

# Summary Report of Consolidated Financial Results For the Six Months Ended December 31, 2007

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

## Don Quijote Co., Ltd.

Securities Code No.: 7532  
 Shares Listed: The First Section of Tokyo Stock Exchange  
 Address: Shinjuku Sumitomo Bldg. 35F, 2-6-1 Nishi-Shinjuku, Shinjuku-ku, Tokyo, Japan  
 Representative: Junji Narusawa, President and Representative Director  
 Contact: Mitsuo Takahashi, Senior Managing Director (Phone: +81-3-5381-7588)  
 URL: http://www.donki.com

### 1. Basis for preparation of semi-annual financial results

- ① The financial results for the six months of fiscal 2008 and 2007 were not audited by independent auditors.
- ② This summary report includes the accounting figures that are not through the formal closing process.
- ③ Amounts are presented in millions of yen and are rounded off to the nearest million yen.

### 2. Overview of Business Results and Financial Position for the six months of fiscal 2008 (From July 1, 2007 to December 31, 2007)

#### (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, 2007	185,515	23.3	9,370	23.2	10,027	16.3
Six Months Ended December 31, 2006	150,422	14.6	7,608	2.7	8,625	1.7
Last Fiscal Year	300,660	—	13,586	—	15,774	—

	Net Income	Change (%)	Net Income per Share (Yen)	Diluted Income per Share (Yen)
Six Months Ended December 31, 2007	6,710	3.6	93.40	86.97
Six Months Ended December 31, 2006	6,475	33.4	90.78	84.29
Last Fiscal Year	10,638	—	148.89	138.32

(Notes) ① Percentages above represent increase / decrease over the preceding six months.

- ② Net income per share was computed through dividing net income by weighted average number of shares at the end of the six months.
- ③ Loss on investments due to the equity method:
 

Six months ended December 31, 2007	¥ 38 million
Six months ended December 31, 2006	¥ 18 million
Year ended June 30, 2007	¥ 33 million
- ④ Weighted average number of shares:
 

As of December 31, 2007	71,837,315 shares
As of December 31, 2006	71,323,850 shares
As of June 30, 2007	71,448,396 shares

#### (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)
As of December 31, 2007	279,568	89,522	31.5	1,224.34
As of December 31, 2006	198,773	78,015	39.2	1,091.32
Last Fiscal Year	209,865	82,470	39.2	1,146.07

#### (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
Six Months Ended December 31, 2007	9,480	(31,144)	22,669	39,104
Six Months Ended December 31, 2006	9,441	(2,157)	15,462	50,501
Last Fiscal Year	15,811	(24,924)	19,487	38,164

### 3. Dividends

	Yen (per share)				
	Three Months Ended September 30	Six Months Ended December 31	Nine Months Ended March 31	Year Ended June 30	Total
Year Ended June 30, 2007	0.00	10.00	0.00	10.00	20.00
Year Ended June 30, 2008	0.00	10.00	—	—	—
Year Ending June 30, 2008 (Forecast)	—	—	0.00	10.00	20.00

4. Consolidated Business Forecast : For the year ending June 30, 2008 (From July 1, 2007 to June 30, 2008)

(Millions of yen, except per-share data)

	Net Sales	Change (%)	Operating Income	Change (%)	Recurring Income	Change (%)	Net Income	Change (%)	Net Income per Share (Yen)
Year Ending June 30, 2008	410,000	36.4	15,700	15.6	16,500	4.6	10,000	(6.0)	139.01

- (Notes) ① 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 us, and therefore, undue reliance should not be placed on them. Various important factors could cause actual results to be materially different from those discussed in forward-looking statements. Such factors include but are not limited to (1) changes in economic conditions affecting our operations (2) intensive competition in the retail industry (3) changes in regulatory environment and government policy (4) key management figures and (5) financing risks.
- ② Net income per share in Consolidated Business Forecast is computed with 71,937,186 shares as of December 31, 2007 (the number of shares issued and outstanding net of treasury stocks).

5. Other

(1) Change in scope of consolidation: Yes

Newly consolidated: one company (Nagasakiya Co., LTD.) Excluded: DIY Promotion Co., Ltd.

(2) Change in accounting method

Change due to amendment in accounting standard: Yes

(3) Common stock

- ① Number of issued shares : As of December 31, 2007 72,014,409 shares  
As of December 31, 2006 71,496,924 shares  
As of June 30, 2007 71,845,149 shares
- ② Number of treasury stocks : As of December 31, 2007 77,223 shares  
As of December 31, 2006 77,054 shares  
As of June 30, 2007 77,079 shares

**Attachments**

Business Results and Financial Position  
Consolidated Balance Sheets  
Consolidated Statements of Income  
Consolidated Statements of Shareholders' Equity  
Consolidated Statements of Cash Flows  
Notes to Consolidated Financial Statements

## Business Results and Financial Position

### I. Business Results

#### (1) Business Overview

Business results for the six months ended December 31, 2007 and 2006.

(Millions of yen)

	Six Months Ended December 31, 2007 (Unaudited)		Six Months Ended December 31, 2006 (Unaudited)		Change		Last Fiscal Year (Audited)	
	Amounts	%	Amounts	%	Amounts	%	Amounts	%
Net sales	185,515	100.0	150,422	100.0	35,093	23.3	300,660	100.0
Gross profit	48,552	26.2	36,493	24.3	12,059	33.0	73,123	24.3
Selling, general and administrative expenses	39,182	21.1	28,885	19.2	10,297	35.6	59,537	19.8
Operating income	9,370	5.1	7,608	5.1	1,762	23.2	13,586	4.5
Recurring income	10,027	5.4	8,625	5.7	1,402	16.3	15,774	5.2
Net income	6,710	3.6	6,475	4.3	235	3.6	10,638	3.5

Japanese economy during the six months of fiscal 2008 had shown steady recovery because exports and business investment played a leading role in spite of decrease in housing investment.

In the retail industry, business environment had remained in balance due to decline in consumer confidence caused by sluggish wage growth and increase of local taxes as well as escalation of enterprise competition.

In such conditions, Don Quijote Co., Ltd. (the "Company") and its subsidiaries (the "Group"), as a pioneer of creating a new type of business operations that focuses on the principle of "Always thinking of customers first", had practiced various measures to make such stores where customers get impressed by high quality amusements and services.

The Group made every effort to have customers find the intrinsic joy of shopping by laying out popular goods that adapt to changing times and enhancing unique goods marketing to meet both diverse and individual needs.

Also, the Group bolstered and enriched quality of internal systems for nationwide expansion as well as promoted opening new stores with mobility and efficiency so that the Group can impress as many customers as possible.

In the six months of fiscal 2008, the Group opened sixteen stores: Eight stores in Kanto area (Tokyo metropolis - Mizuho: Kanagawa prefecture - Kobuchi: Saitama prefecture - Yono, Kasukabe and Tokorozawa Miyamotocho: Chiba prefecture - Jonetsu-kukan Funabashikeibajo-ekimae and Chiba Newtown: Gunma prefecture - Ohta), four stores in Hokkaido and Tohoku areas (Hokkaido prefecture - Kita 42 jo and Hakodate Nanaehama: Aomori prefecture - Aomori Kanko-dori: Miyagi prefecture - Bansui-dori), one store in Chubu area (Toyama prefecture - Toyama), one store in Kansai area (Hyogo prefecture - Himeji RIOS), one store in Chugoku and Shikoku area (Yamaguchi prefecture - Ube), and one store in Kyushu area (Fukuoka prefecture - Kokura). In addition, the Group has 55 more stores from the acquisition of Nagasakiya Co., LTD.

The Company and Doit Co., Ltd. closed six stores (Jonetsu-kukan Shibuya Nishihara, Jonetsu-kukan Nishikokubunji-ekimae, Jonetsu-kukan Suginami Fujimigaoka, Jonetsu-kukan Hoyaeki Minami-guchi, Jonetsu-kukan Hachioji Yokoyamacho and Picasso Kiyose Kita-guchi) and two stores (Doit Hamura and Town Doit Edogawachuo), respectively.

