Daiei OMC, Inc. ANNUAL REPORT 2000

Daiei OMC

ANNUAL REPORT 2000

Profile

Since its foundation, Daiei OMC, Inc., (DOMC) has steadily developed a strong financial retail business base, providing our customers not only with card services, but also with diverse travel, direct-marketing and consumer finance services. “Creation of credit” has always been the main theme of our business development.

The DOMC corporate philosophy is “For the Customer,” and in keeping with this, we have consistently pursued the creation of a “Customer Value Chain.” We aim to become the most valued partner of our customers as they live their lives to the full by taking advantage of our services.

Toward this end, we will fully utilize the skills and database marketing techniques we have acquired through our card business, providing customers with services and goods more specifically targeted to meet their individual needs, in both the traditional market and in virtual markets, such as those created through Internet business.

In order to meet the emerging needs of the 21st century, DOMC is striving vigorously to forge various business alliances and create new businesses, creating new products and services that will ensure that our customers enjoy fulfilling lives.

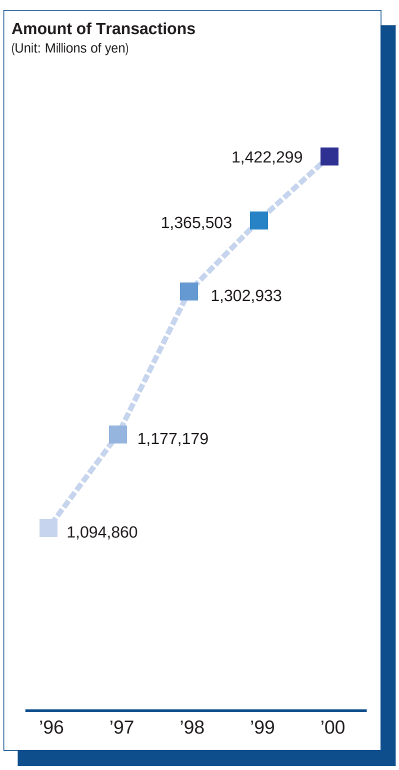
Contents

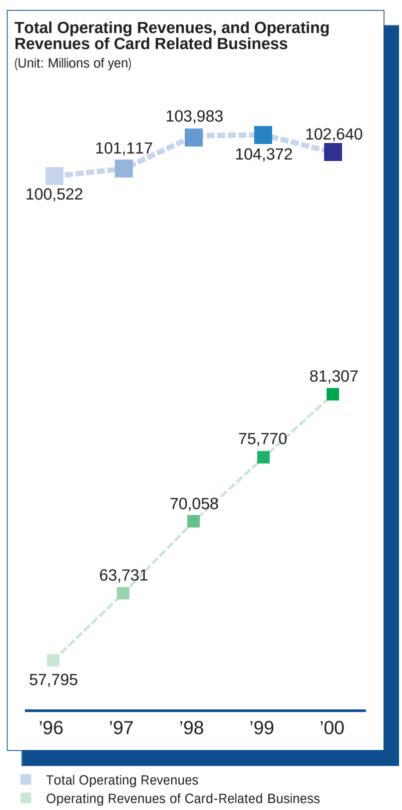
Financial Highlights (Five-Year Summary)

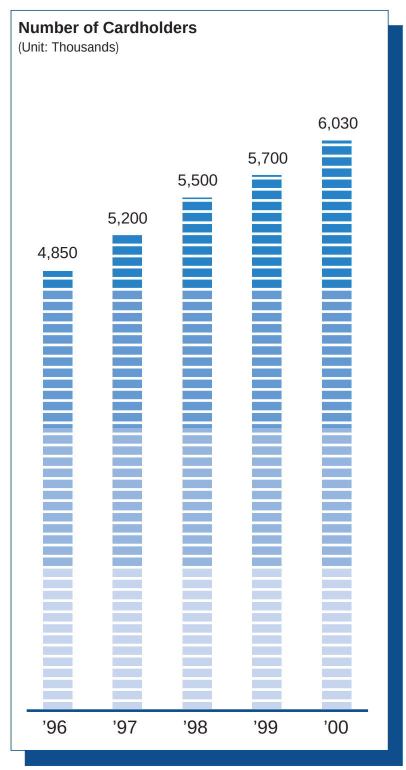
Daiei OMC, Inc. and Consolidated Subsidiaries
Years Ended February 29, 2000, February 28, 1999, 1998 and 1997, and February 29, 1996

	Millions of Yen (except per share amounts)					Thousands of U.S. Dollars (except per share amounts)
	2000	1999	1998	1997	1996	**2000**
For the year:						
Total operating revenues	**¥ 102,640**	¥104,372	¥103,983	¥ 101,117	¥100,522	**$ 933,091**
Operating income	**20,923**	9,432	6,833	2,215	2,326	**190,209**
Income (loss) before income taxes and minority interests in net income of consolidated subsidiaries	**(102,200)**	689	327	(34,473)	843	**(929,091)**
Net income (loss)	**(59,831)**	225	(126)	(34,949)	282	**(543,918)**
Per share amounts:						
Net income (loss)	**¥ (283.15)**	¥ 1.06	¥ (0.60)	¥ (187.13)	¥ 1.66	**$ (2.57)**
Cash dividends					6.00	
At year end:						
Total assets	**¥ 617,715**	¥721,018	¥803,840	¥ 761,087	¥761,667	**$5,615,591**
Long-term debt	**27,544**	61,878	95,888	83,163	134,141	**250,400**
Total stockholders' equity	**14,816**	57,588	57,363	57,489	72,778	**134,691**

Notes: 1. All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at the rate of ¥110=$1, the approximate rate of exchange as of February 29, 2000. 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.







To Our Stockholders

While individual consumption remains stagnant, competition within the Japanese credit card industry is intensifying as foreign capital companies and companies from other industries move in, leading us into an age of mega-competition. Innovations in information technology, the shift toward a cashless society and the diversification of payment methods with IC and debit cards have set the stage for new business opportunities. The globalization of accounting systems and the emphasis of management policy on cash flow will inevitably improve corporate balance sheets, and transparent and reliable corporate management will be required in this environment.

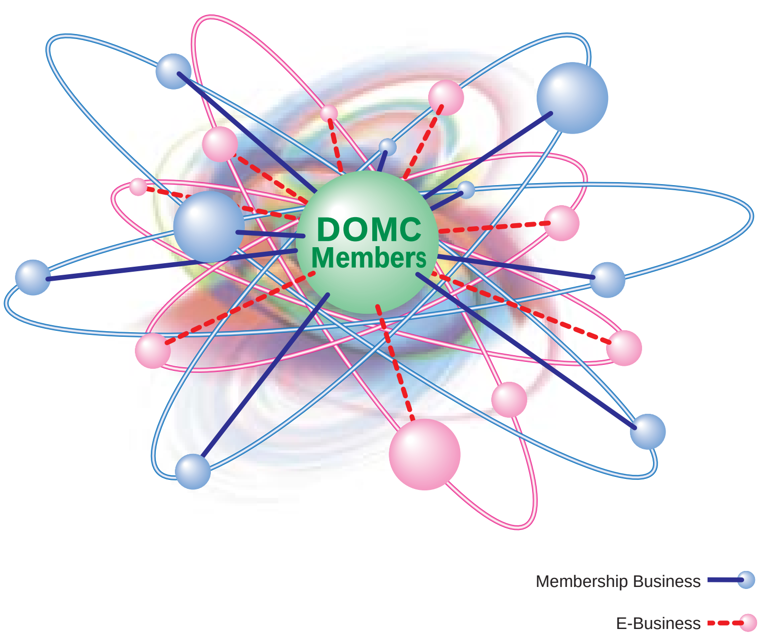
Under these circumstances, DOMC recognized the necessity of focusing on the "financial retail business," a financial resource for management that targets individual cardholders, in order to establish the robust and sound corporate foundation that will ensure our success in a severely competitive climate. Taking this opportunity, we have applied a substantial allowance to non-performing loans to dispose of the doubtful assets of the past.

