

Notes to the Consolidated Financial Statements

THE SEIYU, LTD. AND SUBSIDIARIES

I. Basis of Presenting the Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from the accounts maintained by THE SEIYU, LTD. (the "Company") and its consolidated subsidiaries in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Certain items presented in the consolidated financial statements submitted to the Director of the Kanto Finance Bureau in Japan have been reclassified for the convenience of readers outside Japan.

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥107.13 = U.S. \$1, the rate of exchange on December 31, 2003 has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this or any other rate.

Certain of the February 2003 and 2002 accounts have been reclassified to conform to the December 2003 financial statement presentation.

2. Summary of Significant Accounting Policies

(a) Scope of Consolidation

The Company had 31 (37 for February 2003) majority-owned subsidiaries at December 31, 2003. The consolidated financial statements include the accounts of the Company and 31 (37 for February 2003) of its subsidiaries (together referred to as the "Companies").

The major consolidated subsidiaries as at and for the year ended December 31, 2003 are listed below:

	Direct and indirect ownership percentage at December 31, 2003
Wakana Co., Ltd.	100.0 per cent.
Smile Corp.	77.6 per cent.
Seiyu Europa B.V. (*1)	100.0 per cent.
SSF Netherlands B.V. (*1)	100.0 per cent.
Seiyu International Finance B.V. (*1)	100.0 per cent.
S.S.V. Inc.	100.0 per cent.
The SCC, Ltd.	100.0 per cent.
Sunny Co., Ltd.	55.5 per cent.

(*1) Has a fiscal year end of November 30

(b) Elimination of Intercompany Accounts

For the purposes of preparing the consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits among the Companies, after adjustment for minority interests, have been eliminated.

Any difference between the cost of an investment in a subsidiary and the amount of underlying equity in net assets of the subsidiary, which may arise in connection with the elimination of the investment, is treated as an asset or a liability, as the case may be, and is amortized over a period of five years on a straight-line basis.

(c) Accounting for Investments in Affiliates

The Company had 9 (12 for February 2003) affiliates (meaning companies where the share capital is 20% to 50% directly or indirectly owned by the Company) at December 31, 2003. The equity method is applied to investments in 8 (11 for February 2003) affiliates.

The major affiliates which have been accounted for by the equity method are listed below:

	Direct and indirect ownership percentage at December 31, 2003
Kokubu System Gift Corp.	50.0 per cent.
Nagahama Urban Development	50.0 per cent.
Hospitality Network Corp.	33.3 per cent.

The investments in affiliates not accounted for by the equity method are stated at cost, as they do not have a material effect on the consolidated financial statements.

(d) Change in Accounting Period

The Company has changed the end of its accounting period from the last day of February to the last day of December to improve efficiency and have the same level of information as a member of the Wal-Mart group. As a result, the 49th period was a 10-month fiscal year extending from March 1, 2003 to December 31, 2003.

(e) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuations in value.

(f) Inventories

Inventories are stated at cost, which is determined principally by the retail cost method for merchandise, by the last purchase invoice price method for fresh food and by the last purchase invoice price method (approximating market value) for supplies.

The cost of merchandise held by certain consolidated subsidiaries, however, is determined by using the individual cost method.

(g) Marketable Securities and Investment in Securities

Trading securities which are held for the purpose of trading are stated at fair value, valued at market prices at the balance sheet date.

Held-to-maturity debt securities that the Company and its subsidiaries have intent to hold maturity are determined by the amortized cost.

Available-for-sale securities for which market quotations are available are stated at fair value. Net unrealized gains or losses on these securities is reported as a separate item within shareholders' equity at a net-of-tax amount.

Available-for-sale securities for which market quotations are unavailable are stated at cost, which is determined principally by the moving average method. Cost of securities sold is determined by the moving average method.

(h) Derivatives and Hedging Activities

The Companies use derivative financial instruments in order to manage their exposures to interest and foreign exchange rate fluctuation. The Companies utilize interest swaps and forward exchange contracts to minimize the risk of interest and foreign exchange rate fluctuation. The Companies do not enter into derivatives for trading purposes or speculative purposes.

(i) Property and Equipment

Depreciation is computed principally by the declining-balance method, at rates based on the estimated useful lives of assets. Assets held by certain consolidated subsidiaries are depreciated by the straight-line method over the estimated useful lives of assets.