Consequently, the total number of stores at the end of December 2007 is 224 (161 at the end of the last fiscal year).

As a result, for the six months of fiscal 2008 the Group achieved the following net sales and net income.

<b>Net sales</b>	185,515 million yen (up 23.3% from the six months of fiscal 2007)
<b>Recurring income</b>	10,027 million yen (up 16.3% from the six months of fiscal 2007)
<b>Net income</b>	6,710 million yen (up 3.6% from the six months of fiscal 2007)

#### (2) Segment Overview

Business results for the six months ended December 31, 2007 and 2006.

(Millions of yen)

	Six Months Ended December 31, 2007 (Unaudited)		Six Months Ended December 31, 2006 (Unaudited)		Change		Last Fiscal Year (Audited)	
	Amounts	%	Amounts	%	Amounts	%	Amounts	%
<b>Discount store operations</b>								
Electrical appliances	26,726	14.4	27,183	18.1	(457)	(1.7)	53,497	17.8
Daily commodities	34,176	18.4	31,908	21.2	2,268	7.1	63,145	21.0
Foods	27,167	14.6	25,599	17.0	1,568	6.1	51,810	17.2
Watches, fashion goods	41,860	22.6	39,720	26.4	2,140	5.4	75,816	25.2
Sports, leisure goods	11,838	6.4	11,245	7.5	593	5.3	20,779	6.9
DIY products	14,438	7.8	—	—	14,438	—	4,612	1.5
Oversea	9,935	5.4	8,902	5.9	1,033	11.6	19,280	6.4
Others	2,315	1.2	2,413	1.6	(98)	(4.1)	4,626	1.6
Subtotal	168,455	90.8	146,970	97.7	21,485	14.6	293,565	97.6
<b>Superstore operations</b>	11,243	6.1	—	—	11,243	—	—	—
<b>Rental business operations</b>	4,906	2.6	3,086	2.1	1,820	59.0	6,211	2.1
<b>Other operations</b>	911	0.5	366	0.2	545	148.9	884	0.3
<b>Total</b>	<b>185,515</b>	<b>100.0</b>	<b>150,422</b>	<b>100.0</b>	<b>35,093</b>	<b>23.3</b>	<b>300,660</b>	<b>100.0</b>

**(Discount store operations)**

Net sales from discount store operations for the six months of fiscal 2008 increased by ¥21,485 million from the six months of fiscal 2007 to ¥168,455 million (up 14.6%). Operating income for the six months of fiscal 2008 was ¥7,458 million. This is resulted from increase in net sales of DIY products due to the acquisition of Doit Co., Ltd. and the steady growth of net sales in foods and daily commodities.

**(Superstore operations)**

Business result of Nagasakiya Co., LTD., which has been consolidated since October 26, 2007, started to be included in the Company's consolidated financial results from the six months ended December 31, 2007. Since the fiscal year end of Nagasakiya Co., LTD. is November 31, the financial result from November 1, 2007 to November 31, 2007 is included in this semi-annual financial report.

Net sales and operating loss from superstore operations for the one month for November 2007 was ¥11,243 million and ¥361 million, respectively.

**(Rental business operations)**

Net sales from rental business operations for the six months of fiscal 2008 increased by ¥1,820 million from the six months of fiscal 2007 to ¥4,906 million (up 59.0%). Operating income for the six months of fiscal 2008 was ¥2,113 million. This was due to the increase of new stores and tenant numbers by the acquisition of Nagasakiya Co., LTD.

**II. Financial Position**

(Millions of yen)

	December 31, 2007 (Unaudited)		December 31, 2006 (Unaudited)		Change (From the last fiscal year)		June 30, 2007 (Audited)	
	Amounts	%	Amounts	%	Amounts	%	Amounts	%
Total assets	279,568	100.0	198,773	100.0	69,703	33.2	209,865	100.0
Current assets	118,929	42.5	109,633	55.2	21,778	22.4	97,151	46.3
Fixed assets	160,639	57.5	89,140	44.8	47,925	42.5	112,714	53.7
Current liabilities	110,745	39.6	58,395	29.4	37,612	51.4	73,133	34.8
Long-term liabilities	79,301	28.4	62,363	31.4	25,039	46.1	54,262	25.9
Total liabilities	190,046	68.0	120,758	60.8	62,651	49.2	127,395	60.7
Minority interests	1,446	0.5	73	0.0	1,227	560.3	219	0.1
Total shareholders' equity	89,522	32.0	78,015	39.2	7,052	8.6	82,470	39.3

(Millions of yen)

	Six Months Ended December 31, 2007 (Unaudited)	Six Months Ended December 31, 2006 (Unaudited)	Change
Net cash provided by operating activities	9,480	9,441	39
Net cash used in investing activities	(31,144)	(2,157)	(28,987)
Net cash provided by financing activities	22,669	15,462	7,207
Cash and cash equivalents at the end of the period	39,104	50,501	(11,397)

**Analysis of Financial Condition****(1) Assets, liabilities and shareholders' equity****1. Total assets**

Total assets as of December 31, 2007 increased by ¥69,703 million from June 30, 2007 to ¥279,568 million. This was mainly resulted from the increase of inventories by ¥15,287 million due to the consolidation of Nagasakiya Co., LTD. and its seven subsidiaries, property and equipment by ¥30,387 million and investments and other assets by ¥16,564 million.

**2. Liabilities**

Liabilities as of December 31, 2007 increased by ¥62,651 million from June 30, 2007 to ¥190,046 million. This mainly resulted from the increase of accounts payable by ¥21,508 million due to the consolidation of Nagasakiya Co., LTD., and commercial paper by ¥14,967 million and short and long term debts by ¥ 7,990 million.

**3. Shareholders' equity**

Reflecting the increase of net income, shareholders' equity as of December 31, 2007 increased by ¥7,052 million from June 30, 2007 to ¥89,522 million.

**(2) Consolidated Statements of Cash Flows****1. Cash flows from operating activities**

Although there were positive factors such as the increase of trade payable by the consolidation of Doit Co., Ltd. on January 2007 and Nagasakiya Co., LTD. on October 2007, net cash provided by operating activities for the six months of fiscal 2008 resulted to ¥9,480 million due to negative factors such as the increase of inventories by store expansion and the increase of income tax payments.

## 2. Cash flows from investing activities

Net cash used in investing activities for the six months of fiscal 2008 is ¥31,144 million because of the acquisition of property and equipment, payments for leasehold deposit and the acquisition of Nagasakiya Co., LTD.

## 3. Cash flows from financing activities

Net cash provided by financing activities for the six months of fiscal 2008 is ¥22,669 million due to the issuance of commercial paper and increase of loans and debts.

As a result, cash and cash equivalents at the end of December 2007 decreased by ¥11,397 million from the end of December 2006 to ¥39,104 million.

The cash flows indication of the Group is as follows:

	Six Months Ended December 31, 2007 (Unaudited)	Six Months Ended December 31, 2006 (Unaudited)	Six Months Ended December 31, 2005 (Unaudited)	Six Months Ended December 31, 2004 (Unaudited)	Six Months Ended December 31, 2003 (Unaudited)
Total shareholders' equity / Total assets (%)	31.5	39.2	35.3	31.8	33.0
Market capitalization * / Total assets (%)	56.6	81.7	131.0	75.7	101.0
Cash flows from operating activities / Interest paid (time)	24.8	35.6	40.6	47.2	23.0
Debt bearing interest / Cash flows from operating activities (year)	10.4	7.6	5.6	6.7	8.7

\* Market capitalization = Share price at the end of six months × Number of outstanding shares (excluding treasury stocks) at the end of six months

## **Risk Information**

Listed below are the main risks that could affect the business of the Group. We make every effort to avoid and mitigate these risks after recognizing a possibility of these risks in the future.

The following risks include the future matters, which are described based on our judgment and consideration from management point of view as of the date of announcing the semi-annual financial reports to public, February 21, 2008.

### **1. Store expansion and human resources**

To keep its planned store expansion, the Group must ensure the continuing adequacy of its existing systems, controls and procedures, including distribution facilities, store management, financial controls and information systems. Especially the adequate labor resources are essential. There is no assurance that the Group will be able to achieve its planned expansion, that new stores will be effectively integrated into the Group's existing operations or that such stores will be profitable.

