateralized long-term debt at March 31, 2010, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Property, plant and equipment—net of accumulated depreciation	¥ 2,759	$ 29,654

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. 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, 2010 for directors and corporate auditors was ¥1,021 million ($10,970 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, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Projected benefit obligation	¥ 4,362	¥ 3,714	$ 46,885
Fair value of plan assets		(100)	
Unrecognized actuarial gain	(388)	(102)	(4,167)
Prepaid pension cost		3	
Net liability	¥ 3,974	¥ 3,515	$ 42,718

The components of net periodic benefit costs for the years ended March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Service cost	¥ 453	¥ 429	$ 4,867
Interest cost	68	61	736
Recognized actuarial loss	34	35	366
Required contribution for the multiemployer plan		11	
Net periodic benefit costs	¥ 555	¥ 536	$ 5,969

Assumptions used for the years ended March 31, 2010 and 2009, are set forth as follows:

	2010	2009
Discount rate	2.0%	2.0%
Recognition period of actuarial gain/loss	5 years	5 years

9. EQUITY

Japanese companies are 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 a Board of Directors, (2) having independent auditors, (3) having a 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 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 amount of 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 are 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, 2010 and 2009.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2010 and 2009, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Deferred tax assets:			
Inventories		¥ 124	
Loss on impairment	¥ 2,457	1,784	$ 26,408
Accrued enterprise taxes	271	263	2,912
Accrued bonuses	711	677	7,640
Liabilities for retirement benefits	1,606	1,435	17,259
Retirement benefits for directors and corporate auditors	412	401	4,432
Tax loss carryforwards	32	201	349
Other	1,050	1,079	11,281
Less valuation allowance	(938)	(248)	(10,082)
Total	5,601	5,716	60,199
Deferred tax liabilities:			
Property and equipment	(126)	(140)	(1,353)
Other	(306)	(514)	(3,289)
Total	(432)	(654)	(4,642)
Net deferred tax assets	¥ 5,169	¥ 5,062	$ 55,557

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, 2010 and 2009 is as follows:

	2010	2009
Normal effective statutory tax rate	40%	40%
Per capita portion	3	3
Tax loss carryforwards	(1)	
Amortization of negative goodwill		(1)
Valuation allowance	7	2
Other—net	(1)	0
Actual effective tax rate	48%	44%

At March 31, 2010, a subsidiary has tax loss carryforwards aggregating approximately ¥80 million ($863 thousand) which are available to be offset against taxable income of such 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
2016	¥ 64	$ 687
2017	16	176
Total	¥ 80	$ 863

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, 2010 and 2009, was ¥12,248 million ($131,642 thousand) and ¥12,613 million, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2010 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2010	2010
Due within one year	¥ 835	$ 8,972
Due after one year	3,670	39,450
Total	¥ 4,505	$ 48,422

12. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

On March 10, 2008, the ASBJ revised ASBJ Statement No. 10, "Accounting Standard for Financial Instruments," and issued ASBJ Guidance No. 19, "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." This accounting standard and guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010, with early adoption permitted from the beginning of the fiscal years ending before March 31, 2010. The Group applied the revised accounting standard and the new guidance effective March 31, 2010.

(1) *Group Policy for Financial Instruments*

The Group uses financial instruments, mainly long-term debt including bank loans and lease obligation, based on its capital financing plan. Cash surpluses, if any, are invested in low-risk financial assets, mainly short-term deposits. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

(2) *Nature and Extent of Risks Arising from Financial Instruments*

Receivables such as trade notes and trade accounts are exposed to customer credit risk. Marketable and investment securities, mainly equity instruments, are exposed to issuer credit risk and the risk of market price fluctuations.

Payment terms of payables, such as trade notes and trade accounts, are less than one year.

Maturities of bank loans and lease obligations are less than 17 years after the balance sheet date. Although a part of such bank loans and lease obligations are exposed to market risks from changes in variable interest rates, those risks are mitigated by using derivatives of interest-rate swaps.

Derivatives mainly include forward foreign currency contracts, currency swaps, and interest-rate swaps, which are used to manage exposure to market risks from changes in foreign currency exchange rates of payables, and from changes in interest rates of bank loans. Please see Note 13 for more detail about derivatives.

(3) ***Risk Management for Financial Instruments***

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers in the early stages.

With respect to derivatives, the Group manages its exposure to credit risk by limiting its counterparties to high credit rating financial institutions.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2010.

Market risk management (foreign exchange risk and interest rate risk)

Marketable and investment securities are managed by monitoring market values and financial position of issuers on a regular basis.

Foreign exchange risk expected from forecasted transaction is hedged principally by forward foreign currency contracts.

Interest rate swaps are used to manage exposure to market risks from changes in interest rates of loan payables.

Basic principles of derivative transactions have been approved by management meeting based on the internal guidelines which prescribe the authority and the limit for each transaction by the corporate treasury department. Reconciliation of the transaction and balances with customers is made, and the transaction data has been reported to the management meeting on a quarterly basis.