(j) Intangible Assets

The amortization of intangible assets is computed on the straight-line basis. Expenditure relating to computer software developed for internal use is charged to income as incurred, except if it contributes to the generation of income or to future cost savings, in which case it is capitalized and amortized using the straight-line method over its estimated useful life (within 5 years).

(k) Accounting for Finance Leases

Finance leases other than those which stipulate the transfer of the ownership of the leased assets to lessees are accounted for using a method similar to that applicable to ordinary operating leases.

(l) Allowance for Doubtful Accounts

An allowance for doubtful accounts against normal receivables, which is receivables from debtors who are not in serious financial difficulty, is estimated by applying historical credit loss rates. An allowance for doubtful receivables, which is receivables from debtors who are, or would be in serious financial difficulty, is estimated individually as the recorded receivables less cash inflows from foreclosures or guarantors.

(m) Accrued Bonus for Employees

The Company provides for accrued bonuses to employees for an amount determined based on the estimated payable in the future.

(n) Accrued Employees' Severance Indemnities

Accrued employees' severance indemnities are provided for retirement benefits to be paid under the Company's defined benefit plan at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the balance sheet date. The unrecognized retirement benefit obligation at transition is amortized as incurred on a straight-line basis over a certain period (5 years), which is within the average remaining service period of employees. Unrecognized actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized by the straight-line method over the average remaining years of service of the employees.

Prior service cost is amortized as incurred by the straight-line method over the average remaining years of service of the employees.

(o) Accrued Retirement Benefits for Directors and Corporate Auditors

The Company has provided for the accrued retirement benefits for directors and corporate auditors at an amount equivalent to 100% of such benefits the Company would be required to pay, had all eligible directors and corporate auditors retired at the balance sheet date.

(p) Net Income (Loss) per Share

Net income (loss) per share is based upon the weighted average number of shares of common stock outstanding during each year.

Net income (loss) per share is noted on the consolidated statements of income.

Diluted net income per share is not disclosed because the Company and its subsidiaries made a net loss for the ten-month period ended December 31, 2003 and for the year ended February 28, 2003.

Net income, adjusted for dilution per share, is noted for the year ended February 28, 2002.

Effective the current period, the Company adopted the Accounting Standard No. 2, "Accounting Standard for Earnings per Share" and Accounting Implementation Guidance No. 4, "Implementation Guideline on the Accounting Standard for Earnings per Share." Their adoption did not have a material effect on the Company's results of operations.

(q) Accounting for Consumption Tax

Consumption tax withheld upon sale is not included in "net sales" and consumption tax payable by the Company on the purchases of goods and services from vendors is not included in "costs and expenses" in the accompanying consolidated statements of operations. The net balance of consumption tax withheld and payable is included in "other current liabilities" in the accompanying consolidated balance sheets.

3. Cash and Cash Equivalents

Cash and cash equivalents as at December 31 and February 28, 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2003	February 28, 2003	December 31, 2003
Cash and time deposits	¥96,621	¥81,111	\$901,904
Marketable securities	—	—	—
Subtotal	96,621	81,111	901,904
Time deposits with deposit term of over 3 months	(763)	(540)	(7,122)
Cash and cash equivalents	¥95,858	¥80,571	\$894,782

4. Supplemental Cash Flow Information

The following shows the details of the net cash flows for subsidiaries, which became non-consolidated subsidiaries, due to sales of stocks, during the ten-month period ended December 31 and the year ended February 28, 2003.

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2003	February 28, 2003	December 31, 2003
Current assets	¥ 9,010	¥110,935	\$ 84,103
Non-current assets	2,142	87,009	19,995
Total assets	¥11,152	¥197,944	\$104,098
Current liabilities	¥10,544	¥146,771	\$ 98,423
Non-current liabilities	387	36,384	3,612
Total liabilities	¥10,931	¥183,155	\$102,035

Significant Noncash Transaction

During the Current period, 16,497,117 shares of common stock were newly issued for exchange with SSV stock in order to make a wholly owned subsidiary of the Company.

Increase in capital surplus by stock issuance ¥4,850 million.