### **2. Import, logistics and distribution**

The Group is importing an increasing portion of its merchandise from sources outside Japan. As an importer, the Group's business is subject to the risks generally associated with doing business abroad, such as foreign governmental regulations, economic disruptions, delays in shipments, increases of freight cost and changes in political or economic conditions in countries in which the Group purchases products.

Two distribution centers in Saitama and Osaka are operated by a third party contractor on behalf of the Group. Any significant interruption in the operation of these facilities, failure by the contractor to properly and successfully coordinate the operations of these facilities or any financial difficulty on the contractor would have a material adverse effect on the Group's business, financial condition and results of operations.

### **3. Merchandising**

The Group's success depends in part upon the ability of its marketing staff, particularly those in their twenties and thirties, who anticipate customer trends and provide merchandise that appeals to customers. The failure to maintain and improve the quality of those staff members and to keep managing the Group's organizational systems could lead to the decline of the Group's business results.

### **4. Consumer demand, weather and seasonality**

Sales at the Group's stores are subject to consumer demand, weather and seasonal variations. The peak sales periods for the Group are the months of August and December. Consequently, if the Group fails to realize sufficient sales during its peak points, this could have a material adverse effect on the Group's business, financial condition and results of operation.

### **5. Regulatory environment**

The Group is subject to Japanese laws and regulations. The Large Scale Retail Store Location Law has been effective since June 1998. The purpose of the law is to give local governments the power to regulate the development of large stores with a sales floor space of more than 1,000 square meters and to maintain lively environment in the areas surrounding such stores.

If the local communities have special regulations for stores with a sales floor space of less than 1,000 square meters as well, they may adversely affect the Company's planned expansion and operation. Especially for the regulation of noise emission in parking lots during late night, the cost for building fences is likely to increase.

In addition, three laws to strengthen the regulation of urban development in rural areas came into force in November 2007. The target is large facilities with a sales floor space of more than 10,000 square meters. Considering the floor space of the Group stores, the laws do not directly affect the Group. However, the Group will keep an eye on them.

### **6. Future capital requirements**

The Group has to secure enough finance through the use of the various financial instruments including bonds for its further expansion. To the extent that such funding is not available to the Group in the future or is only available at very high cost, the Group's business, financial condition and results of operations are likely to be adversely affected.

### **7. Outsourcing of bookkeeping of accounts payable**

The Group entrusts daily procedures in relation to the Group's accounting payable to a third party contractor. Any significant interruption in the procedures, failure by the contractor to properly coordinate the procedures or any financial difficulties on the contractor would have a material adverse effect on the Group's accounting and payment process.

### **8. Security of clients' data**

The Group handles clients' data with precise care. Any data leak would have a material adverse effect on the Group's business, financial condition and results of operations that could lead to legal matters.

### **9. Impairment of fixed assets**

The Group has promptly adopted the accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standards Implementation Guidance No.6 issued by the Accounting Standards Board of Japan (ASBJ) on October 31, 2003) since the year ended June 30, 2004.

The Group tests fixed assets for impairment by comparing the fair value of each unit, using discounted cash flows to the carrying value to determine if there is an indication that potential impairment may exist. Potential impairment would have a material adverse effect on the Group's business, financial condition and results of operations.

### **10. Price drop of subsidiary and affiliated company shares**

Shares of subsidiary are valued at cost. When the real value of subsidiary drops remarkably, by applying the Financial Accounting Standards Impairment Guidance No.6, the potential impairment would have material adverse effect on the Group's business, financial condition and results of operations.

**11. Accounting policy change for investments through SPE**

The Company has investment activities through funds. Accounting Standards Board of Japan established a special committee to review accounting standards regarding consolidation of special purpose entities. It is expected that such standards relating to scope of consolidation for investment business are to change, and as the result, it would have material adverse effect on the Company's business, financial condition and results of operations.

**12. Expansion by merger and acquisition**

The Company has implemented mergers and acquisitions as a means of its business expansion. The Company avoids risks by precise due diligence about the target company, its business and contractual relevant matters. There is, however, possibility of liabilities incurrence and revelation after mergers and acquisitions are completed. For this case, it would have adverse effect on the Group's business, financial condition and results of operations.

**13. Stock option**

The Company adopts an incentive system that gives stock option to competent directors and employees in the Group. For when the currently given stock option as well as prospectively given stock option are exercised, the Company shares would be diluted. Stock option given after May 1, 2006 essentially needs to be allocated as expense, and so it would possibly have material adverse effect on the Group's business, financial condition and results of operations.

## Consolidated Balance Sheets

	(Millions of yen)		
	December 31, 2007 (Unaudited)	December 31, 2006 (Unaudited)	June 30, 2007 (Audited)
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash including time deposits (Notes 5 and 8) ···	¥39,849	¥50,501	¥38,164
Accounts receivable-trade ···········	5,829	3,614	3,296
Less: Allowance for doubtful accounts (Note 3) ··	(188)	(10)	(17)
Inventories (Note 3) ···········	66,249	50,646	50,962
Prepaid expenses ···········	2,357	1,206	1,450
Deferred tax assets (Note 3) ···········	1,536	1,751	2,141
Other current assets ···········	3,297	1,925	1,155
<b>Total current assets ···········</b>	<b>118,929</b>	<b>109,633</b>	<b>97,151</b>
<b>Investments and advances:</b>			
Investment securities (Notes 3 and 10) ········	9,553	8,813	9,180
Advance payment for fixed leasehold deposits ··	1,956	1,683	2,556
Long-term loans receivable ···········	967	870	870
Less: Allowance for doubtful accounts (Note 3) ··	(2,148)	(48)	(19)
<b>Total investments and advances ···········</b>	<b>10,328</b>	<b>11,318</b>	<b>12,587</b>
<b>Property and equipment, at cost (Notes 3, 5 and 9):</b>			
Land (Note 5) ···········	49,437	18,857	31,731
Buildings and structures (Note 5) ··········	71,564	46,822	52,143
Vehicles and delivery equipment ··········	113	77	94
Equipment ···········	29,884	14,309	15,799
Construction in progress ···········	742	87	1,033
Less: Impairment loss ···········	(3,685)	(525)	(525)
Less: Accumulated depreciation ···········	(42,930)	(22,924)	(25,537)
<b>Net property and equipment ···········</b>	<b>105,125</b>	<b>56,703</b>	<b>74,738</b>
<b>Intangibles (Note 3) ···········</b>	<b>3,488</b>	<b>2,476</b>	<b>2,514</b>
<b>Other assets:</b>			
Time deposits (Note 5) ···········	616	—	—
Fixed leasehold deposits (Note 5) ··········	34,517	14,847	18,918
Prepaid expenses ···········	2,045	1,557	1,602
Deferred tax assets (Note 3) ···········	582	307	362
Other non-current assets ···········	3,938	1,932	1,993
<b>Total other assets ···········</b>	<b>41,698</b>	<b>18,643</b>	<b>22,875</b>
<b>Total assets ···········</b>	<b>¥279,568</b>	<b>¥198,773</b>	<b>¥209,865</b>

The accompanying notes are integral part of the statements.



