

Summary Report of Consolidated Financial Results For the Six Months Ended December 31, 2002

(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, 2002 (From July 1, 2002 to December 31, 2002)

Notes: 1. All amounts less than one million yen have been disregarded.

2. The financial results for the six months period ended December 31, 2002 and 2001 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, 2002 (Unaudited) | 78,967 | 45.8 | 4,648 | 33.9 | 4,997 | 27.2 |
| Six Months Ended December 31, 2001 (Unaudited) | 54,174 | 13.3 | 3,472 | 5.8 | 3,930 | 7.2 |
| Last Fiscal Year | 115,428 | | 6,916 | | 7,656 | |

| | Net Income | Change (%) | Net Income per Share | Diluted Income per Share |
|--|------------|------------|-------------------------|-----------------------------|
| Six Months Ended December 31, 2002 (Unaudited) | 2,755 | 46.6 | 272.22 | 250.99 |
| Six Months Ended December 31, 2001 (Unaudited) | 1,879 | 1.2 | 187.25 | 187.14 |
| Last Fiscal Year | 4,027 | | 401.20 | 391.04 |

Notes: 1. Average number of shares outstanding at the beginning and end of the period or the year:

Current six months period: 10,120,846 shares

Previous six months period: 10,035,174 shares

Last fiscal year: 10,038,143 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, 2002 (Unaudited) | 82,778 | 29,254 | 35.3 | 2,886.45 |
| Six Months Ended December 31, 2001 (Unaudited) | 63,178 | 23,738 | 37.6 | 2,364.19 |
| Last Fiscal Year | 72,485 | 26,562 | 36.6 | 2,629.60 |

Note: Number of outstanding shares: Current six months ended December 31, 2002: 10,135,154 shares
 Previous six months ended December 31, 2001: 10,040,890 shares
 Last fiscal year ended June 30, 2002: 10,101,273 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, 2002 (Unaudited) | 4,695 | (4,211) | 3,834 | 10,548 |
| Six Months Ended December 31, 2001 (Unaudited) | 2,424 | (8,075) | 10,134 | 7,794 |
| Last Fiscal Year | 4,972 | (17,667) | 15,614 | 6,230 |

(4) Scope of consolidation and application of the equity method

Consolidated subsidiaries: 2 companies

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): 0

Equity method (newly applied): 0 (Excluded): 0

2. Consolidated Business Forecast : for the Fiscal Year Ended June 30, 2003 (From July 1, 2002 to June 30, 2003)

(Millions of Yen)

| | Net Sales | Recurring Income | Net Income |
|--------------------------|-----------|------------------|------------|
| Year ended June 30, 2003 | 156,500 | 9,760 | 5,350 |

(Reference) Estimated net income per share (for the year ending June 30, 2003): 527.87 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 those discussed in forward-looking statements. Such factor include but 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

During the this interim period, we opened 5 stores in Tokyo, 1 store in Saitama, 1 store in Hokkaido and 1 store in Osaka, bringing the total number of stores to 61 stores as of December 31, 2002.

Operating income increased 45.8% from the same period in the previous year to ¥78,967 million. Net income increased 46.6% from the same period in the previous year to ¥2,755 million.

OVERVIEW OF SALES BY OPERATIONS

| | Thousands of yen (Note 2) | | Thousands of U.S. dollars (Note 2) |
|---|---------------------------|-------------------------|---------------------------------------|
| | <u>2002 (Unaudited)</u> | <u>2001 (Unaudited)</u> | <u>2002 (Unaudited)</u> |
| Discount store operations | | | |
| Electric goods | ¥16,965,743 | ¥12,294,841 | \$141,499 |
| Merchandise | 19,042,438 | 13,011,239 | 158,819 |
| Foods | 13,982,188 | 9,329,524 | 116,615 |
| Watches, fashion goods | 19,976,479 | 12,556,324 | 166,609 |
| Sports, leisure goods | 6,571,408 | 4,995,214 | 54,808 |
| Others | 1,998,757 | 1,534,004 | 16,671 |
| Subtotal | 78,537,015 | 53,721,148 | 655,021 |
| Wholesale operations | 25,872 | 293,755 | 216 |
| Rental business operations | 404,449 | 159,253 | 3,373 |
| Total | ¥78,967,337 | ¥54,174,157 | \$658,610 |

(Discount store operations)

Net sales from discount store operations increased ¥24,815 million (up 46.2%) from the previous period to ¥78,537 million. This was due to commodity products, including miscellaneous household goods, foods and consumables obtained firm support from consumers and the review of the product lineup that the Company introduced items with relatively high unit selling prices that deliver high profit margins, net sales of watches, fashion goods increased 59.1% from the previous interim period.

