



Customer Value Chain

Financial Highlights (Five-Year Summary)

Daiei OMC, Inc. and Consolidated Subsidiaries

Years Ended February 28, 2001, February 29, 2000, and February 28, 1999, 1998 and 1997

	Millions of Yen (except per share amounts)					Thousands of U.S.Dollars (except per share amounts)
	2001	2000	1999	1998	1997	2001
For the year:						
Total operating revenues	¥ 109,400	¥ 102,640	¥104,372	¥103,983	¥ 101,117	\$ 943,103
Operating income	22,414	20,923	9,432	6,833	2,215	193,224
Income (loss) before income taxes and minority interests in net income of consolidated subsidiaries	21,564	(102,200)	689	327	(34,473)	185,897
Net income (loss)	12,324	(59,831)	225	(126)	(34,949)	106,241
Per share amounts:						
Net income (loss)	¥ 58.32	¥ (283.15)	¥ 1.06	¥ (0.60)	¥ (187.13)	\$ 0.50
At year end:						
Total assets	¥ 638,140	¥ 617,715	¥ 721,018	¥803,840	¥ 761,087	\$5,501,207
Long-term debt	58,706	27,544	61,878	95,888	83,163	506,086
Total stockholders' equity	27,374	14,816	57,588	57,363	57,489	235,983

Notes: 1. All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at the rate of ¥116=\$1, the approximate rate of exchange as of February 28, 2001. 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.

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To Our Fellow Shareholders

Credit card companies in Japan find themselves in a period of major transition due to the intense market competition brought about by the slow recovery of consumer spending and the entry into the market of newcomers from other industries. In this business environment, Daiei OMC, Inc. (DOMC) seeks to meet the needs of our card members in their daily lives—needs for merchandise, services and information—by implementing our “Customer Value Chain” strategy, which aims to establish a lifelong partnership with our card members.



To improve our card-based membership business, strengthening business operations and execution of our one-to-one marketing approach, DOMC is using database marketing to implement personalized account statements to enhance convenience for our card members as well as our card usage rate. The issuing of new affinity cards and the renewal of the OMC card design have contributed to the all-time record-high acquisition of card members—320,000 new card members since last year—for a total of 6.35 million card members in good standing by term-end.

In the previous term, to focus management resources on the financial retail business, DOMC took a one-time charge to write off delinquent receivables from corporate accounts, to build a sound corporate structure that could overcome the current severe business climate. As a result, in the first fiscal year after completion of these measures, DOMC was able to secure record-high recurring profits, significantly improving our financial standing.

DOMC is committed to absolute protection of privacy, along with our pledge to be a reliable and trustworthy corporation in the industry. We have finalized our “Corporate Code of Ethics” as our guide for action, defining the spirit of our corporate philosophy in terms of fairness and sincerity. We established a Compliance Committee in September 2000 to give further impetus to our commitment to legal and regulatory observance as well as our adherence to ethical principles.

To move ahead in implementing our “Customer Value Chain” strategy, DOMC is increasing market share by expanding OMC card membership and enhancing our card usage rate. We are taking measures to improve productivity by means of low-cost management, giving due consideration to achieving an optimum balance for our versatile risk management. We continue to take on the challenges presented by every new business opportunity, and are advancing toward an early resumption of dividend payments.

We look forward to the continued understanding and support of all of our fellow shareholders.

A handwritten signature in black ink, reading "H. Funahashi".

Hiromichi Funahashi
President and Representative Director

June 2001

Interview with the President

With the slogan “Customer Value Chain” representing its management strategy, DOMC is proud of achieving the highest growth rate in Japan’s credit card industry. We spoke with Hiromichi Funahashi, President and Representative Director, about efforts in fiscal year 2001 to implement the “Customer Value Chain” strategy, the key to DOMC’s future in the ever-changing and intensely competitive credit card market.



Q

Please give us an outline of DOMC’s business results for fiscal year 2001, along with your assessment of them.

DOMC reported record profits in fiscal year 2001. Total transactions grew 7.7% from fiscal year 2000, to reach ¥1,532 billion. Operating revenues increased by 6.6% from fiscal year 2000, to ¥109.4 billion, and recurring profits rose by 7.3%, to ¥22.1 billion. Net income improved significantly, to ¥12.3 billion, an increase of ¥72.2 billion over the net loss recorded in fiscal year 2000, when the Company wrote off delinquent receivables from corporate accounts.

Key to these favorable results was the healthy performance of the card shopping and card cash advance businesses. In addition to our existing “Hospitality Campaign Days,” we launched a commemorative



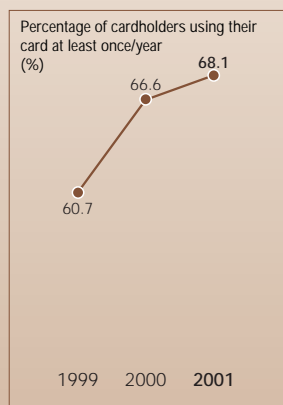
event, “50th Anniversary Special Hospitality Days,” as well. Through the renewal of the OMC card design and tactical expansion of the issuing of affinity cards, such as the “Hello Kitty Card” issued through a licensing agreement with Sanrio Co., Ltd., DOMC successfully increased card membership by 320,000 over the course of the year to reach 6,350,000 card members by term-end. Furthermore, we were able to maintain the best performance in the industry by improving the card usage rate to 68.1% by means of effective measures to promote card usage.

The momentum we carry forward, in terms of the increasing number of card members and growing card usage rate, is bringing into view a potential increase in both income and profit, with fiscal year 2002 recurring profits reaching ¥24.5 billion and net income as high as ¥13.2 billion.

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What are the strengths of DOMC that help to support its credit card business?

Card User Rate



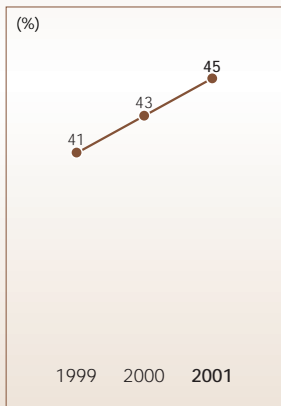
DOMC ranks sixth in the industry in terms of sales volume. There is still a slight gap between us and the No. 1 spot, but we will continue to do what it takes to close the gap. However, I believe that the strength of DOMC lies in our industry-leading card usage rate, which we aim to increase even further. We pay the closest attention to communication with our card members, maintaining their loyalty and thus the strength of our brand. In other words, the card is not positioned for our customers merely as a payment instrument. Rather, DOMC is building a lifelong partnership with our card members by meeting the needs of their daily lives and winning their confidence through provision of merchandise, services and information not only from DOMC, but which also include value-added items offered at every good opportunity through our alliances with other companies. Implementing our “Customer Value Chain” strategy will allow us to maintain high growth. This distinctive

business strategy is DOMC's key asset, and it cannot be found elsewhere in the industry.