	(Millions of yen)		
	December 31, 2007 (Unaudited)	December 31, 2006 (Unaudited)	June 30, 2007 (Audited)
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Accounts payable-trade .....	¥50,192	¥34,082	¥28,684
Short-term loans payable (Note 5) .....	2,000	—	—
Current maturities of long-term debt (Note 5) ..	25,168	12,577	29,259
Commercial paper .....	14,967	—	—
Accrued income taxes (Note 3) .....	3,977	5,472	6,390
Accrued expenses .....	4,534	2,674	3,735
Allowance for point program (Note 3) .....	1,140	66	351
Other current liabilities (Note 5) .....	8,767	3,524	4,714
<b>Total current liabilities .....</b>	<b>110,745</b>	<b>58,395</b>	<b>73,133</b>
<b>Long-term liabilities:</b>			
Long-term debt (Notes 5 and 13) .....	56,971	59,020	46,633
Allowance for retirement benefits for employees (Note 3) .....	5,818	—	1,216
Allowance for retirement benefits for directors (Note 3) .....	187	195	156
Negative goodwill, net (Note 3) .....	5,059	1,505	3,634
Other non-current liabilities (Note 5) .....	11,266	1,643	2,623
<b>Total long-term liabilities .....</b>	<b>79,301</b>	<b>62,363</b>	<b>54,262</b>
<b>Total liabilities .....</b>	<b>190,046</b>	<b>120,758</b>	<b>127,395</b>
<b>Commitment and contingent liabilities (Note 9)</b>			
<b>Shareholders' equity (Notes 3, 16 and 17):</b>			
Common stock .....	14,971	14,515	14,819
Additional paid-in capital .....	16,282	15,827	16,130
Retained earnings .....	56,903	47,461	50,911
Net unrealized gains on investment securities ..	(123)	344	229
Foreign exchange adjustments .....	187	(62)	305
Less: Treasury stock, at cost .....	(144)	(143)	(143)
<b>Total .....</b>	<b>88,076</b>	<b>77,942</b>	<b>82,251</b>
<b>Minority interests .....</b>	<b>1,446</b>	<b>73</b>	<b>219</b>
<b>Total shareholders' equity .....</b>	<b>89,522</b>	<b>78,015</b>	<b>82,470</b>
<b>Total liabilities, minority interests and shareholders' equity .....</b>	<b>¥279,568</b>	<b>¥198,773</b>	<b>¥209,865</b>

The accompanying notes are integral part of the statements.

## Consolidated Statements of Income

	(Millions of yen)		
	Six Months Ended December 31, 2007 (Unaudited)	Six Months Ended December 31, 2006 (Unaudited)	Year Ended June 30, 2007 (Audited)
Net sales .....	¥185,515	¥150,422	¥300,660
Cost of goods sold .....	136,963	113,929	227,537
Gross profit .....	48,552	36,493	73,123
Selling, general and administrative expenses (Note 7) .....	39,182	28,885	59,537
Operating income .....	9,370	7,608	13,586
Other income (expenses):			
Interest and dividend income .....	235	174	385
Interest expenses .....	(345)	(263)	(466)
Gain on sale of fixed assets (Note 15) .....	—	2,515	2,816
Other income, net (Note 14) .....	1,824	1,315	2,496
Income before income taxes and minority interests ·	11,084	11,349	18,817
Income taxes (Note 3):			
Current .....	3,605	5,130	8,720
Deferred .....	621	(162)	(572)
Income before minority interests .....	6,858	6,381	10,669
Minority interests .....	(148)	94	(31)
Net income .....	¥6,710	¥6,475	¥10,638

The accompanying notes are integral part of the statements.

### Recurring income:

According to accounting principles and practices generally accepted in Japan, recurring income is shown below:

	(Millions of yen)		
	Six Months Ended December 31, 2007 (Unaudited)	Six Months Ended December 31, 2006 (Unaudited)	Year Ended June 30, 2007 (Audited)
Operating income .....	¥9,370	¥7,608	¥13,586
Other income (expenses):			
Interest and dividend income .....	235	174	385
Interest expenses .....	(345)	(263)	(466)
Other income, net .....	767	1,106	2,269
Recurring income .....	10,027	8,625	15,774
Other and extraordinary income (expenses):			
Gain on sale of fixed assets (Note 15) .....	—	2,515	2,816
Other income and expenses, net .....	1,057	209	227
Income before income taxes and minority interests ·	¥11,084	¥11,349	¥18,817

### Amount per share of common stock (Note 3, 17):

	(Yen)		
	Six Months Ended December 31, 2007 (Unaudited)	Six Months Ended December 31, 2006 (Unaudited)	Year Ended June 30, 2007 (Audited)
Basic earnings:			
Net income .....	¥93.40	¥90.78	¥148.89
Diluted earnings:			
Net income .....	¥86.97	¥84.29	¥138.32

The accompanying notes are integral part of the statements.

## Consolidated Statements of Shareholders' Equity

For the six months ended December 31, 2007

	(Millions of yen)						
	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains on investment securities	Foreign exchange adjustments	Treasury stock, at cost	Minority interests
<b>Balance at June 30, 2007</b> .....	¥14,819	¥16,130	¥50,911	¥229	¥305	¥(143)	¥219
Issuance of new shares .....	152	152	—	—	—	—	—
Cash dividends .....	—	—	(718)	—	—	—	—
Net income .....	—	—	6,710	—	—	—	—
Purchase of treasury stock ...	—	—	—	—	—	(1)	—
Other .....	—	—	—	(352)	(118)	—	1,227
<b>Balance at December 31, 2007</b> .....	¥14,971	¥16,282	¥56,903	¥(123)	¥187	¥(144)	¥1,446

The accompanying notes are integral part of the statements.

For the six months ended December 31, 2006

	(Millions of yen)						
	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains on investment securities	Foreign exchange adjustments	Treasury stock, at cost	Minority interests
<b>Balance at June 30, 2006</b> .....	¥14,360	¥15,672	¥42,175	¥498	¥13	¥(143)	¥166
Issuance of new shares .....	155	155	—	—	—	—	—
Cash dividends .....	—	—	(1,188)	—	—	—	—
Net income .....	—	—	6,475	—	—	—	—
Purchase of treasury stock ...	—	—	—	—	—	(0)	—
Other .....	—	—	—	(154)	(75)	—	(93)
<b>Balance at December 31, 2006</b> .....	¥14,515	¥15,827	¥47,461	¥344	¥(62)	¥(143)	¥73

The accompanying notes are integral part of the statements.

For the year ended June 30, 2007

	(Millions of yen)						
	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains on investment securities	Foreign exchange adjustments	Treasury stock, at cost	Minority interests
<b>Balance at June 30, 2006</b> .....	¥14,360	¥15,672	¥42,175	¥498	¥13	¥(143)	¥166
Issuance of new shares .....	459	458	—	—	—	—	—
Cash dividends .....	—	—	(1,902)	—	—	—	—
Net income .....	—	—	10,638	—	—	—	—
Purchase of treasury stock ...	—	—	—	—	—	(0)	—
Other .....	—	—	—	(269)	292	—	53
<b>Balance at June 30, 2007</b> .....	¥14,819	¥16,130	¥50,911	¥229	¥305	¥(143)	¥219

The accompanying notes are integral part of the statements.

## Consolidated Statements of Cash Flows

	(Millions of yen)		
	Six Months Ended December 31, 2007 (Unaudited)	Six Months Ended December 31, 2006 (Unaudited)	Year Ended June 30, 2007 (Audited)
<b>Cash flows from operating activities:</b>			
Income before income taxes .....	¥11,084	¥11,349	¥18,817
Depreciation and amortization .....	3,362	2,518	5,395
Amortization of negative goodwill .....	(714)	(52)	(452)
Increase (decrease) in allowance for doubtful accounts ..	248	(1)	12
Decrease in allowance for retirement benefits for employees .....	(947)	—	—
Provision (reversal) for retirement benefits for directors ..	19	9	(29)
Increase in allowance for point program .....	89	21	70
Interest and dividend income .....	(235)	(174)	(385)
Loss on investment by the equity method .....	38	18	33
Gain from funds .....	(45)	(233)	(360)
Interest expenses .....	359	289	523
Gain on liquidation of SPE .....	(955)	—	—
Gain on debt extinguishment .....	(500)	—	—
Gain from penalty charges .....	(243)	(500)	(565)
Loss (gain) on sale of property and equipment .....	52	(2,355)	(2,637)
Loss on close of stores .....	522	—	77
Offset rent expense from deposit received from lessees .....	538	338	738
Increase in trade receivable .....	(1,170)	(997)	(471)
Increase in inventories .....	(7,060)	(6,263)	(2,425)
Increase (decrease) in other current assets .....	(1,789)	105	1,248
Increase in trade payable .....	12,265	7,897	508
Increase (decrease) in other current liabilities .....	1,546	(818)	417
Increase (decrease) in other non-current liabilities .....	(792)	94	(124)
Other, net .....	113	136	54
Cash generated from operations .....	15,785	11,381	20,444
Received interest and dividend income .....	169	130	298
Interest paid .....	(381)	(265)	(514)
Income taxes paid .....	(6,093)	(2,305)	(4,982)
Received penalty charges .....	—	500	565
Net cash provided by operating activities .....	9,480	9,441	15,811
<b>Cash flows from investing activities:</b>			
Time deposits transferred from cash .....	(300)	—	—
Payments for purchase of property and equipment .....	(16,100)	(3,411)	(12,229)
Proceeds from sale of property and equipment .....	4	5,454	6,077
Payments for purchase of intangible assets .....	(39)	(518)	(274)
Payments for leasehold deposits .....	(2,209)	(3,092)	(4,277)
Proceeds from termination of leasehold deposits .....	722	2,735	5,041
Payments for purchase of investment securities .....	(1,890)	(1,667)	(2,059)
Payment for purchase of subsidiaries' securities .....	(11,261)	—	(13,265)
Payment for purchase of securities of an affiliated company accounted for by the equity method .....	(120)	—	—
Proceeds from liquidation of SPE .....	1,907	—	—
Proceed from SPE .....	—	48	72
Other, net .....	(1,858)	(1,706)	(4,010)
Net cash used in investing activities .....	(31,144)	(2,157)	(24,924)