(Wholesale operations)

Net sales from wholesales operations decreased ¥267 million (down 91.2%) from the previous period to ¥25 million due to the comprehensive review of the future business plan, wholesales operations downsizing and discontinued.

(Rental business operations)

Net sales from rental business operations increased ¥245 million (up 154.0 %) from the previous period to ¥404 million. This was due to the increase of newly opened stores and tenants.

Cash Flow

Net cash provided by operating activities was ¥4,695 million, ¥2,270 million more than in the previous period.

Net cash used in investing activities amounted to ¥4,211 million, ¥3,864 million more than in the previous period.

Net cash used in financing activities amounted to ¥10,548 million, ¥2,753 million more than in the previous period.

As a result of these cash flows, cash and cash equivalents at December 31, 2002 totaled ¥10,548 million, up ¥2,753 million, compared with those at December 31, 2001.

Consolidated Balance Sheets (Unaudited)

Don Quijote Co., Ltd, and Subsidiaries
As of December 31, 2002 and 2001

| ASSETS | Thousands of yen (Note 2) | | Thousands of U.S. dollars (Note 2) |
|--|---------------------------|----------------|---------------------------------------|
| | 2002 | 2001 | 2002 |
| Current assets: | | | |
| Cash and time deposits | ¥10,548,480 | ¥7,842,411 | \$87,977 |
| Note and accounts receivables-trade | 1,404,321 | 957,168 | 11,712 |
| Less: Allowance for doubtful accounts (Note 4) | (1,932) | (6,022) | (16) |
| Inventories | 20,224,768 | 16,101,999 | 168,680 |
| Prepaid expense | 486,651 | 305,029 | 4,059 |
| Deferred tax assets | 680,577 | 321,818 | 5,676 |
| Other current assets | 1,098,990 | 1,071,288 | 9,167 |
| Total current assets | 34,441,858 | 26,593,693 | 287,255 |
| Investments and advances: | | | |
| Investment securities (Notes 4 and 6) | 2,046,319 | 1,482,533 | 17,067 |
| Advance payment for fixed leasehold deposits | 161,436 | 786,523 | 1,346 |
| Long-term loans receivable | 280,000 | 360,000 | 2,336 |
| Less: Allowance for doubtful accounts (Note 4) | (420) | (1,080) | (4) |
| Total investments and advances | 2,487,335 | 2,627,996 | 20,745 |
| Property and equipment, at cost (Notes 3, 4 and 10): | | | |
| Buildings and structures | 14,846,694 | 8,229,716 | 123,826 |
| Vehicles and delivery equipment | 70,270 | 85,131 | 586 |
| Equipment | 4,845,127 | 2,916,944 | 40,410 |
| Less: Accumulated depreciation | (4,556,165) | (2,968,013) | (38,000) |
| Land | 18,917,219 | 17,000,177 | 157,775 |
| Construction in progress | 1,320,840 | 1,053,547 | 11,016 |
| Net property and equipment | 35,443,987 | 26,317,503 | 295,613 |
| Intangibles and deferred charge (Notes 3 and 4) | 1,625,435 | 939,655 | 13,557 |
| Other assets (Note 3): | | | |
| Fixed leasehold deposits | 6,875,067 | 4,541,183 | 57,340 |
| Deferred tax assets (Note 4) | 628,108 | 412,955 | 5,239 |
| Other non-current assets | 1,276,422 | 1,480,892 | 10,645 |
| Total other assets | 8,779,598 | 6,435,031 | 73,224 |
| Total assets | ¥82,778,216 | ¥63,178,956 | \$690,394 |

