CUSTOMER VALUE CHAIN

Daiei OMC

ANNUAL REPORT 2002

Five-Year Financial Highlights

Daiei OMC, Inc. and Consolidated Subsidiaries
Years Ended February 28, 2002 and 2001, February 29, 2000, and February 28, 1999 and 1998

	Millions of Yen (Except Per Share Amounts)					Thousands of U.S. Dollars (Except Per Share Amounts)
	2002	2001	2000	1999	1998	**2002**
For the year:						
Total operating revenues	**¥117,132**	¥109,400	¥102,640	¥104,372	¥103,983	**$ 874,119**
Operating income	**23,777**	22,414	20,923	9,432	6,833	**177,440**
Income (loss) before income taxes and minority interests in net (loss) income of consolidated subsidiaries	**6,208**	21,564	(102,200)	689	327	**46,328**
Net income (loss)	**3,634**	12,324	(59,831)	225	(126)	**27,119**
Per common share amounts:						
Net income (loss)	**¥17.20**	¥58.32	¥(283.15)	¥1.06	¥(0.60)	**$0.13**
At year end:						
Total assets	**¥584,570**	¥638,140	¥617,715	¥721,018	¥803,840	**$4,362,463**
Long-term debt	**64,808**	58,706	27,544	61,878	95,888	**483,642**
Total stockholders' equity	**31,005**	27,374	14,816	57,588	57,363	**231,381**

Notes: 1. All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at the rate of ¥134=US$1, the approximate rate of exchange as of February 28, 2002. 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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Disclaimer Regarding Forward-Looking Statements

This annual report contains forward-looking statements about DOMC's current plans, outlook, strategies and beliefs based on management's assumptions in light of current information. Actual results may be significantly affected by various factors, including but not limited to changes in the Japanese economy and DOMC's business environment.

Record Operating Income and Number of Cardholders, Vast Improvements in Financial Structure

The credit card industry is seeing growth in billing every year, competition between companies is intensifying and personal bankruptcies are increasing, making for a harsh business environment. Despite this, Daiei OMC, Inc. (DOMC), was able to secure new highs in consolidated operating revenues and operating income in fiscal 2002, ended February 28, 2002. We received 1.4 million applications—an unprecedented figure in DOMC's history—and gained 440,000 cardholders, for a total of approximately 6.8 million cardholders. We also continued to hold the industry's highest figure for card usage rates, maintaining it at 67.6%. These results can be attributed to augmented card services, such as expanded implementation of the "Daiei OMC Complementary Card Day"; better strategies to offer more new affinity cards in alliances with other companies; higher brand recognition, achieved by broadcasting our own television commercials; the development of channels for credit card application outside the Daiei Group, such as at affiliated stores and post offices; and improved product appeal and attractiveness of DOMC to card members, based on categorized cardholder information gained through the analysis of consolidated databases.

Revenue from card cashing climbed 20.6%, owing to the higher number of automated teller machines (ATMs) and cash dispensers (CDs) and the associated increased convenience for customers, as well as to the operation of the new credit monitoring system, which minimizes risk while maximizing revenues. As a result of these measures, we hope to make OMC credit cards the most popular and best supported credit cards on the market as part of our goal to create a "Customer Value Chain."

We recorded ¥18.9 billion in extraordinary loss, owing to write-off of operating receivables and loss on devaluation of marketable and investment securities incurred to strengthen our financial base, resulting in net income totaling ¥3.6 billion. We forecast that this improvement in our financial base, however, will help yield net income of ¥13.0 billion in fiscal 2003, an increase of 3.6 times. This will enable DOMC to resume issuing dividends in the same period. We have also decided to proceed with corporate reforms that will contribute to growth, such as changing our company name to reflect our corporate identity.

In closing, we express gratitude to our shareholders for their continued support.

June 2002

H. Funahashi

Hiromichi Funahashi
President and Representative Director

From Daiei OMC to "OMC Card"

DOMC will change its company name to OMC Card, Inc., on September 1, 2002. We will continue to further expand credit card business possibilities beyond the Daiei Group network and our image as a house card. We are endeavoring to create corporate value and a Customer Value Chain that will accompany card members through every stage of their lives.

Expanding Functions

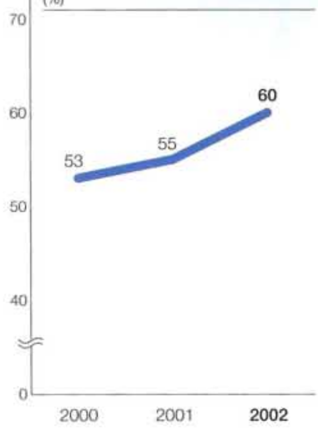
Establishing the OMC Card Brand and Corporate Identity

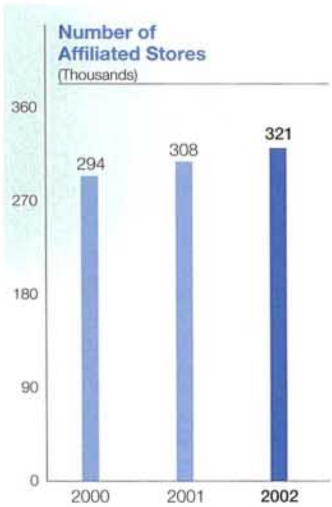
DOMC was established by the Daiei Group to manage the Daiei house card for use in Daiei stores, but grew to become one of the Daiei Group's core companies. The Daiei, Inc.—our parent company—established a new three-year plan in February 2002 and is currently rebuilding itself by cutting interest-bearing debt and augmenting marketing abilities. DOMC will also strive to increase its growth and maximize income and corporate value.

DOMC's credit card is the card most frequently used by card members in Japan in their daily lives and the first to be chosen, as evidenced by its impressive performance in the industry. DOMC is ranked sixth in the credit card industry in terms of sales volume and second among credit card companies affiliated with the retail industry.

We are issuing more affinity cards, including *KOSC Card*, *Hawks Card* and *Musashino Women's University Card*, which is equipped with identification functions. We are also expanding our external affiliated merchants beyond the Daiei Group with YAMADA DENKI Co., Ltd., and with concentrated commercial areas such as the Hamanmachi shopping district in Nagasaki. These efforts brought the

External Transaction Ratio
Proportion of card shopping transactions other than at Daiei stores
(%)





ratio of transactions outside Daiei stores to 60%. To further raise this ratio, we must branch out from our image as a house card for the Daiei Group and form strategic alliances with various companies.

Television commercials have also helped to raise recognition of the OMC card brand, which is actually better known than our current company name. Consequently, we determined that corporate value would be higher if the company name and card name were consistent. The change in company name represents an opportunity to announce our position as a creative, value-added company with a credit card business as its core. We will also establish a place for our corporate identity and brand.

Ameliorating the Effect of Daiei Store Closures

Most credit card applications are still generated from Daiei stores, and it is still our most significant affiliated store. As part of its new three-year plan Daiei will close 60 stores, but we expect the effect on our operations to be minimal.

There is high potential for growth in card members and profits, and, having accounted for any possible fallout from Daiei's store closures in our card enrollment and profit plans, we are confident of achieving our goals. Although Daiei closed 88 stores in the last three years, we were able to overcome this obstacle, increase card members and achieve significant milestones every year. Our accumulated know-how and implementation of countermeasures to combat the effects of the closures—such as encouraging nearby affiliated stores to send personal messages to card members and appealing to merchants affiliated with Visa, MasterCard and JCB to use the OMC card—allowed us to minimize negative effects.

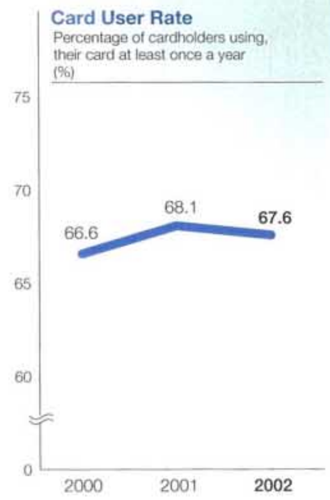
DOMC also pushed the expansion of affinity card issuing and of external application channels such as the post office. We will continue to develop specific measures to raise achievements while absorbing negative effects from Daiei store closures.