<b>Cash flows from financing activities:</b>			
Increase (decrease) of short-term bank loans .....	2,000	(743)	(743)
Net increase on commercial paper .....	14,966	—	—
Borrowing of long-term debt .....	9,000	—	5,000
Repayment of long-term debt .....	(3,010)	(3,473)	(5,756)
Proceeds from issuance of bonds .....	8,000	23,057	26,057
Payments for redemption of bonds .....	(7,818)	(2,478)	(3,956)
Issuance of common stock .....	199	310	856
Payments of cash dividends .....	(718)	(1,188)	(1,902)
Other, net .....	50	(23)	(69)
<b>Net cash provided by financing activities .....</b>	<b>22,669</b>	<b>15,462</b>	<b>19,487</b>
Effect of the excluded result of consolidation .....	(39)	—	—
Effect of exchange rate changes on cash and cash equivalents .....	(26)	(37)	(2)
<b>Net increase in cash and cash equivalents .....</b>	<b>979</b>	<b>22,709</b>	<b>10,372</b>
<b>Cash and cash equivalents at beginning of the period ....</b>	<b>38,164</b>	<b>27,792</b>	<b>27,792</b>
<b>Cash and cash equivalents at end of the period (Note 3 and 8) ....</b>	<b>¥39,104</b>	<b>¥50,501</b>	<b>¥38,164</b>

The accompanying notes are integral part of the statements.

## Notes to Consolidated Financial Statements

### Note 1. NATURE OF OPERATIONS

The Don Quijote Group (the "Group") is composed of Don Quijote Co., Ltd. (the "Company"), fifteen consolidated subsidiaries (Paw Creation Co., Ltd., Donki Johokan Co., Ltd., D-ONE Co., Ltd., REALIT Co., Ltd., Don Quijote (USA) Co., Ltd. and its subsidiary, Doit Co., Ltd. and Nagasakiya Co., LTD. and its seven subsidiaries), seven non-consolidated subsidiaries, two affiliated companies accounted for by the equity method and two affiliated companies not accounted for by the equity method.

Major operations of the Group are as follows:

(Discount store operations)

The Company, Don Quijote (USA) Co., Ltd. and Doit Co., Ltd. operate retail chain business by selling electrical appliances, daily commodities, foods, watches, fashion goods, and sports and leisure goods with the concept of "big convenience and discount stores".

(Superstore operations)

Nagasakiya Co., LTD. operates superstore business by selling clothes, foods and housing related commodities.

(Rental business operations)

Paw Creation Co., Ltd. rents part of floor space in PAW shopping malls to tenants.

The Company, Don Quijote (USA) Co., Ltd., Doit Co., Ltd. and Nagasakiya Co., LTD. operate space-leasing business by leasing part of their stores to tenants.

(Other operations)

Donki Johokan Co., Ltd. operates as an agent who sells cellular phones and call plans.

D-ONE Co., Ltd. operates real estate business and develops the Group stores.

REALIT Co., Ltd. operates system development and provides integrative internet services.

### Note 2. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements are prepared in accordance with accounting principles and practices generally accepted in Japan under the requirements of the Japanese Corporate Law and other applicable rules and regulations for domestic purpose and are filed with the local finance bureau of the Ministry of Finance (MOF) as required by the Securities and Exchange Law and its related laws, rules and regulations. In preparing these financial statements, certain reclassifications and rearrangements have been made to the original financial statements issued domestically in Japan, for the convenience of readers outside Japan. The consolidated financial statements are not intended to present the financial positions, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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

All yen figures are rounded off to the nearest million yen.

Certain reclassifications have been made in the fiscal 2007 financial statements to conform to the presentation for the fiscal 2008 financial statements.

### Note 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Consolidation

In the accompanying consolidated financial statements, the Company accounts for its subsidiaries on a consolidated basis. As of December 31, 2007, the Company has twenty-two subsidiaries including fifteen consolidated subsidiaries as set out in the following table.

	Group interest of capital	Activity
PAW Creation Co., Ltd.	100.0%	Operation of multiple tenant shopping malls including leasing of real property
Donki Johokan Co., Ltd.	51.0%	Operation of cellular phones sales business as an agency of Don Quijote
D-ONE Co., Ltd.	100.0%	Operation of development of the Group companies, and real estate business
REALIT Co., Ltd.*1	18.2%	Operation of system development and integrative internet services
Donki Quijote (USA) Co., Ltd.	100.0%	Operation of discount retail stores
Oriental Seafoods, Inc.	100.0%	Mainly whole sales to Don Quijote (USA) Co., Ltd.
Doit Co., Ltd.	100.0%	Operation of discount retail stores
Nagasakiya Co., LTD.*2	93.8%	Operation of superstore business

\*1 As of February 29, 2008, the Group interest of capital is 5.2%. Although the percentage of its voting rights held by the Company is less than 50%, REALIT Co., Ltd. has been consolidated because it is substantially controlled by the Company.

\*2 Nagasakiya Co., LTD. has been consolidated since the Company acquired it on October 26, 2007

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 Company has the ability to exercise significant influence are accounted for by the equity

method.

Non-consolidated subsidiaries: 7 companies

Each of the seven non-consolidated subsidiaries is small in size and is excluded from consolidation as they do not have a significant impact on the consolidated financial statements in respect of net assets, net sales, net profit and retained earnings.

#### Equity method companies

- (1) Affiliates accounted for by the equity method: 2 companies  
THE GALAXY RAILWAYS STORY II Production Partnership  
WORLD VICTORY ROAD
- (2) Non-consolidated subsidiaries and affiliates not accounted for by the equity method  
Seven non-consolidated subsidiaries and two affiliates that are not accounted for by the equity method are excluded from the application of the equity method as they do not have a significant impact on the financial condition and the operation.
- (3) For the affiliates accounted for by the equity method with the semi-annual year ended other than December 31, 2007, their semi-annual reports were incorporated in this semi-annual report.

#### Semi-annual accounting period for consolidated subsidiaries

Of the consolidated subsidiaries, the six months end for Don Quijote (USA) Co., Ltd. and its subsidiary, is the last Saturday of September; for Doit Co., Ltd. is September 30, and for Nagasakiya Co., LTD. and its seven subsidiaries is November 30. The Company used their interim reports for the Group semi-annual report. The Group, however, made adjustments for significant transaction made between their six months ends and December 31, 2007.

#### Cash and cash equivalents

In preparing the cash flow statements for the six months ended December 31, 2007 and 2006, 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.

#### Exchange of foreign currency accounts

All assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates prevailing at the respective balance sheet dates. Foreign exchange gains or losses are credited or charged to current income when incurred.

