February, 2004

Summary Report of Consolidated Financial Results For the Six Months Ended December 31 2003

(All financial information has been prepared in accordance with accounting principle generally accepted in Japan.)

Don Quijote Co., Ltd.

Securities Code No.:	7532
Shares Listed:	Tokyo Stock Exchange
Address:	4-14-1, Kitakasai, Edogawa-ku, Tokyo, Japan
Contact:	Mitsuo Takahashi, Director of Corporation Management and Strategic Division (Phone: +81-3-5667-7511)
URL:	http://www.donki.com

Interim dividend:	None

1. Business Results and financial position for the Six Months Ended December 31, 2003 (From July, 1, 2003 to December 31, 2003)

Notes: 1.All amounts less than one million yen have been disregarded.
2.The financial results for the six months period ended December 31, 2003 and 2002 were not audited by independent public accountant.

(1) Results of Business Operations (Millions of Yen, except per-share data)

	Net Sales	Change (%)	Operating Income	Change (%)	Recurring Income	Change (%)
Six Months Ended December 31, 2003 (Unaudited)	94,146	19.2	6,124	31.8	7,031	40.7
Six Months Ended December 31, 2002 (Unaudited)	78,967	45.8	4,648	33.9	4,997	27.2
Last Fiscal Year	158,619	—	9,165	—	10,162	—

	Net Income	Change (%)	Net Income per Share	Dilute Income per Share
Six Months Ended December 31, 2003 (Unaudited)	3,906	41.8	191.17	178.73
Six Months Ended December 31, 2002 (Unaudited)	2,755	46.6	272.22	250.99
Last Fiscal Year	5,641	—	557.02	513.89

Notes:
1. Average number of shares outstanding at the beginning and end of the period or the year:
   Current six months period: 20,434,781 shares
   Previous six months period: 10,120,846 shares
   Last fiscal year: 10,128,300 shares
2. Change in accounting method: N/A
3. Percentages above represent increase / decrease over preceding six months period.

(2) Financial Position (Millions of Yen, except per-share data)

	Total Assets	Shareholders' Equity	Ratio of Shareholders' Equity to Total Assets (%)	Shareholders' Equity per Share (Yen)
Six Months Ended December 31, 2003 (Unaudited)	112,593	37,116	33.0	1808.38
Six Months Ended December 31, 2002 (Unaudited)	82,778	29,254	35.3	2,886.45
Last Fiscal Year	93,410	32,232	34.5	3,178.94

Note: Number of outstanding shares: Current six months ended December 31, 2003: 20,524,522 shares
Previous six months ended December 31, 2002: 10,135,154 shares
Last fiscal year ended June 30, 2003: 10,139,424 shares

(3) The Consolidated Statements of Cash Flows (Millions of Yen)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the period or the year
Six Months Ended December 31, 2003 (Unaudited)	5,047	(11,865)	7,045	7,173
Six Months Ended December 31, 2002 (Unaudited)	4,695	(4,211)	3,834	10,548
Last Fiscal Year	2,052	(13,080)	11,838	7,040

(4) Scope of consolidation and application of the equity method
Consolidated subsidiaries: 1 company
Unconsolidated subsidiaries accounted for the equity method: N/A
Affiliated companies by the equity method: N/A

(5) Change in the scope of consolidation and application of the equity method
Consolidation (newly included): 0 (Excluded): 1
Equity method (newly applied): 0 (Excluded): 0

2. Consolidated Business Forecast： for the Fiscal Year Ended June 30, 2004 (From July 1, 2003 to June 30, 2004)

(Millions of Yen)

	Net Sales	Recurring Income	Net Income
Year ended June 30,2004	194,000	12,700	6,900

(Reference) Estimated net income per share (for the year ending June 30,2004): 336.18 yen

(Note) Statements made in this report with respect to our current business plans, estimates, strategies and briefs, including the above forecasts, are forward-looking statements about our future performance. These statements are based on management's assumption and briefs in the light of information currently available to it and, therefore, you should not place under reliance on them. A member of important factor could cause actual results to be materially different from worse than those discussed in forward –looking statements. Such factor include bur are not limited to (1) changes in economic conditions affecting our operations (2) competition with the retail industry (3) changes in regulatory environment and government policy (4) key management figure and (5) financing risk.

Business Results and Financial Position

Ⅰ.Business Results

(Millions of yen)

	For the six months ended December 31, 2003 (Unaudited)	For the six months ended December 31, 2002 (Unaudited)	Change	Change (%)
Net sales	94,146	78,967	15,179	19.2
Operating income	6,124	4,648	1,476	31.8
Recurring income	7,031	4,997	2,034	40.7
Net income	3,906	2,755	1,151	41.8

(1) Business Overview

In the second quarter of fiscal 2004, there were some positive economic signs in the Japanese economy, such as indications of improving the environment for export and recovery in the corporate investments. Nonetheless, employment conditions remained at the high level, and consumer spending continued to be severe.

In the retail industry, consumer purchasing behavior remained uncertain, due to the disappointment for the low level of employment and income. In addition, unseasonable weather conditions, marked by low temperature in summer and heavy rain and lingering heat of late summer.

In this environment, Our Group has been developing stores to expand the number and area for "Customer Satisfaction", simultaneously, reduction of operating expense, improving the gross margin under the low cost operation. In addition, Our Group has made efforts to improve for service level.

