Year Ended March 31, 1999

Annual Report 1999

Daiei OMC, Inc.

Contents

Profile

Building on its strong foundation in the credit card business, Daiei OMC has developed a complex of businesses extending to the travel and mail-order businesses. As a member of the Daiei Group, Japan's largest retail business group, we cooperate with other Group companies to provide carefully crafted services and products that reflect the real needs of our customers through business operations integrated into their daily lives.

Today, the number of Daiei OMC Cardholders has reached approximately six million, and our card usage rate is the highest in the Japanese credit card industry. We are committed to establishing a firm position as a "supplier of practical, convenient services" — and to becoming a financial retail company that makes a meaningful contribution to enriching the lives of the citizens of the 21st century.

Financial Highlights (Five-year summary)

Daiei OMC, Inc. and Consolidated Subsidiaries. Years Ended February 28, 1998 and 1997, February 29, 1996, and February 28, 1995 and 1994

	Millions of Yen (except per share amounts)					*Thousands of U.S. Dollars (except per share amounts)*
	1999	1998	1997	1996	1995	**1999**
For the year:						
Total operating revenues	**¥104,205**	¥103,983	¥101,117	¥100,522	¥ 94,189	**$ 868,375**
Income (loss) before income taxes	**612**	327	(34,473)	843	(10,313)	**5,100**
Net income (loss)	**225**	(126)	(34,949)	282	(11,207)	**1,875**
Per share amounts:						
Net income (loss)	**¥ 1.06**	¥ (0.60)	¥ (187.13)	¥ 1.66	¥ (80.50)	**$ 0.01**
Cash dividends				6.00	8.00	
At year end:						
Total assets	**¥721,018**	¥803,840	¥761,087	¥761,667	¥763,275	**$6,008,483**
Long-term debt	**61,878**	95,888	83,163	134,141	212,375	**515,650**
Total stockholders' equity	**57,588**	57,363	57,489	72,778	73,885	**479,700**

Notes: 1. All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at the rate of ¥120=$1, the approximate rate of exchange as of February 28, 1999. Refer to Note 1 (a) of the Notes to Consolidated Financial Statements.

2. The amount of net income (loss) per share is based on the weighted average number of shares of common stock outstanding during each year.

MESSAGE FROM PRESIDENT

Hiromichi Funahashi
President and Representative Director

TO OUR SHAREHOLDERS

Fiscal 1999 Business Results

Japan's economic environment remained extremely severe in fiscal year 1999, ended February 28, 1999, as the economic slump continued unabated. Consumer spending slipped further in a worsening employment environment, demand from the private sector weakened in response to pervasive uncertainty concerning the stability of the financial system, and plant-and-equipment investment fell off as businesses saw their revenues continue to decline. Competition in the credit card market intensified due to lower spending by Japanese consumers. Thus, the business climate surrounding Daiei OMC remained challenging as a result.

Operating under these difficult circumstances, the Company moved during the term under review to expand its operating base further through efforts centered on the OMC Card. One example was the introduction of a once-a-month five-percent discount at Daiei Group stores, where the 23rd of every month is now "The Hospitality Campaign Program for Daiei OMC customers." Initiated in September 1998, this service is made available through the cooperation of the other Daiei Group companies. At the same time, the Company enhanced its risk management with the adoption in January 1999 of the "Falcon" detection system for illegal credit card use.

In the area of financing, we worked to secure a stable supply of funds in a difficult financing environment, primarily through ongoing securitization of our card credit. We also directed efforts toward achieving a sound asset base by recording a larger allowance for doubtful accounts with the aim of promoting further credit management operations for the business sector.

As a result of these and other efforts, our consolidated operating revenues increased by 0.2 percent from the previous term to ¥104,205 million (US$868,375 thousand). A profit on investment securities sold, which was recorded as an extraordinary gain, was partially offset by an evaluation loss on securities and an allowance for doubtful accounts, both of which were recorded as extraordinary losses. Consolidated net income totaled ¥225 million ($US1,875 thousand) as a consequence.

We intend to continue to expand the Company's operating base in the future by enrolling more OMC Cardholders and raising our card usage rate. We also plan to reinforce our management structure by (1) implementing low-cost management to raise productivity and (2) advancing our risk management, primarily through the practical application of the new "Falcon" system.

As concerns the year 2000 problem, we recognize this as one of the most important issues management is facing from the perspective of conducting ongoing business activities and maintaining the trust of society. The entire Company has been responding actively to this problem through our Y2K project.

We will also continue to reinforce our financing capabilities by enhancing our ability to maintain our current structures and developing new systems to diversify our financing sources. The future will also see us continuing to pursue stronger corporate debt collection capabilities and greater asset stability.

Implementing the Customer Value Chain

Daiei OMC's future vision includes developing a membership business targeting not only credit cardholders but other members, including ID members, as well. We will realize this goal by building on the member management skills we have cultivated through our experience in the credit business and by enhancing our customer analysis capabilities employing marketing methods.

As a means of implementing the Daiei Group's management principal, 'For the Customers,' we are developing the value we offer customers in both the real market, as represented by the Daiei Group, and the virtual market, including the Internet. The value we make available to our members comprises more than our individual business offerings, such as credit services, travel, insurance and mail-order sales. It also includes the products and services of the Daiei Group as a whole as well as the products and services created under strategic alliances with our business partners and member stores.

Realizing the Customer Value Chain of our future vision will mean enhancing our ability to suggest new ways of life appropriate to the 21st century. We will continue to grow and to thrive by expanding our financial retail business through activities that contribute to "supply of practical, convenient services."

We look forward to your continued support in all our future endeavors.

Hiromichi Funahashi
President and Representative Director
May 27, 1999

Making the Most of a Unique Distribution System

Daiei OMC's business fields encompass travel, direct marketing, services and consumer finance, centered on the card business. We constantly strive to respond to the multifaceted demands of daily life, with a strict customer focus that gives tangible expression to the Daiei Group motto, "For the Customers."

(1) Reinforcing Daiei Group Synergy

With a nationwide network of over 10,000 stores, the Daiei Group welcomes some 10 million customers every day. The scale and depth of the Daiei Group provide robust underpinning for our OMC Card operations. The Hospitality Campaign program for Daiei OMC customers we conducted in September 1998, for example, lent a tremendous boost to both the number of card applicants and the rate of OMC Card use, which surged in terms of both absolute numbers and per-customer usage. Total card purchases climbed by 5 percent from the previous term in fiscal year 1999.

The Hospitality Campaign was also instrumental in stimulating sales and winning regular customers for the stores of the Daiei Group as a whole. The campaign proved such a success that it has been made an integral part of the Daiei Group's synergy. In the months and years ahead, we will continue to strengthen our customer relations programs such the Hospitality Campaign as part of our ongoing efforts to provide even better customer service.

(2) One-Stop Service, One-Stop Financing

The Company has opened 94 OMC Plazas offering services such as travel, insurance and financial products in Daiei stores throughout Japan. These OMC Plazas serve not only as places for communication, providing valuable products and services for customers' daily lives, but also as sources of valuable information, offering tips on ways to make life more comfortable and convenient. Our goal in managing OMC Plazas is to provide services and financing at the same place. As Japan continues to deregulate its financial industry in the future, we look forward to expanding our range of OMC Plaza products and services and to offering one-stop services and consulting.

(3) A Nationwide Network of 24-Hour Access Points

In November 1998, Daiei OMC introduced Japan's first 24-hour cashing service at convenience stores. After closely examining the changing lifestyles of our customers, we made use of our industry-leading cash dispenser (CD) network to respond to customers' clear need to

"Convenient Life" OMC Card

Useful for everything from everyday shopping to overseas travel, the OMC Card offers cardholders a Ägconvenient lifeÄh in many ways. A 5% discount on the 23rd of every month and signless grocery payments are just two of the convenient services provided from the customerÄfs perspective. With some six million cardholders and a card usage ratio of 60%, it is one of the leading cards in the industry.