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) |
|--|---------------------------|-------------|---------------------------------------|
| | 2002 | 2001 | 2002 |
| Current liabilities: | | | |
| Accounts payable-trade | ¥18,539,883 | ¥14,589,224 | \$154,628 |
| Short-term loans payable | 900,000 | 13,402,000 | 7,506 |
| Current maturities of long-term debt (Note 10) | 4,029,290 | 1,341,640 | 33,605 |
| Accrued income taxes | 2,428,251 | 2,023,059 | 20,253 |
| Accrued expense | 642,601 | 457,448 | 5,359 |
| Other current liabilities | 1,340,310 | 763,655 | 11,179 |
| Total current liabilities | 27,880,336 | 32,577,028 | 232,530 |
| Long-term liabilities: | | | |
| Long-term debt (Note 10) | 25,059,000 | 6,535,290 | 208,999 |
| Allowance for retirement benefits for directors (Note 4) | 96,386 | 84,742 | 804 |
| Other non-current liabilities | 487,925 | 243,297 | 4,069 |
| Total long-term liabilities | 25,643,311 | 6,863,329 | 213,872 |
| Total liabilities | 53,523,648 | 39,440,358 | 446,402 |
| Shareholders' equity (Notes 4 and 11): | | | |
| Common stock | | | |
| Authorized: | | | |
| 2001 — 39,000,000 shares | | | |
| 2002 — 39,000,000 shares | | | |
| Issued and outstanding: | | | |
| 2001 — 10,040,890 shares | | | |
| 2002 — 10,135,154 shares | 5,940,379 | 5,559,538 | 49,545 |
| Additional paid-in capital | 7,255,533 | 6,874,668 | 60,513 |
| Retained earnings | 16,261,917 | 11,510,181 | 135,629 |
| Net unrealized losses on investment securities | (197,248) | (204,885) | (1,645) |
| | 29,260,581 | 23,739,501 | 244,042 |
| Less: Treasury stock, at cost | | | |
| 2001 — 110 shares | | | |
| 2002 — 568 shares | (6,013) | (902) | (50) |
| Total shareholders' equity | 29,254,568 | 23,738,598 | 243,992 |
| Total liabilities and shareholders' equity | ¥82,778,216 | ¥63,178,956 | \$690,394 |

The accompanying notes are integral part of the statements.

Consolidated Statements of Income (Unaudited)

Don Quijote Co., Ltd, and Subsidiaries
For the six months ended December 31, 2002 and 2001

| | Thousands of yen (Note 2) | | Thousands of U.S. dollars (Note 2) |
|--|---------------------------|-------------|---------------------------------------|
| | 2002 | 2001 | 2002 |
| Net sales | ¥78,967,337 | ¥54,174,157 | \$658,610 |
| Cost of goods sold | 61,524,302 | 42,127,693 | 513,130 |
| Gross profit | 17,443,034 | 12,046,464 | 145,480 |
| Selling, general and administrative expenses (Note 11) | 12,794,615 | 8,574,268 | 106,711 |
| Operating income | 4,648,419 | 3,472,196 | 38,769 |
| Other income (expenses): | | | |
| Interest and dividend income | 18,179 | 19,660 | 152 |
| Interest expense | (155,636) | (63,111) | (1,298) |
| Stock issuance cost (Note 4) | (4,012) | — | (33) |
| Bond issuance cost (Note 4) | (243,905) | — | (2,035) |
| Other income, net (Note 9) | 642,985 | 301,827 | 5,363 |
| Income before income taxes | 4,906,028 | 3,730,573 | 40,918 |
| Income taxes (Note 4): | | | |
| Current | 2,374,337 | 1,980,484 | 19,803 |
| Deferred | (223,390) | (129,002) | (1,863) |
| Net income | ¥2,755,081 | ¥1,879,091 | \$22,978 |
| Amount per share of common stock: | Yen | Yen | U.S. dollars (Note2) |
| Basic earnings (Notes 4 and 12) | ¥272.22 | ¥187.25 | \$2.27 |
| Diluted earnings (Notes 4 and 12) | ¥250.99 | ¥187.14 | \$2.09 |
| Cash dividends applicable to the period | — | — | — |

The accompanying notes are integral part of the statements.