5. Marketable Securities and Investments in Securities

(1) Trading Securities

Trading securities, which were revalued at fair value, as at December 31 and February 28, 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2003	February 28, 2003	December 31, 2003
Fair value of trading securities stated on consolidated balance sheet	¥—	¥35	\$—
Loss on revaluation of trading securities	—	(7)	—

(2) Held-to-Maturity Securities with Market Value

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2003	February 28, 2003	December 31, 2003
Government bonds			
Consolidated balance sheet amount	¥—	¥211	\$—
Market value	—	211	—
Variance	—	0	—
Corporate bonds			
Consolidated balance sheet amount	¥—	¥ 1	\$—
Market value	—	1	—
Variance	—	0	—

(3) Available-for-Sale Securities with Market Value

Cost of acquisition, consolidated balance sheet amount and their variances of "available-for-sale securities" are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2003	February 28, 2003	December 31, 2003
Stocks			
Cost of acquisition	¥17,893	¥21,491	\$167,021
Consolidated balance sheet amount	18,469	19,083	172,398
Variance	576	(2,408)	5,377

(4) Available-for-Sale Securities Sold during Current Fiscal Year

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2003	February 28, 2003	December 31, 2003
Amount for sale	¥7,099	¥2,551	\$66,265
Total gains on sale	2,548	411	23,784
Total losses on sale	40	238	373

(5) Available-for-Sale Securities with No Market Value and Amount on Consolidated Balance Sheet

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	December 31, 2003	February 28, 2003	December 31, 2003
Unlisted stock (exclusive of over-the-counter stocks)	¥4,123	¥5,390	\$38,486
Other	1,600	1,798	14,935

6. Investments in Affiliates

Investments in affiliates at December 31 and February 28, 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	December 31, 2003	February 28, 2003	December 31, 2003	December 31, 2003
	Percentage ownership	Amount	Amount	Amount
Seiyo Investment (S) Pte. Ltd.	33.3	¥2,699	¥2,881	\$25,194
Other	—	685	2,881	6,394
		¥3,384	¥5,762	\$31,588

7. Property and Equipment

Property and equipment at December 31 and February 28, 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2003	February 28, 2003	December 31, 2003
Buildings and structures	¥ 343,966	¥ 335,355	\$ 3,210,735
Furniture, tools and other	35,930	36,391	335,387
	379,896	371,746	3,546,122
Less: accumulated depreciation	(218,054)	(211,911)	(2,035,415)
	161,842	159,835	1,510,707
Land	132,357	115,574	1,235,480
	¥ 294,199	¥ 275,409	\$ 2,746,187

8. Short-Term Borrowings and Long-Term Debt

The annual average interest rates applicable to short-term borrowing at December 31 and February 28, 2003 were 2.2% and 2.0%, respectively.

Long-term debt at December 31 and February 28, 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2003	February 28, 2003	December 31, 2003
Loans from banks and other financial institutions, with mortgages or other collateral and/or guarantees by other banks, due from 2002 to 2018 with interest rates shown below (*1)	¥378,935	¥379,529	\$3,537,151
0.8% convertible bonds due 2003 in yen	—	28,969	—
1.5% Medium Term Note due March 2003 in yen	—	500	—
Notes issued by SIF under the Euro Medium-Term Note Programme (*2)	1,994	2,526	18,613
Guaranteed deposits received from tenants refundable when the lease is terminated and other	32,664	32,440	304,901
	413,593	443,964	3,860,665
Less: portion due within one year	(28,464)	(55,444)	(265,696)
	¥385,129	¥388,520	\$3,594,969

(*1) Interest rates ranged from 0.75% to 5.0% at December 31 and February 28, 2003.

(*2) Seiyu International Finance B.V. ("SIF") entered into the Euro Medium-Term Note Programme with financial institutions on February 3, 1995. Under this programme, SIF may from time to time issue notes (the "Notes") denominated in any currency, which will not be subject to any maximum maturity but will have a minimum maturity of one month. The maximum aggregate nominal amount of all Notes from time to time outstanding will not exceed \$800 million. The balances shown in the above table represent the outstanding balances of such Notes issued by SIF under the programme at December 31, 2003 and February 28, 2003.