All assets and liabilities of foreign consolidated subsidiaries are translated at the foreign exchange rates prevailing at the respective balance sheet date except for shareholders' equity, which is translated at the historical rate. Differences arising from such translation were shown as "Foreign exchange adjustments" in a separate component of "Shareholders' equity". Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

#### 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 disclosures of contingent assets and liabilities at the dates of the financial statements and revenues and expenses during the reporting periods. Actual results could differ from those estimates.

#### Marketable securities and investment securities

Securities available-for-sale are carried at fair value with corresponding unrealized gains (losses) recorded directly in a separate component of shareholders' equity. Realized gains and losses, which are determined by the moving-average cost method, are reflected in the statements of income when realized. 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.

Investment in affiliates, in which the Group has a 20%-50% interest or otherwise exercises significant influence are carried at cost, adjusted for the company's proportionate share of their undistributed earnings or losses.

#### Inventories

The Company, Doit Co., Ltd., Nagasakiya Co., LTD. and foreign subsidiaries adopt the principle that inventories are valued at cost determined by the retail method.

#### Property and equipment

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

For the Company and domestic subsidiaries, depreciation of property and equipment is computed principally by the declining balance method except the buildings, which is depreciated on the straight-line method. These are according to the rules based on the Japanese Corporation Tax Law. Property and equipment by lease contracts is computed by the straight-line method.

For the foreign subsidiary, the depreciation of property and equipment is computed by the straight-line method.

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 .....	2 to 50
Equipment and vehicles .....	2 to 20

In general, when assets are sold or otherwise disposed of, the profits or losses thereon, computed on the basis of the difference between depreciated costs and proceeds, are credited or charged to income in the year of sale or disposal, and costs and accumulated depreciation are removed from the accounts.

Long-lived assets are reviewed for impairment and written down to fair value whenever events or changes in circumstances indicate that the

carrying amount of an asset may not be recoverable and an impairment loss must be recognized. If the sum of the expected future cash flows is less than the carrying amount of the assets, an impairment loss is recognized.

#### **Intangible assets**

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 Group accounts for software which was included in intangible assets in the same manner in fiscal 2008 as in fiscal 2007 and depreciated it using the straight-line method over the estimated useful lives (five years).

Identifiable intangibles are reviewed for impairment and written down to fair value whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and an impairment loss must be recognized. If the sum of the expected future cash flows is less than the carrying amount of the assets, an impairment loss is recognized.

#### **Negative Goodwill**

Negative goodwill is amortized using the straight-line method over their estimated useful lives.

#### **Impairment of fixed assets**

The Group adopted early the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standards Implementation Guidance No.6 issued by the Accounting Standards Board of Japan on October 31, 2003). This standard also applies to non-capitalized finance leases.

#### **Lease transactions**

Non-cancelable lease transactions that transfer substantially all risks and rewards associated with the ownership of assets are accounted for as finance leases. All other lease transactions are accounted for as operating leases and relating payments are charged to income.

#### **Common stock issuance costs**

Common stock issuance costs are directly charged to income as incurred. The Japanese Corporate Law 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. The allowances for doubtful accounts has been provided for at the aggregate amount of estimated credit loss based on the individual financial approach for doubtful or troubled receivables and a general reserve for other receivables calculated based on the historical loss experience for a certain time period.

#### **Allowance for point program**

The allowance for the point program is stated in amounts considered to be appropriate based on the Company's past redemption experience.

#### **Allowance for retirement benefits for employees**

Certain domestic consolidated subsidiaries adapted a retirement benefit plan for employees. The subsidiaries accounted for the allowance based on projected benefit obligations at the balance sheet date.

#### **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 the Company rules.

#### **Revenues recognition**

The Company, Doit Co., Ltd., Nagasakiya Co., LTD. and foreign subsidiaries recognize revenue as "Net sales" at the time sales are made to customers. Paw Creation Co., Ltd. recognized revenue as rental fees from lessees, as it becomes receivable according to the provision of lease agreement. These fees are determined on the basis of the sale of each tenant.

#### **Income taxes**

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

#### **Presentation of equity**

On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity.

Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives under hedge accounting.

This standard is effective for fiscal years ended on or after May 1, 2006.

#### **Derivatives financial instruments**

The Group uses derivative finance instruments for the purpose of hedging against the risk of fluctuation in interests on loan payable. The carrying amounts of interest swap agreements are stated at market value at balance sheet date.

#### **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. Semi-annual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Japanese Corporate Law.

#### **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 Corporate Law, are charged to income as incurred.

The Company applies its method of accounting for bonuses to directors and statutory auditors to charge them to income as incurred (Practical Issues Task Force No.13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors," issued by the Accounting Standards Board of Japan on March 9, 2004).

#### **Accounting for consumption taxes**

The Japanese consumption taxes withheld and consumption taxes paid are not included in the accompanying consolidated statements of income. Accrued consumption tax is included in other current liabilities

#### **Shareholders' equity**

Through May 1, 2006, Japanese companies are subject to the Japanese Corporate Law.

The Law requires that all shares of common stock be issued with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds are required to be presented as additional paid-in capital, which is included in capital surplus. The Law permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration by way of a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Law also provides that an amount of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25% of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available of dividends by resolution of the shareholders after transferring such excess in accordance with the Law. In addition, the Law permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Law allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

#### **Per share data**

Basic net income per common share is calculated by dividing net income by the weighted-average number of shares outstanding during the reported period. The calculation of diluted net income per common share is similar to the calculation of basic net income per share, except that the weighted-average number of shares outstanding includes the additional dilution from potential common stock equivalents such as convertible bonds and dilutive equity securities.

#### **New accounting pronouncements**

##### **Measurement of inventories**

Under Japanese GAAP, inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No.9, "Accounting Standard for Measurement of Inventories", which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

##### **Lease accounting**

On March 30, 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions", which revised the existing accounting standard for lease transactions issued on June 17, 1993.

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements.

The revised accounting standard requires that all financial lease transactions should be capitalized. 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.

#### **Unification of accounting policies applied to foreign subsidiaries for the consolidated financial statements**

Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No.18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The new task force prescribes: 1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, 2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, 3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material:

- (1) Amortization of goodwill

- (2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
- (3) Capitalization of intangible assets arising from development phases
- (4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
- (5) Retrospective application when accounting policies are changed
- (6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

#### Note 4. ACCOUNTING CHANGE

During the six months ended December 31, 2007, the Company changed its method of accounting for evaluation of inventories to conform to new requirements of the ASBJ Statements No.9. The effect of this change was to decrease operating income, recurring income and income before income taxes and minority interests for the six months ended December 31, 2007 by 886 million yen.

#### Note 5. PLEDGED ASSETS

The assets pledged as collateral for the Group's liabilities are as follows:

	Millions of yen		
	December 31, 2007 (Unaudited)	December 31, 2006 (Unaudited)	June 30, 2007 (Audited)
Time deposits .....	¥610	¥—	¥—
Land .....	3,376	1,718	1,718
Buildings and structures .....	776	127	223
Fixed leasehold deposits .....	5,661	—	—
Other .....	136	—	—
<b>Total .....</b>	<b>¥10,559</b>	<b>¥1,845</b>	<b>¥1,941</b>

Liabilities related with the assets pledged are as follows:

	Millions of yen		
	December 31, 2007 (Unaudited)	December 31, 2006 (Unaudited)	June 30, 2007 (Audited)
Short-term loans payable .....	¥1,300	¥—	¥—
Current maturities of long-term debt .....	2,868	1,336	1,636
Long-term debt .....	6,469	2,662	3,119
Non-current liabilities .....	6,301	—	—
Other .....	779	—	—
<b>Total .....</b>	<b>¥17,717</b>	<b>¥3,998</b>	<b>¥4,755</b>

#### Note 6. UNUSED FINANCING COMMITMENTS

The Company had the unused line of credit with 12 banks to be drawn upon as needed to finance.