We promoted the opening new stores efficiency and established the store named "Don Quijote Nerima" in Tokyo, "Picasso Funabashikeibajyo" in Chiba prefecture, "PAW Tsuchiurakita" in Ibaraki prefecture, "PAW Takasaki" "PAW Isesaki" in Gunma prefecture, "PAW Atsubetu" in Hokkaido, "PAW Nakagawasannou" in Aichi prefecture, "Paw SBS Dori" in Shizuoka prefecture, "PAW Isawa" in Yamanashi prefecture, and "Don Quijote Habikino" "PAW Suminoekoen" "in Osaka. As the result, number of the stores as of the end of December 2003 became 81 stores (70 stores as of the end of June, 2003)

As a results, net sales for the second quarter of fiscal 2004 was ¥94,146 million (up 19.2% from the second quarter of fiscal 2003), recurring income was ¥7,031 million (up 40.7%) and net income was ¥3,906 million (up 41.8%).

(2) Segment Overview

(Millions of yen)

	For the six months ended December 31, 2003 (Unaudited)	For the six months ended December 31, 2002 (Unaudited)	Change	Change (%)
Discount store operations				
Electric goods	19,483	16,965	2,517	14.8
Merchandise	21,590	19,042	2,547	13.4
Foods	16,959	13,982	2,977	21.3
Watches, fashion goods	25,205	19,976	5,229	26.2
Sports, leisure goods	7,660	6,571	1,088	16.6
Others	2,155	1,998	156	7.8
Sub Total	93,053	78,537	14,516	18.5
Wholesale operations	—	25	(25)	(100.0)
Multiple tenants shopping mall, including leasing of property	1,092	404	688	170.2
Total	94,146	78,967	15,179	19.2

(Discount store operations)
Net sales from discount store operations increased ¥14,516 million (up 18.5%) from the second quarter of fiscal 2002 to ¥93,053 million. This was due to mainly sales of life-style products such as watch and fashion goods with high selling prices that deliver high profit margins and also stable sales of foods, although sales of seasonal products were inactive due to cold summer.

(Rental business operations)
Net sales from rental business operations increased ¥688 million (up 170.2%) from the second quarter of fiscal 2002 to ¥1,092 million. This was due to the increase of tenants for newly opened PAW stores.

Ⅱ. Financial Position

(Millions of yen)

	As of December 31, 2003 (Unaudited)	As of June 30, 2003 (Unaudited)	Change
Total assets	112,593	93,410	19,182
Total liabilities	75,477	61,178	14,299
Total shareholders' equity	37,116	32,232	4,883

(Millions of yen)

	For the six months ended December 31, 2003 (Unaudited)	For the six months ended December 31, 2002 (Unaudited)	Change
Net cash provided by operating activities	5,047	4,695	352
Net cash provided by investing activities	(11,865)	(4,211)	(7,654)
Net cash provided by financing activities	7,045	3,834	3,211
Cash and cash equivalents at end of the period	7,173	10,548	3,374

(1) Assets, liabilities and shareholders' equity

1. Total assets

Total assets as of December 31, 2003 increased by ¥19,182 million from June 30, 2003 to ¥112,593 million. This is due to the increase of property and equipment by ¥9,576 million for the opening new stores and increase of inventories by ¥7,156 million.

2. Liabilities

Liabilities as of December 31, 2003 increased by ¥14,299 million from June 30, 2003 to ¥75,477 million. This is due to the increase of accounts payable-trade by ¥7,226 million for the expanding scale of company and flotation of the commercial paper by ¥5,000 million.

3. Shareholders' equity

Shareholders' equity as of December 31, 2003 increased by ¥4,883 million from June 30, 2003 to ¥37,116 million.

(2) Consolidated Statements of Cash Flows.

1. Cash flows from operating activities

Net cash provided by operating activities increased ¥5,047 million. mainly due to the increase of inventories.

2. Cash flows from investing activities

Net cash provided by investing activities decreased ¥11,865 million mainly due to the increase of property and equipment for the opening new stores.

3. Cash flows from financing activities

Net cash provided by financing activities increased ¥7,045 million mainly due to the increase of issuance of the commercial paper.

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	Second quarter, 2003 (Unaudited)	Second quarter 2002 (Unaudited)
Total shareholders' equity / Total assets (%)	35.3	33.0
Market capitalization * / Total assets (%)	133.3	101.0
Cash flows from operating activities / Interest paid (time)	36.3	23.0
Debt bearing interest / Cash flows from operating activities (year)	6.4	8.7

Note: * Market capitalization = Share price at the end of second quarter × (Number of outstanding and issued shares − treasury stock)

Consolidated Balance Sheets (Unaudited)