The Companies' assets pledged mainly as fixed collateral for unspecified debts with banks and other financial institutions at December 31, 2003 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Time deposits	¥ 660	\$ 6,161
Net book value of property:		
Buildings	49,214	459,386
Land	67,910	633,903
Investment securities	4,159	38,822
Other	332	3,098
	¥122,275	\$1,141,370

The aggregate annual maturities of loans from banks and financial institutions at December 31, 2003 were as follows:

Year ending December 31,	Millions of Yen	Thousands of U.S. Dollars
2005	¥ 41,003	\$ 241,010
2006	56,628	528,591
2007 and thereafter	253,835	2,369,411

9. Retirement Plan

The Company and domestic consolidated subsidiaries have a defined benefit pension plan covering substantially all employees.

Employees (excluding directors and corporate auditors) with more than three years of service are generally entitled to lump-sum severance indemnities determined by reference to their rates of pay and length of service at the termination of their employment and the conditions under which the terminations occur.

In addition, together with Saison Group companies, the Companies (except for some consolidated subsidiaries) have a funded retirement plan, which covers employees (excluding directors and corporate auditors) with more than five years of service. Benefits under this retirement plan are based on average basic salaries during the period of service and length of service. The plan provides for a lump-sum payment to retiring employees with less than 20 years of participation in the plan. For those employees with participation of 20 years or more, either a lump sum payment or pension payments for life are made at the election of the retiring employee. The beneficiaries of any retired employee who dies before receiving pension payments in full for a specified number of years are entitled to the remaining benefits in a lump sum. The costs of the pension plan, including amortization of past service costs, if any, are funded currently.

The Company has provided a reserve for directors' and corporate auditors' retirement benefits in an amount equal to the liabilities the Company would be required to pay if all eligible directors and corporate auditors retired at the respective balance sheet date.

(1) The liability for employees' retirement benefits as at December 31 and February 28, 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2003	February 28, 2003	December 31, 2003
Projected benefit obligations	¥ 73,224	¥ 82,445	\$ 683,506
Fair value of plan assets	(38,944)	(37,474)	(363,521)
	34,280	44,971	319,985
Unrecognized transitional obligation	(6,258)	(9,899)	(58,415)
Unrecognized actuarial loss	(25,926)	(28,986)	(242,005)
Unrecognized prior service cost	6,545	—	61,094
	8,641	6,086	80,659
Prepaid pension cost	(55)	(64)	(513)
Net liability for retirement benefits	¥ 8,696	¥ 6,150	\$ 81,172

Note 1: The above table includes the amounts related to the portion subject to the Japanese Welfare Pension Insurance Law.

Note 2: Some subsidiaries adopt the simplified method for calculation of projected benefit obligations.

(2) The component of net periodic pension costs for the ten-month period ended December 31 and the year ended February 28, 2003 were as follows:

	Millions of Yen		Thousands of
	December 31,	February 28,	U.S. Dollars
	2003	2003	December 31,
			2003
Service cost	¥ 3,067	¥ 4,455	\$ 28,629
Interest cost	1,506	2,170	14,058
Expected return on plan assets ..	(603)	(1,568)	(5,629)
Amortization of transitional obligation ...	3,214	3,567	30,001
Recognized actuarial loss	2,556	1,097	23,859
Amortization of prior service cost ...	(1,552)	—	(14,487)
Contributions to defined contribution pension plan	164	—	1,531
Gain on transition from defined benefit to defined contribution pension plan	(48)	—	(448)
Special retirement benefits paid ..	2,411	—	22,505
Periodic pension costs	10,715	9,721	100,019
Assumed transferred amount of pension	—	(11,303)	—
Net pension costs	¥10,715	¥ (1,582)	\$100,019

Note 1: The above table excludes the amounts related to the contribution from employees subject to the Japanese Welfare Pension Insurance Law.

Note 2: Service cost includes pension costs of subsidiaries under the simplified method.

Note 3: Due to termination of the substitutional portion of employee pension fund (see below (4)).

(3) Actuarial assumptions used for the 10 month period ended December 31 and the year ended February 28, 2003 were set forth as follows:

	December 31, 2003	February 28, 2003
Discount rate	Primarily 2.5%	Primarily 2.5%
Expected rate of return on plan assets	Primarily 2.1%	Primarily 3.0%
Recognition period of actuarial gain/loss	Primarily 10 years	Primarily 10 years
Recognition period of prior service cost	Primarily 5 years	—
Amortization period of transitional obligation	5 years	5 years

(4) Termination of the substitutional portion of EPF (employee pension fund)

The employee pension fund of Saison Group, in which the Company participates, was permitted immunity from future payment from the Minister of "Ministry of Health, Labour and Welfare."