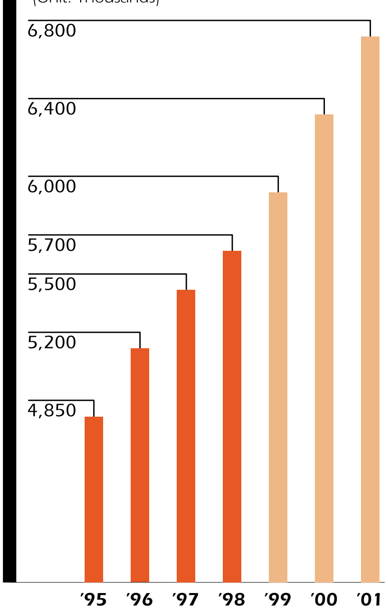
withdraw cash wherever and whenever they require it. We formed partnerships with Sanwa Bank, Fuji Bank and Ogaki Kyoritsu Bank to provide CD services for these three banks' customers in some 250 Lawson convenience stores and 370 Daiei stores in the Tokyo area. We have received numerous inquiries from other banks as well, and are currently engaged in negotiations aimed at enhancing the convenience of this network further.

As customers become aware of the Daiei OMC cashing network's expansion, the CD usage rate is growing higher and higher, providing better service to customers by complementing the ATM networks operated by banks and other financial institutions. In our ongoing efforts to expand both the geographical area in which cashing services are available and the number of partnerships formed with financial institutions, we are sparing no effort to enhance and upgrade this unique nationwide network.

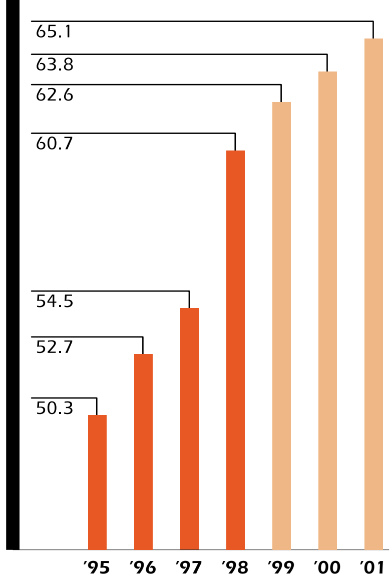
OMC Plaza — A Lifestyle Center Offering Convenient Living Information

Our OMC Plazas were established to provide products and services that help customers enjoy their leisure hours and to support them in various other aspects of their lives. The product offering covers a wide range, from travel and ticket services to mobile phones, insurance and loans. We are strengthening our product sales and consulting capabilities to make the OMC Plaza a lifestyle center on which more and more customers rely.

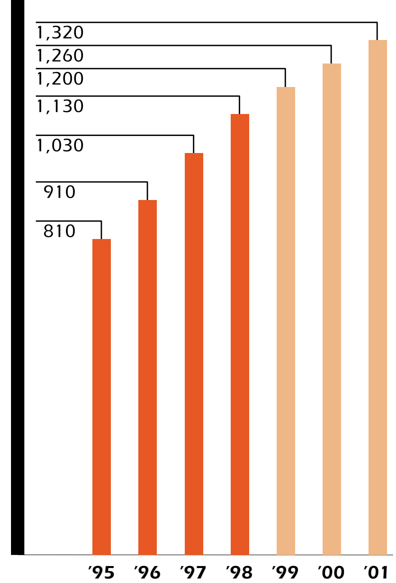
No. of Cardholders
(Unit: Thousands)



Card Usage Rate
(Percentage of cardholders using their card at least once/year)



Card Business Operation
(Unit: Billion yen)



Note: Figures for fiscal years 1999, 2000 and 2001 are projections.

Perfecting the Art of Database Marketing

Every year we enroll a million new OMC Card members, most of whom are customers of Daiei Group stores. As a result, we currently boast some six million cardholders. This rapidly growing customer base far outstrips the industry average in terms of both the ratio of cardholders to store customers and the rate of card use. This immense, six-million strong membership is clearly powering the expansion of our operations, bringing us repeat business and creating a base of loyal regular customers.

The first step toward maximizing customer satisfaction is to treat each customer as an individual. Rather than giving uniform treatment to all our customers, we differentiate among them and direct personal attention to each customer's special needs. This approach extends beyond OMC Card operations to all our areas of business, including travel, mail-order and finance businesses.

We deploy sophisticated database marketing techniques to achieve this purpose. Drawing on our extensive customer database, for example, we combine test-marketing activities with enthusiastic campaign promotions and the OMC Card "Waku-Waku Points" frequent-user program. We have partially implemented a frequent-shopper program at Daiei stores as well.

At Daiei OMC, the individual customer is always our first consideration. We gather customer information concerning requirements and expectations of Daiei OMC and make invaluable use of this database to secure customer loyalty through value-added customer relations management.

Creating New Sales Channels and Markets

We continue to commit our resources to the Daiei Group that has enormous growth potential. Meanwhile, we are faced with the necessity of creating new sales channels and developing new markets.

We have established partnerships with a number of companies in connection with our card operations. In this respect, we have a long history of active cooperation with various large retail chains as well as with the Ministry of Posts and Telecommunications. We are currently developing a membership system to supplement our OMC Card operations.

One unique example of these efforts is the OMC Ecology Card we launched in 1991 in response to pressing social concerns. Ecology Cardholders provide support for activities aimed at preserving our global environment with every card purchase. Total contributions to these activities have surpassed ¥200 million, making the highly respected OMC Ecology Card the leading card of its type in the industry.

In addition to conducting these affinity card operations, we are increasing the number of OMC affiliate stores and expanding our acquiring business as a means of improving revenues and extending the OMC brand outside the realm of Daiei Group store customers. These strategic measures are positioning Daiei OMC smartly as a "supplier of practical, convenient services" in preparation for intensifying competition in the approaching new century.

Next-Generation and Growth Businesses

Our IC card testing in the cities of Kobe (shown in the photo) and Omiya and our testing of an Internet mall employing SET technology have brought the IC card to the actual issuing stage and forwarded Internet business development. We also operate Japan's largest CD (cash dispenser) network and promote cash withdrawal services using them by bank and Postal Savings customers. These are among the ways we are working to expand our businesses that make life more convenient.

Responding to the Next Generation in Business

We are directing concerted efforts at Daiei OMC toward laying the groundwork for the card business of the 21st century. Drawing on resources acquired through assertive research in the fields of electronic commerce, IC cards and multimedia, we are building a foundation to provide firm support for tomorrow's digital society.

In 1997, we began testing the world's first electronic money IC card in Kobe, Hyogo Prefecture, in cooperation with Visa International, Toshiba and other partners. Transactions amounting to ¥107 million (US$892 thousand) were carried out according to plan in the test, which succeeded in garnering a large fund of valuable results. This electronic money system was upgraded further in the second stage of the test initiated in June 1999, when we led the industry by taking the first steps toward commercialization. This test has verified that the system is equipped with the full range of sophisticated features required to satisfy the requirements of the 21st century.