	Millions of yen		
	December 31, 2007 (Unaudited)	December 31, 2006 (Unaudited)	June 30, 2007 (Audited)
Gross amount of committed line of loan payable .....	¥10,000	¥10,000	¥10,000
Bank loan committed .....	—	—	—
<b>Unused financing commitments .....</b>	<b>¥10,000</b>	<b>¥10,000</b>	<b>¥10,000</b>

#### Note 7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major elements of selling, general and administrative expenses are summarized as follows:

	Millions of yen		
	Six Months Ended December 31, 2007 (Unaudited)	Six Months Ended December 31, 2006 (Unaudited)	Year Ended June 30, 2007 (Audited)
Employees' compensation and benefit .....	¥13,524	¥10,085	¥20,606
Occupancy and rental .....	5,963	4,217	9,104
Commission .....	4,841	3,836	8,112
Depreciation and amortization .....	2,752	2,338	5,033
Allowance for doubtful accounts .....	304	5	9
Provision for retirement benefits for directors .....	31	27	11
Provision of allowance for point program .....	48	21	70

Retirement benefit	15	—	15
Other	11,704	8,356	16,577
<b>Total</b>	<b>¥39,182</b>	<b>¥28,885</b>	<b>¥59,537</b>

## Note 8. CASH FLOWS INFORMATION

Cash flows information is summarized as follows:

	Millions of yen		
	Six Months Ended December 31, 2007 (Unaudited)	Six Months Ended December 31, 2006 (Unaudited)	Year Ended June 30, 2007 (Audited)
Cash including time deposits	¥39,849	¥50,501	¥38,164
Time deposits (over three months)	(450)	—	—
Restricted time deposits	(295)	—	—
<b>Cash and cash equivalents</b>	<b>¥39,104</b>	<b>¥50,501</b>	<b>¥38,164</b>

## Note 9. LEASE TRANSACTIONS

(1) Equipment under capitalized finance lease.

Non-cancelable lease transactions that transfer substantially all risks and rewards associated with the ownership of assets are accounted for as finance leases.

(2) Lease transactions derived from Special Purpose - Entity (SPE)

(a) Assumed acquisition cost:

	Millions of yen		
	December 31, 2007 (Unaudited)	December 31, 2006 (Unaudited)	June 30, 2007 (Audited)
Land	¥7,236	¥11,567	¥8,707
Buildings	4,913	7,024	6,574
Structures	70	132	132

(b) Lease payments:

	Millions of yen		
	Six Months Ended December 31, 2007 (Unaudited)	Six Months Ended December 31, 2006 (Unaudited)	Year Ended June 30, 2007 (Audited)
Lease payments	¥954	¥1,156	¥2,233

(c) Maximum guarantees for SPE as of December 31, 2007 was ¥1,794 million.

(3) Operating lease

(a) Future minimum lease payments subsequent to for operating leases by SPE are summarized as follows:

	Millions of yen		
	December 31, 2007 (Unaudited)	December 31, 2006 (Unaudited)	June 30, 2007 (Audited)
Due within one year	¥1,742	¥2,312	¥2,075
Due after one year	6,860	12,352	9,148
<b>Total</b>	<b>¥8,602</b>	<b>¥14,664</b>	<b>¥11,223</b>

(b) Future minimum lease payments subsequent to for operating leases of superstore operations are summarized as follows:

	Millions of yen		
	December 31, 2007 (Unaudited)	December 31, 2006 (Unaudited)	June 30, 2007 (Audited)
Due within one year	¥3,571	¥—	¥—
Due after one year	23,291	—	—
<b>Total</b>	<b>¥26,861</b>	<b>¥—</b>	<b>¥—</b>

\* Under the terms of the non-cancellable agreements, Nagasakiya Co., LTD. will make rental payments.

## Note 10. MARKETABLE SECURITIES AND INVESTMENT SECURITIES

The Group invests in equity securities and classifies its investments in equity securities as available-for-sale. Investment securities consist of equity securities, debt securities and others.

(1) Information regarding available-for-sale securities and investment securities is as follows:

	Millions of yen								
	December 31, 2007 (Unaudited)			December 31, 2006 (Unaudited)			June 30, 2007 (Audited)		
	Acquisition cost	Fair market value	Net realized gain (loss)	Acquisition cost	Fair market value	Net realized gain (loss)	Acquisition cost	Fair market value	Net realized gain (loss)
Equity securities .....	¥2,035	¥2,224	¥189	¥69	¥511	¥442	¥468	¥873	¥405
Debt securities .....	1,907	1,852	(55)	1,607	1,554	(53)	1,607	1,522	(85)
Others .....	2,974	2,633	(341)	2,945	3,135	190	3,076	3,141	65
<b>Total .....</b>	<b>¥6,916</b>	<b>¥6,709</b>	<b>¥(207)</b>	<b>¥4,621</b>	<b>¥5,200</b>	<b>¥580</b>	<b>¥5,151</b>	<b>¥5,536</b>	<b>¥385</b>

(2) Unlisted equity securities are as follows:

	Millions of yen		
	December 31, 2007 (Unaudited)	December 31, 2006 (Unaudited)	June 30, 2007 (Audited)
Securities of subsidiaries and affiliates			
Subsidiaries .....	¥129	¥66	¥69
Affiliates .....	158	83	68
Other securities			
Unlisted equity securities (except the equity securities which traded on over-the-counter markets) .....	1,215	1,312	1,261
Investment in Special Purpose Entity .....	1,342	2,143	2,246
<b>Total .....</b>	<b>¥2,844</b>	<b>¥3,604</b>	<b>¥3,644</b>

## Note 11. DERIVATIVES

1. Outline of derivative transactions

(1) Nature of derivative transactions

The Company utilizes currency swaps for the derivative financial instrument.

(2) Policy for derivative transactions

Derivative transactions are for evading exposure to fluctuations in foreign currencies and interest rates. The Company does not utilize derivatives for trading purposes.

(3) Purpose of derivative transactions

The Company utilizes derivative transactions for avoiding future foreign currency fluctuations caused by a rise of interest rates.

(4) Risks of derivative transactions

The Company is exposed to risks related to interest rate fluctuations, but any such risk would not be expected to be material because the Company enters into derivative transactions only with financial institutions with high credit ratings.

(5) Transaction control

Derivative transactions are appropriately pre-approved by the financial decision maker of the accounting department. The Company approves derivative transactions as appropriate, and in accordance with policies, which regulate the authorization and credit limit amount.

(6) Additional explanation regarding fair value

The notional amounts of the derivative financial instruments do not necessarily represent the amounts exchanged by the parties and, therefore, are not a direct measure of the Company's risk exposure.

2. The Company had the following derivatives contracts outstanding at December 31, 2007.

	Millions of yen		
	Contract Amount	Fair Value	Unrealized Loss
Interest rate swap contracts .....	¥10,228	¥(69)	¥(69)

The Company had the following derivatives contracts outstanding at December 31, 2006.

	Millions of yen		
	Contract Amount	Fair Value	Unrealized Loss
Interest rate swap contracts .....	¥2,800	¥(2)	¥(2)

The Company had the following derivatives contracts outstanding at June 30, 2007.

	Millions of yen		
	Contract Amount	Fair Value	Unrealized Gain
Interest rate swap contracts .....	¥4,711	¥4	¥4

## Note 12. USE OF A SPECIAL PURPOSE ENTITY (THE "SPE") FOR PROPERTY OWNERSHIP

The Company has used a sales and lease back structure to securitize real estate assets pursuant to which the SPE acquires real estate from the Company and leases it back to the Company. The scheme was used to refinance the Shinjuku Higashi-guchi store. This particular SPE 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 SPE to a third party. In the latter case, where the market value of the real estate has fallen to less than 75 % of the initial purchase price, the Company is required to pay the shortfall up to 75 % of the initial purchase price.

In order to obtain financing, in August 2005, the Company used the SPE structure in respect of real estate for PAW Nishinomiya, PAW Ishikiri, PAW Kashiwa, and Atsugi. 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.

The amount of SPE was stated at ¥1,341 million, which is the historical cost as of December 31, 2007. Under these arrangements, the funds (investments) are subordinated to all liabilities to other members of silent partnerships and third parties other than members of the silent partnerships. Gain from fund was charged to other income. Total assets of SPEs were ¥14,410 million and total liabilities of them were ¥11,489 as of the nearest end of reporting period.