In accordance with the JICPA revised Accounting for Retirement Benefits, the Company recorded gain on the termination of the substitutional portion of EPF assuming the obligations for the substitutional portion of the plan and related assets have been transferred to the government.

10. Income Taxes

The Company and its consolidated subsidiaries are subject to a number of different taxes based on income which, in aggregate, indicate a statutory effective tax rate in Japan of approximately 41.7% for the ten-month period ended December 31, 2003.

New legislation was enacted in March 2003 which will change the aggregate statutory tax rate from 41.7% to 40.4% effective for fiscal years beginning on and after April 1, 2004. The effect of this tax rate change was to decrease deferred tax assets (net of deferred tax liabilities) by ¥149 million (\$1,391 thousand) at December 31, 2003 and to increase income taxes — deferred by the same amount for ten month period ended December 31, 2003.

Significant components of deferred tax assets and liabilities at December 31 and February 28, 2003 were as follows:

	Millions of Yen		Thousands of
	December 31,	February 28,	U.S. Dollars
	2003	2003	December 31,
			2003
Deferred tax assets:			
Excess of allowance for doubtful accounts	¥ 2,748	¥ 1,972	\$ 25,651
Excess of depreciation expenses	1,032	730	9,633
Loss on write-down of securities	15,229	15,388	142,154
Tax loss carry forward	62,015	64,571	578,876
Unrealized intercompany profit	300	300	2,800
Excess of accrued severance indemnities	3,438	2,301	32,092
Excess of allowance for loss on debt guarantees	—	182	—
Other	2,478	2,576	23,132
Allowance for deferred tax assets	(75,145)	(74,633)	(701,438)
Total deferred tax assets	12,095	13,387	112,900
Elimination of deferred tax liabilities (non-current)	(1,395)	(1,617)	(13,021)
Net deferred tax assets	10,700	11,770	99,879
Deferred tax liabilities:			
Special tax-purpose reserve ..	267	337	2,492
Valuation gain of assets after tax-effect	2,257	2,398	21,068
Valuation gain of investment securities after tax-effect	372	91	3,472
Other	29	15	271
Total deferred tax liabilities ..	2,925	2,841	27,303
Elimination of deferred tax liabilities (non-current) ...	(1,395)	(1,617)	(13,021)
Net deferred tax liabilities	1,530	1,224	14,282
Deferred tax liabilities of			
land revaluation	—	42	—
Unrealized intercompany profit ..	119	173	1,111
Total deferred tax liabilities of land revaluation	¥ 119	¥ 215	\$ 1,111

As the Companies recorded net loss before income tax no breakdown is provided of the difference between the statutory tax rate and the effective income tax rate at December 31 and February 28, 2003.

11. Accounting for Leases

	Millions of Yen		Thousands of
	December 31, 2003	February 28, 2003	U.S. Dollars December 31, 2003
Finance lease contracts			
As a lessee:			
The scheduled maturity of future lease rental payments on such lease contracts were as follows:			
Due within one year	¥ 5,187	¥ 5,407	\$ 48,418
Due after more than one year . . .	8,217	10,401	76,701
	<u>¥13,404</u>	<u>¥15,808</u>	<u>\$125,119</u>
Lease rental expenses for the year . . .	<u>¥ 5,149</u>	<u>¥ 4,343</u>	<u>\$ 48,063</u>

Leased assets (furniture, tools and other):			
Assumed acquisition cost	¥29,027	¥31,426	\$270,951
Assumed accumulated depreciation	(16,251)	(15,618)	(151,694)
Assumed net book value	¥12,776	¥15,808	119,257
Assumed depreciation (*1)	¥ 4,711	¥ 4,343	\$ 43,975
Assumed interest expense (*2) . . .	¥ 420	¥ —	\$ 3,921

(*1) Depreciation is based on the straight-line method over the term of the leased assets assuming a nil residual value.

(*2) Interest portion included in lease payments is calculated as the difference between aggregate lease payments during the lease terms and the relevant pro forma acquisition costs. Such interest is allocated to each period by the interest method over the respective lease terms.