Consolidated Statements of Stockholders' Equity (Unaudited)

Don Quijote Co., Ltd. and Subsidiaries

For the six months ended December 31, 2002 and 2001

| | Thousands of yen (Note 2) | | Thousands of U.S. dollars (Note 2) |
|--|---------------------------|-------------|---------------------------------------|
| | 2002 | 2001 | 2002 |
| Common stock: | | | |
| Balance at beginning of the period | ¥5,815,528 | ¥5,539,684 | \$48,502 |
| Exercise of stock options | 19,853 | 19,853 | 166 |
| Conversion of convertible bonds | 104,997 | — | 876 |
| Balance at end of the period | ¥5,940,379 | ¥5,559,538 | \$49,544 |
| Additional paid-in capital: | | | |
| Balance at beginning of the period | ¥7,130,677 | ¥6,854,814 | \$59,471 |
| Exercise of stock options | 19,853 | 19,853 | 166 |
| Conversion of convertible bonds | 105,002 | — | 876 |
| Balance at end of the interim period | ¥7,255,533 | ¥6,874,668 | \$60,513 |
| Retained earnings: | | | |
| Balance at beginning of the period | ¥13,658,355 | ¥9,693,545 | \$113,915 |
| Net income | 2,755,081 | 1,879,091 | 22,978 |
| Cash dividends | (151,519) | (50,158) | (1,264) |
| Deficit resulting from merger | — | (12,296) | — |
| Balance at end of the period | ¥16,261,917 | ¥11,510,181 | \$135,629 |

The accompanying notes are integral part of the statements.

Consolidated Statements of Cash Flows (Unaudited)

Don Quijote Co., Ltd, and Subsidiaries

For the six months ended December 31, 2002 and 2001

| | Thousands of yen (Note 2) | | Thousands of U.S. dollars (Note 2) |
|---|---------------------------|--------------|---------------------------------------|
| | 2002 | 2001 | 2002 |
| Cash flows from operating activities: | | | |
| Income before income tax | ¥4,906,028 | ¥3,730,573 | \$40,918 |
| Adjustments to reconcile income before income taxes to net cash provided by operating activities: | | | |
| Depreciation and amortization, including amortization of consolidation difference | 1,002,350 | 535,140 | 8,360 |
| Reversal for doubtful accounts | (3,360) | (1,330) | (28) |
| Provision for retirement benefits for directors | 6,758 | 5,235 | 56 |
| Interest and dividend income | (18,179) | (19,660) | (152) |
| Interest expense | 155,635 | 63,111 | 1,298 |
| Gain on sale of property and equipment | (55,214) | | (461) |
| Loss on devaluation of investment securities | 150,230 | 200,792 | 1,253 |
| Other, net | 60,953 | 72,013 | 508 |
| Increase in trade receivable | (413,263) | (249,586) | (3,447) |
| Increase in inventories | (2,236,574) | (3,911,949) | (18,654) |
| Decrease (Increase) in other current assets | (203,742) | 302,720 | (1,699) |
| Increase in trade payable | 4,299,159 | 4,430,884 | 35,856 |
| Decrease in other current liabilities | (1,199,996) | (536,565) | (10,008) |
| Increase in other non-current liabilities | 159,785 | 41,395 | 1,334 |
| Cash generated from operations | 6,610,570 | 4,662,775 | 55,134 |
| Received interest and dividend income | 3,760 | 4,559 | 31 |
| Interest paid | (129,504) | (60,881) | (1,080) |
| Income tax paid | (1,789,649) | (2,181,548) | (14,926) |
| Net cash provided by operating activities | 4,695,177 | 2,424,904 | 39,159 |
| Cash flows from investing activities: | | | |
| Payments for purchase of investment securities | (102,000) | (71,400) | (850) |
| Proceeds from sale of investment securities | | 10,000 | |
| Payments for purchase of tangible fixed assets and intangible assets | (6,645,255) | (6,439,869) | (55,423) |
| Proceeds from sale of tangible fixed assets | 3,399,362 | | 28,352 |
| Decrease in loans receivable | 80,000 | 4,000 | 667 |
| Increase in fixed leasehold deposits | (937,714) | (1,321,398) | (7,821) |
| Decrease in fixed leasehold deposits | 391,649 | 176,142 | 3,266 |
| Advance payment for leasehold deposits | (109,211) | | (911) |
| Increase in insurance policy | (81,851) | (298,305) | (683) |
| Other, net | (206,047) | (134,473) | (1,718) |
| Net cash used in investing activities | (4,211,067) | (8,075,305) | (35,121) |
| Cash flows from financing activities: | | | |
| Borrowing in short-term loans payable | 6,400,000 | 22,770,000 | 53,377 |
| Borrowing in long-term loans payable | 300,000 | 5,000,000 | 2,502 |
| Repayment in short-term loans | (12,056,000) | (16,810,000) | (100,550) |
| Repayment in long-term loans | (695,820) | (815,020) | (5,803) |
| Issuance of common stock | 39,707 | 39,707 | 331 |
| Issuance of straight bonds | 10,000,000 | | 83,403 |
| Payments for purchase of treasury stock | (2,270) | (514) | (19) |
| Payments of cash dividends | (151,519) | (50,158) | (1,264) |
| Net cash provided by financing activities | 3,834,097 | 10,134,014 | 31,977 |
| Net increase in cash and cash equivalents | 4,318,207 | 4,483,612 | 36,015 |
| Cash and cash equivalent at beginning of the period | 6,230,273 | 3,249,409 | 51,962 |
| Increase in cash and cash equivalents resulting from merger | | 61,687 | |
| Cash and cash equivalents at end of the period (Note 4 and 13) | ¥10,548,480 | ¥7,794,709 | \$87,977 |