Advancing into the Servicer Industry

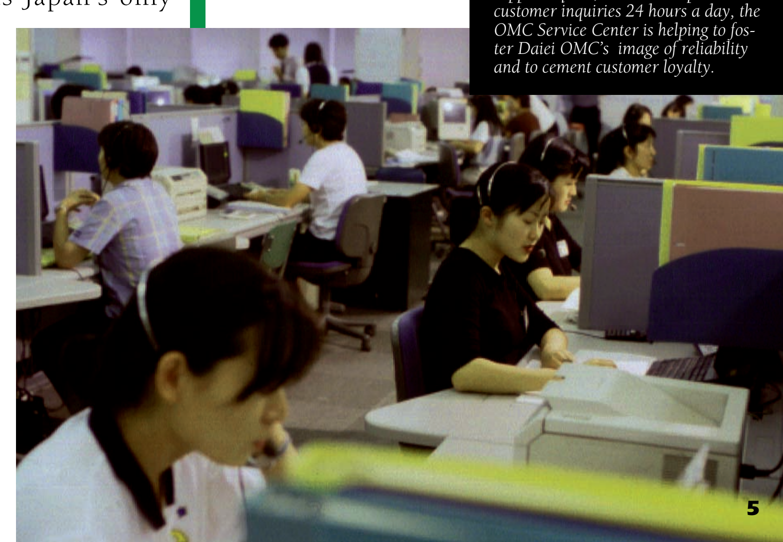
In June 1999, Daiei OMC entered the "servicer" industry in compliance with the provisions of the Law on Special Measures Regarding Loan Management and Recovery, often referred to as the Servicer Law. Our subsidiary MCS Loan Management and Recovery Co., Ltd., is licensed to conduct this business. MCS serves the community by applying the wealth of expertise on card systems accumulated over the years by Daiei OMC and the Daiei Group companies to the business of card shopping loans. In the future, it plans to expand the scope of its operations to take in financial institutions and other retailers, in this way growing into its role as a major pillar of our business operations.

Launching Comprehensive Services in Pursuit of Synergy

Daiei OMC aims to become a comprehensives services company that integrates the card business, travel services, financial products and mail-order sales. We are making every effort to increase customer satisfaction by strengthening the sales and consulting features of the OMC Plazas located in 94 Daiei stores throughout Japan and reinforcing the member services offered by our telephone information OMC Service Centers. Making the most of our unique position as Japan's only truly diversified retail enterprise, we are energetically pursuing synergy among our component businesses with the aim of distinguishing ourselves even more clearly from the competition.

OMC Service Center — Enhancing the Quality of Customer Services

The OMC Service Center is a telephone service center established to reinforce our ability to provide our approximately six million cardholders with even better services. With plans now under way to introduce CTI (computer telephony integration) technology and to construct a system that supports quick, accurate responses to customer inquiries 24 hours a day, the OMC Service Center is helping to foster Daiei OMC's image of reliability and to cement customer loyalty.



Implementing Measures to Strengthen Risk Management

The need to reinforce our credit risk management capabilities is one issue we must face as we expand the scale of our business. Risk management involves a comprehensive infrastructure encompassing the entire series of processes, from recruitment and scoring of credit card applications to cardholder behavior scoring and debt collection. We are unstinting in our efforts to construct this type of total risk management system to ensure a stable, secure management structure.

We take pains to ensure that credit is granted appropriately and responsibly, for example, making use of the "Application Scoring System" (ASS) before issuing cards, and then follow up the cardholders' behavior with the "Behavior Scoring System" (BSS) after they have been issued a card. We have introduced a "Falcon" illegal usage detection system to guard against illegal card use and contain potential damage.

We consider the further reinforcement of risk management as essential to ensuring the Company's ability to survive and thrive in the financial field. In the coming months and years, we will press forward with measures to reinforce our risk management structure in a manner extending to every field of operation.

Diversification of Financing

Faced with a difficult financial environment, we will continue to pursue structural maintenance and new systems development aimed at diversifying our sources of financing. The implementation in May 1999 of the Bond Law for Nonbanks deregulated financing from the financial markets. We intend to promote financing by raising our ratio of direct financing, while maintaining a healthy balance with indirect financing.

Since1995, when we implemented securitization of lease payment credit, we have made active efforts to secure financing through the securitization of credit. In March 1999, we securitized revolving loan credit from card shopping to bond securities in the amount of ¥23.5 billion (US$196 million), the first case in Japan. Because the balance of revolving loan credit is constantly fluctuating, this has been considered the most difficult type of credit to securitize to bonds. Our success in executing this securitization plan at Daiei OMC was due to the excellent groundwork we laid in advance.

This type of original securitization system development remains high on our list of priorities. We are pursuing more effective system structures in order to reinforce our financing capabilities by means of credit securitization.

Establishing a Position As a "Supplier of Practical, Convenient Services"

At Daiei OMC, we have identified the following two customer expectations: that we will continue to offer them timely services and products that they really need, and that we will continue to provide valuable services and products through their lifetime.

Our greatest source of strength is our business development as a member of Japan's largest retail group, which supports us with its nationwide network of 10,000 stores, with more than 10 million customers visiting them every day. The number of OMC Cardholders today exceeds 10 percent of the total number of households in Japan, and the sales promotion activities conducted in our travel and mail-order businesses include mailings of some two million direct mail items every month.

In the years ahead, we will continue working to realize our corporate vision of becoming a full-fledged "convenient life services business" that responds accurately to the genuine needs of its customers. We intend to accomplish this by drawing on our strengths as a retail credit company and developing products that reflect our customers' perspective and concerns.

Management Discussion and Analysis

(For the year ended February 28, 1999)

Revenues and Earnings

Daiei OMC's main operating revenues for the year ended February 28, 1999, were as follows:

Fees from Customers and Affiliated Stores

The Company expanded its "Convenient Life" OMC Card base by developing and issuing new cards. It issued two new cards exclusively for students, for example, the OMC CAMPAL Card and the Lawson CAMPAL Card. Another new card, the Warner Bros. Studio Store Card, was also issued in cooperation with Warner Bros. Studio Stores Japan Inc.

Personal and Corporate Loan Credit Revenues

The expansion of the Company's card-cashing network continued through the addition of new affiliates at whose facilities customers can use its cards and an increase in its 24-hour cashing services employing both CDs and ATMs. The Company also strove to enhance and strengthen other services available through its CD network. These efforts were represented by the introduction in November 1998 of a new service that enables Sanwa Bank customers to withdraw cash from Daiei OMC's CDs with their bank cashing cards. This was followed in January 1999 by the implementation of similar withdrawal services for postal savings in cooperation with the Ministry of Posts and Telecommunications.

In the area of corporate debt management, the Company strove to stabilize its assets by recording an allowance for doubtful accounts as a basis for promoting ongoing management.

Merchandize Sales Income

Activities in the area of merchandize sales focused on offering products that respond to the needs of its customers. One example was the addition by the Mail-Order Department of the environmentally friendly White Furniture Series to the product lines offered through its *Kurashi no Design* mail-order catalog. The Household Electronics Products Business Department promoted store and staff development with the highest priority placed on customer content, reexamined its product mix and adjusted store layouts and business hours.

Stimulated by these efforts, the Company's consolidated operating revenues rose by 0.2% from the previous term to ¥104,205 million (US$868,375 thousand).

Efforts to decrease spending succeeded in lowering operating expenses by 2.4% from the year before to ¥94,845 million (US$790,375 thousand).

Consolidated operating profit improved by 37.0% from the preceding year to ¥9,360 million (US$78,000 thousand).

Despite a profit on investment securities recorded as an extraordinary gain, other consolidated net expenses rose from the previous term due to an evaluation loss on securities and an allowance for doubtful receivables, both recorded as extraordinary losses. Consolidated net income was ¥225 million (US$1,875 thousand) as a consequence.

Total Assets at Year-End

As of February 28, 1999, the Company had total consolidated assets of ¥721,018 million (US$6,008,483 thousand), down ¥82,822 million (US$690,183 thousand) from the preceding fiscal year-end. This decline was due to a decrease in operating receivables that offset an increase in installment accounts receivable achieved through higher card-related dealings.

Cash Flows

Consolidated net cash from operations grew by ¥63,127 million (US$526,058 thousand) as compared with the previous year to ¥40,617 million (US$338,475 thousand). This result reflected efforts to promote collection of operating credit and the fact that operating profit rose during the term due to an increase in card-related operations.