	Millions of Yen		Thousands of
	December 31, 2003	February 28, 2003	U.S. Dollars December 31, 2003
As a lessor:			
Lease rental income for the year . . .	¥ —	¥188	\$ —
Leased assets:			
Assumed depreciation	¥ —	¥ 85	\$ —

	Millions of Yen		Thousands of
	December 31, 2003	February 28, 2003	U.S. Dollars December 31, 2003
Operating lease contracts			
As a lessee:			
The scheduled maturity of future lease rental payments on such lease contracts were as follows:			
Due within one year	¥ 12,854	¥ 11,794	\$ 119,985
Due after more than one year . . .	107,179	101,096	1,000,458
	<u>¥120,033</u>	<u>¥112,890</u>	<u>\$1,120,443</u>

12. Contingent Liabilities

The Companies were contingently liable for guarantees (including guarantee forward commitments and letters of awareness) for loans (primarily of affiliates and employees of the Companies) in the amount of ¥6,147 million (\$57,379 thousand) at December 31, 2003.

13. Breakdown of Selling, General and Administrative Expenses

The Companies' selling, general and administrative expenses for the ten-month period ended December 31, 2003 and the years ended February 28, 2003 and 2002 were as follows:

	Millions of Yen			Thousands of
	December 31, 2003	February 28, 2003	2002	U.S. Dollars December 31, 2003
Employees' salaries and bonuses	¥ 87,887	¥107,858	¥103,484	\$ 820,377
Rent for land and buildings . . .	43,781	53,196	52,025	408,672
Amortization of excess cost of investment over equity in net assets acquired	485	450	714	4,527
Other	118,582	139,092	138,496	1,106,898
	<u>¥250,735</u>	<u>¥300,596</u>	<u>¥294,719</u>	<u>\$2,340,474</u>

14. Derivatives Information

(1) The Companies' Policy and Purpose in respect of Derivative Transactions

The Companies use derivative financial instruments as a means of asset/liability management, and to reduce the exposure to movements in interest rates.

The Companies do not use derivative financial instruments for trading or speculative purposes.

(2) Risk of Transactions

The derivative transactions have market risk associated with market rate volatility and credit risk related to the possibility of a counterparty's default.

Credit risk related to the derivative financial instruments is considered minimal since the counter-parties are international financial institutions with high credit ratings.

(3) Risk Management

The Board of Directors must approve all derivative contracts before the Companies enter into the contracts. The Finance Department is responsible for carrying out the transactions and recording them in the books. The transactions are reported to the Accounting Department and directors.

Information on financial derivatives held by the Company at December 31 and February 28, 2003 were as follows:

	Millions of Yen							
	December 31, 2003				February 28, 2003			
	Contractual value or notional principal amount		Fair value	Valuation gain (loss)	Contractual value or notional principal amount		Fair value	Valuation gain (loss)
Total	Over one year	Total			Over one year			
Interest related transactions								
Receiving floating rates and paying fixed rates	¥11,041	¥10,816	¥(167)	¥(167)	¥16,208	¥14,456	¥(310)	¥(310)

	Thousands of U.S. Dollars			
	December 31, 2003			
	Contractual value or notional principal amount		Fair value	Valuation gain (loss)
Total	Over one year			
Interest related transactions				
Receiving floating rates and paying fixed rates	\$103,062	\$100,961	\$(1,559)	\$(1,559)

Note 1. Fair value of the financial instruments is based on the price provided by corresponding financial institution.

Note 2. Excluding derivative transactions to which hedge accounting is applied.

15. Land Revaluation

Pursuant to the Law Concerning Land Revaluation, the Company revalued land used for business activities on February 28, 2001. The surplus of the revalued carrying amount over the book value before valuation was recorded as "land revaluation surplus" in shareholders' equity in the accompanying consolidated balance sheet. The land prices used for the revaluation were determined based on the prices in the official notice published by the Commissioner of the National Tax Agency in accordance with Article 2, Paragraphs 4 and 5 of the Enforcement Ordinance Concerning Land Revaluation, after making reasonable adjustments. Revaluation is permitted only one time. The revalued carrying amount over the fair value as of December 31, 2003 was ¥9,332 million (\$87,109 thousand).

The abovementioned revaluation of land had no impact on the Company's consolidated statements of cash flows.