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 subsidiaries, Leader Co., Ltd, and PAW Creation (together the “Company”) have three operations; discount store operations, wholesale operations and rental business operations for real property.

The discount store operations, which mainly comprise 61 discount retail stores, including a small discount retail store, in Japan, principally sell electric ties, household goods, food, cosmetics, toiletries, sports goods and etc.

Leader Co., Ltd sells goods to the Parent and the others at wholesale. The Leader Co., Ltd stopped operating the wholesale activities for the six months period ended December 2002.

The PAW Creation rents part of its floor space to tenants for rental business operations.

Note 2. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of the Company accounts for subsidiaries 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.

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.

Significant differences between the accounting policies followed by the Company and International Accounting Standards are described in Note 3.

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 ¥119.9 to U.S. \$1.00, which was the exchange rate prevailing on December 30, 2002. 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 2001 financial statements to conform to the presentation for 2002.

Note 3. SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING POLICIES FOLLOWED BY THE COMPANY AND DOMESTIC SUBSIDIARIES 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.

Leases (Note 5)

The Company in Japan treated finance leases of the Company, where ownership does not transfer to the lessees, as not capitalized in the same way as operating leases under accounting principles generally accepted in Japan, which differ from IAS No.17.

Impairment of assets accounting

Accounting for impairment of assets (real property, long-lived assets) is not required under generally accepted accounting principles and practices in Japan, which differ from IAS No.36.

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) |
|------------------------------|---------------------------|------------------|---------------------------------------|
| | 2002 (Unaudited) | 2001 (Unaudited) | 2002 (Unaudited) |
| Lease (Note 5): | | | |
| Property and equipment | ¥167,786 | ¥68,717 | \$1,399 |
| Long-term liabilities | 167,786 | 68,717 | 1,399 |
| SPC (Notes 5 and 8): | | | |
| Land | 8,278,652 | 3,947,640 | 69,046 |
| Buildings | 2,735,978 | 624,425 | 22,819 |
| Structures | 62,194 | | 519 |
| Long-term liabilities | ¥8,831,280 | ¥3,096,000 | \$73,655 |

Note 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The accompanying consolidated financial statements of the Company accounts for its subsidiaries on a consolidated basis. As of December 31, 2002, the Parent has seven subsidiaries including two consolidated as set out in the following table.

| | |
|-----------------|--|
| Leader Co., Ltd | Wholesale business supplying household goods to the Parent and others |
| PAW Creation | Operation of multiple tenant shopping malls including leasing of real property |

Investments in 2002 and 2001 unconsolidated subsidiaries are stated at cost.