Profits recorded on securities sold and investment securities sold notwithstanding, consolidated net cash from investment activities fell by ¥9,419 million (US$78,492 thousand) from the previous year to ¥14,830 million (US$128,583 thousand). This result reflected a substantial decrease in profits on sales of fixed assets.

Consolidated net cash employed in financial activities reached a total of ¥87,285 thousand (US$727,375 thousand), up ¥128,076 million (US$1,067,300 thousand) from the previous year, as the Company appropriated net cash from operating and investment activities to repay loans.

As a result, consolidated net cash and cash equivalents at February 28, 1999, declined by ¥31,838 million (US$265,317 thousand) from the year before to ¥69,912 million (US$582,600 thousand).

Consolidated Balance Sheets

Daiei OMC, Inc. and Consolidated Subsidiaries Years Ended February 28, 1999 and 1998

	Millions of Yen		*Thousands of U.S. Dollars (Note 1 (a))*
ASSETS	**1999**	1998	**1999**
CURRENT ASSETS:			
Cash and cash equivalents	**¥ 69,912**	¥101,750	**$ 582,600**
Marketable securities (Note 2)	**9,239**	13,060	**76,992**
Notes and accounts receivable	**1,011**	1,195	**8,425**
Installment sales receivable (Note 3)	**187,078**	130,046	**1,558,983**
Operating loans receivable (Notes 3, 5 and 14)	**385,318**	490,064	**3,210,983**
Mortgage loans receivable (Note 4)	**35,600**	34,100	**296,667**
Inventories	**2,215**	2,287	**18,458**
Prepaid expenses and other current assets (Note 8)	**18,134**	20,051	**151,117**
Allowance for doubtful accounts	**(48,609)**	(55,011)	**(405,075)**
Total current assets	**659,898**	737,542	**5,499,150**
PROPERTY AND EQUIPMENT:			
Equipment for lease	**7,254**	8,270	**60,450**
Buildings and structures	**3,533**	3,961	**29,442**
Equipment	**1,141**	1,616	**9,508**
Land	**8,747**	9,177	**72,892**
Total	**20,675**	23,024	**172,292**
Accumulated depreciation	**(10,300)**	(11,765)	**(85,834)**
Net property and equipment	**10,375**	11,259	**86,458**
INVESTMENTS AND OTHER ASSETS:			
Investments in securities (Notes 2 and 8)	**19,722**	22,672	**164,350**
Long-term operating loans receivable (Note 14)	**65,017**	65,128	**541,808**
Guarantee money deposited (Note 8)	**8,664**	5,401	**72,200**
Other	**9,484**	13,117	**79,034**
Allowance for doubtful accounts	**(52,142)**	(51,279)	**(434,517)**
Total investments and other assets	**50,745**	55,039	**422,875**
TOTAL	**¥721,018**	¥803,840	**$6,008,483**

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1 (a))
LIABILITIES AND STOCKHOLDERS' EQUITY	**1999**	1998	**1999**
CURRENT LIABILITIES:			
Short-term borrowings (Note 5)	**¥473,523**	¥557,540	**$3,946,025**
Current portion of long-term debt (Note 5)	**43,223**	10,486	**360,192**
Notes and accounts payable (Note 8)	**25,475**	20,308	**212,292**
Accrued expenses (Note 8)	**6,489**	7,284	**54,075**
Accrued income taxes	**146**	368	**1,217**
Mortgage-backed securities transferred (Note 4)	**32,384**	29,988	**269,867**
Unearned income (Note 3)	**2,907**	2,869	**24,225**
Other current liabilities	**13,594**	17,734	**113,282**
Total current liabilities	**597,741**	646,577	**4,981,175**
LONG-TERM LIABILITIES:			
Long-term debt (Note 5)	**61,878**	95,888	**515,650**
Liability for severance payments (Note 6)	**1,068**	1,135	**8,900**
Other long-term liabilities (Note 8)	**2,509**	2,529	**20,908**
Total long-term liabilities	**65,455**	99,552	**545,458**
MINORITY INTEREST	**234**	348	**1,950**
CONTINGENT LIABILITIES (Note 12)			
STOCKHOLDERS' EQUITY (Note 7):			
Common stock, ¥50 par value—authorized, 670,000,000 shares; issued and outstanding, 211,307,082 shares	**42,807**	42,807	**356,725**
Additional paid-in capital	**16,222**	16,222	**135,183**
Deficit	**(1,441)**	(1,666)	**(12,008)**
Total stockholders' equity	**57,588**	57,363	**479,900**
TOTAL	**¥721,018**	¥803,840	**$6,008,483**

See notes to consolidated financial statements.

Consolidated Statements of Operations

Daiei OMC, Inc. and Consolidated Subsidiaries Years Ended February 28, 1999 and 1998

	Millions of Yen		Thousands of U.S. Dollars (Note 1 (a))
	1999	1998	**1999**
OPERATING REVENUES (Note 3):			
Fees from customers and affiliated stores (Note 8)	**¥ 24,017**	¥ 22,450	**$200,142**
Personal and corporate loan credit revenues	**52,862**	53,512	**440,517**
Profit of merchandise sales	**10,310**	10,554	**85,917**
Income from traveling business	**2,726**	2,810	**22,717**
Financial transactions (Notes 8 and 9)	**715**	709	**5,958**
Other revenues (Note 8)	**13,575**	13,948	**113,124**
Total operating revenues	**104,205**	103,983	**868,375**
OPERATING EXPENSES:			
Selling, general and administrative expenses (Notes 8 and 10)	**78,177**	78,232	**651,475**
Financial expenses (Note 9)	**16,668**	18,918	**138,900**
Total operating expenses	**94,845**	97,150	**790,375**
OPERATING INCOME	**9,360**	6,833	**78,000**
OTHER INCOME (EXPENSES):			
Gain (loss) on sales of property and equipment—net	**(143)**	6,041	**(1,192)**
Gain on sales of marketable and investments in securities—net	**10,449**	379	**87,075**
Loss on devaluation of marketable and investment securities	**(3,236)**	(4)	**(26,967)**
Gain on sales of a consolidated subsidiary	**258**		**2,150**
Provisions for doubtful accounts	**(15,702)**	(11,896)	**(130,850)**
Other—net	**(374)**	(1,026)	**(3,116)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS IN NET INCOME OF CONSOLIDATED SUBSIDIARIES	**612**	327	**5,100**
INCOME TAXES (Note 10)	**379**	421	**3,158**
MINORITY INTERESTS IN NET INCOME OF CONSOLIDATED SUBSIDIARIES	**8**	32	**67**
NET INCOME (LOSS)	**¥ 225**	¥ (126)	**$ 1,875**

	Yen		U.S. Dollars
NET INCOME (LOSS) PER COMMON SHARE —			
Net income (loss)	**¥1.06**	¥(0.60)	**$0.01**

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

Daiei OMC, Inc. and Consolidated Subsidiaries Years Ended February 28, 1999 and 1998

	Number of Shares of Common Stock (Thousands)	Millions of Yen			
		Common Stock	Additional Paid-in Capital	Legal Reserve	Deficit
BALANCE, MARCH 1, 1997	211,307	¥42,807	¥39,884	¥915	¥(26,117)
Net loss					(126)
Transfer to deficit (Note 7)			(23,662)	(915)	24,577
BALANCE, FEBRUARY 28, 1998	211,307	42,807	16,222		(1,666)
Net income					225
BALANCE, FEBRUARY 28, 1999	211,307	¥42,807	¥16,222	Nil	¥(1,441)

	Thousands of U.S. Dollars (Note 1 (a))		
	Common Stock	Additional Paid-in Capital	Deficit
BALANCE, FEBRUARY 28, 1998	$356,725	$135,183	$(13,883)
Net income			1,875
BALANCE, FEBRUARY 28, 1999	$356,725	$135,183	$(12,008)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Daiei OMC, Inc. and Consolidated Subsidiaries Years Ended February 28, 1999 and 1998