16. Shareholders' Equity

The Company has provided a legal reserve in accordance with the Commercial Code of Japan, which requires that an amount equal to at least 10% of the amount to be disbursed as a distribution of earnings be appropriated to the legal reserve until such reserve and the amount of additional paid-in capital equals 25% of the common stock account. The Code also stipulates that where the sum of additional paid-in capital and the legal reserve exceed 25% of the common stock account then the amount of the excess (if any) is available for appropriations by resolution of the shareholders.

17. Segment Information

(1) Industry Segment Information

The Company and its subsidiaries operate principally in 3 industrial segments as follows:

- i) Retail business: Retail sales at supermarkets, department stores, general merchandise stores and specialty shops
- ii) Finance and real estate business: Finance, factoring, sale and purchase of real estate and leases and rental business
- iii) Other business: Publication of magazines, cultural information and amusement activities including market research, travel agency business, trading business, wholesale of newly developed products, etc.

	Millions of Yen					
	For the ten-month period ended December 31, 2003					
	Retail	Finance and real estate	Other	Total	Elimination of intersegment transactions	Consolidated total
Sales:						
Sales to outside customers	¥894,958	¥ 1,902	¥40,733	¥937,593	¥ —	¥937,593
Intersegment sales/transfers	3,395	3,531	32,510	39,436	(39,436)	—
	898,353	5,433	73,243	977,029	(39,436)	937,593
Operating expenses	889,014	4,681	72,880	966,575	(39,059)	927,516
Operating income	¥ 9,339	¥ 752	¥ 363	¥ 10,454	¥ (377)	¥ 10,077
Assets	¥645,094	¥104,687	¥16,967	¥766,748	¥(95,140)	¥671,608
Depreciation	13,484	1,419	452	15,355	—	15,355
Capital expenditure	38,130	139	527	38,796	—	38,796

Millions of Yen						
For the year ended February 28, 2003						
	Retail	Finance and real estate	Other	Total	Elimination of intersegment transactions	Consolidated total
Sales:						
Sales to outside customers	¥1,081,113	¥ 7,259	¥51,346	¥1,139,718	¥ —	¥1,139,718
Intersegment sales/transfers	3,831	8,239	42,480	54,550	(54,550)	—
	1,084,944	15,498	93,826	1,194,268	(54,550)	1,139,718
Operating expenses	1,071,978	11,493	93,372	1,176,843	(53,688)	1,123,155
Operating income	¥ 12,966	¥ 4,005	¥ 454	¥ 17,425	¥ (862)	¥ 16,563
Assets	¥ 587,729	¥107,384	¥19,937	¥ 715,050	¥(84,201)	¥ 630,849
Depreciation	16,228	3,527	666	20,421	—	20,421
Capital expenditure	36,563	10,563	664	47,790	—	47,790

Millions of Yen						
For the year ended February 28, 2002						
	Retail	Finance and real estate	Other	Total	Elimination of intersegment transactions	Consolidated total
Sales:						
Sales to outside customers	¥1,039,002	¥ 14,891	¥54,904	¥1,108,797	¥ —	¥1,108,797
Intersegment sales/transfers	3,856	10,276	43,411	57,543	(57,543)	—
	1,042,858	25,167	98,315	1,166,340	(57,543)	1,108,797
Operating expenses	1,026,312	21,099	97,999	1,145,411	(56,701)	1,088,709
Operating income	¥ 16,546	¥ 4,068	¥ 316	¥ 20,930	¥ (842)	¥ 20,088
Assets	¥ 552,361	¥347,752	¥21,436	¥ 921,549	¥(104,435)	¥ 817,114
Depreciation	16,334	5,846	664	22,844	—	22,844
Capital expenditure	21,797	6,308	677	28,782	(2,474)	26,308

Thousands of U.S. Dollars						
For the ten-month period ended December 31, 2003						
	Retail	Finance and real estate	Other	Total	Elimination of intersegment transactions	Consolidated total
Sales:						
Sales to outside customers	\$8,353,944	\$ 17,754	\$380,220	\$8,751,918	\$ —	\$8,751,918
Intersegment sales/transfers	31,691	32,960	303,463	368,114	(368,114)	—
	8,385,635	50,714	683,683	9,120,032	(368,114)	8,751,918
Operating expenses	8,298,460	43,695	680,295	9,022,450	(364,595)	8,657,855
Operating income	\$ 87,175	\$ 7,019	\$ 3,388	\$ 97,582	\$ (3,519)	\$ 94,063
Assets	\$6,021,600	\$977,196	\$158,378	\$7,157,174	\$(888,080)	\$6,269,094
Depreciation	125,866	13,246	4,219	143,331	—	143,331
Capital expenditure	355,923	1,298	4,919	362,140	—	362,140