Creating a Customer Value Chain

OMC Card's Competitive Advantage

The OMC credit card has the highest usage rate in the industry for many reasons. These are primarily the high priority we place on communication with card members to maintain their loyalty, and our strong efforts to transmit information. For example, we have implemented the Daiei OMC Complementary Card Day, giving card users a 5% discount on their purchases. To commemorate the 40th anniversary of our listing we expanded this day to two days a month—every second and fourth Sunday. This campaign has been very well received. We have also instituted a system that gives points commensurate with the amount charged to the card. Points can then be exchanged for tickets for select Daiei Group products, travel coupons, book vouchers and mileage on Japan Air Lines and Japan Air Systems airlines. This point system also allows customers to collect points with Daiei's point service at the same time, creating synergies in card member growth and card use promotion.

In addition to these services, we have developed a one-to-one marketing system for card members. The account statement sent every month carries a personal message tailored for each card member—based on analysis of the card member's attributes and card use trends—introducing specific information and products. Since its introduction, this marketing system has promoted card use and become an effective communication tool for DOMC.



Sustainable Growth to Propel New Advancements

A new company name represents the chance to move forward in our efforts to carry out our Customer Value Chain strategy. DOMC aims to build up cooperative relationships with affiliated companies, merchant stores and Daiei Group companies in terms of both brick-and-mortar businesses and virtual businesses that use the Internet, in order to offer products and services that quickly and accurately meet customers' needs at every stage of their lives.

To achieve this goal, we are strengthening our external alliances and augmenting our lineup of products and services. As part of these efforts, we began cultivating business connections to facilitate our expansion into business related to home improvement and other basic essentials necessary when moving or starting a new stage in one's life. At the same time, we are proposing the use of the personal messages included in account statements as promotion for our affiliated merchants and stores, thus providing valuable information optimized for each card member's needs.

Further strengthening of our external application channels will help us reach our goal of 1.5 million applicants. We are endeavoring to promote the popular *Hello Kitty OMC Postal Savings Joint Card*, issue more new affinity cards and develop new application channels outside of the Daiei Group. Our commemorative campaign will celebrate our attainment of seven million card members in the first half of fiscal 2003 and the change to our new company name on September 1, 2002, providing impetus for growth in new card members, external tie-ups and merchant stores.

Our efforts to change conventional OMC cards to integrated circuit (IC) cards gained intensity beginning in March 2002. We are using our advanced technology and knowledge in the IC card field to issue the world's first international brand credit card functioning as a contactless IC bus ticket.

These strengths allowed us to enter the market for daily transactions, further expanding card use.

Furthermore, these efforts make DOMC's superiority and originality clear, capitalizing on its Customer Value Chain strategy to become an industry forerunner and realize its ultimate goal of becoming the primary company for its customers.

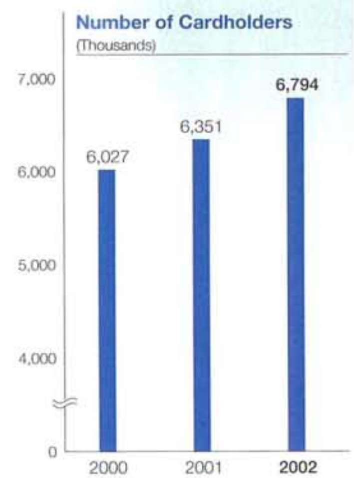
Raising Shareholder Value

Resuming Dividends and Becoming a High-Revenue Company

Corporate management has had to grapple with many issues, including adjustments to such reforms as Japan's accounting Big Bang, consolidated management and corporate governance. We have formed a corporate ethic network to ensure the absolute protection of privacy and our place in society as a reliable and trustworthy company. Our compliance committee meets to strictly monitor work performance and ensure adherence to ethical principles. Group meetings have helped to strengthen consolidated management as well.

Awareness of our shareholders, investors and other stakeholders provides us with further impetus to maintain management transparency and practice social responsibility. As the Company president, I use financial meetings, company orientations, center field trips and small meetings to actively improve our investor relations. We also make full use of the company web site for the timely and appropriate disclosure of information.

DOMC has completely written off delinquent receivables from corporate accounts, and expects annual profit growth of 5% to 10%, owing to sustainable business growth focused on its credit card business. We are striving toward becoming a high-revenue company and meeting shareholder expectations. This will allow us to resume issuing dividends from fiscal 2003.



Development of IC Credit Cards

World's First Transport IC Credit Card is Launched

The multifunctional IC card has become an important consideration in discussions of next-generation credit cards, even at the Ministry of Land, Infrastructure and Transport's "Next Generation Transportation Forum." Taking advantage of this interest, DOMC worked with the international industrial group Yamanashikotsu Co., Ltd., in developing *Yamanashi Kotsu OMC Card*, the world's first international brand credit card functioning as a contactless IC bus ticket.

Applications for this card were accepted from February 2002 and services were launched in April. The innovative *Yamanashi Kotsu OMC Card* easily settles transactions by storing data for commutation and coupon tickets in its IC memory, accessed by holding the card over a sensor installed in buses. Yamanashikotsu controls applications contained in the IC chip, while DOMC is involved with clearing and settlements by converting credit data to customer identification data. The development of this proprietary system enabled functions of the bus and credit card system networks to be shared, creating a combination card. This marks our entry into the market for daily transactions, such as transportation, and we hope to further expand this card scheme with other transport companies by developing versatile infrastructure for the system.

Full-scale Transition to IC Card in Fiscal 2002

DOMC began changing all OMC cards—with the exception of some cards issued in affiliation with other companies—over to IC credit cards in fiscal 2002. DOMC issued 1,200,000 new cards and reissued 1,300,000 cards for a total of 2,500,000 cards this fiscal year, and hopes to complete the transfer by fiscal 2006.

Since 1997, DOMC has been involved in multiple IC card trials. Consequently, DOMC has acquired a great deal of knowledge on IC credit cards, and through these efforts it has completed preparing an environment in advance of other companies that enables large-scale stores to use the IC cards of such international brands as Visa, MasterCard and JCB.

We adopted a Java-based global open platform to our Visa IC card, and selected MULTOS—a multiple application operating system platform—for our MasterCard and JCB cards. These platforms enable us to expand in both the brick-and-mortar and Internet markets in a wide variety of businesses.

We will use our OMC card for leverage in the next-generation IC card business, developing multiple affiliations so that we can offer a variety of services not limited to regular DOMC services. In doing this, we will dramatically increase cardholder convenience and satisfaction and set ourselves apart from other companies.

Wing OMC Office Opens

Wing OMC Office Functions as Profit Center

In September 2001, we integrated our centers, previously separated by function, and opened the Wing OMC Office in Sumida-ku, Tokyo. With heightened competition in the credit card industry, we have decided we need to consolidate card processing functions, create added value and enhance our competitive strength to construct a business foundation strong enough to outlast this century. We have therefore launched a multifunctional customer relationship management (CRM) center. This center has built up an insourcing system for processing such work as customer data cleaning, mailing services and call center functions using DOMC's inspection, credit monitoring and collection know-how. Merging these database marketing techniques—our particular talent—with solutions functions will give them added strength and expand our insourcing business.

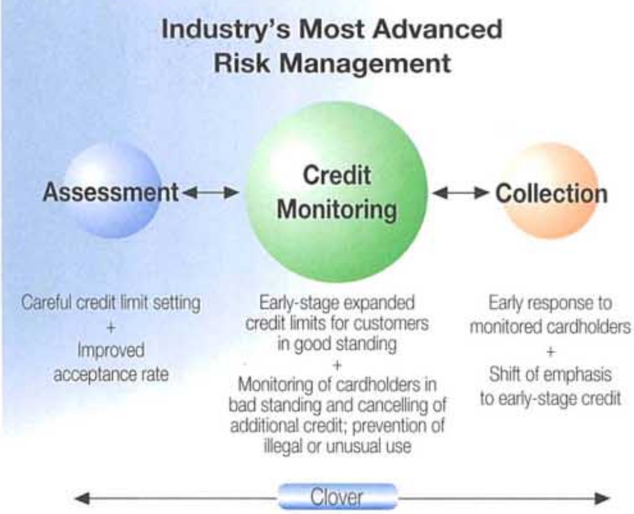
Integration of card processing functions avoids overlap and enables more efficient operations. It will also lead to greater customer satisfaction since employees will use their specialized knowledge and skills in a broad arena, enabling faster and more accurate responses to customer needs.