	Millions of Yen		*Thousands of U.S. Dollars (Note 1 (a))*
	1999	1998	**1999**
OPERATING ACTIVITIES:			
Net income (loss)	**¥225**	¥(126)	**$1,875**
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	**4,018**	4,122	**33,483**
Provision for doubtful accounts	**30,387**	31,797	**253,225**
(Gain) loss on sales of property and equipment—net	**143**	(6,041)	**1,192**
Gain on sales of marketable and investments in securities—net	**(10,363)**	(256)	**(86,358)**
Loss on devaluation of marketable and investment securities	**3,236**	4	**26,967**
Gain on sales of a consolidated subsidiary	**(258)**		**(2,150)**
Changes in assets and liabilities:			
(Increase) decrease in receivables	**11,377**	(53,479)	**94,808**
(Increase) decrease in inventories	**(246)**	398	**(2,050)**
(Increase) decrease in other current assets	**556**	(788)	**4,633**
Increase in guarantee money deposited	**(3,364)**	(804)	**(28,033)**
Increase in notes and accounts payable	**5,248**	1,535	**43,733**
Increase in mortgage-backed securities transferred	**2,396**	752	**19,967**
Increase (decrease) in other current liabilities	**(2,588)**	541	**(21,567)**
Other—net	**(150)**	(165)	**(1,250)**
Total adjustments	**40,392**	(22,384)	**336,600**
Net cash provided by (used in) operating activities	**40,617**	(22,510)	**338,475**
INVESTING ACTIVITIES:			
Proceeds from sales of property and equipment	**549**	28,651	**4,575**
Purchases of property and equipment	**(123)**	(2,513)	**(1,025)**
Proceeds from sales of marketable and investments in securities	**14,563**	972	**121,358**
Purchases of marketable and investment securities	**(653)**	(1,663)	**(5,442)**
Proceeds from sales of a consolidated subsidiaries	**1,092**		**9,100**
Other—net	**(598)**	(1,198)	**(4,983)**
Net cash provided by investing activities	**14,830**	24,249	**123,583**
FINANCING ACTIVITIES:			
Increase (decrease) in short-term borrowings—net	**(84,017)**	61,177	**(700,142)**
Proceeds from issuance of long-term debt	**9,588**	23,270	**79,900**
Repayments of long-term debt	**(10,861)**	(47,756)	**(90,508)**
Other financing activities—net	**(1,995)**	4,100	**(16,625)**
Net cash provided (used in) financing activities	**(87,285)**	40,791	**(727,375)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(31,838)**	42,530	**(265,317)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**101,750**	59,220	**847,917**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥69,912**	¥ 101,750	**$582,600**
ADDITIONAL CASH FLOW INFORMATION:			
Interest paid	**¥18,353**	¥19,475	**$152,942**
Income taxes paid	**527**	556	**4,392**

See notes to consolidated financial statements.

1. Significant Accounting and Reporting Policies

(a) Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements of Daiei OMC, Inc. (the "Company") and its consolidated subsidiaries (collectively, the "Companies") have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. The consolidated statements of cash flows are not required as part of the basic financial statements in Japan but are presented herein as additional information.

In preparing the consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in Japan in order to present them in a form which is more familiar to readers of these statements outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Companies are incorporated and operate. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥120 to $1, the approximate rate of exchange as of February 28, 1999. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Certain amounts in the 1998 consolidated financial statements have been restated to conform with classifications adopted in 1999.

(b) Consolidation

The consolidated financial statements include the accounts of the Company and all its significant subsidiaries. Intercompany balances and transactions are eliminated in consolidation. Unconsolidated subsidiaries are not accounted for using the equity method as they are not significant. Investments in such companies are stated at cost, and profits of these companies are reflected in the consolidated financial statements only to the extent dividends are received.

(c) Cash and Cash Equivalents

For purposes of the statements of cash flows, the Companies consider all time deposits to be cash equivalents. Time deposits have original maturities of one year or less and can be withdrawn on demand with no diminution of principal.

(d) Inventories

Merchandise inventories are primarily stated at cost determined by the first-in, first-out method. Real estate held for sale is stated at cost on the specific identification basis.

(e) Allowance for Doubtful Accounts

The Companies provide for possible losses on receivables at the maximum amount that is deductible for tax purposes. In addition, the Companies provide for possible losses on receivables at the amount that would be required based on a review of each receivable.

(f) Marketable Securities and Investments in Securities

Marketable securities and investments in securities are stated at cost as determined by the moving-average method.

(g) Property and Equipment

Property and equipment, including significant renewals and improvements, are stated at cost. Depreciation of equipment for lease is computed by the straight-line method over the lease term of the asset. Depreciation of other property and equipment is principally computed using the declining-balance method (straight-line method for certain buildings and structures, which were sold during fiscal 1998) as described in the Japanese corporation tax laws and relevant regulations. The estimated useful lives are 3 to 65 years for buildings and 3 to 20 years for equipment. Ordinary maintenance and repairs are charged to income as incurred.

(h) Pension and Retirement Plans

The Company has a contributory funded pension plan covering all of employees.The amounts contributed to the fund, including prior service costs which are amortized over 20 years and 7 months, are charged to income when paid.

Effective October 1995, the Company's plan has been fully transferred to the funded pension plan. The excess accrual of liability for severance payments is being reversed over the same period with amortization of prior service costs of 20 years and 7 months as a deduction from pension expense.

The Company's subsidiaries have funded pension plans and unfunded pension plans for their employees. Liability for severance payments is calculated at 100% of the amount that would be required if all employees to whom unfunded pension plans are applied voluntarily terminated their employment at the end of the fiscal year.

(i) Leases

All leases are accounted for as operating leases. Under new Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's consolidated financial statements. The disclosure requirements of these new standards are being applied on a step-by-step basis beginning with fiscal years starting on or after March 1, 1997, with full implementation expected for fiscal years starting on or after March 1, 1999.

(j) Recognition of Operating Revenues

The operations of the Companies are mainly comprised of the following areas, and the recognition of operating revenues differs for each business. See Note 3 for amounts of transactions and realized operating revenues by each business.

(1) Credit Card Contracts and Personal Credit Contracts for Shopping

Fees from customers under credit card contracts are recorded when the Company bills customers the amount of fees charged at the contract rate on the outstanding balances of the credit cards, and fees from customers for personal credit contracts for shopping are recognized as profit on the installment plan computed using the sum-of-the-digits method.

The Company also receives fees for collection and administrative services from the affiliated stores, and such fees are recognized as profit according to the respective installment plans over the lives of the relevant receivables. Installment sales receivable is recorded when the Company purchases these receivables from the affiliated stores.

(2) Loan Contracts

Personal loans and other operating loans receivable are recorded when loan contracts become effective. The interest on personal loans is recognized as profit according to the installment plan computed using the sum-of-the-digits method. The interest on certain other contracts, including corporate loans, is recognized as profit according to the declining-balance basis.

Operating loans receivable for cardholders are recorded when consumers receive cash from the Company. Monthly billings to borrowers include principal and interest, the total of which generally remains constant for the contract period. The interest is recognized as profit monthly on a declining-balance basis.

(3) Profit of Merchandise Sales and Income from Traveling Business

Revenues from sales of merchandise inventories such as electric appliances, furniture, household items, etc. and from traveling business are recorded to the extent of gross profits of those items when they are sold to consumers by means of direct marketing by the Companies, at the retail stores that are operated by certain consolidated subsidiaries, and by traveling business which are operated by the Company.

(4) Other

Other income is recognized as profit on the accrual basis.

(k) Income Taxes

The Companies provide for income taxes at the amounts currently payable for each year and deferred taxes are not recognized.