Don Quijote Co., Ltd, and a subsidiary
As of December 31, 2003 and 2002

ASSETS	Thousands of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2003	2002	2003
Current assets:			
Cash and time deposits	¥7,173,893	¥10,548,480	$66,964
Note and accounts receivables-trade	1,897,407	1,404,321	17,711
Less: Allowance for doubtful accounts (Note 4)	(2,568)	(1,932)	(23)
Inventories	34,012,647	20,224,768	317,489
Prepaid expense	657,998	486,651	6,142
Deferred tax assets	881,570	680,577	8,228
Other current assets	1,350,869	1,098,990	12,609
Total current assets	45,971,817	34,441,858	429,121
Investments and advances:			
Investment securities (Notes 4 and 6)	3,617,185	2,046,319	33,764
Advance payment for fixed leasehold deposits	791,967	161,436	7,392
Long-term loans receivable	1,181,037	280,000	11,024
Less: Allowance for doubtful accounts (Note 4)	(2,683)	(420)	(25)
Total investments and advances	5,587,506	2,487,335	52,156
Property and equipment, (Notes 3, 4 and 10):			
Buildings and structures	24,125,819	14,846,694	225,201
Vehicles and delivery equipment	74,705	70,270	697
Equipment	6,381,432	4,845,127	59,567
Less: Accumulated depreciation	(6,716,322)	(4,556,165)	(62,693)
Land	22,032,007	18,917,219	205,656
Construction in progress	3,099,100	1,320,840	28,928
Net property and equipment	48,996,741	35,443,987	457,357
Intangibles and deferred charge (Notes 3 and 4)	1,609,859	1,625,435	15,027
Other assets (Note 3):			
Fixed leasehold deposits	8,283,968	6,875,067	77,326
Deferred tax assets (Notes 4)	570,120	628,108	5,321
Other non-current assets	1,573,876	1,276,422	14,691
Total other assets	10,427,964	8,779,598	97,339
Total assets	¥112,593,889	¥82,778,216	$1,051,002

The accompanying notes are integral part of the statements.

(Unaudited)

LIABILITIES AND SHAREHOLDERS' EQUITY	Thousands of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2003	2002	2003
Current liabilities:			
Accounts payable-trade	¥23,696,677	¥18,539,883	$221,195
Short-term loans payable	7,620,000	900,000	71,128
Commercial Paper	5,000,000	—	46,672
Current maturities of long-term debt (Note 10)	5,702,240	4,029,290	53,227
Accrued income taxes	3,094,865	2,428,251	28,888
Accrued expense	712,716	642,601	6,652
Other current liabilities	2,839,667	1,340,309	26,506
Total current liabilities	48,666,167	27,880,336	454,272
Long-term liabilities:			
Long-term debt (Note 10)	25,809,760	25,059,000	240,920
Allowance for retirement benefits for directors (Note 4)	136,155	96,386	1,270
Other non-current liabilities	865,594	487,925	8,079
Total long-term liabilities	26,811,510	25,643,311	250,270
Total liabilities	¥75,477,677	¥53,523,648	$704,542
Shareholders' equity (Notes 4):			
Common stock			
Authorized:			
2002 — 39,000,000 shares			
2003 — 78,000,000 shares			
Issued and outstanding:			
2002 — 10,135,154 shares			
2003 — 20,524,522 shares	6,471,518	5,940,379	60,408
Additional paid-in capital	7,786,495	7,255,533	72,682
Retained earnings	22,867,861	16,261,917	213,458
Net unrealized losses on investment securities	448	(197,248)	4
	37,126,322	29,260,581	346,553
Less: Treasury stock, at cost			
2002 —568 shares			
2003 —1,879 shares	(10,112)	(6,013)	(94)
Total shareholders' equity	37,116,212	29,254,568	346,459
Total liabilities and shareholders' equity	¥112,593,889	¥82,778,216	$1,051,002

The accompanying notes are integral part of the statements.

Consolidated Statements of Income (Unaudited)

Don Quijote Co., Ltd, and a subsidiary
For the six months ended December 31, 2003 and 2002

	Thousands of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2003	2002	2003
Net sales	¥94,146,793	¥78,967,337	$878,808
Cost of goods sold	72,664,926	61,524,302	678,287
Gross profit	21,481,867	17,443,034	200,521
Selling, general and administrative expenses (Note 11)	15,357,293	12,794,615	143,351
Operating income	6,124,574	4,648,419	57,169
Other income (expenses):			
Interest and dividend income	31,380	18,179	292
Interest on bank loans, bank overdraft and commercial paper	(142,874)	(155,636)	(1,333)
Interest on bonds	38,979	—	363
Stock issuance cost (Note 4)	(3,920)	(4,012)	(36)
Bond issuance cost (Note 4)	(571)	(243,905)	(5)
Bond guarantee cost	(25,007)	—	(233)
Other income, net (Note 9)	1,019,531	642,985	9,516
Income before income taxes	6,964,132	4,906,028	65,006
Income taxes (Note 4):			
Current	3,018,741	2,374,337	28,178
Deferred	38,969	(223,390)	363
Net income	¥3,906,422	¥2,755,081	$36,464

Amount per share of common stock:	Yen	Yen	U.S. dollars (Note2)
Basic earnings (Notes 4 and 12)	¥191.17	¥136.11	1.78
Diluted earnings (Notes 4 and 12)	¥178.73	¥125.50	1.66

The accompanying notes are integral part of the statements.