Statements of cash flow

In preparing the cash flow statements for the year ended December 31, 2002 and 2001, 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.

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 Company 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 ¥261,000 (\$2,177 thousand) was recorded in "Cost of goods sold".

The subsidiary, Leader Co., Ltd adopts that inventories are valued at cost determined by the most recent purchase price method.

Property and equipment

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

Property and equipment are computed on the declining balance method according to the rules 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 Corporate 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 2002 as in 2001 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 Company 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 Company.

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.

Leased transactions

Finance leases of the Company where ownership does not transfer to the lessees are not capitalized and are accounted for in the same manner as operating leases ("non-capitalized finance leases").

Derivatives Financial Instruments**Hedge accounting**

The Company has adopted hedge accounting for its derivative transactions.

Gains or losses on changes in the fair values of the hedging instruments, which consist of swap contracts, are recognized in income when the relating hedged items are reflected in income.

Purpose of Derivative Trading

The Company enters into derivative transactions related to interest 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 Company omits 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.

Shareholders' Equity

The Japanese Commercial Code requires at least 50 per cent. 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 1 October, 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 Company 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, 2002 and 2001 are as follows:

| | Thousands of yen (Note 2) | | Thousands of U.S. dollars (Note 2) |
|--------------------------------|---------------------------|-------------------------|---------------------------------------|
| | <u>2002 (Unaudited)</u> | <u>2001 (Unaudited)</u> | <u>2002 (Unaudited)</u> |
| Equipments | | | |
| Acquisition cost | ¥295,172 | ¥450,138 | \$2,462 |
| Accumulated depreciation | (132,027) | (383,550) | (1,101) |
| Net book value | ¥163,144 | ¥66,587 | \$1,361 |

(b) Future minimum lease payments, inclusive of interest, as of December 31, 2002 and 2001 are as follows:

| | Thousands of yen (Note 2) | | Thousands of U.S. dollars (Note 2) |
|---------------------------|---------------------------|-------------------------|---------------------------------------|
| | <u>2002 (Unaudited)</u> | <u>2001 (Unaudited)</u> | <u>2002 (Unaudited)</u> |
| Due within one year | ¥37,005 | ¥63,068 | \$309 |
| Due after one year | 130,781 | 5,649 | 1,090 |
| Total | ¥167,786 | ¥68,717 | \$1,399 |

(c) Future minimum lease payments under the non-capitalized finance and operating leases on December 31, 2002 and 2001 are as follows:

| | Thousands of yen (Note 2) | | Thousands of U.S. dollars (Note 2) |
|------------------------------------|---------------------------|-------------------------|---------------------------------------|
| | <u>2002 (Unaudited)</u> | <u>2001 (Unaudited)</u> | <u>2002 (Unaudited)</u> |
| Lease payments | ¥16,084 | ¥62,069 | \$134 |
| Assumed depreciation charges | 15,587 | 60,246 | 130 |
| Assumed interest expenses | ¥410 | ¥884 | \$3 |

(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) |
|------------------|---------------------------|------------------|------------------------------------|
| | 2002 (Unaudited) | 2001 (Unaudited) | 2002 (Unaudited) |
| Land | ¥8,278,652 | ¥3,947,640 | \$69,046 |
| Buildings | 2,735,978 | ¥624,425 | 22,819 |
| Structures | ¥62,194 | | \$519 |

(b) Lease payments:

| | Thousands of yen (Note 2) | | Thousands of U.S. dollars (Note 2) |
|----------------------|---------------------------|------------------|------------------------------------|
| | 2002 (Unaudited) | 2001 (Unaudited) | 2002 (Unaudited) |
| Lease payments | ¥661,321 | ¥431,999 | \$5,516 |