Precise Risk Management

Introduction of the "Clover" Multifunctional Credit Monitoring System

Our aggressive risk management strives to minimize risk as much as possible while maximizing revenues. DOMC has independently developed "Clover," an upgraded credit monitoring system. Clover operations began in October 2001. Using a database effectively, Clover manages credit monitoring by weighing both revenue and risk and performs analysis using information covering 1,300 items, such as the location and time of card use, the amount and the payment status for each cardholder. The system flexibly manages risk by taking these items into account.

Use of this system increases customer convenience, such as by raising card limits for cardholders in good standing, improves the precision of risk management and boosts revenues by implementing counseling at an early stage for cardholders with significant debt.



Improving Customer Satisfaction

Using Integrated Databases and Increasing Personalization

In fiscal 2002, DOMC encouraged greater personalization in its services and strengthened customer relationships to improve customer contact and communication tools. In October 2001, we integrated databases covering 12 million customers and all *OMC Plaza* sites nationwide began using the new consolidated database. Simple input of the customer's name in the store's information terminal allows instant confirmation of membership, status of use and the customer's use of other products. This enables finely tuned responses ideally suited to DOMC customers.

In November 2000, DOMC started issuing personalized account statements, a system that designs and delivers messages best suited to individual card members. These messages come in 600 basic formats and can be tailored to fit the characteristics of the individual card member. In the future, we will use this integrated database as the foundation and add information from such business partners as affiliated merchants and manufacturers to send messages fitting a broad range of customer needs. This will deepen our customer relationships.

Environmental Initiatives

OMC Ecology Card *Contributes to Environmental Protection*

DOMC began issuing *OMC Ecology Card* in 1991 in cooperation with the Defense of Green Earth Foundation to address environmental conservation issues. *OMC Ecology Card* covers 20 different credit cards that focus on various environmental issues—both local and global—such as global warming and environmental protection in Okhotsk and Oze. DOMC contributes 0.5% of the total amount of purchases made using these cards to the environmental conservation and research organizations related to themes chosen by the card member.

Since it was first issued, *OMC Ecology Card* has been supported by card members' concerns about environmental conservation issues, and total contributions at fiscal 2002 year-end totaled ¥332 million.

DOMC's environmental activities do not stop there, however. In the manufacture of its credit cards, DOMC uses PET-G, a material that does not include or emit hazardous substances.

Community Spirit

DOMC makes continuous efforts in environmental conservation based on the three Rs: reduce, reuse and recycle. Focusing on separating garbage, we are promoting activities that lessen environmental impact, such as cutting back on the use of paper and water resources and reusing materials as much as possible. DOMC also regularly participates in the clean-up of major riverbeds from Hokkaido to Fukuoka, including the "Arakawa Clean-Aid" project in Tokyo and "Love Earth Clean-Up" in Fukuoka. Over 4,500 employees and their families participated in these projects.

Board of Directors and Corporate Auditors (As of May 23, 2002)

Left to right: Kazuo Nakata, Hiromichi Funahashi and Hiroyuki Fukumoto

Chairman and Representative Director
Kazuo Nakata

President and Representative Director
Hiromichi Funahashi

Vice President and Representative Director
Hiroyuki Fukumoto

Managing Directors
Hisao Tsuzaki
Yuji Yamasaki
Yoshiaki Hayashida

Directors
Toshiharu Nariai
Syunji Matsuno
Noriyoshi Wada
Shigeji Yagi
Shinji Ebata
Masakazu Murao
Hiroyuki Namiki

Full-Time Corporate Auditors
Kenji Yoshida
Akira Nakao

Corporate Auditors
Kou Kawashima
Masahiko Toyama

Management Discussion and Analysis

Revenues and Earnings

In fiscal 2002, ended February 28, 2002, DOMC instituted the Daiei OMC Complementary Card Day to improve the foundation of its card business and further raise market share. To celebrate the 40th anniversary of our listing, we changed this day from the 23rd day of the month to the second and fourth Sunday of every month. We are also striving to expand services. We broadcast television commercials with the popular actor Kippei Shina to strengthen the OMC card brand image as a card that can be used conveniently anywhere. This is expected to expand the number of cardholders and encourage card use. We promoted our card-based membership business by diversifying card application methods and offered a variety of products focused on customer information categorized according to comprehensive database analysis. In addition, DOMC used its strategies for affiliation to issue new joint cards and improved its ability to attract new card members.

The Clover credit monitoring system enables profit growth by managing revenues and risk; operation of this system is intended to augment the precision of our risk management. The highly advanced warning knowledge system ("HAWKS") monitors card usage and card fraud at merchant outlets and seeks to alleviate the heightened risk of misuse associated with the increasing number of affiliated merchants.

As a result of the efforts outlined above, total operating revenues rose 7.1%, to ¥117,132 million ($874,119 thousand). Selling, general and administrative (SG&A) expenses increased ¥8,334 million ($62,194 thousand), to ¥78,776 million ($587,881 thousand). This can be attributed to higher bad debt expenses resulting from adoption of accounting standards for financial instruments, and to increased expenses for promotional materials meant to expand the number of cardholders and augment usage rates. Aggressive efforts in direct financing through securitization of claims brought down interest payments, which in turn lowered financial expenses ¥1,965 million ($14,664 thousand), to ¥14,579 million ($108,799 thousand). As a result, total operating expenses rose 7.3%, to ¥93,355 million ($696,679 thousand).

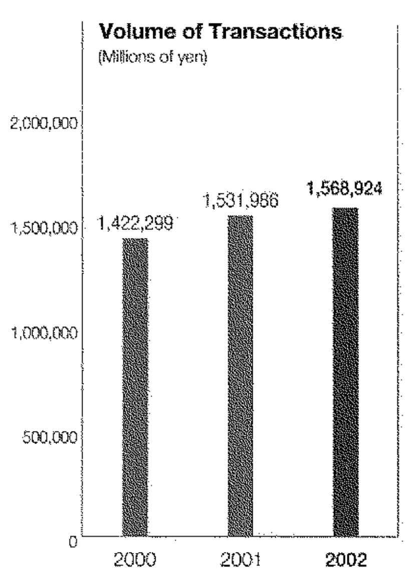
Operating income climbed 6.1%, to ¥23,777 million ($177,440 thousand). Other—net expenses decreased ¥147 million ($1,097 thousand), to ¥553 million ($4,127 thousand). Write-off of operating receivables amounted to ¥6,902 million ($51,507 thousand), and loss on devaluation of marketable and investment securities rose ¥3,476 million ($25,940 thousand), to ¥4,392 million ($32,776 thousand).

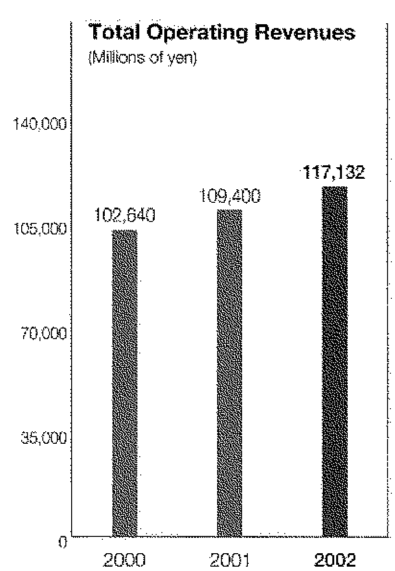
Consequently, net income fell 70.5%, to ¥3,634 million ($27,119 thousand).