In order to develop further the card-based financial retail business, we conducted card membership campaigns with a variety of promotion activities. At the same time, we actively drew on database marketing techniques that mine member information and other data to promote credit card use. These activities brought our number of effective members to 6.03 million at the end of the term.

In order to surpass the competition, DOMC strives to be our customers' most valued partner. We are working toward the realization of our "Customer Value Chain," a concept that will provide value to each individual member based on the needs and wants of their particular stage of life. Toward this end, we are developing a value structure in both the real market and the virtual market, as represented by the Internet, based on membership business activities rooted in database marketing. Through these strategies, we intend to contribute to ensuring that our customers lead fulfilling lives.

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

President and Representative Director
Hiromichi Funahashi
June 2000



Realization of the Customer Value Chain

In order to establish a robust and sound corporate foundation that would ensure success in today's intensely competitive climate, DOMC applied its substantial allowance for uncollectable receivables to write off the corporate debt in a lump sum.

As a result, DOMC has entered a new stage, in which it is developing the "membership business," online transactions and other innovative activities.To understand how DOMC will change in the 21st century, we spoke with Hiromichi Funahashi, President and Representative Director, about experiences in fiscal 2000 and management plans for the future.

Q: Please give us your assessment of the fiscal 2000 business results and the reason for the decision to write off corporate debt in a lump sum this term.

A: With the advent of the cashless age and innovations in information technology, the credit card industry is entering a new phase of market competition. Within this environment, our fiscal 2000 business results reflect total transactions of ¥1.4254 trillion, an increase of ¥80.7 billion over the previous term. On the strength of favorable credit card business, operating revenues increased by ¥2.9 billion over the previous period to stand at ¥99.1 billion. Recurring profits reached ¥20 billion, an increase of ¥12 billion and a record high for DOMC. Current income this term, however, reflects extraordinary profits of ¥8.4 billion from the sales of shares of Recruit Co., Ltd. We also posted a loss of ¥59.8 billion due to the measures taken to improve DOMC's financial structure, including ¥12 billion in appraisal losses on security holdings and extraordinary losses of ¥120 billion taken as we initiated the final write-off of corporate debt to settle our accounts for the term ending August 1999.

Although this loss was viewed with surprise in some quarters, it reflects the DOMC policy placing a high value on quick decision-making in management. We also determined that, in order to return to a robust and sound corporate foundation that would ensure our success in the severely competitive environment of the 21st century, our highest priority must be the immediate strengthening of our financial standing. For these reasons, we have reserved a lump-sum allowance for bad debt to prepare to write off those debts deemed uncollectable or likely to drag out over the long-term.

This allowance will not only allow us to take our stand on global accounting standards and develop a cash flow-oriented management policy, but will also enable us to grow our highly profitable financial retail business. We are confident that our balance sheets will directly reflect our corporate activities. Now that the corporate debt has been written off, we will introduce a new mid-range plan in fiscal year 2000, and expect to post recurring profits of ¥25.0 billion and a net profit for the current term of ¥14.5 billion in fiscal 2001. We also look forward to resuming dividend payments at the earliest possible opportunity.

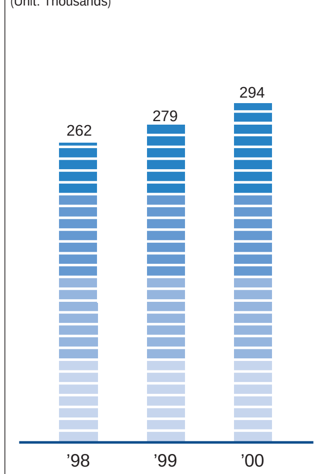
Q: DOMC's credit card business seems to be strong. Would you go into the specific reasons for this?

A: In fiscal 2000, we saw steady improvement in business conditions, with an 11% increase in total credit card shopping transactions and an 8% increase in total cashing service transactions over the previous term. Moreover, we approved a total of 1.19 million new credit card applications, increasing the number of cardholders by 300,000 by the end of the term to close out with 6.03 million members.

Notable developments include the strong response to our "Hospitality Campaign Days," which offer DOMC customers shopping at Daiei Group stores a 5% discount, and our "Special Invitation" Campaign planned in conjunction with Daiei Group stores, offering discounts on certain products. In this way, we have been able to reinforce the Daiei Group's synergy, with our strength as a credit card company affiliated with the distribution industry, and plan for the further expansion of our business.

Moreover, aiming to expand cardholder membership, we jointly issued four new cards, including the L Encore Card with Lawson Convenience Store and the WebNation OMC Card with Digital Garage, a web site management company. We have also made great efforts with affiliated companies outside of the Group. We have strengthened our affiliate system by pursuing new affiliates nationwide in such places of commercial integration as the Jiyugaoka Shopping Arcade and have succeeded in picking up approximately 15,000 new affiliate stores. We have also been able to expand our acquiring business, as well as enhance our

Number of Affiliated Stores
(Unit: Thousands)

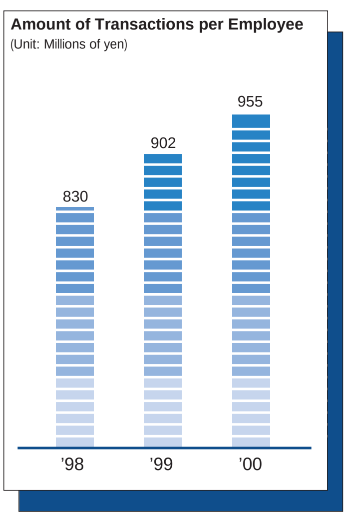


credit card business by creating new sales channels and developing new markets. With growth in total Daiei Group transactions and the dramatic increase in our transactions with companies outside of our Group, we were able to achieve a large increase in total credit card transactions over the previous year. With regard to cashing services, we have striven to increase cooperative partners as well as to increase the number of cashing service facilities. In order to make it more convenient for bank cash-card holders to use our cash dispensers, we have expanded and strengthened our CD service network by arranging to add one city bank and three regional banks to our network.

Q: Please comment on the management and business strategies to be employed in light of the DOMC changes taking place after the drastic financial restructuring.

A: As a means of implementing our management principle, "For the Customer," our priority is a new management strategy that focuses on the realization of the "Customer Value Chain." Our goal is to become our customers' most valued partner by providing all of the various services they require to lead fulfilling lives. We will not let our credit card business remain merely a means of purchasing goods, but intend to develop it into a "membership business," extensively utilizing database marketing, In keeping with this strategy, we are developing our e-business and financial retail businesses to provide our customers with value by satisfying the needs and wants of each individual at his or her particular stage of life.

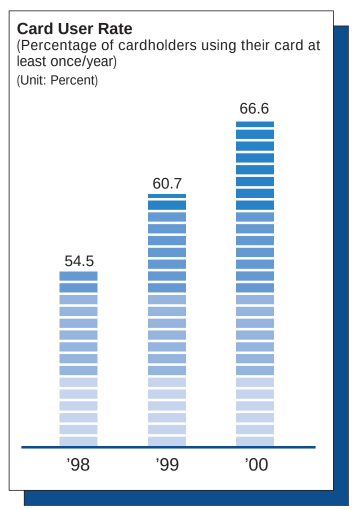
In the course of actual development of the membership business, we are striving to apply the member management and database marketing techniques cultivated by our credit card business to further develop our customer analysis capability, to expand membership business beyond our cardholders to include ID members, as well as to expand membership by issuing new cards and employing diverse techniques to encourage partnerships with other companies. The value we provide our customers is not limited to the credit cards and service products, or the travel, insurance, mail-order and other services that DOMC offers independently; it will cover a wide range of services which are rooted in the strategic collaboration between the Daiei Group and its suppliers and affiliates in the creation of new products and services. In the future, we will expand our activities beyond our one-on-one relationships with our customers to enable their independent business relationships with our suppliers, and develop our business in both the real market, as represented by the Daiei Group and its affiliates, and the virtual online market, as represented by Internet business. We plan to focus particularly on strengthening our value structure in the virtual market and expanding the scope of our "Customer Value Chain," the DOMC vision for the future.