Consolidated Statements of Stockholders' Equity (Unaudited)

Don Quijote Co., Ltd, and a subsidiary
For the six months ended December 31, 2003 and 2002

	Thousands of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2003	2002	2003
Common stock:			
Balance at beginning of the period	¥5,949,875	¥5,815,528	$55,538
Exercise of stock options	126,555	19,853	1,181
Conversion of convertible bonds	395,088	104,997	3,687
Balance at end of the period	¥6,471,518	¥5,940,379	$60,408
Additional paid-in capital:			
Balance at beginning of the period	¥7,265,028	¥7,130,677	$67,815
Exercise of stock options	126,555	19,853	1,181
Conversion of convertible bonds	394,911	105,002	3,686
Balance at end of the interim period	¥7,786,495	¥7,255,533	$72,682
Retained earnings:			
Balance at beginning of the period	¥19,148,534	¥13,658,355	$178,741
Net income	3,906,422	2,755,081	36,464
Cash dividends	(152,091)	(151,519)	(1,419)
Decrease of the retained earnings on the exclusion from the consolidation	(35,003)	—	(326)
Balance at end of the period	¥22,867,861	¥16,261,917	$213,458

The accompanying notes are integral part of the statements.

Consolidated Statements of Cash Flows (Unaudited)

Don Quijote Co., Ltd, and a subsidiary
For the six months ended December 31, 2003 and 2002

	Thousands of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2003	2002	2003
Cash flows from operating activities:			
Income before income tax	¥6,964,132	¥4,906,028	$65,006
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization, including amortization of consolidation difference	1,439,801	1,002,350	13,439
Provision (Reversal) for doubtful accounts	1,987	(3,360)	18
Provision for retirement benefits for directors	42,019	6,758	392
Interest and dividend income	(31,380)	(18,179)	(292)
Interest expense	206,861	155,636	1,930
Gain on sale of property and equipment	—	(55,214)	—
Loss on close down of stores	60,795	—	567
Loss on devaluation of investment securities	—	150,230	—
Gain on sale of investment securities	(131,771)	—	(1,230)
Other, net	(72,892)	60,953	680
Increase in trade receivable	(759,155)	(413,263)	(7,086)
Increase in inventories	(7,156,417)	(2,236,574)	(66,801)
Increase in other current assets	(383,236)	(203,742)	(3,577)
Increase in trade payable	7,226,347	4,299,159	67,454
Increase (Decrease) in other current liabilities	751,127	(1,199,996)	7,011
Increase in other non-current liabilities	255,535	159,785	2,385
Cash generated from operations	8,413,755	6,610,570	78,537
Received interest and dividend income	21,050	3,760	196
Interest paid	(219,303)	(129,504)	(2,047)
Income tax paid	(3,167,617)	(1,789,649)	(29,567)
Net cash provided by operating activities	5,047,884	4,695,177	47,119
Cash flows from investing activities:			
Payments for purchase of investment securities	(1,124,000)	(102,000)	(10,491)
Proceeds from sale of investment securities	203,871	—	1,903
Payments for purchase of tangible fixed assets and intangible assets	(9,605,120)	(6,645,255)	(89,658)
Proceeds from sale of tangible fixed assets	—	3,399,362	—
Decrease (Increase) in loans receivable	(47,262)	80,000	(441)
Increase in fixed leasehold deposits	(938,545)	(937,714)	(8,760)
Decrease in fixed leasehold deposits	589,293	391,649	5,500
Advance payment for leasehold deposits	(942,742)	(109,211)	(8,799)
Decrease (Increase) in insurance policy	20,635	(81,851)	192
Other, net	(22,033)	(206,047)	(205)
Net cash used in investing activities	(11,865,904)	(4,211,067)	(110,761)
Cash flows from financing activities:			
Borrowing in short-term loans payable	25,500,000	6,400,000	238,028
Borrowing in long-term loans payable	3,000,000	300,000	28,003
Repayment in short-term loans	(23,980,000)	(12,056,000)	(223,840)
Repayment in long-term loans	(2,272,800)	(695,820)	(21,215)
Issuance of commercial paper	5,000,000	—	46,672
Issuance of common stock	253,110	39,707	2,362
Issuance of straight bonds	—	10,000,000	—
Redemption of bonds	(300,000)	—	(2,800)
Payments for purchase of treasury stock	(2,830)	(2,270)	(26)
Payments of cash dividends	(152,091)	(151,519)	(1,419)
Net cash provided by financing activities	7,045,389	3,834,097	65,764
Foreign Exchange resulting from cash and equivalents	(2,349)	—	(21)
Net increase in cash and cash equivalents	227,368	4,318,207	2,122

Cash and cash equivalent at beginning of the period	7,040,599	6,230,273	65,720
Decrease in cash and cash equivalents resulting From non-consolidating a subsidiary	(91,725)	—	(856)
Cash and cash equivalents at end of the period (Note 4 and 13)	¥7,173,893	¥10,548,480	$66,964

The accompanying notes are integral part of the statements.

Notes to Consolidated Financial Statements

Note 1. NATURE OF OPERATIONS

The Don Quijote Co., Ltd ("Parent") and its subsidiary, PAW Creation (together the "Group") have two operations; discount store operations and rental business operations for real property.

The discount store operations, which mainly comprise 81 discount retail stores, including a small discount retail store, in Japan, principally sell electric appliances, household goods, food, cosmetics, toiletries, sports goods and etc.

The PAW Creation operate multiple tenants shopping mall, including leasing of property.

Note 2. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of the Group accounts for a subsidiary on a consolidated basis.

The consolidated financial statements are prepared in accordance with accounting principles and practices generally accepted in Japan under the requirements of the Japanese Commercial Code and other applicable rules and regulations for domestic purpose and were filed with the local finance bureau of the Ministry of Finance (MOF) as required by the Securities and Exchange Law. In preparing these financial statements, certain reclassifications and rearrangements have been made to the original financial statements issued domestically in Japan, for the conveniences of readers outside of Japan.