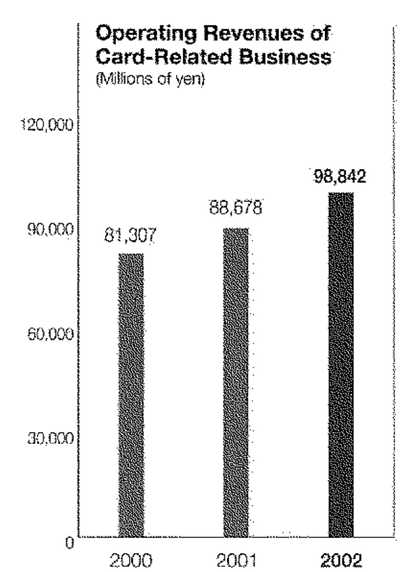
Operating Results by Segment

Financial Services

Hello Kitty OMC Card is extremely popular among male and female card holders of all ages and is contributing to







an increase in card members. We have also developed application channels by issuing cards jointly with other companies. DOMC and Konami Olympic Sports Club, Inc., who collaborated to issue *KOSC Card*, began accepting applications in association with Yamanashi-kotsu Co., Ltd., for *Yamanashi Kotsu OMC Card*, a travel-oriented credit card that contains IC-card capabilities. The variety of services offered has been bolstered by free road service and discounts for connections to the Internet portal *e-colle! NET*. Our efforts to expand the number of member stores customers can utilize paid off, with the total number of stores increasing about 13,000, to approximately 321,000 by the end of fiscal 2002.

DOMC issued *For Life*, a loan card to meet customers' card-cashing needs. We also expanded the number of user centers. Customers can now use CDs and ATMs at an additional 11 regional banks, improving services and bringing the total number of ATMs to 99,000 as of fiscal 2002 year-end, up from 94,000.

As a result, total operating revenues in the financial services segment climbed 9.2%, to ¥104,483 million ($779,724 thousand), and operating income rose 11.3%, to ¥29,148 million ($217,522 thousand).

Other Business

The travel division launched its "Big Hawaii" campaign and offered better products at special prices to celebrate the 40th anniversary of DOMC achieving its listing. DOMC's travel product brand, which develops original DOMC products with prices and quality that satisfy customers, was renamed *OMC Traveling* in August 2001. The terrorist attacks in the United States on September 11, however, had a significant effect on overseas travel, which was a large factor behind travel division revenue decreasing 10.9%, to ¥2,677 million ($19,978 thousand).

The mail order division issued the spring-summer issue of its "Lifestyle Design" catalog, as well as a special issue to allow product delivery to coincide with moving demand. Despite these efforts, however, revenues fell 2.0%, to ¥5,769 million ($43,052 thousand).

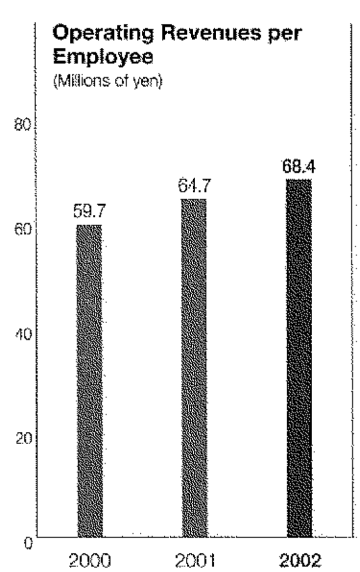
As a result, total operating revenues in the other business segment dropped 6.6%, to ¥13,215 million ($98,619 thousand), resulting in operating losses of ¥126 million ($940 thousand).

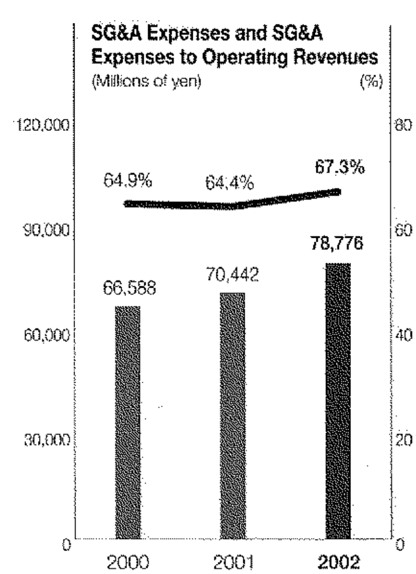
Total Assets at Year-End

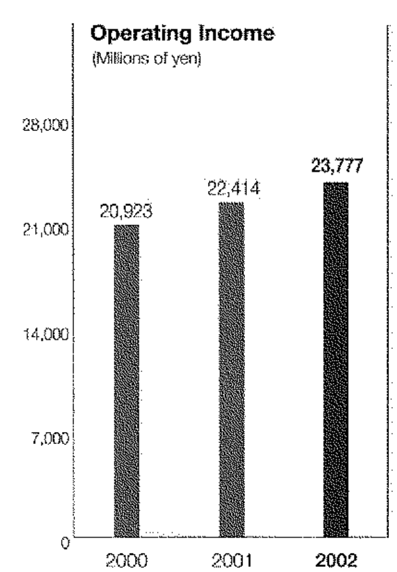
Funds attained by liquidating claims were applied to reduce interest-bearing liabilities, bringing total current assets down ¥78,265 million ($584,067 thousand), to ¥451,450 million ($3,369,030 thousand). Revenue gains from liquidation of credit led to a ¥24,669 million ($184,097 thousand) increase in total investments and other assets. Total assets decreased 8.4%, to ¥584,570 million ($4,362,463 thousand).

Cash Flows

Although card shopping and loans increased, the Company recorded a decrease in operating credit, owing to







liquidation of claims. This resulted in net cash provided by operating activities of ¥72,181 million ($538,664 thousand), compared with net cash used in operating activities of ¥24,920 million in fiscal 2001.

Despite a large drop in proceeds from sales of investment securities, a decrease in purchases of investment securities resulted in a ¥673 million ($5,022 thousand) fall in net cash used in investing activities, to ¥5,505 million ($41,082 thousand).

Net cash used in financing activities amounted to ¥71,215 million ($531,455 thousand), compared with net cash provided by financing activities of ¥13,460 million in the previous period. This was primarily due to a decrease in short-term borrowings—net, and to redemption of commercial papers, despite a fall in repayments of long-term debt.

As a result, cash and cash equivalents, end of year, decreased ¥4,542 million ($33,896 thousand), to ¥81,916 million ($611,313 thousand).

Financial Policies

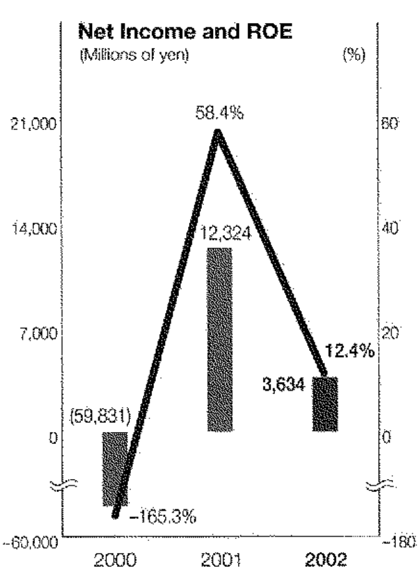
DOMC prioritizes strengthening finances as a central management concern. We are therefore committed to reinforcing our financial foundations, enhancing our credit rating and optimizing corporate value.

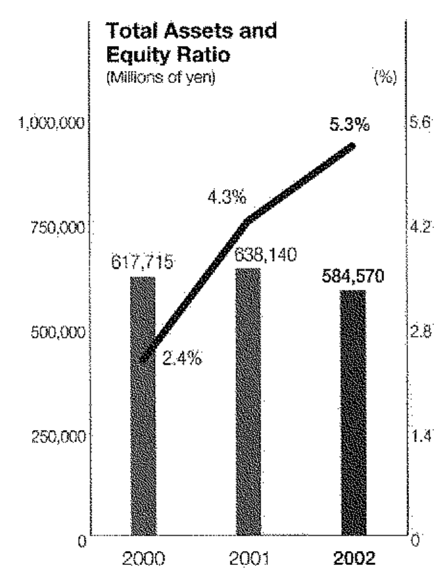
In fiscal 2002, we emphasized the ratios of direct, long-term and fixed financing to total financing in order to build a balanced foundation for our financing activities. DOMC is endeavoring to achieve long-term, stable funding and is actively liquidating its credit card loans. Specifically, in June 2001 we became the first company in Japan to liquidate card shopping loans paid for with bonuses, and in July 2001 we repeated the feat with the liquidation of card-cashing loans rated by a credit rating agency. In addition, we maintained the credit rating agency's highest rating, Aaa, validating the types of loans we offer and our management system. We liquidated approximately ¥98,200 million ($732,836 thousand) in loans, about 20 times fiscal 2001 totals.