Q: As we see steady growth in the credit card business, what are your thoughts on improving management efficiency in terms of the services you provide to more than six million cardholders, risk management and other factors?

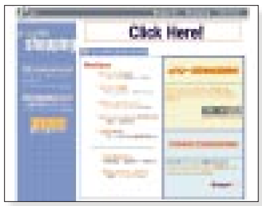
A: DOMC has been engaged in the credit card business for approximately 50 years. The process has given us a real appreciation of the importance of risk management, and we have successfully incorporated our many years of experience into our new system. The thorough application of risk management is one of our management strategies, and we believe that our system is among the leading of its type in Japan, both in terms of quality and quantity. As we strengthened our card enrollment capacity by establishing a system that can accommodate the immediate issuance of new cards (we average 30 minutes from the time a customer applies to the time the card is issued), we have strengthened and expanded our screening system. Our systems and structures clearly surpass those of other companies in the industry.

We are continuing our efforts to develop our membership business by focusing on improving customer satisfaction. Toward this end, we have increased our workforce and strengthened our corporate structure with new systems by expanding the Customer Support Group at the OMC Service Center, improving the quality of telephone service we provide, and reducing the time it takes for paperwork to be processed. We have nonetheless succeeded in establishing a low cost operation structure mainly run by part-time employees by developing a new



system and improved training program. As a result of this shift in labor structure, we have been able to maintain the quality of business without increasing costs. We are also using the wealth of experience and data accumulated by DOMC over the years to record the knowledge held by individuals in the form of manuals that can be shared by all employees. The OMC Service Center will improve the level of its service, while shifting its labor structure toward part-time positions, by applying this wealth of knowledge to its management activities.

Q: Corporate Internet transactions are increasing dramatically. Please explain how you plan to distinguish the DOMC online business from that of other companies.



A: Although the virtual market is seeing dramatic expansion in Japan, a secure payment system has not yet been established. In April, we issued the "e-colle.com Card," the world's first credit card with Internet fraud insurance that ensures secure credit card payments when shopping online. By launching into the provider market, DOMC will introduce a safe and secure payment system that ensures advanced security, and intends to establish CSP (Commerce Service Provider) business and specialized payment web sites. A new company, BLOCKLINE Inc., which develops and provides security systems for online payment and personal information management, was formed in May when we merged with Neoteny Co., Ltd., an incubator for Internet-related business. The new company aims to maximize the synergy of the two companies, establish online transactions that take full advantage of the newest technology, and become the most secure transaction vendor in the industry. In terms of e-business development, we are collaborating with such powerful networks as Mitsui Marine & Fire Insurance Co., Ltd., one of the largest non-life insurance companies in Japan, the global telecommunications company KDD, and Infoseek, an Internet search company. We are also laying the foundation that will allow us to meet new customer needs in the digital age through our strong member base — 6.03 million — and by applying our knowledge in the area of payment.

Q: DOMC is aggressively pursuing the diversification of financing through the liquidation of credit card debt and other means. Tell us about your financial strategies for the future.

A: This term, DOMC diversified financing through the liquidation of debt, including twice issuing asset backed types of securities based on

the revolving loan credit of card shopping, for the first time in Japan, by liquidating supplemental transfer card shopping payment debts in March 2000. Since all of these were issued at the highest bond ratings, the market response was excellent. In February 2000, we acquired the rating for short-term securities, which enabled us to issue commercial paper, and thus to expand our short-term fund-raising framework. We will also be considering the possibility of issuing straight bonds, and intend to pursue stable long-term financing. This will allow us to raise our ratio of direct market financing in addition to our traditional indirect financing from major financial institutions, as well as to further increase the efficiency and stability of our financing. Moreover, we are looking into equity financing as a top-priority strategy in this area.

Q: Would you explain the vision DOMC has for the 21st century?

A: The development of information technology and the progress of the cashless society, which quickly expand the e-commerce marketplace and revolutionize the market structure, create an ideal opportunity for developing new business horizons for a company like ours, which has accumulated massive amounts of real information and assets as well as virtual skill and technology. To meet the challenges of the emerging age of e-commerce, we are planning not only to establish our competitive edge in the settlement field, which is the most critical point, but also to develop database marketing to analyze individual tastes and provide customers with the information they need over the Internet. We will also work to support our affiliated chain stores as they move to take advantage of the e-commerce age.

As a result of such efforts, we will be able to freely develop both our real and virtual businesses, enabling us to provide our customers with value they have never experienced before.

We will build a 21st-century hybrid e-commerce business, developing our "Customer Value Chain" and providing customers with both real and virtual services.

Membership Business Development

From "One-to-Million" to "One-to-Thousand"

Full Utilization of Database Marketing

DOMC's mission is to continuously consider our customers in providing them with higher-quality products at lower prices than our competitors. We are actively pursuing our OMC card-based membership business in order to realize our "Customer Value Chain" concept, as well as developing new products and services. DOMC is expanding its activities beyond our traditional one-on-one relationships with our customers (place orientation) to allow for their independent business relationships with our suppliers (space orientation). We continue to expand in both the real and virtual markets, particularly in terms of strengthening our value structure in the virtual market, and are expanding the scope of the "Customer Value Chain" we are striving to build.

We are going to develop a "Credit Card Membership Business" by incorporating the member management and customer analysis capability into the database marketing techniques developed by our credit card business. Our business activities focus most intently on database marketing. In order to offer the most appropriate value to members, we need to understand first their wants and needs. In today's circumstances, "one-to-all" segmentation is not good enough. In working toward our goal of one-to-one marketing, we have moved beyond the one-to-million level and have honed our communication tools for the one-to-thousand range to achieve more specifically targeted marketing. In terms of our interactions with cardholders, our efforts to enhance our ability to provide our members with services and products throughout their lives are based on our credit card business. Rather than one-time-only transactions, we are working to develop continuous long-term relationships with our customers.

Diversifying Segmentations

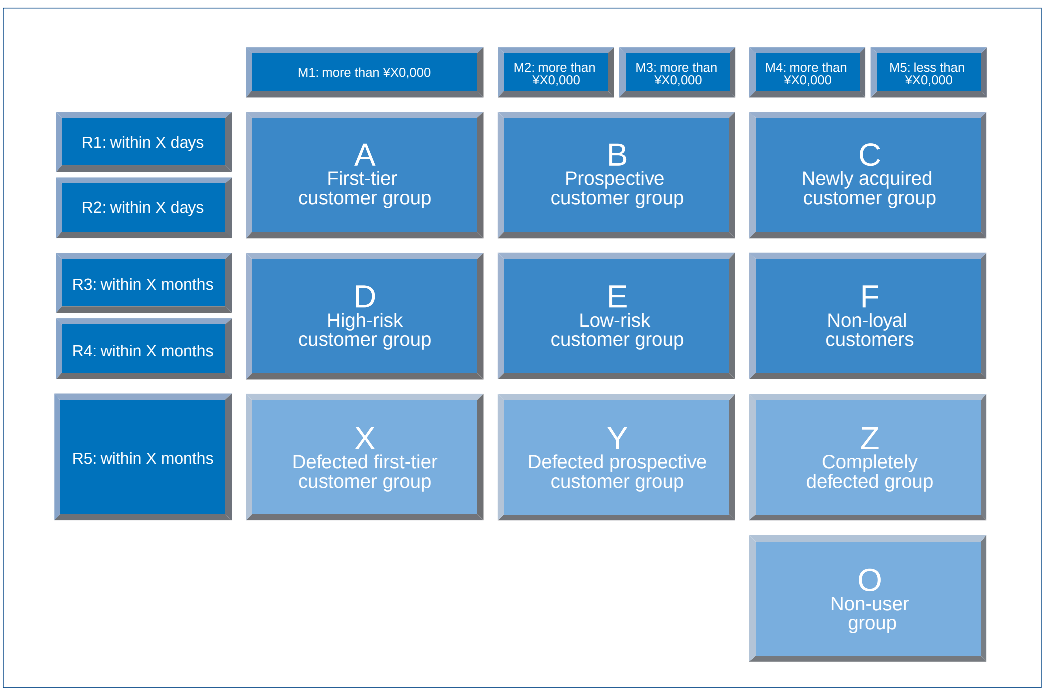
The number of credit cards issued in Japan as of the end of 1999 stood at more than 200 million, and in an effort to set themselves apart from competitors, credit card companies have introduced a variety of incentive programs and sales campaigns. To stand above our competitors, we must supplement basic consumer behavior analysis with more detailed studies to provide our cardholders with services that more thoroughly meet their needs. To ensure that our database with information on our 6.03 million customers is used effectively, we have been working with a large U.S. computer company. We have introduced the tools we need to collect, manage and analyze this data and have successfully enabled this data to be utilized in the corporate decision-making process.