(2) Geographic Segment Information

Millions of Yen						
For the ten-month period ended December 31, 2003						
	Japan	Asia	Europe	Total	Elimination of intersegment transactions	Consolidated total
Sales:						
Sales to outside customers	¥926,134	¥11,435	¥ 24	¥937,593	¥ —	¥937,593
Intersegment sales/transfers	90	2,126	235	2,451	(2,451)	—
	926,224	13,561	259	940,044	(2,451)	937,593
Operating expenses	916,979	12,647	103	929,729	(2,213)	927,516
Operating income	¥ 9,245	¥ 914	¥ 156	¥ 10,315	¥ (238)	¥ 10,077
Assets	¥658,910	¥ 6,887	¥11,276	¥677,073	¥(5,465)	¥671,608

	Millions of Yen					
	For the year ended February 28, 2003					
	Japan	Asia	Europe	Total	Elimination of intersegment transactions	Consolidated total
Sales:						
Sales to outside customers	¥1,125,765	¥13,897	¥ 56	¥1,139,718	¥ —	¥1,139,718
Intersegment sales/transfers	158	3,625	519	4,302	(4,302)	—
	1,125,923	17,522	575	1,144,020	(4,302)	1,139,718
Operating expenses	1,110,279	16,324	339	1,126,942	(3,787)	1,123,155
Operating income	¥ 15,644	¥ 1,198	¥ 236	¥ 17,078	¥ (515)	¥ 16,563
Assets	¥ 611,712	¥ 7,582	¥11,867	¥ 631,161	¥ (312)	¥ 630,849

	Millions of Yen					
	For the year ended February 28, 2002					
	Japan	Asia	Europe	Total	Elimination of intersegment transactions	Consolidated total
Sales:						
Sales to outside customers	¥1,092,716	¥15,912	¥ 169	¥1,108,797	¥ —	¥1,108,797
Intersegment sales/transfers	277	3,035	739	4,051	(4,051)	—
	1,092,993	18,947	908	1,112,848	(4,051)	1,108,797
Operating expenses	1,073,075	18,062	919	1,092,056	(3,347)	1,088,709
Operating income	¥ 19,918	¥ 885	¥ (11)	¥ 20,792	¥ (704)	¥ 20,088
Assets	¥ 759,851	¥ 7,763	¥22,430	¥ 790,044	¥27,070	¥ 817,114

	Thousands of U.S. Dollars					
	For the ten-month period ended December 31, 2003					
	Japan	Asia	Europe	Total	Elimination of intersegment transactions	Consolidated total
Sales:						
Sales to outside customers	\$8,644,955	\$106,740	\$ 223	\$8,751,918	\$ —	\$8,751,918
Intersegment sales/transfers	840	19,845	2,194	22,879	(22,879)	—
	8,645,795	126,585	2,417	8,774,797	(22,879)	8,751,918
Operating expenses	8,559,498	118,053	961	8,678,512	(20,657)	8,657,855
Operating income	\$ 86,297	\$ 8,532	\$ 1,456	\$ 96,285	\$ (2,222)	\$ 94,063
Assets	\$6,150,565	\$ 64,286	\$105,255	\$6,320,106	\$(51,013)	\$6,269,094

18. Subsequent Event

Voluntary Retirement Program

As part of the efforts to improve earning potential, the Company and certain of its subsidiaries announced a voluntary retirement program on January 16, 2004 as follows:

- 1) Eligibles: Regular employees who are not less than thirty years old and not more than fifty eight years old.
- 2) Application period: From January 16, 2004 to February 15, 2004.
- 3) Target number of employees for this program: 1,500 — 1,600
- 4) Incentives: The program will pay additional retirement allowance. If they wish, applicants will be given an opportunity to be hired as part timers.

The final number of applicants was 1,613. The Company expects the aggregate payment of the additional retirement allowance to be around ¥3 billion and related expenses to be around ¥1 billion.