As a result, the direct financing ratio improved 9.0 percentage points, to 17.7%, the long-term financing ratio rose 19.2 percentage points, to 34.2%, and the fixed financing ratio increased 16.9 percentage points, to 58.9%.

We issue commercial paper as needed to deal with demand for short-term operating funds. Consequently, commercial paper issues rose from ¥259,500 million in fiscal 2001 to ¥456,200 million ($3,404,478 thousand) in fiscal 2002.

We will continue to diversify fund procurement with new direct financing and stabilize funding by focusing financing on financial institutions. This is in line with our efforts to build up a balanced financing system. We will increase our off-balance-sheet lending activities, use our assets efficiently and improve stockholders' equity and return on equity (ROE).





Consolidated Balance Sheets

Daiei OMC, Inc. and Consolidated Subsidiaries
February 28, 2002 and 2001

Assets	Millions of Yen 2002	Millions of Yen 2001	Thousands of U.S. Dollars (Note 1.a) 2002
Current Assets:			
Cash and cash equivalents	**¥ 81,916**	¥ 86,458	**$ 611,313**
Marketable securities (Notes 2 and 8)	**1,320**	9,600	**9,851**
Operating receivables:			
Notes and accounts	**842**	1,004	**6,284**
Installment sales (Note 3)	**121,599**	141,286	**907,455**
Operating loans (Notes 3 and 5)	**171,183**	232,478	**1,277,485**
Mortgage loans (Note 4)	**28,800**	35,600	**214,925**
Other	**5,205**	1,673	**38,843**
Inventories	**3,358**	7,809	**25,060**
Deferred tax assets (Note 10)	**11,558**	6,086	**86,254**
Prepaid expenses and other current assets	**34,707**	14,575	**259,008**
Allowance for doubtful accounts	**(9,038)**	(6,854)	**(67,448)**
Total current assets	**451,450**	529,715	**3,369,030**
Property and Equipment:			
Buildings and structures	**5,147**	5,151	**38,410**
Equipment	**732**	859	**5,463**
Land	**9,787**	9,833	**73,037**
Total	**15,666**	15,843	**116,910**
Accumulated depreciation	**(3,270)**	(3,473)	**(24,403)**
Net property and equipment	**12,396**	12,370	**92,507**
Investments and Other Assets:			
Investment securities (Notes 2 and 8)	**9,557**	4,588	**71,321**
Long-term operating loans receivable, less allowance for doubtful accounts of ¥4,499 million ($33,575 thousand) in 2002 and ¥31,027 million in 2001	**3,254**	11,255	**24,284**
Other receivables	**44,733**	12,669	**333,828**
Guarantee money deposited	**14,239**	13,703	**106,261**
Deferred tax assets (Note 10)	**36,431**	44,415	**271,873**
Other	**12,510**	9,425	**93,359**
Total investments and other assets	**120,724**	96,055	**900,926**
Total	**¥584,570**	¥638,140	**$4,362,463**

See notes to consolidated financial statements.

Liabilities and Stockholders' Equity	Millions of Yen 2002	2001	Thousands of U.S. Dollars (Note 1.a) 2002
Current Liabilities:			
Short-term borrowings (Note 5)	**¥350,769**	¥441,261	**$2,617,679**
Current portion of long-term debt (Note 5)	**36,235**	19,041	**270,410**
Notes and accounts payable (Note 8)	**30,577**	28,830	**228,187**
Accrued expenses	**6,463**	6,061	**48,231**
Income taxes payable	**109**	125	**813**
Mortgage-backed securities transferred (Note 4)	**18,855**	28,296	**140,709**
Deferred revenue (Note 3)	**930**	2,040	**6,940**
Other current liabilities	**40,076**	22,771	**299,076**
Total current liabilities	**484,014**	548,425	**3,612,045**
Long-term Liabilities:			
Long-term debt (Note 5)	**64,808**	58,706	**483,642**
Liability for retirement benefits (Note 6)	**2,684**	895	**20,030**
Other long-term liabilities	**1,877**	2,580	**14,007**
Total long-term liabilities	**69,369**	62,181	**517,679**
Minority Interests	**182**	160	**1,358**
Contingent Liabilities (Note 12)			
Stockholders' Equity (Note 7):			
Common stock—			
authorized, 670,000,000 shares;			
issued and outstanding, 211,307,082 shares	**42,807**	42,807	**319,455**
Treasury stock—at cost, 7,112 shares in 2002	**(3)**		**(22)**
Accumulated deficit	**(11,799)**	(15,433)	**(88,052)**
Total stockholders' equity	**31,005**	27,374	**231,381**
Total	**¥584,570**	¥638,140	**$4,362,463**

Consolidated Statements of Income

Daiei OMC, Inc. and Consolidated Subsidiaries
Years Ended February 28, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1.a)
	2002	2001	**2002**
Operating Revenues (Note 3):			
Fees from customers and affiliated stores (Note 1.j)	**¥21,565**	¥22,817	**$160,933**
Personal loan revenues	**56,289**	58,614	**420,067**
Profit from merchandise sales	**5,769**	5,889	**43,052**
Travel business revenues	**2,677**	3,003	**19,978**
Financial transactions (Note 9)	**14,858**	2,667	**110,881**
Other revenues	**15,974**	16,410	**119,208**
Total operating revenues	**117,132**	109,400	**874,119**
Operating Expenses:			
Selling, general and administrative expenses	**78,776**	70,442	**587,880**
Financial expenses (Note 9)	**14,579**	16,544	**108,799**
Total operating expenses	**93,355**	86,986	**696,679**
Operating Income	**23,777**	22,414	**177,440**
Other Income (Expenses):			
Gain (loss) on sales of investment securities—net	**(75)**	766	**(560)**
Loss on devaluation of marketable and investment securities	**(4,392)**	(916)	**(32,776)**
Provision for operating receivables (Note 1.e)	**(4,148)**		**(30,955)**
Write-off of operating receivables	**(6,902)**		**(51,507)**
Charge for transitional obligations for retirement benefits (Note 1.h)	**(1,499)**		**(11,187)**
Other—net (Note 1.j)	**(553)**	(700)	**(4,127)**
Income before Income Taxes and Minority Interests in Net Loss of Consolidated Subsidiaries	**6,208**	21,564	**46,328**
Income Taxes (Note 10):			
Current	**148**	161	**1,105**
Deferred	**2,510**	9,169	**18,731**
Total income taxes	**2,658**	9,330	**19,836**
Minority Interests in Net Loss of Consolidated Subsidiaries	**84**	90	**627**
Net Income	**¥ 3,634**	¥12,324	**$ 27,119**

	Yen		U.S. Dollars
Net Income per Common Share (Note 1.o)	**¥17.20**	¥58.32	**$0.13**
Diluted Net Income per Common Share (Note 1.o)	**17.18**		**0.13**

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

Daiei OMC, Inc. and Consolidated Subsidiaries
Years Ended February 28, 2002 and 2001

	Thousands	Millions of Yen			
	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit
Balance, March 1, 2000	211,307	¥42,807	¥16,242		¥(44,233)
Net income					12,324
Transfer of additional paid-in capital to deficit			(16,242)		16,242
Adjustment of deficit for newly applied equity method investee					234
Balance, February 28, 2001	211,307	42,807	Nil		(15,433)
Net income					3,634
Purchase of treasury stock				¥(3)	
Balance, February 28, 2002	**211,307**	**¥42,807**	**Nil**	**¥(3)**	**¥(11,799)**