The result is a comprehensive picture of our cardholders' purchasing behavior at minimal cost and within a short period of time. The system has allowed DOMC to divide its cardholders into more than 150 segment groups and implement effective card use promotion campaigns that target each group with a specific campaign. These activities have proven quite effective, for instance, by sending out direct mail in proportion to the frequency with which customers use their cards. Our card usage rate increased six percentage points over the previous year to 67%, and stands among the highest in the industry.

Based on the concept of a "convenient lifestyle card," the DOMC credit card brings more comfort to our customers' daily lives. We must develop more intimate relationships with our customers, and to do this, DOMC intends to establish a framework under which it is able to provide services designed specifically for each customer. Toward this end, we are striving to gain a deeper understanding of each individual's needs and to incorporate data mining analysis through relationship marketing, a technique focusing on the relationship between DOMC and each customer.

We are, thus, aiming eventually to establish a framework that meets each and every customer face-to-face with the services he or she requires.

■ **Database Marketing**



Effective Management

Upgrading the level of service through low-cost operation

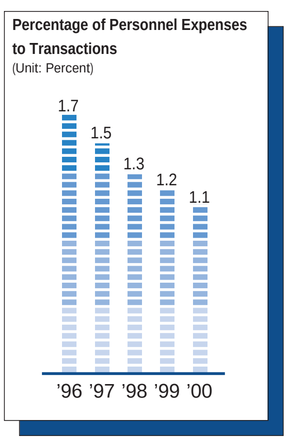
Cost Management Activities

DOMC has put a structure in place that allows us to grow our business each year and still operate at the lowest possible cost, without lowering the quality of our services. Improving customer satisfaction is particularly important to membership business development. Toward this end, for instance, the OMC Service Center is making use of the wealth of experience and data accumulated by DOMC over the years to record the knowledge held by individuals in the form of manuals that can be shared by all employees. At the same time as we are applying this extensive knowledge to our management activities to increase the percentage of part-time employees to full-time, we are also able to upgrade the level of our service. This forms the basis of our telephone response system, manned by part-time staff, and the mechanism that enables us to respond 24 hours a day via our voice recognition unit (VRU) system.

The approximately 2% decrease over four years in the ratio of personnel expenses to total transactions, brought about as a result of these measures, also illustrates our steady progress in the area of restructuring.

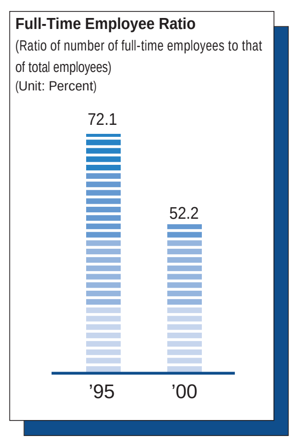
Organizing the System Environment

DOMC is focusing its efforts on strengthening the cardholder telephone inquiry service provided by the OMC Service Center. In striving to strengthen services and establish low cost operations at our Service Center, we have created a system environment that allows us to thoroughly meet the diverse inquiries of some 300,000 customers each month, 24 hours a day, 365 days a year. Specifically, DOMC has developed an effective telephone response system that, by analyzing data to select and assign the personnel necessary on a specific date, day of the week, or time of day, has increased the percentage of calls answered without lowering the level of service we provide.



The effects of increasing productivity by focusing on the accuracy of our ACD system and automated PD system, as well as by publishing manuals designed to improve operator quality, have been particularly dramatic. Our ACD system has brought the percentage of customer calls answered to 97%, considerably higher than the industry average of around 80%.

The PD system also allows us to approach customers who have not yet used their cards, thereby raising our card use promotion rate to approximately 30%. Moreover, 15% of withdrawal applicants now renew their membership with us, a 4% increase over the previous year. As these figures illustrate, this system not only increases customer satisfaction, but also serves an important business support function. We are also working to reduce man-hours required to settle the monthly average of some 2.2 million OMC card accounts. The release of the integrated accounting system has enabled us to handle our increasing business with the same number of workers we have employed in the past. In the future, we intend to establish a structure to ensure that OMC Service Center profits by making it one of our profit centers and reinforcing its in-sourcing function.



Upgrading risk management

Sound risk management system to deal with all kinds of management processes

Total Management

At DOMC, with the understanding that risk management means maximizing profits while minimizing risks, we have been placing special emphasis on risk management as well as business expansion. Three processes are involved in risk management in this industry, particularly in terms of individuals: credit assessment, credit monitoring, and collection. DOMC is transitioning to "Total Risk Management," a concept that mitigates the overall risk accumulated in each of these processes.

We have established seven Centers across the country responsible for risk management. These Centers are performing the following functions: Card Assessment Centers to conduct initial credit assessments for credit card issuance; Credit Monitoring Centers to monitor cardholders' subsequent credit; and Collection Centers to manage collection and consultation with customers.

Card Assessment Center Activities

In order to cope with credit risk, we have to increase the rate of card issuance against the application numbers, maintaining high capacity to properly screen applicants during the initial credit phase. Our Card Assessment Centers have been striving to balance greater numbers of issued cards with risk management by making use of the Application Scoring System and other technology.

The structure under which our customers are issued credit cards within 30 minutes of submitting their applications reflects the importance we place on cardholder convenience. At peak application times, DOMC determines whether credit will be extended to more than 10,000 applicants a day. No other credit card company in Japan has the capacity to process such a high volume while simultaneously maintaining high screening standards to ensure that credit is extended appropriately.

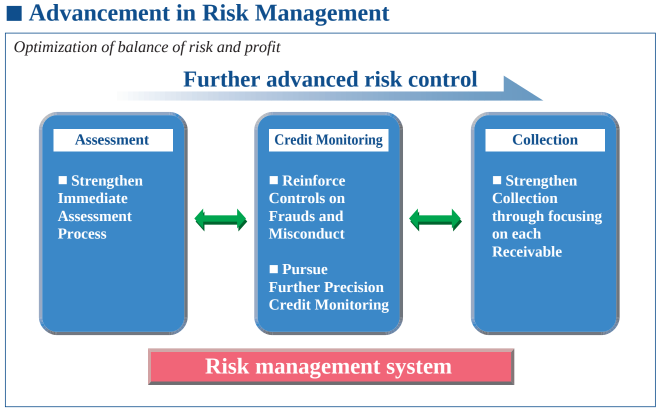
Credit Monitoring Center Activities

Credit Monitoring Centers perform two functions: managing cardholder credit and monitoring the credit line of these accounts. In the former function, the centers analyze behavioral data regarding credit card use, bill payments and other aspects of cardholders' credit histories to detect deterioration before it gets out of control, thereby providing a safe environment to the users of the credit cards. In consideration of the importance of this function in the future card business, we collaborated with HNC Software, Inc., in 1999 for the first time in this industry to introduce "Falcon," a fraud detection system. On the other hand, by monitoring the credit line of existing accounts, customer credit is optimized by flexible selection of good cardholders, thereby increasing their convenience and at the same time, ensuring our profits.