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What plans do you have for business relationships with companies outside the Daiei Group?

Daiei Group External Transaction Rate



By taking full advantage of our industry-leading one-to-one marketing approach, card use promotion strategies, and techniques for increasing card membership, which have been developed within the Daiei Group, DOMC is moving aggressively to identify every potential business opportunity with companies outside the Group. In initiating relationships with new affiliated merchants, DOMC is focusing its efforts on agreements with large commercial establishments such as Ginza Hyakutenkai, the commercial organization that manages a shopping area which includes more than 100 individual merchants in Tokyo's prestigious Ginza district. As for affinity cards, the one that we launched along with TSUBASA SYSTEM CO., LTD., a specialist in road and automobile support services, is yielding a positive response. In fiscal year 2001, the card shopping business remained strong, with distinguished performance at non-group affiliated merchants, which achieved year-on-year growth of 119%, exceeding the overall growth rate.

In an effort to stabilize operating revenue and maintain high growth potential, we will continue to implement strategies to increase the share of business at non-group affiliated merchants beyond the current 45%.





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Please give us your perspective on how to distinguish DOMC from its competitors, and to enhance satisfaction among card members and customers.

In September 2001, DOMC will launch the CRM Center for card processing services. A first in the industry, this next-generation Center is designed to integrate the functions of a cost center, a risk management center and a profit center, and will generate added value and improve card member satisfaction. Our card service initiatives extend beyond the realm of the traditional. We emphasize the inclusion of services closely matched to the daily needs of our card members, such as road and automobile support services, a medical information service, and many others. We will continue to give our best efforts to the creation of new, customized ideas that will enhance convenience for our card members, always true to the keywords, "friendly and reliable."

Q

Please brief us on how DOMC is going to address the increasing importance of investor relations (IR).

With today's environment of market globalization, demand is increasing for active disclosure of accurate corporate information and accountability in terms of current management and future outlook, in order to enable rational evaluation in the stock markets. DOMC is emphasizing the principle of management transparency and making continual progress in providing investors with timely information through our website and openly disclosing our business performance on a quarterly basis. In addition, investors will be able to learn more about DOMC through on-site visits to our CRM Center as well as by taking part in our corporate orientation meetings.

With the introduction of international accounting standards, current value accounting is now being used to assess corporate value. DOMC will continue to do its utmost to return profits to shareholders in proportion to its ability to increase management efficiency and achieve a high-profit structure.

Business Strategies

Implementing our “Customer Value Chain” Strategy

The realization of our “Customer Value Chain” strategy is premised on the principal foundation of our card-based membership business. DOMC is striving to build a lifelong partnership with our card members by meeting the needs of their daily lives—needs for merchandise, services and information—thus constantly strengthening the OMC brand.

Diversifying Communication Channels



DOMC made significant progress in enhancing its card retention rate in fiscal year 2001 by increasing possible points of contact and diversifying modes of access in communication with card members. Contact points with card members now include our call center, called the “OMC Service Center,” as well as the “OMC Plaza” and “Card Counter” facilities located at large retail outlets, such as Daiei, as in-store tenants.

In addition, our card members can make full use of our enhanced virtual channels for communication, accessible 24 hours a day, 365 days a year. In particular, DOMC has launched Internet provider services through the online portal, “*e-colle! NET*”. The portal enables customers to make domestic hotel reservations via *OMC Hotel Net*, enroll in driving schools, and receive comparative quotations for automobile insurance. OMC card members can also access their account information via i-mode mobile phone or the DOMC home page. DOMC’s subsidiary BLOCKLINE, Inc. operates the online portal, “*e-colle! NET*”. Thanks to the strategic integration of content since its launch in April 2000, “*e-colle! NET*” has become the third most accessed portal site in Japan for women in their 20s and 30s. We will continue to explore the addition of more appealing content to meet the needs of users.

To respond even more quickly and accurately to the nearly seven million telephone inquiries from card members we receive every year, we are enhancing the functions and system environment of the OMC Service Center. The system environment is being improved to integrate 24-hour automated voice response with other functions and to optimize staffing by time and day, aiming to increase the percentage of calls answered without reducing the level of service provided to each individual card member.



Enhancing Communication Tools

The highest priority for DOMC's business operations is the enhancement of database marketing. With a view to developing ongoing, long-term relationships with its card members by meeting the needs of their daily lives for merchandise, services and information, DOMC is doing its utmost in the area of one-to-one marketing. In November 2000, DOMC started issuing personalized account statements and is now able to design and deliver messages best suited to individual card members.

These messages come in 600 basic formats and can be tailored according to the characteristics of the individual card member.



Messages delivered may include the latest information on affiliated merchants near the card member and sales information from individual Daiei stores. The personalized account statement has met with great success in enhancing the OMC card usage rate.

A survey revealed that nearly 90% of our card members read their personalized account statements, demonstrating the high precision of DOMC's database marketing. At DOMC, we understand that our members see OMC cards as an indispensable part of their daily lives, so we will enhance communication by making personalized account statements even more personal.



Developing New Card Member Segments

Placing strategic emphasis on expanding the number of card members who are women, DOMC launched the “Hello Kitty OMC Card” in June 2000. This card has been well received, especially by women in their 20s and 30s, and has contributed to the all-time record-high acquisition of card members registered during the term under review.

DOMC also launched several other cards to develop new card member segments. The “ETC Card” and the “CAR CONVENIENCE CLUB CARD” are designed to provide car owners with a secure and comfort-

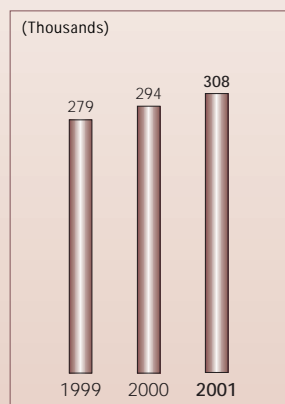
able car ownership experience. In sports and leisure, the “ORANGE ONE CARD” is a dual-function card, serving also as a sports club membership card. The “MasterCard® 2002 FIFA World Cup™ OMC Lawson Card” targets the segment



of soccer fans. The “e-colle.com Card” is dedicated to the segment of Internet users. In line with the implementation of our “Customer Value Chain” strategy, DOMC constantly explores opportunities to launch new cards by forming alliances with high potential business partners in various fields, aiming to secure market preeminence. DOMC’s business foundation and sales revenue are also being enhanced by aggressive measures to identify new affiliated merchants among the commercial organizations that manage large-scale shopping facilities such as train station buildings and underground arcades. We are also seeking partnerships with express delivery services.

In fiscal year 2001, DOMC secured new card member segments by capitalizing on opportunities for alliance beyond the Daiei Group with non-group companies. DOMC’s business foundation is being enhanced by continual efforts to increase the issuance of affinity cards and apply the segment approach to gaining new card members.