Liquidity risk management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on maturity dates. The Group manages its liquidity risk by continually increasing its borrowing facility, along with adequate financial planning by the corporate treasury department.

(4) *Fair Values of Financial Instruments*

Fair values of financial instruments are based on quoted price in active markets. If quoted price is not available, other rational valuation techniques are used instead. Also please see Note 13 for the detail of fair value for derivatives.

(*a*) *Fair value of financial instruments*

	Millions of Yen		
March 31, 2010	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 7,411	¥ 7,411	
Short-term investments	261	261	
Receivables	6,152	6,152	
Investment securities	315	315	
Total	¥ 14,139	¥ 14,139	
Short-term bank loans	¥ 54,210	¥ 54,210	
Payables	47,414	47,414	
Income taxes payable	3,303	3,303	
Long-term debt	18,564	18,617	¥ 53
Total	¥ 123,491	¥ 123,544	¥ 53

	Thousands of U.S. Dollars		
March 31, 2010	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 79,651	$ 79,651	
Short-term investments	2,808	2,808	
Receivables	66,122	66,122	
Investment securities	3,388	3,388	
Total	$ 151,969	$ 151,969	
Short-term bank loans	$ 582,653	$ 582,653	
Payables	509,614	509,614	
Income taxes payable	35,500	35,500	
Long-term debt	199,528	200,101	$ 573
Total	$ 1,327,295	$ 1,327,868	$ 573

Cash and Cash Equivalents, Short-Term Investments and Receivables

The carrying values of cash and cash equivalents, short-term investments and receivables approximate fair value because of their short maturities.

Investment Securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. The information of the fair value for marketable and investment securities by classification is included in Note 4.

Short-Term Bank Loans and Payables

The carrying values of short-term bank loans and payables approximate fair value because of their short maturities.

Income Taxes Payable

The carrying values of income taxes payable approximate fair value.

Long-Term Debt

The long-term bank loans are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate. Long-term debt with no interest is determined by discounting the cash flows related to the debt at a risk-free rate.

The carrying values of long-term lease obligations approximate fair value.

Derivatives

The information of the fair value for derivatives is included in Note 13.

(*b*) *Financial instruments whose fair value cannot be reliably determined*

	Carrying Amount	
March 31, 2010	Millions of Yen	Thousands of U.S. Dollars
Investments in equity instruments that do not have a quoted market price in an active market	¥ 84	$ 901

(**5**) ***Maturity Analysis for Financial Assets and Securities with Contractual Maturities***

	Millions of Yen			
March 31, 2010	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 7,411			
Short-term investments	261			
Receivables	6,152			
Investment securities—				
Available-for-sale securities with contractual maturities		¥9		
Total	¥ 13,824	¥9		

	Thousands of U.S. Dollars			
March 31, 2010	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	$ 79,651			
Short-term investments	2,808			
Receivables	66,122			
Investment securities—				
Available-for-sale securities with contractual maturities		$ 91		
Total	$ 148,581	$ 91		

Please see Note 7 for annual maturities of long-term debt.

13. DERIVATIVES

The Group enters into derivative transactions, including foreign exchange forward contracts and currency swaps, to hedge foreign exchange risk associated with a portion 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.

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.

As noted in Note 12, the Group applied ASBJ Statement No. 10, "Accounting Standard for Financial Instruments," and ASBJ Guidance No. 19, "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." The accounting standard and guidance are applicable to financial instruments and related disclosures at the end of fiscal years ending on or after March 31, 2010; therefore, the required information is disclosed only for 2010.

Derivative Transactions to Which Hedge Accounting Is Applied at March 31, 2010

		Millions of Yen		
March 31, 2010	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Currency swaps—Receive U.S.$/pay yen	Payables	¥ 5,189	¥ 1,981	¥ (442)
Interest rate swaps (fixed rate payment, floating rate receipt)	Long-term debt	300	200	

March 31, 2010	Hedged Item	Thousands of U.S. Dollars Contract Amount	Contract Amount Due after One Year	Fair Value
Currency swaps—Receive U.S.$/pay yen	Payables	$ 55,709	$ 21,294	$ (4,752)
Interest rate swaps (fixed rate payment, floating rate receipt)	Long-term debt	3,224	2,150	

The above 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. In addition, the fair value of such interest rate swaps in Note 13 is included in that of the hedged items (i.e., long-term debt).

The following is the fair value information for foreign currency forward contracts to which hedge accounting is not applied at March 31, 2009. Foreign currency forward contracts which qualify for hedge accounting are excluded from the information below.

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

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

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.

Foreign currency forward contracts which qualify for hedge accounting for the years ended March 31, 2010 and 2009 are excluded from the disclosure of market value information.

14. SUBSEQUENT EVENT

The Board of Directors have proposed the following appropriation of retained earnings at March 31, 2010, which is subject to approval at the Company's shareholders meeting to be held on June 29, 2010:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥17 ($0.17) per share	¥ 868	$ 9,333

15. SEGMENT INFORMATION

(1) *Industry Segments*

Information about industry segments is not shown, since substantially all consolidated net sales, operating income and identifiable assets for 2010 and 2009 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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