Collection Center Activities

We are operating three Collection Centers as our centralized risk management system. At the Centers, we centrally control all of our nationwide receivables, utilizing an auto-calling system. In order to collect our receivables effectively and efficiently, we use the Behavior Scoring System (BSS) developed by Fair, Isaac and Company, Inc., a technique that scores the cardholder's credibility, classify our assets, and decide the priority level of reminders to customers to make their payments.

■ **Advancement in Risk Management**



A Variety of Businesses Contribute to Our "Customer Value Chain"

Credit Card Business

Colorful card services targeting daily lives

The attraction of the OMC card is not limited solely to the convenience our customers enjoy by being able to leave their wallets at home; we provide attractive ancillary card services for our cardholders to enhance the convenience of their daily lives as well. No other company matches our service lineup, which includes our Hospitality Campaign Program offering cardholders a 5% discount on retail prices, which is valid on predetermined days, monthly raffles that send 100 winners on Hawaiian vacations, our frequent-user program offering customers significant savings, and other affiliate cards, such as our Lawson Card, the Hello Kitty Card featuring the famous Sanrio character, and the OMC Ecology Card, which contributes to the preservation of the environment, all of which meet the diverse needs of our customers. As of the end of February 2000, OMC cardholders numbered 6.03 million, and OMC affiliate stores 294,000.We boast the sixth highest total number of transactions among credit card companies, and our card usage rate leads the industry.

Financial Retail Business

Offering financial products that best suit the daily lives of our customers

The basic concept underlying our financial retail business is to provide those products and services that are necessities in our customers' daily lives. The value we provide is offered through insurance, various loans that are made-to-order based on each individual's needs, mortgage securities and other products designed for each part of our customers' lifestyles. In July 2000, we formed a partnership with NIHON KYOEI SECURITIES Co., Ltd., to introduce at-home stock trading services and further expand our product line.

Service Business

The services we offer are for the enrichment of customers' lives.

We handle tickets, driver's licenses, communications devices and other products. Through sales of these goods and services we support our customers' leisure time and enrich every aspect of their lives. Also, our 92 OMC Plazas nationwide serve as important information bases linking DOMC with our customers. This is another aspect of our support, providing customers with useful information for their daily lives, products and services.

Travel Business

Offering inexpensive high quality products

We are planning and developing travel products that fulfill our customers' real needs, thereby increasing our share of the market. This type of development entails truly understanding the "what, who and where" of the situation and developing products for regions with high demand. Also by basing development in our travel business around the credit card, our new value-added products go beyond simple travel products to provide that extra appeal.

Direct Marketing Business

We aim at mail order businesses offering Japan's best furniture and interior goods.

Our mail-order catalog *Kurashi no Design* is sold at approximately 33,000 major bookstores and vendors across the country, and more than three million copies of this catalog are published annually. By developing environmentally friendly products and expanding our easy-to-order product line to meet every need, no matter how small, we offer our customers an alternative lifestyle, in which they can create a richer, more comfortable living space.

Consolidated Balance Sheets

Daiei OMC, Inc. and Consolidated Subsidiaries February 29, 2000 and February 28, 1999

	Millions of Yen		Thousands of U.S. Dollars (Note 1.a)
ASSETS	**2000**	1999	**2000**
CURRENT ASSETS:			
Cash and cash equivalents	**¥102,488**	¥ 69,912	**$ 931,709**
Marketable securities (Note 2)	**7,743**	9,239	**70,391**
Notes and accounts receivable	**1,123**	1,011	**10,209**
Installment sales receivable (Notes 3 and 5)	**122,541**	187,078	**1,114,009**
Operating loans receivable (Notes 3 and 5)	**206,374**	385,318	**1,876,127**
Mortgage loans receivable (Note 4)	**35,600**	35,600	**323,636**
Inventories	**4,840**	2,215	**44,000**
Deferred tax assets (Note 10)	**494**		**4,491**
Prepaid expenses and other current assets (Note 8)	**17,699**	18,134	**160,900**
Allowance for doubtful accounts	**(7,736)**	(48,609)	**(70,327)**
Total current assets	**491,166**	659,898	**4,465,145**
PROPERTY AND EQUIPMENT:			
Equipment for lease		7,254	
Buildings and structures	**3,473**	3,533	**31,573**
Equipment	**735**	1,141	**6,682**
Land	**8,451**	8,747	**76,827**
Total	**12,659**	20,675	**115,082**
Accumulated depreciation	**(2,544)**	(10,300)	**(23,127)**
Net property and equipment	**10,115**	10,375	**91,955**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 2 and 8)	**7,034**	19,722	**63,945**
Long-term operating loans receivable, less allowance for doubtful accounts of ¥88,490 million ($804,455 thousand) in 2000 and ¥52,142 million in 1999	**20,462**	12,875	**186,018**
Guarantee money deposited (Note 8)	**8,741**	8,664	**79,464**
Deferred tax assets (Note 10)	**59,301**		**539,100**
Other	**20,896**	9,484	**189,964**
Total investments and other assets	**116,434**	50,745	**1,058,491**
TOTAL	**¥617,715**	¥721,018	**$5,615,591**

See notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of Yen 2000	Millions of Yen 1999	Thousands of U.S. Dollars (Note 1.a) 2000
CURRENT LIABILITIES:			
Short-term borrowings (Note 5)	**¥436,039**	¥473,523	**$3,963,991**
Current portion of long-term debt (Note 5)	**41,386**	43,223	**376,236**
Notes and accounts payable (Note 8)	**27,195**	25,475	**247,227**
Accrued expenses (Note 8)	**5,218**	6,489	**47,436**
Accrued income taxes	**188**	105	**1,709**
Mortgage-backed securities transferred (Note 4)	**34,869**	32,384	**316,991**
Unearned income (Note 3)	**2,242**	2,907	**20,382**
Other current liabilities	**24,531**	13,635	**223,010**
Total current liabilities	**571,668**	597,741	**5,196,982**
LONG-TERM LIABILITIES:			
Long-term debt (Note 5)	**27,544**	61,878	**250,400**
Liability for severance payments (Note 6)	**994**	1,068	**9,036**
Other long-term liabilities (Note 8)	**2,532**	2,509	**23,018**
Total long-term liabilities	**31,070**	65,455	**282,454**
MINORITY INTEREST	**161**	234	**1,464**
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	**389,155**
Additional paid-in capital	**16,242**	16,222	**147,655**
Deficit	**(44,233)**	(1,441)	**(402,119)**
Total stockholders' equity	**14,816**	57,588	**134,691**
TOTAL	**¥617,715**	¥721,018	**$5,615,591**

Consolidated Statements of Operations

Daiei OMC, Inc. and Consolidated Subsidiaries Years Ended February 29, 2000 and February 28, 1999