Number of Affiliated Stores



The basic policy of DOMC is to maximize revenues while minimizing risk. A robust and stable data management infrastructure has been constructed that integrates handling of all aspects of business from marketing to risk management. DOMC's risk management system is regarded as the best in the industry.

Credit Assessment

Credit card companies affiliated with the retail industry are required to deliver high application approval rates as well as quick screening times. The DOMC Card Center addresses the need for high speed and accuracy with due consideration for maintaining the right balance between increasing the number of cards issued and risk management. We have introduced an "Application Scoring System" to conduct automated initial credit ratings based on data from card applications. Risk management is carried out through utilization of third party credit bureaus and overseen by well-trained, experienced risk management supervisors.

DOMC was an early subscriber to "Terra Net," a respected third party credit bureau in Japan. Our accessibility to credit information enables increased application approval rates as well as control of delinquent accounts, distinguishing DOMC from others in the industry.

Card applications are received personally by the 93 OMC Plaza outlets and the 128 Card Counters located nationwide. Credit assessments are conducted at the Card Center, and cards can be issued almost instantly, within 30 minutes. This is convenient for card applicants and facilitates the immediate use of the card at the merchant location where the application is received.

DOMC is the only credit card company in Japan with the capacity to process 17,000 credit card applications a day, both quickly and accurately.



Credit Monitoring

Credit monitoring is conducted at the Credit Monitoring Center, which is entrusted with various important risk management tasks. Based on the credit history of card members, the Center strives to identify in advance possible deterioration of personal credit information, thus preventing risk before it occurs. With the aim of contributing to increased revenues, the Center also applies flexible measures to identify card members in good standing and to optimize their available credit lines.

The Credit Monitoring Center systematically enhances the operation of credit monitoring. The “Telelist Automatic Cleaning System” (TACS) is used to identify address changes via monitoring of telephone line installation data. TACS has achieved phenomenal success in reducing the undelivered postal return rate of renewed cards, account statements, and other mailings to 0.06% (i.e., 1,500 returns for every 2.5 million items).

The “Behavior Management System” (BMS) and “Behavior Scoring System” (BSS) are used to enhance monitoring of the credit behavior of card members to enable early identification of potential risk.

In 1999, DOMC introduced “Falcon,” a fraud detection system. With effective formatting of expert rules on alerts generated by Falcon’s fraud scoring system and fraud trend values, the fraud loss rate due to unauthorized account usage and counterfeit cards was significantly improved in fiscal year 2001.

Furthermore, “HAWKS” was introduced in June 2001 to monitor card usage and card fraud at merchant outlets. This system works in synergy with Falcon to improve fraud monitoring, and is capable of identifying potential card fraud at individual merchant outlets in Japan and on a single card basis.

With the expertise we have accumulated in credit monitoring, DOMC is working to establish a risk database equipped with a marketing function for use in potential new marketing strategies.

Collection

Integrated risk management is achieved at Collection Centers using the “Auto-Calling System,” enhanced collection techniques, and efficient manpower management of part-time employees. In September 2001, DOMC is scheduled to release our “New Collection System,” developed through accumulated in-house expertise, to enhance the speed and volume of our collection operations.

Credit card companies can aggressively expand business when supported by good collection capabilities. DOMC aims to enhance our collection capabilities while demonstrating our creativity in entering new markets.

DOMC is simultaneously strengthening business operations and improving risk management. We are seeking to win even greater confidence and trust among our card members and affiliated merchants in order to deepen the penetration of the OMC brand. By implementing our “Customer Value Chain” strategy, DOMC is taking on the challenges required to develop a sound and stable business foundation and to help enrich of the lives of our card members with our OMC cards in the 21st century.

Environmental Initiatives

“OMC Ecology Card”

Working in cooperation with the Defense of Green Earth Foundation to address environmental protection issues, DOMC has issued the “OMC Ecology Card” since January 1991 with the full support of our card members who are concerned with environmental protection.

“OMC Ecology Card” is the general name given to credit cards issued with 20 environmental themes such as “Control Global Warming,” “Protect Nature in Okhotsk” and others. DOMC contributes 0.5% of the total amount of purchases by card members using

these cards to environmental protection research organizations related to the theme chosen by the card member.

The themes of the “OMC Ecology Card” cover a wide range of local and global environmental issues. These credit cards support environmental protection activities and are used by more than 41,000 card members at present. Total contributions over the last 10 years approach ¥300 million.



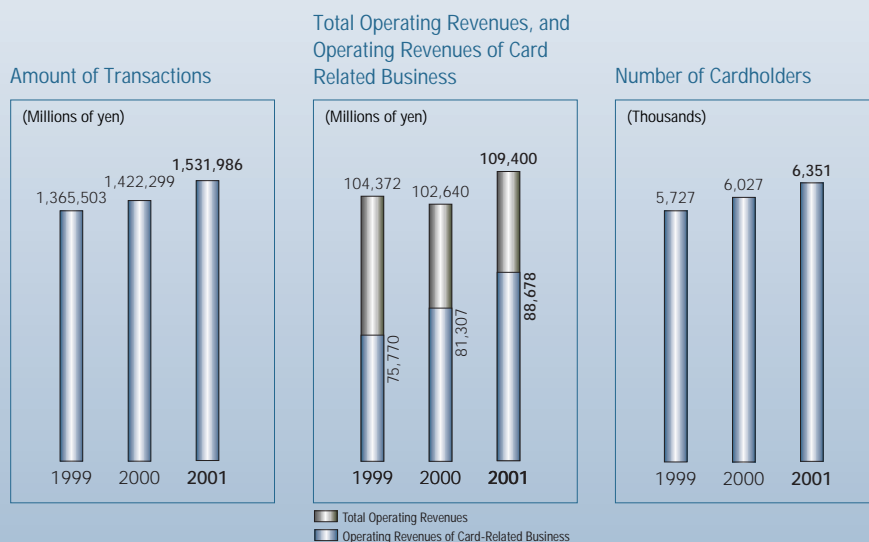
Revenues and Earnings

The fiscal year ended February 2001 marked the 50th anniversary since our foundation. In this commemorative year, we launched several programs to strengthen marketing. First among these was the adoption of a design that spotlighted the widespread access our cards offer and their international nature. We designated the 23rd of every month as "Hospitality Campaign Day," in a move to stimulate *Membership Business* and launched a program that designated the first Sunday of the month as the "50th Anniversary Special Hospitality Day." We rounded off these programs with the "V2 Victory Campaign" to commemorate the Daiei Hawks' second consecutive victory as Pacific League champions.

On the marketing front, we diversified our card marketing channels and also launched "One-to-One Marketing." This enhances member convenience by offering the more personalized invoicing services made possible by database marketing.

The success of these initiatives became clearly apparent as consolidated operating revenues increased 6.6% from the previous fiscal year, to ¥109,400 million (\$943,103 thousand).