## Note 13. LONG-TERM DEBT

Long-term debt consists of the following:

	Millions of yen		
	December 31, 2007 (Unaudited)	December 31, 2006 (Unaudited)	June 30, 2007 (Audited)
<b>Long-term debt:</b>			
Straight bond	¥12,198	¥20,410	¥6,300
Convertible bond	32,030	32,143	32,139
Others	12,743	6,467	8,194
<b>Long-term debt total</b>	<b>¥56,971</b>	<b>¥59,020</b>	<b>¥46,633</b>

## Note 14. OTHER INCOME, NET

Other income, net consists of the following:

	Millions of yen		
	Six Months Ended December 31, 2007 (Unaudited)	Six Months Ended December 31, 2006 (Unaudited)	Year Ended June 30, 2007 (Audited)
<b>Other income:</b>			
Rental fee for computer system	¥—	¥758	¥1,219
Amortization of negative goodwill	714	52	452
Gain on SPE	45	233	360
Gain from liquidation of SPE	955	—	—
Gain from debt extinguishment	500	—	22
Other	969	698	1,078
<b>Other income total</b>	<b>3,183</b>	<b>1,741</b>	<b>3,131</b>
<b>Other expenses:</b>			
Loss on close of stores	522	75	111
Loss on disposal of fixed assets	47	160	179
Loss on investments dues to the equity method	38	18	33
Other	752	173	312
<b>Other expenses total</b>	<b>1,359</b>	<b>426</b>	<b>635</b>
<b>Other income, net</b>	<b>¥1,824</b>	<b>¥1,315</b>	<b>¥2,496</b>

## Note 15. SUPPLEMENTARY PROFIT AND LOSS INFORMATION

Items included in "Gain on sales of fixed assets" are as follows:

	Millions of yen		
	Six Months Ended December 31, 2007 (Unaudited)	Six Months Ended December 31, 2006 (Unaudited)	Year Ended June 30, 2007 (Audited)
Buildings and structures	¥—	¥54	¥80
Equipment	—	—	0
Land	—	2,461	2,736
<b>Total</b>	<b>¥—</b>	<b>¥2,515</b>	<b>¥2,816</b>

Items included in "Loss on disposal of fixed assets" are as follows:

	Millions of yen		
	Six Months Ended December 31, 2007 (Unaudited)	Six Months Ended December 31, 2006 (Unaudited)	Year Ended June 30, 2007 (Audited)
Buildings and structures .....	¥21	¥94	¥97
Equipment .....	22	66	81
Others .....	4	0	1
<b>Total .....</b>	<b>¥47</b>	<b>¥160</b>	<b>¥179</b>

Items included in "Loss on close of stores" are as follows:

	Millions of yen		
	Six Months Ended December 31, 2007 (Unaudited)	Six Months Ended December 31, 2006 (Unaudited)	Year Ended June 30, 2007 (Audited)
Buildings and structures .....	¥307	¥50	¥50
Equipment .....	64	8	—
Others .....	151	17	61
<b>Total .....</b>	<b>¥522</b>	<b>¥75</b>	<b>¥111</b>

## Note 16. STOCK INCENTIVE PLAN

The shareholders of the Company approved a stock incentive plan on September 25, 2002. The options may be exercised during the period from October 2, 2004 until October 1, 2008. The terms of options are subject to adjustment if there are stock splits, consolidation of shares or additional shares issued at price less than the market price per share. The unexercised and outstanding balance of SARs, as of June 30, 2007, was 237,600 shares.

The shareholders of the Company approved a stock incentive plan on September 25, 2003. The options may be exercised during the period from October 2, 2005 until October 1, 2009. The terms of options are subject to adjustment if there are stock splits, consolidation of shares or additional shares issued at price less than the market price per share. The unexercised and outstanding balance of SARs, as of June 30, 2007, was 431,100 shares.

The shareholders of the Company approved a stock incentive plan on September 28, 2004. The options may be exercised during the period from October 2, 2006 until October 1, 2016. The terms of options are subject to adjustment if there are stock splits, consolidation of shares or additional shares issued at price less than the market price per share. The unexercised and outstanding balance of SARs, as of June 30, 2007, was 1,183,500 shares.

The shareholders of the Company approved a stock incentive plan on September 29, 2005. The options may be exercised during the period from October 2, 2007 until October 1, 2017. The terms of options are subject to adjustment if there are stock splits, consolidation of shares or additional shares issued at price less than the market price per share. The unexercised and outstanding balance of SARs, as of June 30, 2007, was 1,863,000 shares.

## Note 17. EARNING PER SHARE

	Yen		
	Six Months Ended December 31, 2007 (Unaudited)	Six Months Ended December 31, 2006 (Unaudited)	Year Ended June 30, 2007 (Audited)
Basic earnings per share .....	¥93.40	¥90.78	¥148.89
Diluted earnings per share .....	¥86.97	¥84.29	¥138.32

  

	Yen		
	December 31, 2007 (Unaudited)	December 31, 2006 (Unaudited)	June 30, 2007 (Audited)
Shareholders' equity per share .....	¥1,224.34	¥1,091.32	¥1,146.07

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.

	Six Months Ended December 31, 2007 (Unaudited)
Weighted average number of shares .....	71,837,315
Effect of dilutive securities:	
Stock options .....	340,067
Convertible Bonds .....	4,968,260
<b>Diluted weighted average number of shares .....</b>	<b>77,145,642</b>

## Note 18. SEGEMENT INFORMATION

### Operating segment information

The segment information for the six months ended on December 31, 2007 is shown as follows:

	Millions of yen						
	Discount store	Superstore	Rental business	Other	Total	Eliminations/ corporate	Consolidated total
Net sales:							
Customers .....	¥168,455	¥11,243	¥4,906	¥991	¥185,515	¥—	¥185,515
Intersegment .....	6	—	995	1,060	2,061	(2,061)	—
Total .....	168,461	11,243	5,901	1,971	187,576	(2,061)	185,515
Operating expenses .....	161,003	11,604	3,788	1,746	178,141	(1,996)	176,145
Operating income (loss) .....	¥7,458	¥(361)	¥2,113	¥225	¥9,435	¥(65)	¥9,370

Operating segment information for the six months ended December 31, 2006 and the year ended June 30, 2007 are not presented as the discount store operations consisted of more than 90% of the Group's net sales and operating income and therefore the percentages of other operating activities are not material.

### Geographic segment information

Since net sales and assets in Japan accounted for more than 90% of those of all the segments, details of each geographic segment information are not presented.

### Sales outside Japan

Sales outside Japan is not presented because it is less than 10% of the Group sales.

## Note 19. SUBSEQUENT EVENTS

### 1. Issuance of straight bonds

The Company decided to issue ¥ 30 billion of straight bonds at 1.67% with covenants restricting to pledge certain assets due on February 18, 2011 under the resolution of board of directors' meeting on January 31, 2008. The Company expected to use the net proceeds for repayment of bonds and short-term loan.

### 2. Acquisition of treasury stock

On February 21, 2008, the Board of Directors of the Company made a resolution to repurchase its own shares as follows. The purpose is to improve capital efficiency and implement financial management to stabilize the price of the Company.

- |   |  |
|---|--|
| (1) Types of shares                           | Shares of common stock of Don Quijote Co., Ltd.  |
| (2) Aggregate number of shares to be acquired | Up to 3,000,000 shares                           |
| (3) Aggregate purchase amounts                | Up to 5,000,000,000 yen                          |
| (4) Acquisition period                        | From February 25, 2008 to April 24, 2008         |
| (5) Method of acquisition                     | Purchase in the stock market through trust banks |

### 3. Procurement of funds

On March 13, 2008, the Board of Directors declared financing by issuance of private debt placements. Its amount is ¥12,500 million and redemption term is 3-year and 5-year.

Besides, the Board of Directors also declared debt financing with 8 banks. The amount is ¥7,500 million and borrowing term is 3-year and 5-year. The reason to finance is investing activities related to the store expansion.