	Millions of Yen		Thousands of U.S. Dollars (Note 1.a)
	2000	1999	**2000**
OPERATING REVENUES (Note 3)**:**			
Fees from customers and affiliated stores (Note 8)	**¥ 22,552**	¥ 24,017	**$ 205,018**
Personal and corporate loan credit revenues	**53,256**	52,862	**484,145**
Profit of merchandise sales	**6,095**	10,310	**55,409**
Income from the travel business	**2,797**	2,726	**25,427**
Financial transactions (Notes 8 and 9)	**3,260**	715	**29,636**
Other revenues (Note 8)	**14,680**	13,742	**133,456**
Total operating revenues	**102,640**	104,372	**933,091**
OPERATING EXPENSES:			
Selling, general and administrative expenses (Note 8)	**66,588**	78,272	**605,346**
Financial expenses (Note 9)	**15,129**	16,668	**137,536**
Total operating expenses	**81,717**	94,940	**742,882**
OPERATING INCOME	**20,923**	9,432	**190,209**
OTHER INCOME (EXPENSES):			
Gain on sales of investment securities—net	**8,411**	10,449	**76,464**
Loss on devaluation of marketable and investment securities	**(9,285)**	(3,236)	**(84,409)**
Gain on sales of a consolidated subsidiary		258	
Provisions for doubtful accounts	**(119,383)**	(15,702)	**(1,085,300)**
Other—net	**(2,866)**	(512)	**(26,055)**
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS IN NET INCOME OF CONSOLIDATED SUBSIDIARIES	**(102,200)**	689	**(929,091)**
INCOME TAXES (Note 10)**:**			
Current	**223**	456	**2,027**
Deferred	**(42,599)**		**(387,264)**
Total	**(42,376)**	456	**(385,237)**
MINORITY INTERESTS IN NET INCOME OF CONSOLIDATED SUBSIDIARIES	**7**	8	**64**
NET INCOME (LOSS)	**¥ (59,831)**	¥ 225	**$ (543,918)**

	Yen		U.S. Dollars
NET INCOME (LOSS) PER COMMON SHARE—			
Net income (loss)	**¥(283.15)**	¥1.06	**$(2.57)**

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

Daiei OMC, Inc. and Consolidated Subsidiaries Years Ended February 29, 2000 and February 28, 1999

	Thousands	Millions of Yen		
	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Deficit
BALANCE, MARCH 1, 1998	211,307	\42,807	\16,222	\ (1,666)
Net income				225
BALANCE, FEBRUARY 28, 1999	211,307	42,807	16,222	(1,441)
Net loss				(59,831)
Adjustment of retained earnings for the adoption of deferred tax accounting method				17,059
Transfer to additional paid-in capital by merger			20	(20)
BALANCE, FEBRUARY 29, 2000	211,307	¥42,807	¥16,242	¥(44,233)

	Thousands of U.S. Dollars (Note 1.a)		
	Common Stock	Additional Paid-in Capital	Deficit
BALANCE, FEBRUARY 28, 1999	$389,155	$147,473	$ (13,100)
Net loss			(543,918)
Adjustment of retained earnings for the adoption of deferred tax accounting method			155,081
Transfer to additional paid-in capital by merger		182	(182)
BALANCE, FEBRUARY 29, 2000	$389,155	$147,655	$(402,119)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Daiei OMC, Inc. and Consolidated Subsidiaries Years Ended February 29, 2000 and February 28, 1999

	Millions of Yen		Thousands of U.S. Dollars (Note 1.a)
	2000	1999	**2000**
OPERATING ACTIVITIES:			
Net income (loss)	**¥ (59,831)**	¥ 225	**$ (543,918)**
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	**3,579**	4,018	**32,536**
Provision for doubtful accounts	**124,600**	30,387	**1,132,727**
Gain on sales of marketable and investment securities—net	**(9,295)**	(10,363)	**(84,500)**
Loss on devaluation of marketable and investment securities	**9,285**	3,236	**84,409**
Gain on sales of a consolidated subsidiary		(258)	
Deferred income taxes	**(42,599)**		**(387,264)**
Changes in assets and liabilities:			
Decrease in receivables	**46,974**	11,377	**427,036**
Increase in inventories	**(3,189)**	(246)	**(28,991)**
Decrease in other current assets	**3,608**	556	**32,800**
Increase in guarantee money deposited	**(201)**	(3,364)	**(1,827)**
Increase in notes and accounts payable	**1,720**	5,248	**15,636**
Increase in mortgage-backed securities transferred	**2,486**	2,396	**22,600**
Increase (decrease) in other current liabilities	**117**	(2,588)	**1,064**
Other—net	**1,447**	(7)	**13,156**
Total adjustments	**138,532**	40,392	**1,259,382**
Net cash provided by operating activities	**78,701**	40,617	**715,464**
INVESTING ACTIVITIES:			
Proceeds from sales of property and equipment	**359**	549	**3,264**
Purchases of property and equipment	**(396)**	(123)	**(3,600)**
Proceeds from sales of marketable and investment securities	**15,723**	14,563	**142,936**
Purchases of marketable and investment securities	**(1,528)**	(653)	**(13,891)**
Proceeds from sales of a consolidated subsidiary		1,092	
Other—net	**(2,086)**	(598)	**(18,964)**
Net cash provided by investing activities	**12,072**	14,830	**109,745**
FINANCING ACTIVITIES:			
Decrease in short-term borrowings—net	**(37,484)**	(84,017)	**(340,764)**
Proceeds from long-term debt	**8,787**	9,588	**79,882**
Repayments of long-term debt	**(44,958)**	(10,861)	**(408,709)**
Proceeds from liquidation of receivables	**16,568**	404	**150,618**
Other financing activities—net	**(1,110)**	(2,399)	**(10,091)**
Net cash used in financing activities	**(58,197)**	(87,285)	**(529,064)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**32,576**	(31,838)	**296,145**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**69,912**	101,750	**635,564**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥102,488**	¥ 69,912	**$ 931,709**
ADDITIONAL CASH FLOW INFORMATION:			
Interest paid	**¥ 16,512**	\ 18,353	**$ 150,109**
Income taxes paid	**140**	527	**1,273**

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.

Effective April 1, 1999, consolidated statements of cash flows are required to be prepared under Japanese accounting standards. Although the Company's fiscal year ended in February 1999, the consolidated statements of cash flows are required effective March 2000 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 \110 to $1, the approximate rate of exchange as of February 29, 2000. 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 1999 consolidated financial statements have been restated to conform with classifications adopted in 2000.

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 an allowance for doubtful accounts in consideration of collectibility of each receivable. In addition, the Companies provide an allowance for doubtful accounts using the actual provision rate reflecting the Company's historical rate of bad debt losses according to the kind of credits.

f. Marketable Securities and Investment Securities

Marketable securities and investment securities are stated at cost, except that appropriate write-downs are recorded for investments in companies which have incurred substantial losses deemed to be of a permanent nature. Cost is 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, which was disposed during fiscal year ended February 29, 2000, was computed by the straight-line method over the lease term of the asset. Depreciation of other property and equipment was computed using the declining-balance method as described in the Japanese corporation tax laws and relevant regulations. Effective March 1, 1999, the depreciation method for buildings (excluding facilities incidental to buildings) was changed to the straight-line method. The effect of the change was immaterial for the year ended February 29, 2000.

The estimated useful lives are 3 to 50 years (3 to 65 years for the year ended 1999) 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 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 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 the Travel Business

Revenues from sales of merchandise inventories such as electric appliances, furniture, household items, etc. and from the travel 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 the travel business which are operated by the Company.

(4) Other

Other income is recognized as profit on the accrual basis.

k. Income Taxes

Effective March 1, 1999, the Company has adopted an accounting method for interperiod allocation of income taxes based on the asset and liability method. The cumulative effect of the application of interperiod tax allocation in prior years in the amount of \17,059 million ($155,081 thousand) is included as an adjustment to retained earnings as of March 1, 1999. Such cumulative effect is calculated by applying the income tax rate stipulated by enacted tax laws as of February 29, 2000.

Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

l. Appropriations of Retained Earnings

Appropriations of retained earnings at each year end are reflected in the financial statements for the following year upon stockholders' approval.

m. 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.

n. 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 211,306,105 shares and 211,306,391 shares for 2000 and 1999, respectively.

No cash dividends applicable to the years ended February 29, 2000 and February 28, 1999, were declared.

