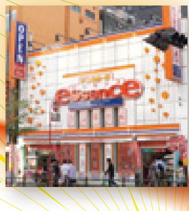
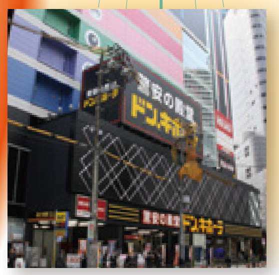




ANNUAL REPORT 2012

Pioneering in Retail Innovation

Don Quijote Co., Ltd.

We do it all for our customers

ドン.キホーテ

Don Quijote Co., Ltd.

Operation of discount stores that sell electrical appliances, daily commodities, foods, watches, fashion merchandise, sporting goods, leisure equipment, DIY products and others

Don Quijote (USA) Co., Ltd.
Discount retail chain in the U.S.A.

長崎屋
Nagasakiya Co., LTD.
General merchandise store operation

Doit Co., Ltd.
Retailing business emphasizing DIY goods

Accretive Co., Ltd.
Financial services to quickly acquire client accounts receivable, and outsourcing services to manage clients' payment processing operations

REALIT Co., Ltd.
Marketing business

日本商業施設
Japan Commercial Establishment
Japan Commercial Establishment Co., Ltd.
Leasing space management
Rental business operation

ドンキ情報館
Donki Johokan Co., Ltd.
Cellular phone sales business

Sun Assort Co., Ltd.
Casualty insurance agency services and services related to the sale (subscription) of life insurance policies

D-ONE Co., Ltd.
Real estate business

※As of June 30, 2012

Profile

Since the first Don Quijote store opened in 1989, Don Quijote Co., Ltd., has adhered to a company principle of "valuing the customer as our utmost priority" in developing business activities—primarily a network of stores under a comprehensive discount format emphasizing variety. We have attracted enormous support from customers for an innovative perspective on retailing that meets their needs with a rich assortment of merchandise and remarkably low prices and then transforms the typically routine chore of shopping into an entertaining experience through presentations that utilize "compression displays" and handwritten POP (point-of-purchase) cards.

Also of note, general discount MEGA Don Quijote stores catering to family-oriented lifestyles as well as Doit home centers have drawn favorable market attention and established a solid market presence. "Jonetsu Kakaku" private brand products have also caught the eye of discerning customers looking for a good price and quality, and we continue to deliver a steady stream of high-value-added products through an emphasis on "fun" in the characteristic style of the Don Quijote Group.

In fiscal 2012, ended June 30, 2012, market conditions remained challenging as the lingering consequences of the Great East Japan Earthquake dampened consumer interest in spending. Nevertheless, as a format innovator putting the principle of "valuing the customer as our utmost priority" into practice, we demonstrated a tenacious ability to respond to changes and were rewarded with higher revenues and operating income for the 23rd consecutive year. But even more impressive was achieving consolidated net sales of ¥540.3 billion and securing growth as a comprehensive retailing group with 242 stores.

We will continue to pursue our CV (convenience) + D (discounts) + A (amusement) store concept and maximize our one-of-a-kind "consumable-time" format, which gives customers the opportunity to truly enjoy their shopping experience whenever they visit one of our stores.