As at 31 December, 2003, the Group had five subsidiaries, including one consolidated subsidiary as set out in the table below. All of the Group's subsidiaries are incorporated in Japan. The Group has not received any dividends from its subsidiaries in respect of the shares held for the 2003 fiscal year.

In addition, the accompanying notes include information, which is not required under generally accepted accounting principles and practices in Japan, but is presented herein as additional information.

All yen figures are rounded down to the nearest thousand. Accordingly, breakdown figures may not add up to sums. The U.S. dollar amounts presented in the accompanying financial statements are converted solely for convenience at the rate of ¥107.13 to U.S. $1.00, which was the exchange rate prevailing on December 30, 2003. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S dollars at this or any other rate of exchange.

Certain reclassifications have been made in the 2002 financial statements to conform to the presentation for 2003.

Note 3. SIGNIFICANT DIDDERNCES BETWEEN ACCOUNTING POLICIES FOLLOWED BY THE COMPANY AND DOMESTIC AND DOMESTIC SUBSIDIARES AND INTERNATIONAL ACCOUNTING STANDARDS

The accompanying consolidated financial statements are prepared in conformity with accounting principles generally accepted in Japan. Differences from IAS include the following.

Changes in Accounting Policy

IAS 8 stipulates two methods of presentation for retrospective application when a company changes an accounting policy and the amount of any resulting adjustment that relates to prior periods is reasonably determinable.

(i) The cumulative effect of the change should be reported as an adjustment to the opening balance of retained earnings. Comparative information should be restated unless it is impracticable.

(ii) The cumulative effect of the change should be included in the determination of the net income for the current period. Comparative information should be presented as reported in the financial statements of the prior period without restatement to reflect the change. Additional pro forma comparative information should be presented unless it is impracticable.

Under Japanese GAAP, no retrospective application is permitted and no additional pro forma comparative information is required.

Leases (Note 5)

IAS 17 requires the leased assets and related lease obligation to be recorded in the balance sheet in certain circumstances, even if title is not eventually transferred to the lessee.

Impairment of Long-Lived Assets

IAS 36 requires that a company should assess at each balance sheet date whether there is any indication that the carrying value of an asset may be impaired. If any such indication exists, the company should estimate the recoverable amount of the asset and recognise an impairment loss in the income statement.

SPC accounting
Accounting for Consolidation-Special Purpose Entities is not required for the special case under generally accepted accounting principles and practices in Japan, which differ from Interpretation SIC-12.

Amount of significant effects on the consolidated financial statements
Had IAS applied, the significant effects on the accompanying consolidated financial statements would have been as follows:

	Thousands of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2003(Unaudited)	2002(Unaudited)	2003(Unaudited)
Lease (Note 5):			
Property and equipment	¥174,064	¥167,786	$1,646
Current liabilities	46,147	37,005	385
Long-term liabilities	127,916	130,781	1,261
SPC (Notes 5 and 8):			
Land	¥8,278,652	¥8,278,652	$69,104
Buildings	2,735,978	2,735,978	22,838
Structures	62,194	62,194	519
Current liabilities	1,433,735	1,433,735	12,440
Long-term liabilities	5,963,809	7,397,545	55,293

Bonuses To Directors And Corporate Auditors

Under IAS, such bonuses are accounted for as expenses and charged to income in the fiscal year to which the bonus relates. Under Japanese GAAP, bonuses to directors and corporate auditors are accounted for as an appropriation of retained earnings and are recorded after approval by the shareholders.

Note 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation
The accompanying consolidated financial statements of the Group accounts for its subsidiary on a consolidated basis. As of December 31, 2003, the Parent has 5 subsidiaries including 1 consolidated as set out in the following table.

Investments in 2003 and 2002 unconsolidated subsidiaries are stated at cost.

Name of subsidiary	Place of Subsidiary	Proportion of ownership interest directly or indirectly (%)	Proportion of voting power held (%)	Principal Business
Consolidated Subsidiaries				
PAW Creation Co., Ltd.	Tokyo, Japan	100	100	Operation of multiple tenants shopping malls, including leasing of property.
Non-consolidated Subsidiaries				
Leader Co., Ltd.	Saitama Prefecture, Japan	100	100	Operation suspended
Kanno Syuhan Kabushiki Kaisha	Tokyo, Japan	100	100	Sale of alcohol
Yugen Kaisha Nakagawa	Kanagawa Prefecture, Japan	100	100	Sale of alcohol
Yugen Kaisha Liquor Shop K2	Kanagawa Prefecture, Japan	100	100	Sale of alcohol

Leader Co, Ltd was excluded from consolidation because of suspended merchandise business and discontinuing wholesale operations.

Cash flow equivalent
In preparing the cash flow statements for the year ended December 31, 2003 and 2002, cash is considered to be " cash and cash equivalents",which include cash on hand, readily available deposits and highly liquid investments with original maturities not exceeding three months.

Translation of foreign currency accounts
Account payable denominated in foreign currencies are translated into Japanese yen at the foreign currency exchange rates in effect at the respective balance sheet dates. Exchange differences are charged to income.