Operating expenses rose 6.4%, to ¥86,986 million (\$749,879 thousand). Among operating expenses, selling, general and administrative expenses swelled by ¥3,854 million (\$33,224 thousand), as we stepped up sales promotion to bolster our cardholder base and enhance card utilization rates. Financing-related expenses increased by ¥1,415 million (\$12,198 thousand). Expenses



related to the interest rate swaps we use to stabilize financing costs also expanded.

Operating income rose 7.1%, to ¥22,414 million (\$193,224 thousand).

Among other non-operating expenses (net), the impairment loss on devaluation of marketable securities and investment securities amounted to ¥916 million (\$7,897 thousand). We also appropriated ¥119,383 million to the bad debt reserve to finally resolve the issue of bad debt to corporate clients.

Net income rose sharply, to ¥12,324 million (\$106,241 thousand).

Operating Results by Segment

Credit Cards

We took a series of initiatives to increase the number of OMC credit card holders. These included issuing the “e.colle.com Card,” a secure card covered by Internet insurance, and the first of its type in Japan. We also issued “OMC Card (Hello Kitty)” and a “Hello Kitty Card” carrying the highly popular *Hello Kitty* design, under a licensing agreement with Sanrio Co., Ltd. The “OMC Campal Card (Hello Kitty)” was issued to target students. Other new credit cards included the “MasterCard® 2002 FIFA World Cup™ OMC Lawson Card,” carrying the official 2002 World Cup design and the “Daiei Hawks V2 Card,” commemorating the Daiei Hawks’ repeat

victory as Pacific League champions. Aggressive efforts to expand the network of shops honoring our cards saw the number of member shops grow by 14,000 from the end of the previous fiscal year, to approximately 308,000 stores.

In addition, chain expansion strategy during the year focused on enhancing customer convenience. Daiei OMC also entered into agreements with 13 more regional banks that opened up access to their ATMs to our cardholders. As a result, the number of CDs and interlinked ATMs increased by 7,000 units from the previous fiscal year-end to approximately 94,000 units, raising the revenue from loans, including card cashing, by 10.1%, to ¥58,614 million (\$505,293 thousand).

Overall, operating income from our credit card-related business rose 6.9%, to ¥26,200 million (\$225,862 thousand), on a revenue gain of 7.9% to ¥95,408 million (\$822,483 thousand).

Finance and Other Services

The Travel Division offered domestic and overseas discount package tours to commemorate the 50th anniversary of the foundation of the Company, plus a “Summer Special” in May 2000 that featured travel coupons worth ¥100 million (\$862 thousand). To leverage the opportunities presented by the growing popularity of Internet, we set up two websites: *OMC Travel*, and *OMC Hotel Net*. The

former enables customers to make travel bookings and the latter to reserve hotels over the Internet. The success of these initiatives was underscored by revenue growth of 7.3%, to ¥3,003 million (\$25,888 thousand).

The Mail-Order Division issued a 50th anniversary catalog, *"Lifestyle Design."* Its special offers of furniture and other interior products at discount rates, however, pushed down profit of merchandise sales, including mail-order sales, by 3.4%, to ¥5,889 million (\$50,767 thousand).

As a result, overall finance and other service-related operating income fell 63.2%, to ¥149 million (\$1,285 thousand), as operating revenues declined 1.5%, to ¥13,992 million (\$120,620 thousand).

Total Assets at Year-End

Total assets as of February 28, 2001 were ¥638,140 million (\$5,501,207 thousand), an increase of 3.3% from the prior year. Investments and others assets declined by ¥20,379 million (\$175,681 thousand), due mainly to a drop in bad debt. On the contrary, total current assets rose by ¥38,549 million (\$332,319 thousand), mainly because of growth in consumer installment credit and cashing services.

Cash Flows

Net cash used in operating activities totaled ¥24,920 million (\$214,828 thousand), a decrease of ¥121,034 million (\$1,043,397 thousand) from the previous fiscal year. The main source of the decline was a sharp rise in loan collections, since the last day of the previous fiscal year was a bank holiday, and increases in the outstanding balances in consumer installment credits and card cashing.

Net cash used in investing activities fell by ¥16,059 million (\$138,440 thousand), to ¥4,832 million (\$41,655 thousand). A drop in proceeds from sales of marketable securities and investment securities compared with the previous fiscal year, combined with an increase in payments for acquisition of fixed assets, was the principal factor behind the decrease in cash from investing activities.

Net cash provided by financing activities increased by ¥88,225 million (\$760,560 thousand), to ¥13,460 million (\$116,035 thousand). The primary items contributing to net cash provided by financing activities were a sharp rise in long-term loans as compared with the previous fiscal year and commercial paper issues to finance additional consumer installment credit.

Total cash and cash equivalents at the fiscal year-end decreased by ¥16,284 million (\$140,379 thousand). Combined with a ¥410 million (\$3,534

thousand) increase in cash and cash equivalents resulting from expansion of the scope of consolidation, cash and cash equivalents at the end of the term were ¥86,458 million (\$745,328 thousand).

Financial Policy

Daiei OMC recognizes strengthening finances to be a central management concern. We are therefore committed to reinforcing our financial foundations, enhancing our credit rating and optimizing corporate value.

In the fiscal year ended February 2001, we focused on direct financing, principally through commercial paper, to meet the needs of our expanding card business. Commercial paper issues during the period totaled ¥259,500 million (\$2,237,069 thousand), and the outstanding balance of commercial paper at the end of the fiscal year was ¥35,500 million (\$306,034 thousand).

In February 2001, we also increased the ceiling on commercial paper issues from ¥50,000 million (\$431,034 thousand) to ¥100,000 million (\$862,069 thousand) to allow us to raise funds more flexibly.

In March 2000, as part of our program to diversify and stabilize funding sources, we became the first company in Japan to securitize credit card installment payment claims that were rated by a

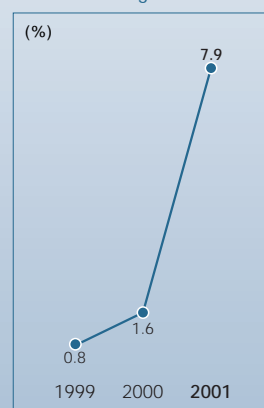
credit rating firm. A special purpose company (SPC) was established to securitize credits and raise funds from financial institutions. Securitized loan claims carried Moody's highest rating, Aaa.

These actions raised the ratio of direct financing in our total financing to 7.9% in the fiscal year ended February 2001.

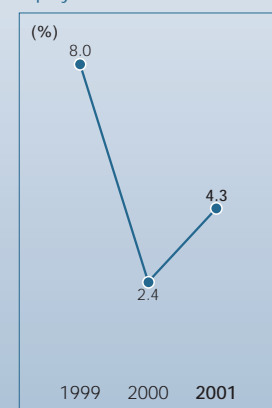
Plans call for raising the weight of direct financing further. The target for the fiscal year ending in February 2002 is 20%.