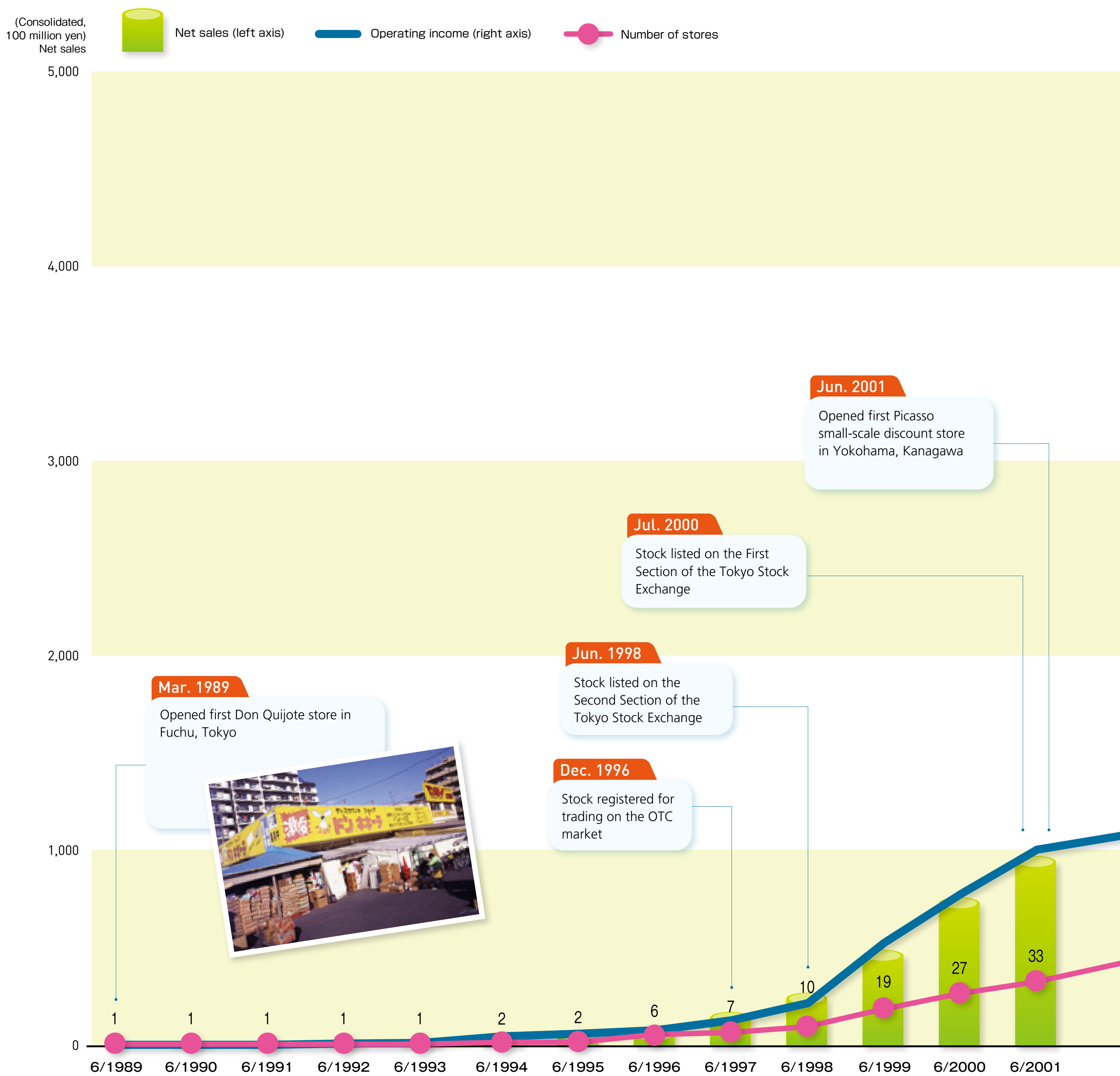
Contents

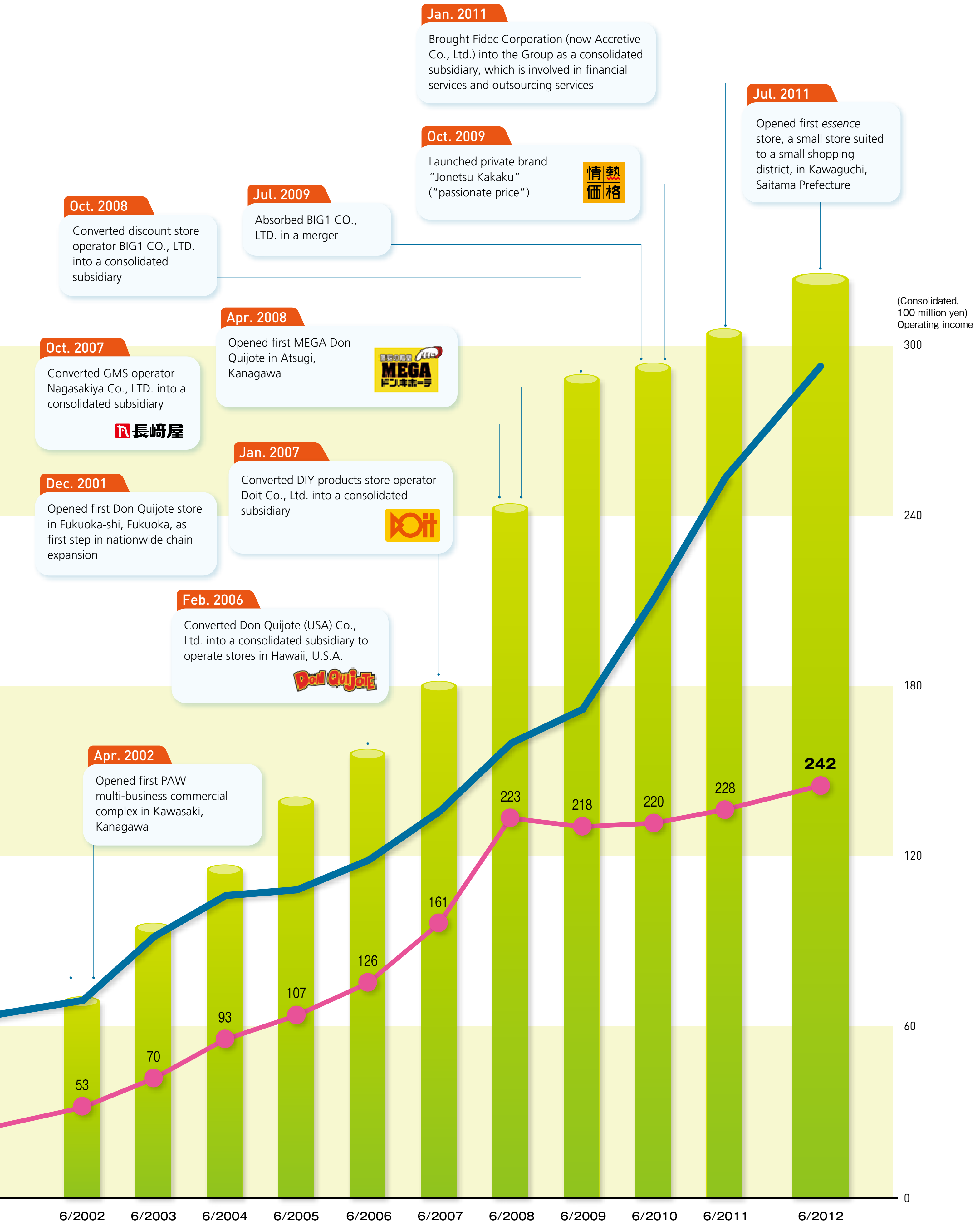
The Don Quijote Group: Stages in Development

Established in 1980, Don Quijote has been in business for 32 years, building a strong group of companies that enjoy the support of huge customer bases.

Guided by our "valuing the customer as our utmost priority" principle, we have grown through a repeated process of trial and error to find the right approaches to delight customers and meet their needs.

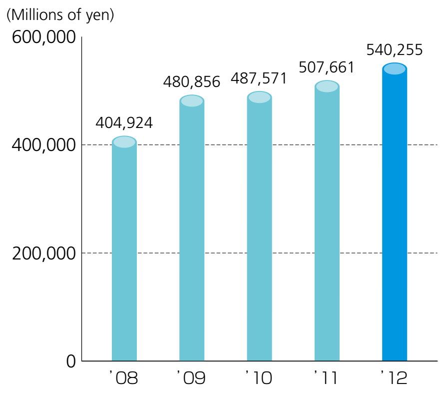
Going forward, we will continue to create shopping environments that enable as many people as possible to enjoy the convenience, discounts and amusement that the Don Quijote Group is known for. This emphasis will underpin further growth.