2. MARKETABLE SECURITIES AND INVESTMENT SECURITIES

Marketable securities and investment securities are comprised of marketable equity securities, debt securities and other investment securities. The aggregate costs (carrying amounts) and market values as of February 29, 2000 and February 28, 1999, were as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2000			1999			**2000**		
	Carrying Amounts	Market Values	Unrealized Loss	Carrying Amounts	Market Values	Unrealized Loss	Carrying Amounts	Market Values	Unrealized Loss
Current:									
Market quotations available:									
Marketable equity securities	**¥7,368**	**¥5,334**	**¥(2,034)**	¥ 8,427	¥5,670	\(2,757)	**$66,982**	**$48,491**	**$(18,491)**
Debt securities	**372**	**372**		809	612	(197)	**3,382**	**3,382**	
Total	**7,740**	**¥5,706**	**¥(2,034)**	9,236	¥6,282	\(2,954)	**70,364**	**$51,873**	**$(18,491)**
Market quotations not available	**3**			3			**27**		
Total	**¥7,743**			¥ 9,239			**$70,391**		
Non-current:									
Market quotations available:									
Marketable equity securities	**¥2,526**	**¥2,471**	**¥ (55)**	¥ 9,756	¥2,047	¥(7,709)	**$22,963**	**$22,463**	**$ (500)**
Debt securities				83	59	(24)			
Total	**2,526**	**¥2,471**	**¥ (55)**	9,839	¥2,106	¥(7,733)	**22,963**	**$22,463**	**$ (500)**
Market quotations not available	**4,508**			9,883			**40,982**		
Total	**¥7,034**			¥19,722			**$63,945**		

Market quotations not available for securities included in investment 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 \7,000 million ($63,636 thousand) and \6,296 million as of February 29, 2000 and February 28, 1999, respectively.

3. INSTALLMENT SALES RECEIVABLE, OPERATING LOANS RECEIVABLE AND UNEARNED INCOME

Installment sales receivable, operating loans receivable and unearned income as of February 29, 2000 and February 28, 1999, consisted of the following:

	Millions of Yen				Thousands of U.S. Dollars	
	2000		1999		**2000**	
	Receivable	Unearned Income	Receivable	Unearned Income	Receivable	Unearned Income
Installment sales receivable:						
Credit card contracts	**¥110,017**	**¥1,226**	¥174,229	¥1,704	**$1,000,155**	**$11,146**
Personal credit contracts	**12,524**	**862**	12,849	865	**113,854**	**7,836**
	¥122,541		¥187,078		**$1,114,009**	
Operating loans receivable	**¥206,374**	**154**	¥385,318	338	**$1,876,127**	**1,400**
		¥2,242		¥2,907		**$20,382**

Amounts of transaction volume and realized operating revenue by type of contract for the years ended February 29, 2000 and February 28, 1999, consisted of the following:

	Millions of Yen				Thousands of U.S. Dollars	
	2000		1999		2000	
	Amounts of Transaction Volume	Realized Operating Revenue	Amounts of Transaction Volume	Realized Operating Revenue	Amounts of Transaction Volume	Realized Operating Revenue
Credit card contracts	**¥ 714,004**	**¥ 21,556**	¥ 642,833	¥ 23,086	**$ 6,490,945**	**$195,964**
Personal credit contracts	**10,244**	**996**	10,885	931	**93,127**	**9,054**
Loan contracts	**495,219**	**53,256**	521,644	52,862	**4,501,991**	**484,145**
Merchandise sales	**18,397**	**6,095**	24,154	10,310	**167,245**	**55,409**
Travel business	**28,502**	**2,797**	27,823	2,726	**259,109**	**25,427**
Other	**155,933**	**14,680**	138,165	13,742	**1,417,574**	**133,456**
	¥1,422,299	**99,380**	¥1,365,504	103,657	**$12,929,991**	**903,455**
Financial transactions		**3,260**		715		**29,636**
Total operating revenues		**¥102,640**		¥104,372		**$933,091**

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

	2000	1999
Shopping credit contracts	**11.66%−14.32%**	11.66%−14.32%
Loan contracts	**3.20 −28.80**	3.70 −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 the 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 29, 2000 and February 28, 1999, consisted of notes to banks, bank overdrafts and loans from financing institutions. The annual interest rates applicable to short-term borrowings ranged from 0.4% to 4.9% and from 0.5% to 3.5% as of February 29, 2000 and February 28, 1999, respectively.

Long-term debt as of February 29, 2000 and February 28, 1999, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Loans from banks, insurance companies and other financing institutions, maturing serially through 2005, principally 1.3% to 6.4%	**¥68,930**	\105,101	**$626,636**
Current portion included in current liabilities	**(41,386)**	(43,223)	**(376,236)**
Total	**¥27,544**	¥ 61,878	**$250,400**

The annual maturities of long-term debt outstanding as of February 29, 2000, were as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2001	\41,386	$376,236
2002	12,037	109,427
2003	14,226	129,327
2004 and thereafter	1,281	11,646
Total	\68,930	$626,636

As of February 29, 2000, installment sales receivable of \11,200 million ($101,818 thousand) and operating loans receivable of \2,752 million ($25,018 thousand) are pledged as collateral for short-term borrowings of \13,200 million ($120,000 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 29, 2000, the assets of the fund amounted to \1,845 million ($16,773 thousand).

The expense related to the employees' retirement and pension plans was \418 million ($3,800 thousand) and \412 million for the years ended February 29, 2000 and February 28, 1999, 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.

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 29, 2000, no retained earnings are 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 29, 2000 and February 28, 1999, and transactions with them for the years ended February 29, 2000 and February 28, 1999, were primarily as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	**2000**
Prepaid expenses and other current assets	**¥ 211**	\ 211	**$ 1,918**
Investment securities	**2,111**	7,768	**19,191**
Guarantee money deposited	**1,202**	1,202	**10,927**
Notes and accounts payable	**9,041**	8,931	**82,191**
Accrued expenses	**3**	213	**27**
Other long-term liabilities	**1,630**	1,601	**14,818**
Fees from customers and affiliated stores	**6,537**	7,820	**59,427**
Financial transactions—Interest income	**208**	252	**1,891**
Other revenues	**1,734**	1,734	**15,764**
Selling, general and administrative expenses	**4,791**	4,505	**43,555**
Other transactions—Sales of investment securities	**317**	971	**2,882**

9. FINANCIAL TRANSACTIONS AND EXPENSES

Financial transactions and expenses for the years ended February 29, 2000 and February 28, 1999, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	**2000**
Financial transactions:			
Interest income	**¥ 331**	\ 536	**$ 3,009**
Dividend income	**2,045**	179	**18,591**
Other	**884**		**8,036**
Total	**¥ 3,260**	\ 715	**$ 29,636**
Financial expenses:			
Interest expense	**¥15,009**	\16,580	**$136,445**
Other	**120**	88	**1,091**
Total	**¥15,129**	\16,668	**$137,536**

10. INCOME TAXES

The Companies are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rates of approximately 47% and 51% for the years ended February 29, 2000 and February 28, 1999, respectively.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets at February 29, 2000, are as follows:

February 29, 2000	Millions of Yen	Thousands of U.S. Dollars
Deferred tax assets:		
Excess of tax allowance for provision of doubtful accounts	\26,782	$243,473
Tax loss carryforwards	31,195	283,591
Others	1,818	16,527
Total	\59,795	$543,591

There is no difference between the normal effective statutory tax rate for the year ended February 29, 2000, and the actual effective tax rate reflected in the accompanying consolidated statement of operations.