We plan to continue to slim the balance sheet through securitization, to enhance management efficiency, raise the equity ratio and, in turn, raise return on assets.

Direct Financing Ratio



Equity Ratio



Consolidated Balance Sheets

Daiei OMC, Inc. and Consolidated Subsidiaries
February 28, 2001 and February 29, 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 1.a)
ASSETS	2001	2000	2001
CURRENT ASSETS:			
Cash and cash equivalents	¥ 86,458	¥ 102,332	\$ 745,328
Marketable securities (Notes 2 and 8)	9,600	7,743	82,759
Notes and accounts receivable	1,004	1,123	8,655
Installment sales receivable (Notes 3 and 5)	141,286	122,541	1,217,983
Operating loans receivable (Notes 3 and 5)	232,478	206,374	2,004,121
Mortgage loans receivable (Note 4)	35,600	35,600	306,897
Inventories	7,809	4,840	67,319
Deferred tax assets (Note 10)	6,086	494	52,466
Prepaid expenses and other current assets	16,248	17,855	140,067
Allowance for doubtful accounts	(6,854)	(7,736)	(59,086)
Total current assets	529,715	491,166	4,566,509
PROPERTY AND EQUIPMENT:			
Buildings and structures	5,151	3,473	44,405
Equipment	859	735	7,406
Land	9,833	8,451	84,767
Total	15,843	12,659	136,578
Accumulated depreciation	(3,473)	(2,544)	(29,940)
Net property and equipment	12,370	10,115	106,638
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 2 and 8)	4,588	7,034	39,552
Long-term operating loans receivable, less allowance for doubtful accounts of ¥31,027 million (\$267,474 thousand) in 2001 and ¥88,490 million in 2000	11,255	20,462	97,026
Guarantee money deposited	13,703	8,741	118,129
Deferred tax assets (Note 10)	44,415	59,301	382,888
Other	22,094	20,896	190,465
Total investments and other assets	96,055	116,434	828,060
TOTAL	¥638,140	¥617,715	\$5,501,207

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1.a)
LIABILITIES AND STOCKHOLDERS' EQUITY	2001	2000	2001
CURRENT LIABILITIES:			
Short-term borrowings (Note 5)	¥441,261	¥436,039	\$3,803,974
Current portion of long-term debt (Note 5)	19,041	41,386	164,147
Notes and accounts payable (Note 8)	28,830	27,195	248,534
Accrued expenses	6,061	5,218	52,250
Income taxes payable	125	188	1,078
Mortgage-backed securities transferred (Note 4)	28,296	34,869	243,931
Deferred revenue (Note 3)	2,040	2,242	17,586
Other current liabilities	22,771	24,531	196,302
Total current liabilities	548,425	571,668	4,727,802
LONG-TERM LIABILITIES:			
Long-term debt (Note 5)	58,706	27,544	506,086
Liability for severance payments (Note 6)	895	994	7,716
Other long-term liabilities	2,580	2,532	22,241
Total long-term liabilities	62,181	31,070	536,043
MINORITY INTERESTS	160	161	1,379
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	369,026
Additional paid-in capital		16,242	
Treasury stock	(0)	(0)	(0)
Accumulated deficit	(15,433)	(44,233)	(133,043)
Total stockholders' equity	27,374	14,816	235,983
TOTAL	¥638,140	¥617,715	\$5,501,207

Consolidated Statements of Operations

Daiei OMC, Inc. and Consolidated Subsidiaries
Years Ended February 28, 2001 and February 29, 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 1.a)
	2001	2000	2001
OPERATING REVENUES (Note 3):			
Fees from customers and affiliated stores	¥ 22,817	¥ 22,552	\$196,698
Personal and corporate loan revenues	58,614	53,256	505,293
Profit from merchandise sales	5,889	6,095	50,767
Travel business revenues	3,003	2,797	25,888
Financial transactions (Note 9)	2,667	3,260	22,991
Other revenues	16,410	14,680	141,466
Total operating revenues	109,400	102,640	943,103
OPERATING EXPENSES:			
Selling, general and administrative expenses	70,442	66,588	607,259
Financial expenses (Note 9)	16,544	15,129	142,620
Total operating expenses	86,986	81,717	749,879
OPERATING INCOME	22,414	20,923	193,224
OTHER INCOME (EXPENSES):			
Gain on sales of investment securities—net	766	8,411	6,604
Loss on devaluation of marketable and investment securities	(916)	(9,285)	(7,897)
Write-off of operating loans		(119,383)	
Other—net	(700)	(2,866)	(6,034)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS IN NET INCOME OF CONSOLIDATED SUBSIDIARIES	21,564	(102,200)	185,897
INCOME TAXES (Note 10):			
Current	161	223	1,388
Deferred	9,169	(42,599)	79,043
Total	9,330	(42,376)	80,431
MINORITY INTERESTS IN NET INCOME (LOSS) OF CONSOLIDATED SUBSIDIARIES	(90)	7	(775)
NET INCOME (LOSS)	¥ 12,324	¥ (59,831)	\$106,241
NET INCOME (LOSS) PER COMMON SHARE (Note 1.n)	¥58.32	¥ (283.15)	\$0.50

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

Daiei OMC, Inc. and Consolidated Subsidiaries
Years Ended February 28, 2001 and February 29, 2000

	Thousands	Millions of Yen		
	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Deficit
BALANCE, MARCH 1, 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)
Net income				12,324
Transfer of additional paid-in capital			(16,242)	16,242
Adjustment of deficit for newly applied equity method company				234
BALANCE, FEBRUARY 28, 2001	211,307	¥ 42,807	Nil	¥ (15,433)

	Thousands of U.S. Dollars (Note 1.a)		
	Common Stock	Additional Paid-in Capital	Deficit
BALANCE, FEBRUARY 29, 2000	\$369,026	\$140,017	\$(381,318)
Net income			106,241
Transfer of additional paid-in capital		(140,017)	140,017
Adjustment of deficit for newly applied equity method company			2,017
BALANCE, FEBRUARY 28, 2001	\$369,026	Nil	\$(133,043)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Daiei OMC, Inc. and Consolidated Subsidiaries
Years Ended February 28, 2001 and February 29, 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 1.a)
	2001	2000	2001
OPERATING ACTIVITIES:			
Income (loss) before income taxes and minority interests	¥ 21,564	¥(102,200)	\$ 185,897
Adjustments for:			
Income taxes—paid	(223)	(140)	(1,922)
Depreciation and amortization	1,899	3,579	16,371
Provision for doubtful accounts	(882)	5,217	(7,604)
Write-off of operating loans		119,383	
Gain on sales of investment securities—net	(766)	(8,411)	(6,604)
Loss on devaluation of marketable and investment securities	916	9,285	7,897
Changes in assets and liabilities, net of effects from consolidating previously unconsolidated subsidiaries:			
(Increase) decrease in receivables	(39,128)	60,672	(337,310)
(Increase) decrease in inventories	943	(3,189)	8,129
Decrease in other assets	476	7,324	4,104
Increase in guarantee money deposited	(4,957)	(201)	(42,733)
Increase in notes and accounts payable	1,634	1,720	14,086
Increase (decrease) in mortgage-backed securities transferred	(6,574)	2,486	(56,673)
Increase (decrease) in other liabilities	(146)	34	(1,259)
Other—net	324	555	2,793
Total adjustments	(46,484)	198,314	(400,725)
Net cash provided by (used in) operating activities	(24,920)	96,114	(214,828)
INVESTING ACTIVITIES:			
Proceeds from sales of property and equipment	56	359	483
Purchases of property, equipment and software	(5,291)	(2,190)	(45,612)
Proceeds from sales of investment securities	2,932	13,425	25,276
Purchases of investment securities	(2,988)	(75)	(25,759)
Other—net	459	(292)	3,957
Net cash provided by (used in) investing activities	(4,832)	11,227	(41,655)
FORWARD	¥(29,752)	¥ 107,341	\$(256,483)