Use of Estimates
The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Marketable securities and Investment securities
Securities available-for-sale are securities other than trading securities and securities being held to maturity.
Securities available-for-sale are carried at fair value with corresponding unrealized gains (losses) recorded directly in a separate component of stockholders' equity. Securities available-for-sale for which fair value is not readily determinable are carried at moving average cost or amortized cost determined by the moving average method.
The Group adopted its method of valuation of investments to record it at market or fair value.

Inventories
The Parent adopts that inventories are valued at cost determined by the retail method.
Impairment loss on inventories of ¥ 7,000 thousand ($ 65 thousand) was recorded in "Cost of goods sold".

Property and equipment
Property and equipment are carried at cost. Significant renewal and additions are capitalizes: maintenance and repaired, and minor renewals and improvements, are charged to income as incurred, interest cost relating to construction of property, equipment are not capitalized.

Property and equipment are computed on the declining balance method according to the rules on based on the Japanese Corporation tax Law.

The useful lives of property and equipment for computing depreciation, which are identical with the useful lives stipulated under the Japanese Corporation tax regulations, are as shown below:

	Years
Buildings and structures	3 to 45
Equipment and vehicles	2 to 20

Software
In accordance with the provisional rule of the JICPA's Accounting Committee Report NO. 12 "Practical Guidance for Accounting for Research and Development Costs, etc." (the "Report"), the Company accounts for software which was included in intangible assets in the same manner in 2003 as in 2002 and depreciated it using the straight-line method over the estimated useful lives (five years).

Common stock issuance costs
Common stock issuance costs are directly charged to income as incurred. Japanese Commercial Code prohibits charging such stock issuance costs to capital accounts.

Bond issuance costs
Bond issuance costs are directly charged to income as incurred.

Allowance for doubtful accounts
The allowance for doubtful receivables is provided in amounts sufficient to cover possible losses on collection. It is determined by adding the uncollectible amounts individually estimated for doubtful receivables to a maximum amount permitted for tax purpose, which is calculated collectively, and by adding the uncollectible amounts individually.

Allowance for retirement benefits for directors.
The Group adopted a retirement benefit plan for directors and statutory auditors. Directors and statutory auditors are entitled to be paid a lump-sum retirement benefit determined on the basis of rules of the Group.

Revenue recognition
Net sales is recognised at the time sales are made to customers.

Income taxes
Income taxes are determined by using the liability method, where deferred tax assets and liabilities are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements.

Treasury stock and reversal of statutory reserve
Effective April 1, 2002, the Company adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reversal of Statutory Reserves", issued by the Accounting Standards Board of Japan on 21 February, 2002). The effect of the adoption of the new accounting standard on net income was not material.

Leased transactions
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Derivative financial instruments
Hedge accounting
The Group has adopted hedge accounting for its derivative transactions. Gains or losses on changes in the fair values of the hedging instruments, which consist of interest rate swap contracts, are recognized in income when the relating hedged items are reflected in income.

Purpose of Derivative Trading
The Group enters into derivative transactions related to interest rate swap transactions in order to reduce their risk exposure arising from fluctuations in these rates, which based on the internal policies.

Assessment for the efficiency of their hedging
The Group seeks to control the risk of the transaction by assessing the efficiency of their hedging.

Costs of Start-up activities
All costs of start-up activities are expensed as incurred.

Dividends
Dividends are declared by the Board of Directors and approved by the shareholders at meetings held subsequent to the fiscal year to which the dividends are applicable, and shareholders of record as at the end of such fiscal year are entitled to the subsequently declared dividends. Dividends charged to retained earnings represent dividends approved by the shareholders and paid during the respective years.

Bonuses to directors and statutory auditors
Bonuses to directors and statutory auditors, which are subject to shareholders' approval at the annual shareholders' meeting under the Japanese Commercial Code, are accounted for as an appropriation of retained earnings.

Accounting for consumption taxes
The Japanese consumption taxes withheld and consumption taxes paid are not included in the accompanying consolidated statements of income.

Shareholders' Equity
The Japanese Commercial Code requires at least 50 percent of the issue price of new shares to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to additional paid-in capital.

Effective October 1, 2001, the amended Japanese Commercial Code provides that an amount of at least 10% of the aggregate amounts of cash dividends and directors' bonuses which are made as an appropriation of retained earnings allocable to each fiscal period shall be appropriated and set aside as a legal reserve until such reserve plus additional paid-in capital equals 25% of stated capital.

The Japanese Commercial Code permits the transfer of the portions of additional paid-in capital by the resolution of the Board of Directors. The Japanese Commercial Code also permits the transfer of portions of unappropriated retained earnings to stated capital by resolution of shareholders.

Per share data
Basic earnings per share is computed based on the weighted average number of common stock outstanding during the respective period. Diluted earnings per share is computed based on the weighted average number of shares after consideration of the dilutive effect of the shares of common stock issuable upon the conversion of convertible bond and exercise of stock options.

Note 5. LEASES TRANSACTIONS

(1) The Group leases certain equipments under non-capitalized finance and operating leases. Finance leases that do not transfer ownership to lessees are not capitalized and accounted for under the same manner as operating leases. Certain information for such non-capitalized finance and operating leases is as follows.