	Thousands of U.S. Dollars (Note 1.a)		
	Common Stock	Treasury Stock	Accumulated Deficit
Balance, February 28, 2001	$319,455		$(115,171)
Net income			27,119
Purchase of treasury stock		$(22)	
Balance, February 28, 2002	**$319,455**	**$(22)**	**$ (88,052)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Daiei OMC, Inc. and Consolidated Subsidiaries
Years Ended February 28, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1.a)
	2002	2001	**2002**
Operating Activities:			
Income before income taxes and minority interests	**¥ 6,208**	¥ 21,564	**$ 46,328**
Adjustments for:			
Income taxes—paid	**(164)**	(223)	**(1,224)**
Depreciation and amortization	**2,232**	1,899	**16,657**
Provision for (reversal of) doubtful accounts	**2,944**	(882)	**21,970**
Loss (gain) on sales of investment securities—net	**75**	(766)	**560**
Loss on devaluation of marketable and investment securities	**4,392**	916	**32,776**
Changes in assets and liabilities, net of effects from newly consolidated subsidiaries in 2001:			
Decrease (increase) in receivables	**59,588**	(38,761)	**444,687**
Decrease in inventories	**4,452**	943	**33,224**
Decrease (increase) in other assets	**(12,810)**	476	**(95,597)**
Increase in guarantee money deposited	**(536)**	(4,957)	**(4,000)**
Increase in notes and accounts payable	**1,747**	1,634	**13,037**
Decrease in mortgage-backed securities transferred	**(9,441)**	(6,574)	**(70,455)**
Increase (decrease) in other liabilities	**13,714**	(146)	**102,343**
Other—net	**(220)**	(43)	**(1,642)**
Total adjustments	**65,973**	(46,484)	**492,336**
Net cash provided by (used in) operating activities	**72,181**	(24,920)	**538,664**
Investing Activities:			
Proceeds from sales of property and equipment	**71**	56	**530**
Purchases of property, equipment and software	**(4,194)**	(5,291)	**(31,299)**
Proceeds from sales of investment securities	**417**	2,932	**3,112**
Purchases of investment securities	**(1,518)**	(2,988)	**(11,328)**
Other—net	**(281)**	459	**(2,097)**
Net cash used in investing activities	**(5,505)**	(4,832)	**(41,082)**
Financing Activities:			
Increase (decrease) in short-term borrowings—net	**(90,492)**	5,222	**(675,313)**
Proceeds from long-term debt	**42,761**	51,843	**319,112**
Repayments of long-term debt	**(19,465)**	(43,026)	**(145,261)**
Proceeds from capital increase by minority interests	**521**		**3,888**
Other—net	**(4,540)**	(579)	**(33,881)**
Net cash provided by (used in) financing activities	**(71,215)**	13,460	**(531,455)**
Foreign Currency Translation Adjustments on Cash and Cash Equivalents	**(3)**	8	**(23)**
Net Decrease in Cash and Cash Equivalents	**(4,542)**	(16,284)	**(33,896)**
Cash and Cash Equivalents of Newly Consolidated Subsidiaries, Beginning of Year		410	
Cash and Cash Equivalents, Beginning of Year	**86,458**	102,332	**645,209**
Cash and Cash Equivalents, End of Year	**¥ 81,916**	¥ 86,458	**$611,313**
Noncash Activities:			
Consolidation of previously unconsolidated subsidiary:			
Assets		¥ 22,504	
Liabilities		120	

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Daiei OMC, Inc. and Consolidated Subsidiaries
Years Ended February 28, 2002 and 2001

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.

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 2001 consolidated financial statements have been restated to conform with classifications adopted in 2002.

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 ¥134 to $1, the approximate rate of exchange as of February 28, 2002. 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, 2002 and 2001, include the accounts of the Company and its 13 significant subsidiaries.

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.

Investments in an 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 with the exception of minor amounts which are charged to income in the period of acquisition.

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

Prior to March 1, 2001, the allowance for doubtful accounts is stated based on the Companies' past credit loss experience and an evaluation of potential losses on outstanding receivables.

Effective March 1, 2001, the Companies adopted a new accounting standard for financial instruments, including allowance for doubtful accounts. The standard requires the Companies to allocate receivables to three categories based on collectibility: (1) normal receivables, which have limited risk, (2) receivables doubtful for collection, which are highly likely to be uncollectible and (3) receivables in bankruptcy, which are mostly uncollectible. The allowance for normal receivables and receivables doubtful for collection is stated in amounts considered to be reasonable based on the Companies' past credit loss experience. The allowance for receivables in bankruptcy is stated based on an evaluation of potential losses among the receivables outstanding.

The effect of this change was to decrease income before income taxes and minority interests for the year ended February 28, 2002 by ¥5,639 million ($42,082 thousand), which included a cumulative effect of ¥4,137 million ($30,873 thousand) as of February 28, 2001. This cumulative effect, which was the allowance for doubtful accounts as of the beginning of year, was presented in other expenses in the 2002 consolidated statement of income.

f. Marketable Securities and Investment Securities

Marketable 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 based on the moving-average method.

Effective March 1, 2001, the Companies adopted a new accounting standard for financial instruments. The standard requires all applicable securities to be classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in near term are reported at fair value, and the related unrealized gains and losses are included in the earnings, (2) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of stockholders' equity.

The standard permits the Companies to apply reporting available-for-sale securities at fair value one year later, and accordingly, the Companies applied the cost method for these securities in fiscal 2002 as in prior years.

All the securities are classified as available-for-sale securities except for the stock of the parent company, The Daiei, Inc. (the "Parent"), which is stated at cost.

As a result, marketable securities classified as current assets decreased by ¥6,161 million ($45,978 thousand) and investment securities increased by the same amount as of March 1, 2001.

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. Employees' Retirement Benefits

The Company and certain consolidated subsidiaries have a contributory trust pension plan and non-contributory trust pension plans covering substantially all of their employees.

Prior to March 1, 2001, the amounts contributed to the fund were charged to income when paid.

Effective March 1, 2001, the Companies adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

The transitional obligation of ¥7,495 million ($55,933 thousand), determined as of the beginning of year, is being amortized over 5 years and is presented as other expense in the consolidated statement of income. As a result, net periodic benefit costs as compared with the prior method, increased by ¥1,810 million ($13,507 thousand) and income before income taxes and minority interests decreased by the same amount.

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

Installment sales receivable is recorded when the Company purchases these receivables from the affiliated stores, and fees for collection and administrative services to be received from the affiliated stores are recognized at the same time.

Prior to March 1, 2001, such fees were recognized as revenue according to the respective installment plans over the lives of the related receivables.

Effective March 1, 2001, the Company changed its method of accounting for such fees to recognize the revenue when the Company purchases installment sales receivables from the affiliated stores. This change was made to reflect periodic income and expenses more appropriately.

The effect of this change was to increase income before income taxes and minority interests for the year ended February 28, 2002 by ¥1,055 million ($7,873 thousand), which included a cumulative effect of ¥1,139 million ($8,500 thousand) as of February 28, 2001. This cumulative effect, which was the deferred revenue as of the beginning of year, was presented in other income in the 2002 consolidated statement of income.

The Company also receives fees from customers under credit card contracts, and such fees 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.

(2) Loan Contracts

Operating loans receivable from cardholders are recorded when they 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 revenue monthly on a declining-balance basis.

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

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. 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

Prior to March 1, 2001, short-term receivables and payables denominated in foreign currencies were translated into Japanese yen at the current exchange rates at each balance sheet date, while long-term receivables and payables denominated in foreign currencies were translated at historical rates.

Effective March 1, 2001, the Companies adopted a revised accounting standard for foreign currency transactions. In accordance with the revised standard, all short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from transaction are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

n. Derivative Financial Instruments

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.

Effective March 1, 2001, the Companies adopted a new accounting standard for derivative financial instruments.

This standard requires that: (a) all derivatives be recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the income statement and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Interest rate swaps are utilized to hedge interest rate exposures of long-term debt. These swaps which qualify for hedge accounting are measured at market value at the balance sheet date and the unrealized gains or losses are deferred until maturity as other liability or asset.