	Millions of Yen		Thousands of U.S. Dollars (Note 1.a)
	2001	2000	2001
FORWARD	¥ (29,752)	¥107,341	\$(256,483)
FINANCING ACTIVITIES:			
Increase (decrease) in short-term borrowings—net	5,222	(37,484)	45,018
Proceeds from long-term debt	51,843	8,787	446,922
Repayments of long-term debt	(43,026)	(44,958)	(370,914)
Other—net	(579)	(1,110)	(4,991)
Net cash provided by (used in) financing activities	13,460	(74,765)	116,035
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	8		69
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(16,284)	32,576	(140,379)
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR	410		3,534
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	102,332	69,756	882,173
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 86,458	¥102,332	\$ 745,328
NONCASH ACTIVITIES:			
Consolidation of previously unconsolidated subsidiary (Note 1.b):			
Assets	¥ 22,504		\$ 194,000
Liabilities	120		1,034

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Daiei OMC, Inc. and Consolidated Subsidiaries
Years Ended February 28, 2001 and February 29, 2000

1. SIGNIFICANT ACCOUNTING 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, a consolidated statement of cash flows is required to be prepared under Japanese accounting standards, and such statement for the year ended February 28, 2001 is presented herein. The consolidated statement of cash flows for the year ended February 29, 2000 is also presented herein.

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. Certain amounts in the 2000 consolidated financial statements have been restated to conform with classifications adopted in 2001.

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 ¥116 to \$1, the approximate rate of exchange as of February 28, 2001. 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.

b. Consolidation

The consolidated financial statements as of February 28, 2001, include the accounts of the Company and its 13 significant (12 in 2000) subsidiaries.

Effective March 1, 2000, the Company changed its consolidation scope of subsidiaries and associated companies from the application of the ownership concept to the control or influence concept in accordance with the new accounting standard for consolidation. Under the control or influence concept, those companies in which the Company directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Company has the ability to exercise significant influence are accounted for by the equity method.

The consolidated financial statements for the year ended February 29, 2000, are not retroactively adjusted for the change in the consolidation policy. The change of retained earnings arising from the change in the scope of associated companies is recognized as "Adjustment of deficit for newly applied equity method company" in the consolidated statement of stockholders' equity for the year ended February 28, 2001.

Investments in associated company are accounted for by the equity method. Investments in unconsolidated subsidiaries are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The cost in excess of net assets of subsidiaries and associated companies at the time of acquisition which cannot be specifically assigned to individual assets is amortized on the straight-line basis over five years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Companies are also eliminated.

c. Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, all of which mature or become due within three months of the date of acquisition.

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 allowance for doubtful accounts is stated based on the Companies' past credit loss experience by type of credits and an evaluation of potential losses on outstanding receivables.

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 are stated at cost. Depreciation is computed by the declining-balance method while the straight-line method is applied to buildings (excluding facilities incidental to buildings). The range of useful lives is from 3 to 50 years for buildings and structures and from 3 to 20 years for equipment.

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 prior plan was fully transferred to the funded pension plan. The excess liability for severance payments is being reversed over the same period as the 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 severance payment 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.

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 basis 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 related 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 from 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) 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 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 is operated by the Company.

k. Income Taxes

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, while long-term receivables and payables denominated in foreign currencies are translated at historical rates.

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 211,306,046 shares and 211,306,105 shares for 2001 and 2000, respectively.

Diluted net income per share is not disclosed because the average fair value of the Company's common stock was less than the stock options exercise price in fiscal 2001 and because of the net loss of the Companies in fiscal 2000.

No cash dividends applicable to the years ended February 28, 2001 and February 29, 2000, 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 28, 2001 and February 29, 2000, were as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2001			2000			2001		
	Carrying Amounts	Market Values	Unrealized Gain (Loss)	Carrying Amounts	Market Values	Unrealized Loss	Carrying Amounts	Market Values	Unrealized Gain (Loss)
Current:									
Listed securities:									
Marketable equity securities	¥9,600	¥6,884	¥(2,716)	¥7,368	¥5,334	¥(2,034)	\$82,759	\$59,344	\$(23,413)
Debt securities				372	372				
Total	9,600	¥6,884	¥(2,716)	7,740	¥5,706	¥(2,034)	82,759	\$59,344	\$(23,413)
Non-listed securities				3					
Total	¥9,600			¥7,743			\$82,759		
Non-current:									
Listed securities-marketable									
equity securities	¥ 406	¥ 440	¥ 35	¥2,526	¥2,471	¥ (55)	\$ 3,500	\$ 3,793	\$ 301
Non-listed securities	4,182			4,508			36,052		
Total	¥4,588			¥7,034			\$39,552		

Non-listed securities included in investment securities mainly consists of equity securities for which there is no readily-available market from which to obtain or calculate the market value thereof.

As of February 28, 2001, marketable securities include equity securities borrowed by an outside party for financing purposes in an amount of ¥5,870 million (\$50,603 thousand).