(l) Foreign Currency Transactions

Short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates as of each balance sheet date. Long-term receivables and payables denominated in foreign currencies are translated into Japanese yen at historical exchange rates. However, when there is a significant unrealized exchange loss related to long-term receivables and payables derived from foreign currency fluctuations, such receivables and payables are translated into Japanese yen at the exchange rates in effect at the balance sheet date. Assets and/or liabilities which are converted at the foreign exchange rate or swap rate are translated using the exchange rates set forth in the applicable exchange contract and relevant currency swap agreement.

(m) Per Share Information

The computation of net income (loss) per share is based on the weighted average number of shares of common stock outstanding during each year. The average number of common shares used in the computation was 211,306,391 shares and 211,306,551 shares for 1999 and 1998, respectively.

No cash dividends applicable to the years ended February 28, 1999 and 1998, were declared.

2. Marketable Securities and Investments in Securities

Marketable securities and investments in securities are comprised of marketable equity securities, debt securities and other investment securities. The aggregate costs (carrying amounts) and market values as of February 28, 1999 and 1998, were as follows:

	Millions of Yen		
	Carrying Amounts	*Market Values*	*Unrealized Loss*
Year Ended February 28, 1999			
Current:			
Market quotations available:			
Marketable equity securities	¥ 8,427	¥5,670	¥(2,757)
Debt securities	809	612	(197)
Total	9,236	¥6,282	¥(2,954)
Market quotations not available	3		
Total	¥ 9,239		
Non-current:			
Market quotations available:			
Marketable equity securities	¥ 9,756	¥2,047	¥(7,709)
Debt securities	83	59	(24)
Total	9,839	¥2,106	¥(7,733)
Market quotations not available	9,883		
Total	¥19,722		

	Millions of Yen		
	Carrying Amounts	*Market Values*	*Unrealized Loss*
Year Ended February 28, 1998			
Current:			
Market quotations available:			
Marketable equity securities	¥12,249	¥8,024	¥(4,225)
Debt securities	809	651	(158)
Total	13,058	¥8,675	¥(4,383)
Market quotations not available	2		
Total	¥13,060		
Non-current:			
Market quotations available:	¥10,151	¥3,889	¥(6,262)
Marketable equity securities	84	63	(21)
Debt securities	1,999	1,564	(435)
Other	12,234	¥5,516	¥(6,718)
Total	10,438		
Market quotations not available	¥22,672		
Total			

	Thousands of U.S. Dollars		
	Carrying Amounts	*Market Values*	*Unrealized Loss*
Year Ended February 28, 1999			
Current:			
Market quotations available:			
Marketable equity securities	$70,225	$47,250	$(22,975)
Debt securities	6,742	5,100	(1,642)
Total	76,967	$52,350	$(24,617)
Market quotations not available	25		
Total	$76,992		
Non-current:			
Market quotations available:			
Marketable equity securities	$81,300	$17,058	$(64,242)
Debt securities	692	492	(200)
Total	81,992	$17,550	$(64,442)
Market quotations not available	82,358		
Total	$164,350		

Market quotations not available securities included in investments in securities mainly consists of unlisted equity securities for which there is no readily-available market from which to obtain or calculate the market value thereof.

Marketable securities include equity securities that are borrowed by the outside party for the financing purpose in an amount of ¥6,296 million ($52,467 thousand) and ¥11,738 million as of February 28, 1999 and 1998, respectively.

3. Installment Sales Receivable, Operating Loans Receivable and Unearned Income

Installment sales receivable, operating loans receivable and unearned income as of February 28, 1999 and 1998, consisted of the following:

	Millions of Yen				*Thousands of U.S. Dollars*	
	1999		1998		**1999**	
	Receivable	Unearned Income	Receivable	Unearned Income	Receivable	Unearned Income
Installment sales receivable:						
Credit card contracts	**¥174,229**	**¥1,704**	¥117,834	¥1,627	**$1,451,908**	**$14,200**
Personal credit contracts	**12,849**	**865**	12,212	807	**107,075**	**7,208**
	¥187,078		¥130,046		**$1,558,983**	
Operating loans receivable	**¥385,318**	**338**	¥490,064	435	**$3,210,983**	**2,817**
		¥2,907		¥2,869		**$24,225**

Amounts of transaction volume and realized operating revenue by type of contract for the years ended February 28, 1999 and 1998, consisted of the following:

	Millions of Yen				*Thousands of U.S. Dollars*	
	1999		1998		**1999**	
	Amounts of Transaction Volume	Realized Operating Revenue	Amounts of Transaction Volume	Realized Operating Revenue	Amounts of Transaction Volume	Realized Operating Revenue
Credit card contracts	**¥ 642,833**	**¥ 23,086**	¥ 570,852	¥ 21,429	**$ 5,356,942**	**$192,384**
Personal credit contracts	**10,885**	**931**	12,018	1,021	**90,708**	**7,758**
Loan contracts	**521,644**	**52,862**	525,000	53,512	**4,347,033**	**440,517**
Merchandise sales	**24,154**	**10,310**	26,004	10,554	**201,283**	**85,971**
Traveling business	**27,823**	**2,726**	29,704	2,810	**231,858**	**22,717**
Other	**138,165**	**13,575**	139,356	13,948	**1,151,376**	**113,124**
	1,365,504	**103,490**	¥1,302,934	103,274	**$11,379,200**	**862,417**
Financial transactions		**715**		709		**5,958**
Total operating revenues		**104,205**		¥103,983		**$868,375**

Major effective annual rates for fees and interest from customers were as follows:

	1999	1998
Shopping credit contracts	**11.66%–14.32%**	11.66%–14.32%
Loan contracts	**3.70 –28.80**	3.125 –28.80

4. Mortgage Loans Receivable and Mortgage-Backed Securities Transferred

(a) Mortgage Loans Receivable

The Company provides financing to a borrower on condition of mortgaging with the special agreement that mortgage-backed securities are issuable. The Company then has mortgage-backed securities issued by the registry office.

(b) Mortgage-backed Securities Transferred

Mortgage-backed securities transferred on the basis of the original mortgage-backed securities are subdivided and sold to customers on condition of repurchase, usually within one year. The Company earns the difference between interest financing and interest on subdivided securities transferred with deduction of the necessary costs.

5. Short-Term Borrowings and Long-Term Debt

Short-term borrowings as of February 28, 1999 and 1998, consisted of notes to banks, bank overdrafts and loans from financing institutions. The annual interest rates applicable to short-term borrowings ranged from 0.5% to 3.5% and from 0.8% to 4.2% as of February 28, 1999 and 1998, respectively.

Long-term debt as of February 28, 1999 and 1998, consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	1999	1998	**1999**
Loans from banks, insurance companies and other financing institutions, maturing serially through 2005, principally 1.0% to 7.0%	**¥105,101**	¥106,374	**$875,842**
Current portion included in current liabilities	**(43,223)**	(10,486)	**(360,192)**
Total	**¥ 61,878**	¥ 95,888	**$515,650**

The annual maturities of long-term debt outstanding as of February 28, 1999, were as follows:

Year Ending February 28 or 29	*Millions of Yen*	*Thousands of U.S. Dollars*
2000	¥ 43,223	$360,192
2001	39,806	331,717
2002	10,518	87,650
2003 and thereafter	11,554	96,283
Total	¥105,101	$875,842

As of February 28, 1999, operating loans receivable of ¥14,000 million ($116,667 thousand) are pledged as collateral for short-term borrowings of ¥10,000 million ($83,333 thousand). As is customary in Japan, substantially all of the Companies' bank borrowings are subject to general agreements with each bank which provide, among other things, that the relevant bank may, when the bank deems it necessary, request security for the loans. Also, these agreements allow the banks, if necessary, to treat any security furnished to the bank, as well as cash deposited with it, as security which may be used to offset present and future indebtedness.