However, the interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income.

The adoption of the new accounting standard for derivative financial instruments did not have a material effect on the Companies' consolidated financial statements.

o. Per Share Information

The computation of net income 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 211,304,741 shares for 2002 and 211,306,046 shares for 2001.

Diluted net income per common share assumes increasing shares outstanding for stock option rights. Diluted net income per share in fiscal 2001 is not disclosed because the average fair value of the Company's common stock was less than the stock options exercise price.

No cash dividends applicable to the years ended February 28, 2002 and 2001, were declared.

2. Marketable Securities and Investment Securities

Marketable securities and investment securities are comprised of marketable equity securities and other investment securities. The aggregate costs (carrying amounts) and market values as of February 28, 2002 and 2001, were as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2002			2001			**2002**		
	Carrying Amounts	Market Values	Unrealized Loss	Carrying Amounts	Market Values	Unrealized Gain (Loss)	Carrying Amounts	Market Values	Unrealized Loss
Current:									
Listed securities:									
Marketable equity securities	**¥1,320**	**¥1,320**		¥9,600	¥6,884	¥(2,716)	**$ 9,851**	**$ 9,851**	
Non-current:									
Listed securities:									
Marketable equity securities	**¥5,470**	**¥3,566**	**¥(1,904)**	¥ 406	¥ 440	¥ 34	**$40,821**	**$26,612**	**$(14,209)**
Non-listed securities	**4,087**			4,182			**30,500**		
Total	**¥9,557**			¥4,588			**$71,321**		

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, 2002, investment securities include equity securities borrowed by an outside party for financing purposes in an amount of ¥792 million ($5,910 thousand).

3. Installment Sales Receivable, Operating Loans Receivable and Deferred Revenue

Installment sales receivable, operating loans receivable and deferred revenue as of February 28, 2002 and 2001, consisted of the following:

	Millions of Yen				Thousands of U.S. Dollars	
	2002		2001		**2002**	
	Receivable	Deferred Revenue	Receivable	Deferred Revenue	Receivable	Deferred Revenue
Installment sales receivable:						
Credit card contracts	**¥111,057**	**¥182**	¥129,993	¥1,219	**$ 828,783**	**$1,358**
Personal credit contracts	**10,542**	**697**	11,293	750	**78,672**	**5,201**
	¥121,599		¥141,286		**$ 907,455**	
Operating loans receivable	**¥171,183**	**51**	¥232,478	71	**$1,277,485**	**381**
		¥930		¥2,040		**$6,940**

Amounts of transaction volume and realized operating revenue by type of contract for the years ended February 28, 2002 and 2001, consisted of the following:

	Millions of Yen				Thousands of U.S. Dollars	
	2002		2001		2002	
	Transaction Volume	Operating Revenue	Transaction Volume	Operating Revenue	Transaction Volume	Operating Revenue
Credit card contracts	**¥ 805,054**	**¥ 20,675**	¥ 792,109	¥ 21,810	**$ 6,007,866**	**$154,291**
Personal credit contracts	**8,681**	**890**	8,988	1,007	**64,784**	**6,642**
Loan contracts	**543,930**	**56,289**	522,519	58,614	**4,059,179**	**420,067**
Merchandise sales	**20,441**	**5,769**	20,152	5,889	**152,545**	**43,052**
Travel business	**28,142**	**2,677**	31,247	3,003	**210,015**	**19,978**
Other	**162,677**	**15,974**	156,972	16,410	**1,214,007**	**119,208**
	¥1,568,925	**102,274**	¥1,531,987	106,733	**$11,708,396**	**763,238**
Financial transactions		**14,858**		2,667		**110,881**
Total operating revenues		**¥117,132**		¥109,400		**$874,119**

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, 2002 and 2001, 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 0.3% to 4.5% and from 0.6% to 5.0% as of February 28, 2002 and 2001, respectively.

Long-term debt as of February 28, 2002 and 2001, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Loans from banks, insurance companies and other financing institutions, maturing serially through 2006, bearing interest of 1.0% to 3.2%	**¥101,043**	¥ 77,747	**$ 754,052**
Current portion of long-term debt	**(36,235)**	(19,041)	**(270,410)**
Total	**¥ 64,808**	¥ 58,706	**$ 483,642**

The annual maturities of long-term debt outstanding as of February 28, 2002, were as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2003	¥ 36,235	$270,410
2004	48,621	362,843
2005	14,709	109,769
2006	1,478	11,030
Total	¥101,043	$754,052

As of February 28, 2002, operating loans receivable of ¥64,484 million ($481,224 thousand) are pledged as collateral for short-term borrowings of ¥232,200 million ($1,732,836 thousand) and long-term debt of ¥55,500 million ($414,179 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

The Company and certain consolidated subsidiaries have a contributory trust pension plan and non-contributory trust pension plans covering substantially all of their employees.

The liability for employees' retirement benefits at February 28, 2002, consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Projected benefit obligation	¥18,516	$138,179
Fair value of plan assets	(9,222)	(68,821)
Unrecognized prior service cost	431	3,217
Unrecognized actuarial gain	(1,045)	(7,799)
Unrecognized transitional obligation	(5,996)	(44,746)
Net liability	¥ 2,684	$ 20,030

The components of net periodic benefit costs for the year ended February 28, 2002, are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥ 948	$ 7,075
Interest cost	491	3,664
Expected return on plan assets	(374)	(2,791)
Amortization of prior service cost	(4)	(30)
Amortization of transitional obligation	1,499	11,187
Net periodic benefit costs	¥2,560	$19,105

Assumptions used for the year ended February 28, 2002, are set forth as follows:

Discount rate	3.0%
Expected rate of return on plan assets	4.0%–4.5%
Amortization period of prior service cost	10 years
Recognition period of actuarial gain/loss	10 years
Amortization period of transitional obligation	5 years

The expense related to the employees' retirement and pension plans was ¥416 million for the year ended February 28, 2001.

7. Stockholders' Equity

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001.

Prior to October 1, 2001, the Code required at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital were credited to additional paid-in capital. Effective October 1, 2001, the Code was revised and common stock par values were eliminated resulting in all shares being recorded with no par value.

Prior to October 1, 2001, the Code also provided 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. Effective October 1, 2001, the revised Code allows for such appropriations to be set aside as a legal reserve until the total additional paid-in capital and legal reserve equals 25% of stated capital. The amount of total additional paid-in capital and legal reserve which exceeds 25% of stated capital can be transferred to retained earnings by resolution of the stockholders, which may be available for dividends. Under the Code, companies may issue new common shares to existing stockholders without consideration as a stock split pursuant to a resolution of the Board of Directors. Prior to October 1, 2001, the amount calculated by dividing the total amount of stockholders' equity by the number of outstanding shares after the stock split could not be less than ¥50. The revised Code eliminated this restriction.

Prior to October 1, 2001, the Code imposed certain restrictions on the repurchase and use of treasury stock. Effective October 1, 2001, the Code eliminated these restrictions allowing companies to repurchase treasury stock by a resolution of the stockholders at the general stockholders meeting and dispose of such treasury stock by resolution of the Board of Directors after March 31, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of stated capital, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general stockholders meeting.

The Code permits companies to transfer a portion of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Code also permits companies to transfer a portion of unappropriated retained earnings, available for dividends, to stated capital by resolution of the stockholders.

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

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 1,940,000 shares of the Company's common stock in the period from May 26, 2002 to May 25, 2005. The options were granted at an exercise price of ¥404 ($3.48). Also, 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 were granted at an exercise price of ¥609 ($4.54).