3. INSTALLMENT SALES RECEIVABLE, OPERATING LOANS RECEIVABLE AND DEFERRED REVENUE

Installment sales receivable, operating loans receivable and deferred revenue as of February 28, 2001 and February 29, 2000, consisted of the following:

	Millions of Yen				Thousands of U.S. Dollars	
	2001		2000		2001	
	Receivable	Deferred Revenue	Receivable	Deferred Revenue	Receivable	Deferred Revenue
Installment sales receivable:						
Credit card contracts	¥129,993	¥1,219	¥110,017	¥1,226	\$1,120,629	\$10,508
Personal credit contracts	11,293	750	12,524	862	97,354	6,466
	¥141,286		¥122,541		\$1,217,983	
Operating loans receivable	¥232,478	71	¥206,374	154	\$2,004,121	612
		¥2,040		¥2,242		\$17,586

Amounts of transaction volume and realized operating revenue by type of contract for the years ended February 28, 2001 and February 29, 2000, consisted of the following:

	Millions of Yen				Thousands of U.S. Dollars	
	2001		2000		2001	
	Transaction Volume	Operating Revenue	Transaction Volume	Operating Revenue	Transaction Volume	Operating Revenue
Credit card contracts	¥ 792,109	¥ 21,810	¥ 714,004	¥ 21,556	\$ 6,828,526	\$188,017
Personal credit contracts	8,988	1,007	10,244	996	77,483	8,681
Loan contracts	522,519	58,614	495,219	53,256	4,504,474	505,293
Merchandise sales	20,152	5,889	18,397	6,095	173,724	50,767
Travel business	31,247	3,003	28,502	2,797	269,371	25,888
Other	156,972	16,410	155,933	14,680	1,353,206	141,466
	¥1,531,987	106,733	¥1,422,299	99,380	\$13,206,784	920,112
Financial transactions		2,667		3,260		22,991
Total operating revenues		¥109,400		¥102,640		\$943,103

4. MORTGAGE LOANS RECEIVABLE AND MORTGAGE-BACKED SECURITIES TRANSFERRED

a. Mortgage Loans Receivable

The Companies provide financing to borrowers on condition of mortgaging with the special agreement that mortgage-backed securities are issuable. The Companies then register the mortgage-backed securities with the registry office.

b. Mortgage-backed Securities Transferred

Mortgage-backed securities transferred are securities that have been subdivided and sold to customers under repurchase agreements, usually within one year. The Companies earn the difference between interest financing and interest on subdivided securities transferred net of applicable costs.

5. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings as of February 28, 2001 and February 29, 2000, consisted of notes to banks, bank overdrafts, loans from financing institutions and commercial paper. The annual interest rates applicable to short-term borrowings ranged from 0.6% to 5.0% and from 0.4% to 4.9% as of February 28, 2001 and February 29, 2000, respectively.

Long-term debt as of February 28, 2001 and February 29, 2000, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Loans from banks, insurance companies and other financing institutions, maturing serially through 2006, bearing interest of 1.4% to 4.9%	¥ 77,747	¥ 68,930	\$ 670,233
Current portion included in current liabilities	(19,041)	(41,386)	(164,147)
Total	¥ 58,706	¥ 27,544	\$ 506,086

The annual maturities of long-term debt outstanding as of February 28, 2001, were as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2002	¥19,041	\$164,147
2003	20,986	180,914
2004	33,798	291,362
2005	2,444	21,069
2006 and thereafter	1,478	12,741
Total	¥77,747	\$670,233

As of February 28, 2001, installment sales receivable of ¥1,000 million (\$8,621 thousand) and operating loans receivable of ¥38,631 million (\$333,026 thousand) are pledged as collateral for short-term borrowings of ¥21,000 million (\$181,034 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 based on the basic rates of pay at the time of termination, length of service and conditions under which the termination occurs.

As of February 28, 2001, the assets of the fund amounted to ¥2,187 million (\$18,853 thousand).

The expenses related to the employees' retirement and pension plans were ¥416 million (\$3,586 thousand) and ¥418 million for the years ended February 28, 2001 and February 29, 2000, 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 provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other cash payments which are made as an appropriation of retained earnings applicable to each fiscal period shall be appropriated and set aside as a legal reserve until such 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 Code permits to transfer portions of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Code also permits to transfer portions of unappropriated retained earnings, available for dividends, to stated capital by resolution of the stockholders.

Under the Code, the Companies may issue new common shares to existing stockholders without consideration as a stock split pursuant to resolution of the Board of Directors. The Companies 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 28, 2001, no retained earnings are available for future dividends.

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.

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 ¥404 (\$3.48).

8. RELATED PARTY TRANSACTIONS

Transactions with unconsolidated subsidiaries and the parent company of the Company, The Daiei, Inc., for the years ended February 28, 2001 and February 29, 2000, and due to or from such related parties as of February 28, 2001 and February 29, 2000, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Transaction volume by credit card and personal credit contracts	¥304,780	¥300,657	\$2,627,414
Notes and accounts payable	5,662	5,949	48,810
Investment in The Daiei, Inc. (included in marketable securities)	3,438		29,638
Investment in The Daiei, Inc. (included in investment securities)		2,063	
Investments in non-consolidated subsidiaries (included in investment securities)	48	48	414

Investment in The Daiei, Inc. was transferred from investment securities to marketable securities in 2001 because ownership in the Company of The Daiei, Inc. exceeded 50% at February 28, 2001.

9. FINANCIAL TRANSACTIONS AND EXPENSES

Financial transactions and expenses for the years ended February 28, 2001 and February 29, 2000, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Financial transactions:			
Interest income	¥ 391	¥ 331	\$ 3,371
Dividend income	2,274	2,045	19,603
Other	2	884	17
Total	¥ 2,667	¥ 3,260	\$ 22,991
Financial expenses:			
Interest expense	¥16,202	¥15,009	\$139,672
Other	342	120	2,948
Total	¥16,544	¥15,129	\$142,620

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 rate of approximately 42% for the years ended February 28, 2001 and February 29, 2000.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets at February 28, 2001 and February 29, 2000, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Deferred tax assets:			
Excess of tax allowance for provision of doubtful accounts	¥ 5,699	¥26,782	\$ 49,129
Tax loss carryforwards	43,155	31,195	372,026
Others	1,647	1,818	14,198
Total	¥50,501	¥59,795	\$435,353

There are no material difference between the normal effective statutory tax rate for the years ended February 28, 2001 and February 29, 2000, and the actual effective tax rate reflected in the accompanying consolidated statements of operations.

As of February 28, 2001, the Company has net operating loss carryforwards of approximately ¥103,200 million (\$889,655 thousand) for tax purposes, which are available to offset future taxable income. The tax loss carryforwards, if not utilized, will expire as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2002	¥ 3,000	\$ 25,862
2004	4,300	37,069
2005	67,300	580,172
2006	28,600	246,552
Total	¥103,200	\$889,655

11. LEASES

Finance Lease Transactions

The Companies lease certain computer equipment, office space (including subleased properties) and other assets.

Total rental expenses were ¥6,698 million (\$60,227 thousand) and ¥6,625 million for the years ended February 28, 2001 and February 29, 2000, respectively. Such rental expenses included total lease payments of ¥720 million (\$6,267 thousand) and ¥483 million for the years ended February 28, 2001 and February 29, 2000, 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 years ended February 28, 2001 and February 29, 2000, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Acquisition cost—equipment	¥3,520	¥3,064	\$30,345
Accumulated depreciation	1,567	1,664	13,509
Net leased property	¥1,953	¥1,400	\$16,836

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Due within one year	¥ 669	¥ 410	\$ 5,767
Due after one year	1,356	1,030	11,690
Total	¥2,025	¥1,440	\$17,457

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 statements of operations, computed by the straight-line method and the interest method were ¥643 million (\$5,543 thousand) and ¥88 million (\$759 thousand) for the year ended February 28, 2001 and ¥423 million and ¥62 million for the year ended February 29, 2000, respectively.