(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, 2002 and 2001 for operating leases are summarized as follows:

| | Thousands of yen (Note 2) | | Thousands of U.S. dollars (Note 2) |
|---------------------------|---------------------------|------------------|------------------------------------|
| | 2002 (Unaudited) | 2001 (Unaudited) | 2002 (Unaudited) |
| Due within one year | ¥1,433,735 | ¥863,999 | \$11,957 |
| Due after one year | 7,397,545 | 2,232,000 | 61,698 |
| Total | ¥8,831,280 | ¥3,096,000 | \$73,655 |

Note 6. MARKETABLE SECURITIES AND INVESTMENT SECURITIES

The Company 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, 2002 and 2001 were as follows:

| | Thousands of yen (Note 2) | | | | | | Thousands of U.S. dollars (Note 2) | | |
|-------------------------|---------------------------|-------------------|----------------------------|------------------|-------------------|----------------------------|------------------------------------|-------------------|----------------------------|
| | 2002 (Unaudited) | | | 2001 (Unaudited) | | | 2002 (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 | ¥78,820 | ¥154,771 | ¥75,950 | ¥160,938 | ¥248,707 | ¥87,768 | \$657 | \$1,291 | \$633 |
| Debt securities | | | | | | | | | |
| Others | 1,311,058 | 894,437 | (416,621) | 1,364,736 | 923,106 | (441,630) | 10,935 | 7,460 | (3,474) |
| Total | ¥1,389,879 | ¥1,049,208 | (¥340,670) | ¥1,525,675 | ¥1,171,813 | (¥353,861) | \$11,592 | \$8,751 | (\$2,841) |

Equity securities as of December 31, 2002 includes impairment losses of ¥37,910 thousand (\$316 thousand) on some equity securities.

Equity securities as of December 31, 2001 includes impairment losses of ¥110,226 thousand on some equity securities.

Others include securities as of December 31, 2001 includes impairment losses of ¥70,566 thousand on investment securities in monetary trust.

Unlisted equity securities as of December 31, 2002 and 2001 were as follows:

| | Thousands of yen (Note 2) | | Thousands of U.S. dollars (Note 2) |
|--|---------------------------|------------------|------------------------------------|
| | 2002 (Unaudited) | 2001 (Unaudited) | 2002 (Unaudited) |
| Unlisted equity securities (except the equity securities which traded on over-the-counter markets) | ¥171,620 | ¥306,040 | \$1,431 |

Unlisted equity securities as of December 31, 2002 includes impairment losses of ¥112,320 thousand (\$937 thousand) on some equity securities.

Unlisted equity securities as of December 31, 2001 includes impairment losses of ¥20,000 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 Company has used a sale and lease back structure to securities real estate assets pursuant to which an SPC acquires real estate from the Company and leases it back to the Company. 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 Company 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 Company 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 Company used the SPC structure in respect of real estate which it owned in Roppongi. Under this scheme, the Company entrusted the real estate to a trustee and received beneficial rights/interests. The trustee leases the real estate to the Company, will receive rent from the Company 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 Company, sold to a third party by tender or assigned by the trustee to the SPC.

In order to obtain financing, on September 2002, the Company used the SPC structure in respect of real estate for PAW Kawasaki. The Company entrusted the real estate to a trustee and sold beneficial rights/interests to improve the financial structure of the Company 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) |
|--|---------------------------|-------------------------|---------------------------------------|
| | <u>2002 (Unaudited)</u> | <u>2001 (Unaudited)</u> | <u>2002 (Unaudited)</u> |
| Other income: | | | |
| Rental fee for computer system | ¥594,387 | ¥369,215 | \$4,957 |
| Gain on sale of fixed assets | 59,348 | — | 495 |
| Reversal of allowance for doubtful accounts | 3,360 | 1,330 | 28 |
| Other | 152,223 | 132,493 | 1,270 |
| Other income total | 809,318 | 503,038 | 6,750 |
| Other expense: | | | |
| Loss on disposal of fixed assets | 4,133 | — | 34 |
| Loss on devaluation of investment securities | 150,230 | 200,792 | 1,253 |
| Other | 11,970 | 419 | 100 |
| Other expense total | 166,333 | 201,211 | 1,387 |
| Other income, net | ¥642,985 | ¥301,827 | \$5,363 |