8. Related Party Transactions

Transactions with unconsolidated subsidiaries and the Parent for the years ended February 28, 2002 and 2001, and due to or from such related parties as of February 28, 2002 and 2001, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Transaction volume by credit card and personal credit contracts	**¥283,826**	¥304,780	**$2,118,104**
Notes and accounts payable	**4,783**	5,662	**35,694**
Investment in the Parent (included in marketable securities)	**1,320**	3,438	**9,851**
Investments in non-consolidated subsidiaries (included in investment securities)	**15**	48	**112**

9. Financial Transactions and Expenses

Financial transactions and expenses for the years ended February 28, 2002 and 2001, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Financial transactions:			
Interest income	**¥ 150**	¥ 391	**$ 1,120**
Dividend income	**14,708**	2,274	**109,761**
Other		2	
Total	**¥14,858**	¥ 2,667	**$110,881**
Financial expenses:			
Interest expense	**¥13,624**	¥16,202	**$101,672**
Other	**955**	342	**7,127**
Total	**¥14,579**	¥16,544	**$108,799**

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, 2002 and 2001.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at February 28, 2002 and 2001, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Deferred tax assets:			
Excess of tax allowance for provision of doubtful accounts	**¥ 1,581**	¥ 5,699	**$ 11,799**
Tax loss carryforwards	**42,329**	43,155	**315,889**
Valuation loss on investment securities	**1,317**	150	**9,828**
Other	**3,606**	1,497	**26,910**
Less valuation allowance	**(844)**		**(6,299)**
Total	**47,989**	50,501	**358,127**
Deferred tax liabilities	**(9)**		**(67)**
Net deferred tax assets	**¥47,980**	¥50,501	**$358,060**

There is no material difference between the normal effective statutory tax rate for the years ended February 28, 2002 and 2001, and actual effective tax rate reflected in the accompanying consolidated statements of income.

As of February 28, 2002, the Company has net operating loss carryforwards of approximately ¥98,300 million ($733,582 thousand) which are available to be offset against taxable income in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2004	¥ 2,800	$ 20,896
2005	66,300	494,776
2006	29,200	217,910
Total	¥98,300	$733,582

11. Leases

Finance Lease Transactions

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

Total rental expenses were ¥6,675 million ($49,813 thousand) and ¥6,698 million for the years ended February 28, 2002 and 2001, respectively. Such rental expenses included total lease payments of ¥934 million ($6,970 thousand) and ¥720 million for the years ended February 28, 2002 and 2001, 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, 2002 and 2001, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Acquisition cost—equipment	**¥4,828**	¥3,520	**$36,030**
Accumulated depreciation	**2,219**	1,567	**16,560**
Net leased property	**¥2,609**	¥1,953	**$19,470**

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Due within one year	**¥ 877**	¥ 669	**$ 6,545**
Due after one year	**1,809**	1,356	**13,500**
Total	**¥2,686**	¥2,025	**$20,045**

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 income, computed by the straight-line method and the interest method were ¥844 million ($6,299 thousand) and ¥100 million ($746 thousand) for the year ended February 28, 2002 and ¥643 million and ¥88 million for the year ended February 28, 2001, respectively.

12. Contingent Liabilities

As of February 28, 2002, the Companies were contingently liable as a guarantor for borrowings of customers in an amount of ¥2,738 million ($20,433 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.

Over-the-Counter Contracts for Interest Rate

	Millions of Yen			
	2001			
	Contract or Notional Amount			
	Total	Portion after One Year	Fair Value	Unrealized Loss
Interest rate swap:				
Pay-fix/receive—float	¥200,000	¥200,000	¥(13,351)	¥(13,351)

Market value information for the year ended February 28, 2002, is not disclosed because all of the derivatives qualified for hedge accounting. The deferred loss and swap liability by interest swap transaction, amounted by ¥7,424 million ($55,403 thousand) is included in prepaid expenses and other current assets and other current liabilities, respectively.

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, 2002 and 2001, was as follows:

(1) Operations in Different Industries

	Millions of Yen			
Year Ended February 28, 2002	Financial Services	Other Business	General Corporate/ Eliminations	Consolidated
a. Operating Revenues and Operating Income				
Operating revenues for customers	**¥104,189**	**¥12,943**		**¥117,132**
Intersegment operating revenues	**294**	**272**	**¥ (566)**	
Total operating revenues	**104,483**	**13,215**	**(566)**	**117,132**
Operating expenses	**75,335**	**13,341**	**4,679**	**93,355**
Operating income (losses)	**¥ 29,148**	**¥ (126)**	**¥(5,245)**	**¥ 23,777**
b. Assets, Depreciation and Capital Expenditures				
Assets	**¥559,696**	**¥24,290**	**¥ 584**	**¥584,570**
Depreciation	**1,486**	**475**	**293**	**2,254**
Capital expenditures	**3,579**	**286**	**329**	**4,194**

Year Ended February 28, 2002	Financial Services	Other Business	General Corporate/ Eliminations	Consolidated
	Thousands of U.S. Dollars			
a. Operating Revenues and Operating Income				
Operating revenues for customers	**$ 777,530**	**$ 96,589**		**$ 874,119**
Intersegment operating revenues	**2,194**	**2,030**	**$ (4,224)**	
Total operating revenues	**779,724**	**98,619**	**(4,224)**	**874,119**
Operating expenses	**562,202**	**99,559**	**34,918**	**696,679**
Operating income (losses)	**$ 217,522**	**$ (940)**	**$(39,142)**	**$ 177,440**
b. Assets, Depreciation and Capital Expenditures				
Assets	**$4,176,836**	**$181,269**	**$ 4,358**	**$4,362,463**
Depreciation	**11,090**	**3,546**	**2,185**	**16,821**
Capital expenditures	**26,709**	**2,134**	**2,456**	**31,299**

Year Ended February 28, 2001	Financial Services	Other Business	General Corporate/ Eliminations	Consolidated
	Millions of Yen			
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

(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 23, 2002, the Company's stockholders approved the following stock option plan for the Company's key employees.

The plan provides for granting options to key employees to purchase up to 575,000 shares of the Company's common stock in the period from May 24, 2004 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.

Independent Auditors' Report

Tohmatsu & Co.
MS Shibaura Building
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Minato-ku, Tokyo 108-8530, Japan

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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 28, 2002 and 2001, and the related consolidated statements of income, 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, 2002 and 2001, 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 consistently applied during the period except for the change, with which we concur, in the accounting for recognition of operating revenues, as discussed in Note 1.j.

As discussed in Note 1, the consolidated financial statements have been prepared in accordance with new accounting standards for financial instruments and employees' retirement benefits which were effective as of March 1, 2001.

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 23, 2002

Corporate Data (As of February 28, 2002)

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: 81-3-3495-9639
Facsimile: 81-3-3495-8595

Date of Establishment
September 1950

Number of Employees
1,713

Main Consolidated Subsidiaries

MARUKO DENKILAND CO., LTD.
Electrical appliances retailing

MCS Servicer Co., Ltd.
Servicer

ALPHA OMC Co., Ltd.
Credit sales financing

Daiei OMC Mortgage, Inc.
Mortgage securities

ACCESS GENERAL Co., Ltd.
Credit sales financing

APEX MORTGAGE Co., Ltd.
Credit sales financing

PLUSONE EQUITY Co., Ltd.
Credit sales financing

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

KYOEIKIKAKU, Inc.
Real estate management

RICCAR Telephone Service, Inc.
Real estate management

RICCAR Sales, Inc.
Call sales

BLOCKLINE, Inc.
Data processing service

ANNEX CAPITAL Co., Ltd.
Credit sales financing

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

Investor Information (As of February 28, 2002)

Paid-in Capital
¥42,806,910,026

Common Stock
Authorized: 670,000,000 shares
Issued: 211,307,082 shares
Number of Stockholders: 6,038

Stock Exchange Listings
Tokyo Stock Exchange

Ordinary General Meeting of Stockholders
The Ordinary General Meeting of Stockholders will be held in May in Tokyo.

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

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

Common Stock Price
(Tokyo Stock Exchange)

	2002		2001		2000	
	High	**Low**	High	Low	High	Low
1st quarter	**600**	**286**	470	355	203	103
2nd quarter	**689**	**544**	468	380	625	171
3rd quarter	**575**	**314**	419	240	608	338
4th quarter	**433**	**214**	379	249	519	311

Daiei OMC, Inc.

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http://www.daieiomc.co.jp/eng/ (English)

OMC Card, Inc.

Daiei OMC will change its company name to OMC Card, Inc., on September 1, 2002.

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