12. CONTINGENT LIABILITIES

As of February 28, 2001, the Companies were contingently liable as a guarantor for borrowings of customers in an amount of ¥3,682 million (\$31,741 thousand).

13. DERIVATIVES

The Companies enter into interest rate swap agreements as a means of managing its interest rate exposures on short-term borrowings and long-term debt.

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 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, 2001 and February 29, 2000.

Over-the-counter Contracts for Interest Rate

	Millions of Yen								Thousands of U.S. Dollars			
	2001				2000				2001			
	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 Loss	Total	Portion after One Year	Fair Value	Unrealized Loss
Interest rate swap–Pay–fix/receive–float	¥200,000	¥200,000	¥(13,351)	¥(13,351)	¥389,500	¥200,000	¥(16,581)	¥(16,581)	\$1,724,138	\$1,724,138	\$(115,095)	\$(115,095)
Forward interest rate swap included in the above table–Pay–fix/receive–float					¥200,000	¥200,000	¥(12,053)	¥(12,053)				

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 operating revenues to foreign customers of the Companies for the years ended February 28, 2001 and February 29, 2000, are as follows:

(1) Operations in Different Industries

Year Ended February 28, 2001	Millions of Yen			
	Financial Services	Other Business	General Corporate/ Eliminations, Etc.	Consolidated
a. Operating Revenues and Operating Income				
Operating revenues for customers	¥ 95,408	¥13,992		¥109,400
Intersegment operating revenues	269	161	¥ (430)	
Total operating revenues	95,677	14,153	(430)	109,400
Operating expenses	69,477	14,004	3,505	86,986
Operating income	¥ 26,200	¥ 149	¥(3,935)	¥ 22,414
b. Assets, Depreciation and Capital Expenditures				
Assets	¥607,695	¥29,636	¥ 809	¥638,140
Depreciation	1,174	377	360	1,911
Capital expenditures	2,029	3,120	142	5,291

Year Ended February 29, 2000	Millions of Yen			
	Financial Services	Other Business	General Corporate/ Eliminations, Etc.	Consolidated
a. Operating Revenues and Operating Income				
Operating revenues for customers	¥ 88,430	¥14,210		¥102,640
Intersegment operating revenues	215	41	¥ (256)	
Total operating revenues	88,645	14,251	(256)	102,640
Operating expenses	64,129	13,847	3,741	81,717
Operating income	¥ 24,516	¥ 404	¥(3,997)	¥ 20,923
b. Assets, Depreciation and Capital Expenditures				
Assets	¥591,398	¥20,085	¥ 6,232	¥617,715
Depreciation	3,023	202	327	3,552
Capital expenditures	1,140	335	730	2,205

Year Ended February 28, 2001	Thousands of U.S. Dollars			
	Financial Services	Other Business	General Corporate/ Eliminations, Etc.	Consolidated
a. Operating Revenues and Operating Income				
Operating revenues for customers	\$ 822,483	\$120,620		\$ 943,103
Intersegment operating revenues	2,319	1,387	\$ (3,706)	
Total operating revenues	824,802	122,007	(3,706)	943,103
Operating expenses	598,940	120,722	30,217	749,879
Operating income	\$ 225,862	\$ 1,285	\$(33,923)	\$ 193,224
b. Assets, Depreciation and Capital Expenditures				
Assets	\$5,238,750	\$255,483	\$ 6,974	\$5,501,207
Depreciation	10,121	3,250	3,103	16,474
Capital expenditures	17,491	26,897	1,224	45,612

(2) Foreign Operations

There are no consolidated overseas subsidiaries.

(3) Operating Revenues from Foreign Customers

Operating revenues from foreign customers are less than 10% of consolidated operating revenues.

15. SUBSEQUENT EVENT

At the general stockholders meeting held on May 24, 2001, the Company's stockholders approved the following stock option plan for the Company's directors and key employees.

The plan provides for granting options to directors and key employees to purchase up to 215,000 shares of the Company's common stock in the period from May 25, 2003 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 prior to the option grant date.

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Independent Auditors' Report

**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 28, 2001 and February 29, 2000, 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, 2001 and February 29, 2000, 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 discussed in Note 1.b, the consolidated financial statements have been prepared in accordance with new accounting standards for consolidation which were effective as of March 1, 2000.

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. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

May 24, 2001

Board of Directors (As of February 28, 2001)



(Left to Right)

Hiromichi Funahashi
President and Representative
Director

Kazuo Nakata
Chairman and Representative
Director

Hiroyuki Fukumoto
Senior Managing Director and
Representative Director

Kazuo Nakata Chairman and Representative Director
Hiromichi Funahashi President and Representative Director
Hiroyuki Fukumoto Senior Managing Director and Representative Director

Managing Directors
Hisao Tsuzaki
Yoshiaki Hayashida

Yuji Yamasaki

Directors
Toshiharu Nariai
Noriyoshi Wada
Shinji Ebata
Hiroyuki Namiki

Syunji Matsuno
Shigeji Yagi
Masakazu Murao
Tadashi Nakauchi

Corporate Data (As of February 28, 2001)

Head Office
2-1, Ginza 6-chome, Chuo-ku,
Tokyo 104-0061, Japan

Gotanda Office
21-1, Nishi-Gotanda 7-chome,
Shinagawa-ku,
Tokyo 141-8511, Japan
Telephone: 81-03-3495-8629
Facsimile: 81-03-3495-8440

Date of Establishment
September 1950

Main Consolidated Subsidiaries, and Company Accounted for by the Equity Method

MARUKO DENKILAND CO.,
LTD.
Electrical appliances retailing
business

Daiei OMC Mortgage, Inc.
Mortgage securities business

RFC, Inc.
Special transactions (with payments
in advance) financing business

BLOCKLINE, Inc.
Data processing service business

MCS Loan Management and
Recovery Co., Ltd.
Servicer business

ACCESS GENERAL Co., Ltd.
Credit sales financing business

KYOEIKIKAKU, Inc.
Real estate management business

ANNEX CAPITAL Co., Ltd.
Credit sales financing business

ALPHA OMC Co., Ltd.
Credit sales financing business

APEX MORTGAGE Co., Ltd.
Credit sales financing business

RICCAR Telephone Service, Inc.
Real estate management business

**Company Accounted for by the
Equity Method**
NIHON KYOEI SECURITIES Co.,
Ltd.
Securities business

RICCAR Sales, Inc.
Call sales business

Investor Information (As of February 28, 2001)

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

Number of Stockholders
7,644

Common Stock Price
(Tokyo Stock Exchange)

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

	2001		2000	
	HIGH	Low	HIGH	Low
1st quarter	470	355	203	103
2nd quarter	468	380	625	171
3rd quarter	419	240	608	338
4th quarter	379	249	519	311

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