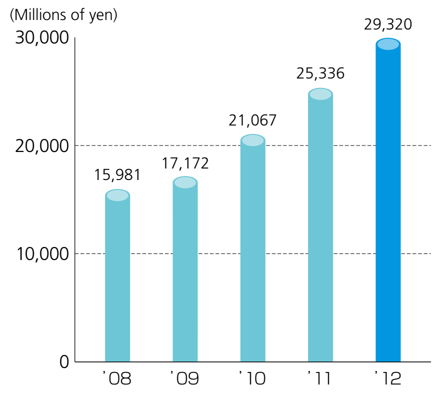

Jan. 2011
Brought Fidec Corporation (now Accretive Co., Ltd.) into the Group as a consolidated subsidiary, which is involved in financial services and outsourcing services
Jul. 2011
Opened first *essence* store, a small store suited to a small shopping district, in Kawaguchi, Saitama Prefecture
Oct. 2009
Launched private brand "Jonetsu Kakaku" ("passionate price")
情熱価格
Jul. 2009
Absorbed BIG1 CO., LTD. in a merger
Oct. 2008
Converted discount store operator BIG1 CO., LTD. into a consolidated subsidiary
Apr. 2008
Opened first MEGA Don Quijote in Atsugi, Kanagawa
Oct. 2007
Converted GMS operator Nagasakiya Co., LTD. into a consolidated subsidiary
Jan. 2007
Converted DIY products store operator Doit Co., Ltd. into a consolidated subsidiary
Dec. 2001
Opened first Don Quijote store in Fukuoka-shi, Fukuoka, as first step in nationwide chain expansion
Feb. 2006
Converted Don Quijote (USA) Co., Ltd. into a consolidated subsidiary to operate stores in Hawaii, U.S.A.
Apr. 2002
Opened first PAW multi-business commercial complex in Kawasaki, Kanagawa
(Consolidated, 100 million yen)
Operating income
300
240
180
120
60
0
53
70
93
107
126
161
223
218
220
228
242
6/2002
6/2003
6/2004
6/2005
6/2006
6/2007
6/2008
6/2009
6/2010
6/2011
6/2012