6. Employees' Retirement Benefits

Under the pension plan, employees terminating their employment are, in most circumstances, entitled to retirement and pension benefits determined by reference to basic rates of pay at the time of termination, length of service and conditions under which the termination occurs.

As of February 28, 1999, the assets of the fund amounted to ¥1,795 million ($14,958 thousand).

The expense related to the employees' retirement and pension plans was ¥412 million ($3,433 thousand) and ¥503 million for the years ended February 28, 1999 and 1998, respectively.

7. Stockholders' Equity

The Japanese Commercial Code (the "Code") requires at least 50% of the issue price of new shares, with a minimum of the par value, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to additional paid-in capital.

The Code also requires companies to appropriate from retained earnings to legal reserve an amount equal to at least 10% of all cash payments made as an appropriation of retained earnings until the reserve equals 25% of stated capital. This reserve is not available for dividends but may be used to reduce a deficit by resolution of stockholders.

The Company may transfer portions of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Company may also transfer portions of unappropriated retained earnings, available for dividends, to stated capital by resolution of stockholders.

Under the Code, the Company may issue new common shares to existing stockholders without consideration as a stock split pursuant to resolution of the Board of Directors. The Company may make such a stock split to the extent that the aggregate par value of the shares outstanding after the issuance does not exceed the stated capital. However, the amount calculated by dividing the total amount of stockholders' equity by the number of outstanding shares after the issuance shall not be less than ¥50.

On May 22, 1997, the stockholders of the Company approved reduction of deficit by transferring legal reserve of ¥915 million and additional paid-in capital of ¥23,662 million to deficit.

Dividends are approved by stockholders at a meeting to be held subsequent to the fiscal year to which the dividends are applicable. However, a semiannual interim dividend may be paid upon resolution of the Board of Directors subject to limitations imposed by the Code.

Under the Code, the amount available for dividends is based on retained earnings as recorded on the Company's books. As of February 28, 1999, retained earnings recorded on the Company's books were ¥327 million ($2,725 thousand) which is available for future dividends subject to the approval of the stockholders and legal reserve requirements.

8. Balances and Transactions with Unconsolidated Subsidiaries, Affiliates and Other Related Parties

Receivables from and payables to unconsolidated subsidiaries and affiliates as of February 28, 1999 and 1998, and transactions with them for the years ended February 28, 1999 and 1998, were primarily as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	1999	1998	**1999**
Prepaid expenses and other current assets	¥211	¥210	$1,758
Investments in securities	7,768	8,163	64,733
Guarantee money deposited	1,202	1,202	10,017
Notes and accounts payable	8,931	6,111	74,425
Accrued expenses	213	315	1,775
Other long-term liabilities	1,601	1,642	13,342
Fees from customers and affiliated stores	7,820	7,392	65,167
Financial transactions—Interest income	252	338	2,100
Other revenues	1,734	1,860	14,450
Selling, general and administrative expenses	4,505	3,196	37,542
Other transactions:			
Sales of property, equipment and other assets		28,768	
Purchases of investment securities	73	1,661	608
Sales of investment securities	971	455	8,092

9. Financial Transactions and Expenses

Financial transactions and expenses for the years ended February 28, 1999 and 1998, consisted of the following:

		Millions of Yen		*Thousands of U.S. Dollars*
		1999	1998	**1999**
Financial transactions:	Interest income	**¥ 536**	¥ 463	**$ 4,467**
	Other	**179**	246	**1,491**
Total		**¥ 715**	¥0,709	**$ 5,958**
Financial expenses:	Interest expense	**¥16,580**	¥18,753	**$ 138,167**
	Other	**88**	165	**733**
Total		**¥16,668**	¥18,918	**$ 138,900**

10. Income Taxes

The Companies were subject to Japanese corporation and inhabitants taxes based on income at a combined statutory tax rate of approximately 45.2% both in 1999 and 1998. They were also subject to enterprise taxes imposed by local prefectures at rates, varying from 12.0% to 13.2%, based on income, which were charged to selling, general and administrative expenses in the accompanying consolidated statements of operations.

As of February 28, 1999, the Company has net operating loss carryforwards of approximately ¥10,100 million ($84,167 thousand) for tax purposes, which are available to offset future taxable income. This tax loss carryforward, if not utilized, will expire as follows:

Year Ending February 28 or 29	*Millions of Yen*	*Thousands of U.S. Dollars*
2000	¥ 2,800	$ 23,334
2002	3,000	25,000
2004	4,300	358,833
Total	¥10,100	$ 84,167

11. Leases

(a) Finance Lease Transactions

(1) ***Lessee***—The Companies lease certain computer equipment, office space (including subleased properties) and other assets. Total rental expenses were ¥6,690 million ($55,750 thousand) and ¥5,416 million for the years ended February 28, 1999 and 1998, respectively. Such rental expenses included total lease payments of ¥530 million ($4,417 thousand) and ¥482 million for the years ended February 28, 1999 and 1998, in connection with finance leases as described in Note 1 (i), respectively.

Pro forma information of leased property as obligations under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the year ended February 28, 1999, was as follows:

	Millions of Yen	*Thousands of U.S. Dollars*
Due within one year	¥332	$2,767
Due after one year	600	5,000
Total	¥932	$7,767

The imputed interest expense portion which is computed using the interest method is excluded from the above obligations under finance leases.

(2) ***Lessor***—The Companies also have a number of lease agreements, as lessor, primarily for certain industrial equipment and other assets, which are cancelable and renewable upon expiration. Rental income on such leases in connection with finance leases as described in Note 1 (i) were ¥92 million ($767 thousand) and ¥198 million for the years ended February 28, 1999 and 1998, respectively.

Pro forma information of leased property as receivables under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the year ended February 28, 1999, was ¥17 million ($142 thousand) due within one year.

Receivables under finance leases include the imputed interest income portion.

(b) Operating Lease Transactions

Lessee—The minimum rental commitments under noncancellable operating leases at February 28, 1999, were ¥4 million ($33 thousand) due within one year.

12. Contingent Liabilities

As of February 28, 1999, the Companies were contingently liable as a guarantor for borrowings of customers in an amount of ¥7,341 million ($61,175 thousand).

13. Derivatives

The Companies enter into interest rate swap and currency swap agreements as a means of managing its interest rate exposures on short-term borrowings and long-term debt. The Companies also enter into foreign exchange forward contracts to hedge market risk from the changes in foreign exchange rates associated with currency swap agreements.

It is the Companies' policy not to hold or issue derivatives for speculative or trading purposes.

Derivatives are subject to market risk and credit risk. Market risk is the exposure created by potential fluctuations in market conditions, including interest or foreign exchange rates. Credit risk is the possibility that a loss may result from a counterparty's failure to perform according to the terms and conditions of the contract.

Because the counterparties to those derivatives are limited to major international financial institutions, the Companies do not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Companies have been made in accordance with internal policies which regulate the authorization and credit limit amount.

The Companies had the following derivatives contracts outstanding at February 28, 1999 and 1998.

(1) Over-the-counter Contracts for Foreign Exchange

	Millions of Yen							
	1999				*1998*			
	Contract or Notional Amount				*Contract or Notional Amount*			
	Total	*Portion After One Year*	*Fair Value*	*Unrealized Loss*	*Total*	*Portion After One Year*	*Fair Value*	*Unrealized Gain*
Exchange contracts buying—								
U.S.$ forward					¥14		¥16	¥2
Currency swap:								
Pay–U.S.$/receive–yen					5,600			
Pay–yen/receive–A$	¥2,000		¥(5)	¥(5)	2,000	¥2,000		

	Thousands of U.S. Dollars			
	1999			
	Contract or Notional Amount			
	Total	*Portion After One Year*	*Fair Value*	*Unrealized Loss*
Currency swap:				
Pay–U.S.$/receive–yen				
Pay–yen/receive–A$	$16,667		$(42)	$(42)

Notes: 1. The contract or notional amounts of derivatives which are assigned to associated assets or liabilities and are reflected on the balance sheet at year end are not subject to the disclosure of market value information.