(a) A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value on December 31, 2003 and 2002 are as follows:

	Thousands of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2003 (Unaudited)	2002(Unaudited)	2003 (Unaudited)
Equipments			
Acquisition cost	¥229,582	¥295,172	$2,143
Accumulated depreciation	(59,239)	(132,027)	(552)
Net book value	¥169,342	¥163,144	$1,580

(b) Future minimum lease payments, inclusive of interest, as of December 31, 2003 and 2002 are as follows:

	Thousands of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2003 (Unaudited)	2002 (Unaudited)	2003 (Unaudited)
Due within one year	¥46,147	¥37,005	$430
Due after one year	127,916	130,781	1,194
Total	¥174,064	¥167,786	$1,624

(c) Future minimum lease payments under the non-capitalized finance and operating leases on December 31, 2003 and 2002 are as follows:

	Thousands of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2003 (Unaudited)	2002 (Unaudited)	2003(Unaudited)
Lease payments	¥23,073	¥16,084	$215
Assumed depreciation charges	22,472	15,587	209
Assumed interest expenses	¥940	¥410	$8

(d) Assumed depreciation charges are computed using the straight-line method over lease terms assuming no residual value.

(e) Assumed interest expenses, which is the difference between total lease payments and assumed acquisition costs of leased property, is allocated in each accounting period based on the interest method.

(2) Lease transactions derived from Special Purpose Company (SPC)

(a) Assumed acquisition cost:

	Thousands of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2003 (Unaudited)	2002 (Unaudited)	2003 (Unaudited)
Land	¥8,278,652	¥8,278,652	$77,276
Buildings	2,735,978	2,735,978	25,538
Structures	¥62,194	¥62,194	$580

(b) Lease payments:

	Thousands of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2003 (Unaudited)	2002 (Unaudited)	2003 (Unaudited)
Lease payments	¥716,867	¥661,321	$6,691

(c) Minimum guarantees for SPC: 75% of the assumed acquisition cost amounted to ¥4,572,066 thousand.

(3) Operating lease

Future minimum lease payments subsequent to December 31, 2003 and 2002 for operating leases are summarized as follows:

	Thousands of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2003 (Unaudited)	2002(Unaudited)	2003 (Unaudited)
Due within one year	¥1,433,735	¥1,433,735	$13,383
Due after one year	5,963,809	7,397,545	55,668
Total	¥7,397,545	¥8,831,280	$69,052

Note 6 MARKETABLE SECURITIES AND INVESTMENT SECURITIES

The Group invests in equity securities and classified its investments in equity securities as available-for-sale.
Investments securities consist of equity securities and others carried at fair market value.

Information regarding available-for-sale securities as of December 31, 2003 and 2002 were as follows:

	Thousands of yen (Note 2)						Thousands of U.S. dollars (Note2)		
	2003(Unaudited)			2002 (Unaudited)			2003 (Unaudited)		
	Acquisition cost	Fair market value	Net realized gain (losses)	Acquisition cost	Fair market value	Net realized gain (losses)	Acquisition cost	Fair market value	Net realized gain (losses)
Equity securities	¥26,958	¥41,532	¥14,573	¥78,820	¥154,771	¥75,950	$251	$387	$136
Debt securities	—	—	—	—	—	—	—	—	—
Others	2,432,058	2,418,240	(13,818)	1,311,058	894,437	(416,621)	22,701	22,572	(128)
Total	¥2,459,017	¥2,459,772	¥754	¥1,389,879	¥1,049,208	(¥340,670)	$22,953	$22,960	$7

Equity securities as of December 31, 2002 includes impairment losses of ¥37,910 thousand on some equity securities.

Information regarding not-available-for-sale securities as of December 31, 2003 and 2002 were as follows:

	Thousands of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2003 (Unaudited)	2002 (Unaudited)	2003 (Unaudited)
Unlisted equity securities (except the equity securities which traded on over-the-counter markets)	¥110,420	¥171,620	$1,030
Subsidiary securities	¥70,300	—	$656

Unlisted equity securities as of December 31, 2002 includes impairment losses of ¥112,320 thousand on some equity securities.

Note 7 FINANCIAL INSTRUMENTS

The Company has entered into interest rate swap contracts to manage its interest rate exposures to possible interest rate fluctuation on loan payable to banks. Derivative transactions entered into by the Company have been made in accordance with internal policies, which regulate the authorization and credit limit amount.

Note 8. USE OF A SPECIAL PURPOSE COMPANY (THE "SPC") FOR PROPERTY OWNERSHIP

The Group has used a sale and lease back structure to securities real estate assets pursuant to which an SPC acquires real estate from the Group and leases it back to the Group. The scheme was used to refinance the Sinjuku Higashi-guchi store. This particular SPC structure is required to be reviewed after five years and, if it is determined at that time not to continue with the structure, the real estate will either be repurchased by the Group or sold by the SPC to a third party. In the latter case, where the market value of the real estate has fallen to less than 75 per cent of the initial purchase price, the Group is required to pay the shortfall up to 75 per cent of the initial purchase price.

In order to obtain financing, on February 2002 the Group used the SPC structure in respect of real estate which it owned in Roppongi. Under this scheme, the Group entrusted the real estate to a trustee and received beneficial rights/interests. The trustee leases the real estate to the Group, will receive rent from the Group and will pay dividends under the trust to the SPC. The term of the trust agreement is 6 years and the term of the lease agreement is 15 years. At the end of the trust agreement, the real estate will either be repurchased by the Group, sold to a third party by tender or assigned by the trustee to the SPC.