Note 10. PLEDGED ASSETS

The assets pledged as collateral for the Company's liabilities at December 31, 2002 and 2001 were as follows:

| | Thousands of yen (Note 2) | | Thousands of U.S. dollars (Note 2) |
|-----------------|---------------------------|------------------|---------------------------------------|
| | 2002 (Unaudited) | 2001 (Unaudited) | 2002 (Unaudited) |
| Land | ¥3,114,479 | ¥3,114,479 | \$25,976 |
| Buildings | 425,750 | 457,142 | 3,551 |
| Total | ¥3,540,229 | ¥3,571,621 | \$29,527 |

Liabilities related with the assets pledged at December 31, 2002 and 2001 were as follows:

| | Thousands of yen (Note 2) | | Thousands of U.S. dollars (Note 2) |
|--|---------------------------|------------------|---------------------------------------|
| | 2002 (Unaudited) | 2001 (Unaudited) | 2002 (Unaudited) |
| Short-term loan | ¥600,000 | ¥1,684,145 | \$5,004 |
| Current maturities of long-term debt | 809,250 | 511,200 | 6,749 |
| Long-term debt | 672,800 | 1,376,276 | 5,612 |
| Total | ¥2,082,050 | ¥3,571,621 | \$17,365 |

Note 11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major elements of selling, general and administrative expense for 2002 and 2001 were summarized as follows:

| | Thousands of yen (Note 2) | | Thousands of U.S. dollars (Note 2) |
|---|---------------------------|------------------|---------------------------------------|
| | 2002 (Unaudited) | 2001 (Unaudited) | 2002 (Unaudited) |
| Employees' compensation and benefit | ¥4,668,202 | ¥3,119,443 | \$38,934 |
| Occupancy and rental | 1,988,835 | 1,108,645 | 16,587 |
| Commission | 1,553,655 | 1,103,710 | 12,958 |
| Depreciation | 978,293 | 514,441 | 8,159 |
| Provision for retirement benefits for directors | 6,758 | 5,235 | 56 |
| Other | 3,598,872 | 2,722,794 | 30,017 |
| Total | ¥12,794,615 | ¥8,574,268 | \$106,711 |

Note 12. EARNING PER SHARE

| | Thousands of yen (Note 2) | Thousands of U.S. dollars (Note 2) |
|--|------------------------------|---------------------------------------|
| | 2002 (Unaudited) | 2002 (Unaudited) |
| Net income | ¥2,755,081 | \$22,978 |
| Effective of dilutive securities 0.25% convertible bonds due 2007 | 5,237 | 44 |
| Diluted net income | ¥2,760,318 | \$23,022 |

| | Thousands |
|--|------------------|
| | 2002 (Unaudited) |
| Weighted average number of shares | ¥10,120 |
| Effective of dilutive securities: Stock options | 6 |
| 0.25% convertible bonds due 2007 | 870 |
| Diluted weighted average number of shares | ¥10,997 |

| | Yen | | U.S. dollars (Note 2) |
|----------------------------------|------------------|------------------|--------------------------|
| | 2002 (Unaudited) | 2001 (Unaudited) | 2002 (Unaudited) |
| Basic earnings per share | ¥272.22 | ¥187.25 | \$2.27 |
| Diluted earnings per share | ¥250.99 | ¥187.14 | \$2.09 |

Note 13. CASH FLOW INFORMATION

Cash flow information on December 31, 2002 and 2001 were summarized as follows:

| | Thousands of yen (Note 2) | | Thousands of U.S. dollars (Note 2) |
|---|---------------------------|------------------|---------------------------------------|
| | 2002 (Unaudited) | 2001 (Unaudited) | 2002 (Unaudited) |
| Cash and time deposits | ¥10,548,480 | ¥7,842,411 | \$87,977 |
| Time deposits excess three months | | (47,701) | |
| Cash and cash equivalents | ¥10,548,480 | ¥7,794,709 | \$87,977 |

Note 14. SEGMENT INFORMATION

Operating segment information

The Company and its subsidiaries are engaged in discount store operations, wholesale operations and rental business operations for real 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 Company and its subsidiaries' business activities are conducted in Japan, geographic segment information is not presented.

Sales outside Japan

The Company and its subsidiaries have no sales outside Japan.