2. Fair value and unrealized gain or loss of currency swap are not shown in the above table because they are not required to be disclosed in 1998 under new Japanese accounting regulations.

(2) Over-the-counter Contracts for Interest Rate

	Millions of Yen					
	1999				*1998*	
	Contract or Notional Amount			*Unrealized*	*Contract or Notional Amount*	
		Portion After	*Fair*	*Gain or*		*Portion After*
	Total	*One Year*	*Value*	*(Loss)*	*Total*	*One Year*
Swap:						
Pay–fix/receive–float	¥529,350	¥429,500	¥(21,659)	¥(21,659)	¥570,950	¥529,350
Pay–float/receive–fix	14,150		860	860	14,150	14,150
Total	¥543,500	¥429,500	¥(20,799)	¥(20,799)	¥585,100	¥543,500
Forward interest rate swap included in the above table–Pay–fix/receive–float	¥200,000	¥200,000	¥(9,166)	¥(9,166)	¥200,000	¥200,000

	Thousands of U.S. Dollars			
	1999			
	Contract or Notional Amount			*Unrealized*
		Portion After	*Fair*	*Gain or*
	Total	*One Year*	*Value*	*(Loss)*
Swap:				
Pay–fix/receive–float	$4,411,250	$3,579,167	$(180,492)	$(180,492)
Pay–float/receive–fix	117,917		7,167	7,167
Total	$4,529,167	$3,579,167	$(173,325)	$(173,325)
Forward interest rate swap included in the above table–Pay–fix/receive–float	$1,666,667	$1,666,667	$(76,383)	$(76,383)

Notes: 1. "Forward interest rate swap" contracts will come into force at the year of 2000.
2. The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Companies' exposure to credit or market risk.

14. Restructured Loans

Operating loans receivable and long-term operating loans receivable include restructured loans. Under the restructuring agreements, the Companies provide customers, with which the Companies have nominal shareholdings, with financial support, as disclaiming or reducing the original interest rate to below the official discount rate at the time of renegotiation.

The balance of restructured loans were ¥189,737 million ($1,581,142 thousand) and ¥271,386 miliion as of February 28, 1999 and 1998, respectively.

15. Segment Information

Information about operations in different industry segments, foreign operations and sales to foreign customers of the Companies for the years ended February 28, 1999 and 1998, are as follows:

(1) Operations in Different Industries

	Millions of Yen				
	Financial Services	*Retail Business*	*Other Business*	*General Corporate/ Eliminations, Etc.*	*Consolidated*
Year Ended February 28, 1999					
(a) Sales and Operating Income					
Operating revenues for customers	¥85,102	¥11,307	¥7,796		¥104,205
Intersegment operating revenues	340	46	410	¥(796)	
Total operating revenues	85,442	11,353	8,206	(796)	104,205
Operating expenses	73,820	10,296	7,586	3,143	94,845
Operating income	¥11,622	¥1,057	¥620	¥(3,939)	¥9,360
(b) Assets, Depreciation and Capital Expenditures					
Assets	¥682,214	¥5,789	¥15,476	¥17,539	¥721,018
Depreciation	3,270	151	137	288	3,846
Capital expenditures	954	58	65	174	1,251

	Millions of Yen				
	Financial Services	*Retail Business*	*Other Business*	*General Corporate/ Eliminations, Etc.*	*Consolidated*
Year Ended February 28, 1998					
(a) Sales and Operating Income					
Operating revenues for customers	¥ 84,239	¥11,557	¥8,187		¥103,983
Intersegment operating revenues	191	67	542	¥(800)	
Total operating revenues	84,430	11,624	8,729	(800)	103,983
Operating expenses	75,878	10,848	7,253	3,171	97,150
Operating income	¥8,552	¥776	¥1,476	¥(3,971)	¥6,833
(b) Assets, Depreciation and Capital Expenditures					
Assets	¥760,508	¥8,048	¥16,826	¥18,458	¥803,840
Depreciation	3,255	148	205	338	3,946
Capital expenditures	943	2,112	457	265	3,777

	Thousands of U.S. Dollars				
	Financial Services	*Retail Business*	*Other Business*	*General Corporate/ Eliminations, Etc.*	*Consolidated*
Year Ended February 28, 1999					
(a) Sales and Operating Income					
Operating revenues for customers	$709,183	$94,225	$64,967		$868,375
Intersegment operating revenues	2,834	383	3,416	$(6,633)	
Total operating revenues	712,017	94,608	68,383	(6,633)	868,375
Operating expenses	615,167	85,800	63,216	26,192	790,375
Operating income	$96,850	$8,808	$5,167	$(32,825)	$78,000
(b) Assets, Depreciation and Capital Expenditures					
Assets	$5,685,117	$48,242	$128,966	$146,158	$6,008,483
Depreciation	27,250	1,258	1,142	2,400	32,050
Capital expenditures	7,950	483	542	1,450	10,425

(2) Foreign Operations

There are no overseas consolidated subsidiaries.

(3) Sales to Foreign Customers

Sales (operating revenues) to foreign customers are less than 10% of consolidated sales (operating revenues).

Deloitte Touche Tohmatsu

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MS Shibaura Building
13-23, Shibaura 4-chome
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To the Board of Directors and Stockholders of
Daiei OMC, Inc.:

We have examined the consolidated balance sheets of Daiei OMC, Inc. and consolidated subsidiaries as of February 28, 1999 and 1998, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Daiei OMC, Inc. and consolidated subsidiaries as of February 28, 1999 and 1998, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

Our examinations also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1.(a) to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

May 27, 1999

Board of Directors

(As of May 27, 1999)

XXXXXXXXXXXXXXXX
HIROMICHI FUNAHASHI
XXXXXXXXXXXXXX
HIROYUKI FUKUMOTO
Managing Directors
HISAO TSUZAKI
YUJI YAMASAKI

Directors
KENJI YOSHIDA
AKIRA NAKAO
YOSHIAKI HAYASHIDA
TOSHIHARU NARIAI
SYUNJI MATSUNO
NORIYOSHI WADA
TADASHI NAKAUCHI

Corporate Auditors
TAKESHI OMOTE
YOUICHI KANAI
External Corporate Auditors
SHINJI HIGUCHI
EISUKE NAGAI

Corporate Data

(As of May 27, 1999)

HEAD OFFICE
6-2-1, Ginza, Chuo-ku, Tokyo 104-0061, Japan

GOTANDA OFFICE
21-1, Nishi-Gotanda 7-chome, Shinagawa-ku, Tokyo 141-8511, Japan
Telephone: (03) 3495-8568
Facsimile: (03) 3495-8440

DATE OF ESTABLISHMENT
September 1950

MAIN CONSOLIDATED SUBSIDIARIES
Asahi Credit Co., Ltd.
Main business: Corporate finance
Orange Finance Co., Ltd.
Main business: Corporate finance
Maruko Denkiland Co., Ltd.
Main business: Sale of electric appliances

Investor Information

(As of May 27, 1999)

Paid-in Capital
¥42,806,910,026 (211,307,082 shares)

Common Stock Price
(Tokyo Stock Exchange)

	1999		1998	
	High	**Low**	High	Low
1st quarter	**220**	**140**	315	185
2nd quarter	**180**	**119**	307	252
3rd quarter	**141**	**092**	269	164
4th quarter	**139**	**111**	246	121

Number of Stockholders
7,535

Independent Auditors
Tohmatsu & Co.
(A member firm of Deloitte Touche Tohmatsu International)

Transfer Agent
The Sumitomo Trust & Banking Co., Ltd.
5-33, Kitahama 4-chome,
Chuo-ku, Osaka 541-0041, Japan

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