In order to obtain financing, on September 2002, the Group used the SPC structure in respect of real estate for PAW Kawasaki. The Group entrusted the real estate to a trustee and sold beneficial rights/interests to improve the financial structure of the Group by reducing interest-bearing debt.

Note 9. OTHER INCOME, NET

Other income, net were consisted of other income and other expense. Other income and other expense were as follows;

	Thousands of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2003 (Unaudited)	2002 (Unaudited)	2003 (Unaudited)
Other income:			
Rental fee for computer system	¥603,332	¥594,387	$5,631
Gain on fund	193,829	30,010	1,809
Gain on sale of investment securities	138,771	—	1,295
Gain on sale of fixed assets	—	59,348	—
Reversal of allowance for doubtful accounts	—	3,360	—
Other	167,930	122,213	
Other income total	1,103,864	809,318	10,303
Other expense:			
Loss on sale of fixed assets	—	4,133	—
Loss on devaluation of investment securities	—	150,230	—
Loss on sale of investment securities	7,000	—	65
Loss on close down of stores	60,795	—	567
Other	16,536	11,970	154
Other expense total	84,333	166,333	787
Other income, net	¥1,019,531	¥642,985	$9,516

Note 10. PLEDGED ASSETS

The assets pledged as collateral for the Group's liabilities at December 31, 2003 and 2002 were as follows:

	Thousands of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2003 (Unaudited)	2002 (Unaudited)	2003 (Unaudited)
Land	¥3,114,479	¥3,114,479	$29,071
Buildings	396,731	425,750	3,703
Total	¥3,511,211	¥3,540,229	$32,775

Liabilities related with the assets pledged at December 31, 2003 and 2002 were as follows;

	Thousands of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2003 (Unaudited)	2002 (Unaudited)	2003 (Unaudited)
Short-term loan	¥2,820,000	¥600,000	$26,323
Current maturities of long-term debt	1,618,200	809,250	15,105
Long-term debt	2,704,600	672,800	25,245
Total	¥7,142,800	¥2,082,050	$66,674

Note 11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major elements of selling, general and administrative expense for 2003 and 2002 were summarized as follows:

	Thousands of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2003 (Unaudited)	2002 (Unaudited)	2003 (Unaudited)
Employees' compensation and benefit	¥5,584,576	¥4,668,202	$52,128
Occupancy and rental	2,422,795	1,988,835	22,615
Commission	1,597,133	1,553,655	14,908
Depreciation	1,359,258	978,293	12,687
Provision for retirement benefits for directors	42,019	6,758	392
Other	4,351,512	3,598,872	40,618
Total	¥15,357,293	¥12,794,615	$143,351

Note 12. EARNING PER SHARE

	Thousands of yen (Note 2)	Thousands of U.S. dollars (Note 2)
	2003 (Unaudited)	2003 (Unaudited)
Net income	¥3,906,422	$36,464
Effective of dilutive securities		
0.25% convertible bonds due 2007	4,695	43
Diluted net income	¥3,911,117	$36,508

	2003 (Unaudited)
Weighted average number of shares	20,434,781
Effective of dilutive securities:	
Stock options	54,057
0.25% convertible bonds due 2007	1,394,404
Diluted weighted average number of shares	21,883,242

	Yen		U.S. dollars (Note 2)
Amount per share of common stock:	2003 (Unaudited)	2002 (Unaudited)	2003 (Unaudited)
Basic earnings	¥191.17	¥136.11	$1.78
Diluted earnings	¥178.73	¥125.50	$1.66

Basic earnings per share is computed based on the weighted average number of common stock outstanding during the respective period. Diluted earnings per share is computed based on the weighted average number of shares after consideration of the dilutive effect of the shares of common stock issuable upon the conversion of convertible bond and exercise of stock options.

The Board of Directors resolved at a meeting held on June 3, 2003 with respect to the two for the one share stock-split effective on August 20, 2003. Basic earnings per share and Diluted earnings per share are reflected in the two for the one share stock-split.

Note 13. CASH FLOW INFORMATION

Cash flow information on December 31, 2003 and 2002 were summarized as follows:

	Thousands of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2003 (Unaudited)	2002 (Unaudited)	2003 (Unaudited)
Cash and time deposits	¥7,173,893	¥10,548,480	$66,964
Time deposits excess three months	—	—	—
Cash and cash equivalents	¥7,173,893	¥10,548,480	$66,964

Note 14. SEGEMENT INFORMATION

Operating segment information
The Group is engaged in discount store operations, and multiple tenants shopping mall, including leasing of property. Such segment information, however, has not been presented, as the percentages of other activities are not material to the discount store business.

Geographic segment information
Since most of the Group's business operation is conducted in Japan, geographic segment information is not presented.

Sales outside Japan
The Group has no sales outside Japan.

Note 15. SUBSEQUENT EVENTS

Under the approval of the board of directors' meeting at January 7, 2004, the Company issued 17,000 million yen of zero coupon convertible bonds due on January, 2011 to be applied to general corporate purposes, including in the respect of the development of new stores and the repayments of short-term indebtedness of the Company.

(1) Closing date: January 26, 2004

(2) Exercise of conversion right

① Period for conversion right　　From February 9, 2004 to January 11, 2011

② Conversion price　　yen　6,750 per share (the initial conversion price)