As of February 29, 2000, the Company has net operating loss carryforwards of approximately ¥74,600 million ($678,182 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
2002	\ 3,000	$ 27,273
2004	4,300	39,091
2005	67,300	611,818
Total	\74,600	$678,182

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 \6,625 million ($60,227 thousand) and \6,690 million for the years ended February 29, 2000 and February 28, 1999, respectively. Such rental expenses included total lease payments of \483 million ($4,391 thousand) and \530 million for the years ended February 29, 2000 and February 28, 1999, in connection with finance leases as described in Note 1.i, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance leases, depreciation expense, interest expense of financial leases that do not transfer ownership of the leased property to the lessee on an“ as if capitalized ”basis for the year ended February 29, 2000, was as follows:

Year Ended February 29, 2000	Millions of Yen	Thousands of U.S. Dollars
Computer Equipment		
Acquisition cost	\3,064	$27,855
Accumulated depreciation	1,664	15,127
Net leased property	\1,400	$12,728

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	**2000**
Due within one year	**¥ 410**	\332	**$ 3,727**
Due after one year	**1,030**	600	**9,364**
Total	**¥1,440**	\932	**$13,091**

The imputed interest expense portion which is computed using the interest method is excluded from the above obligations under finance leases. Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statement of operations, computed by the straight-line method and the interest method were \423 million ($3,845 thousand) and \62 million ($564 thousand), respectively, for the year ended February 29, 2000.

(2) Lessor－The Companies also had a number of lease agreements, as lessor, primarily for certain industrial equipment and other assets, which were cancelable and renewable upon expiration. Rental income on such leases in connection with finance leases as described in Note 1.i was \92 million for the year ended February 28, 1999.

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 due within one year.

Receivables under finance leases include the imputed interest income portion.

There was no significant lease agreement entered into during fiscal 2000.

b. Operating Lease Transactions

Lessee－The minimum rental commitments under noncancelable operating leases at February 28, 1999, was \4 million due within one year. There is no transaction for the fiscal year ended February 29, 2000.

12. CONTINGENT LIABILITIES

As of February 29, 2000, the Companies were contingently liable as a guarantor for borrowings of customers in an amount of \4,552 million ($41,382 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 29, 2000 and February 28, 1999.

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

There are no contracts for foreign exchange for the fiscal year ended February 29, 2000.

	Millions of Yen			
	1999			
	Contract or Notional Amount			
	Total	Portion after One Year	Fair Value	Unrealized Loss
Currency swap—				
Pay—yen/receive—A$	¥2,000		¥(5)	¥(5)

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

	Millions of Yen								Thousands of U.S. Dollars			
	2000				1999				**2000**			
	Contract or Notional Amount				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 or (Loss)	Total	Portion after One Year	Fair Value	Unrealized Loss
Swap:												
Pay—fix/receive-float	**¥389,500**	**¥200,000**	**¥(16,581)**	**¥(16,581)**	¥529,350	¥429,500	¥(21,659)	¥(21,659)	**$3,540,909**	**$1,818,182**	**$(150,736)**	**$(150,736)**
Pay—float/receive-fix					14,150		860	860				
Total	**¥389,500**	**¥200,000**	**¥(16,581)**	**¥(16,581)**	\543,500	\429,500	\(20,799)	\(20,799)	**$3,540,909**	**$1,818,182**	**$(150,736)**	**$(150,736)**
Forward interest rate swap included in the above table- Pay—fix/receive—float	**¥200,000**	**¥200,000**	**¥(12,053)**	**¥(12,053)**	\200,000	\200,000	\ (9,166)	\ (9,166)	**$1,818,182**	**$1,818,182**	**$(109,573)**	**$(109,573)**

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. SEGMENT INFORMATION

Information about operations in different industry segments, foreign operations and sales to foreign customers of the Companies for the years ended February 29, 2000 and February 28, 1999, are as follows:

(1) Operations in Different Industries

Year Ended February 29, 2000	Millions of Yen				
	Financial Services	Retail Business	Other Business	General Corporate/ Eliminations, Etc.	Consolidated
a. Sales and Operating Income					
Operating revenues for customers	\ 88,430	\6,944	\ 7,266		\102,640
Intersegment operating revenues	215	43	321	\ (579)	
Total operating revenues	88,645	6,987	7,587	(579)	102,640
Operating expenses	64,129	6,661	7,507	3,420	81,717
Operating income	\ 24,516	\ 326	\ 80	\(3,999)	\ 20,923
b. Assets, Depreciation and Capital Expenditures					
Assets	\591,398	\6,181	\13,974	\ 6,162	\617,715
Depreciation	3,023	92	110	327	3,552
Capital expenditures	1,140	252	83	730	2,205

Year Ended February 28, 1999	Millions of Yen				
	Financial Services	Retail Business	Other Business	General Corporate/ Eliminations, Etc.	Consolidated
a. Sales and Operating Income					
Operating revenues for customers	¥ 85,269	¥11,307	¥ 7,796		¥104,372
Intersegment operating revenues	340	46	410	¥ (796)	
Total operating revenues	85,609	11,353	8,206	(796)	104,372
Operating expenses	73,817	10,419	7,638	3,066	94,940
Operating income	¥ 11,792	¥ 934	¥ 568	¥ (3,862)	¥ 9,432
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

Year Ended February 29, 2000	Thousands of U.S. Dollars				
	Financial Services	Retail Business	Other Business	General Corporate/ Eliminations, Etc.	Consolidated
a. Sales and Operating Income					
Operating revenues for customers	$ 803,909	$63,127	$ 66,055		$ 933,091
Intersegment operating revenues	1,955	391	2,918	$ (5,264)	
Total operating revenues	805,864	63,518	68,973	(5,264)	933,091
Operating expenses	582,991	60,554	68,246	31,091	742,882
Operating income	$ 222,873	$ 2,964	$ 727	$(36,355)	$ 190,209
b. Assets, Depreciation and Capital Expenditures					
Assets	$5,376,345	$56,191	$127,037	$ 56,018	$5,615,591
Depreciation	27,482	836	1,000	2,978	32,291
Capital expenditures	10,364	2,291	754	6,636	20,045

(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).

15. SUBSEQUENT EVENT

At the general stockholders meeting held on May 25, 2000, the Company's stockholders approved the following stock option plan for the Company's directors and key employees.

Stock Option Plan

The plan provides for granting options to directors and key employees to purchase up to 2,010,000 shares of the Company's common stock in the period from May 26, 2002 to May 25, 2005. The options will be granted at an exercise price of 105% of the fair market value of the Company's common stock at the date one-month previous to the option grant date.

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Deloitte Touche Tohmatsu

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 29, 2000 and February 28, 1999, 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 29, 2000 and February 28, 1999, 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.

As described in Note 1.k, effective March 1, 1999, the consolidated financial statements have been prepared in accordance with new accounting standards for interperiod allocation of income taxes.

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 25, 2000

Board of Directors

(Left to Right)
President and Representative Director
Hiromichi Funahashi
Chairman and Representative Director
Kazuo Nakata
Senior Managing Director and Representative Director
Hiroyuki Fukumoto

Seated (Left to Right)
Managing Directors
Yuji Yamasaki
Yoshiaki Hayashida

Standing (Left to Right)
Directors
Toshiharu Nariai
Akira Nakao
Noriyoshi Wada

(Left to Right)
Director
Shinji Ebata
Managing Director
Hisao Tsuzaki
Directors
Shigeji Yagi
Syunji Matsuno

Director
Tadashi Nakauchi

Corporate Data *(As of February 29, 2000)*

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GOTANDA OFFICE
21-1, Nishi-Gotanda 7-chome, Shinagawa-ku, Tokyo 141-8511, Japan
Telephone: 81-3-3495-8568
Facsimile: 81-3-3495-8440

DATE OF ESTABLISHMENT
September 1950

MAIN CONSOLIDATED SUBSIDIARIES
MCS Loan Management and Recovery Co., Ltd.
Main business: Debt collection and credit management
Maruko Denkiland Co., Ltd.
Main business: Sale of electric appliances

Investor Information *(As of February 29, 2000)*

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

Common Stock Price
(Tokyo Stock Exchange)

	2000		1999	
	High	**Low**	High	Low
1st quarter	**203**	**103**	220	140
2nd quarter	**625**	**171**	180	119
3rd quarter	**608**	**338**	141	92
4th quarter	**519**	**311**	139	111

Number of Stockholders
6,926

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

Transfer Agent
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