Consolidated Financial Highlights

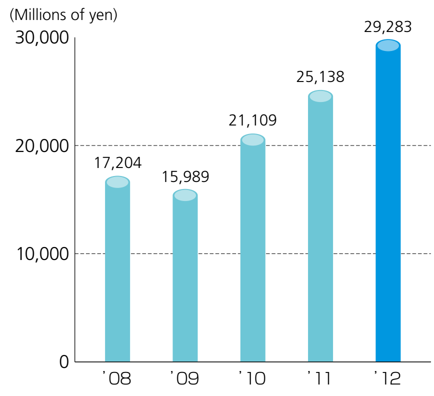
Net sales



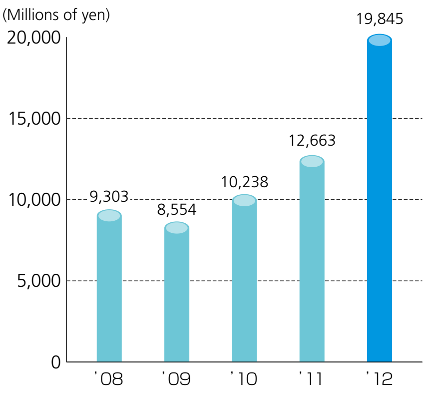
Operating income



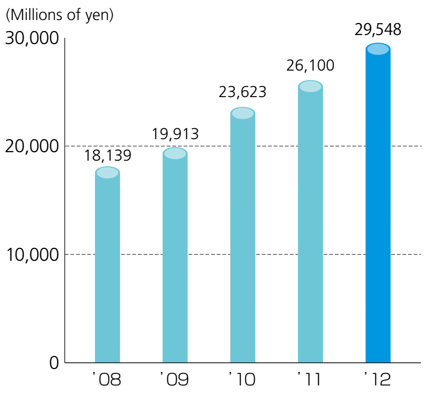
Ordinary income



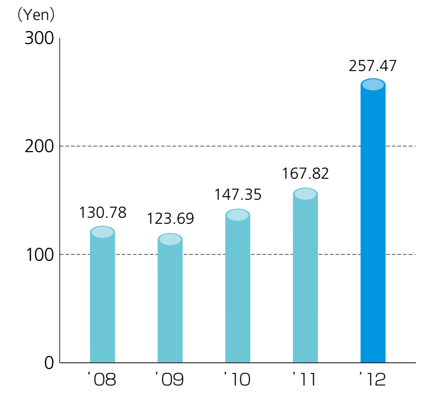
Net income



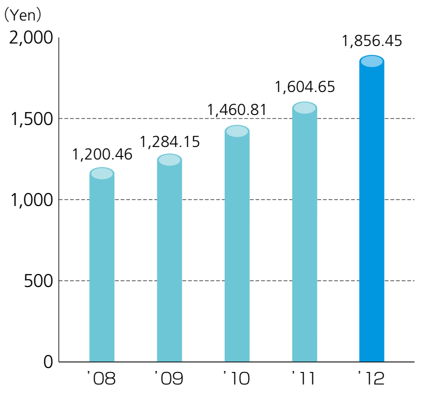
Free cash flow*1



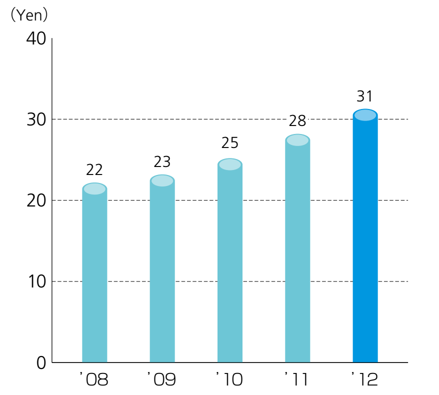
Net income per share



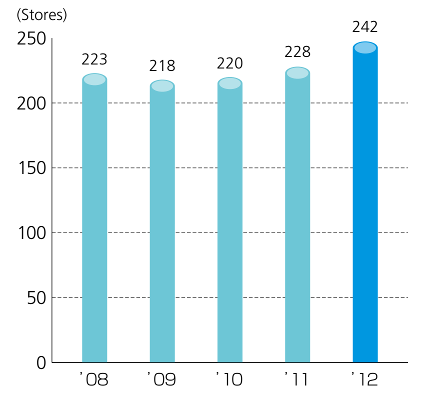
Shareholders' equity per share



Annual dividends per share



Number of stores*2



*[1] Free cash flow = net income after taxes + depreciation and amortization + extraordinary loss – cash dividends
*[2] Please refer to pages 20 and 21 for a breakdown of the number of stores.

Dear Fellow Shareholders and Investors

The Don Quijote Group closed its consolidated books for fiscal 2012 on June 30, 2012, and we would like to describe the Group's operating environment and performance for shareholders and investors.

Takao Yasuda
Chairman of the Board and CEO

Junji Narusawa
President and COO

Although the consequences of the Great East Japan Earthquake still affected the domestic economy in fiscal 2012, business conditions started to show signs of improvement, as reconstruction demand spurred a slow but steady rise among such key indicators of economic well-being as production, capital investment and consumer spending. However, in the retail industry, conditions remained highly competitive despite a moderate recovery in wages and the job market, which meant companies placed more emphasis on fine-tuning their ability to demonstrate quick and accurate responses to changes in the operating environment.

Against this backdrop, the Don Quijote Group demonstrated a tenacious ability to respond to changes with the innovative store formats of a retailing organization that puts the principle of "valuing the customer as our utmost priority" into practice, and diligently directed efforts toward the creation of stores that make shopping an exciting experience for customers. Our efforts were rewarded with another year of steady growth, exemplified by higher sales and operating income.

Consolidated net sales increased 6.4% over the previous fiscal year, to ¥540.3 billion, and operating income climbed 15.7%, to ¥29.3 billion, marking the 23rd consecutive year of higher sales and income—an uninterrupted pattern of growth since the opening of the first Don Quijote store in 1989. Ordinary income rose 16.5%, to ¥29.3 billion, and net income surged 56.7%, to ¥19.8 billion. These results were significant increases over the previous fiscal year and, in fact, set new records.

The annual dividend was set at ¥31 per share, up ¥3 from fiscal 2011. Tracking back to fiscal 2004, this was the ninth consecutive year of increase and thus substantiates our policy on returning profit to shareholders.

Group Activities in Fiscal 2012

MEGA Don Quijote Ujina store

As always, Group companies emphasized their unique amusement quality and great services and endeavored to make shopping an exciting experience for customers. These efforts were implemented from our perspective as a retailing organization that specializes in creating store formats, coupled with our principle of "valuing the customer as our utmost priority" and original concepts in shopping.

Don Quijote Co., Ltd., the core company of the Group, enthusiastically pursued development of seasonal and theme-based product portfolios geared particularly toward women, a customer segment with a high repeat rate, demonstrating its sensitivity to market trends. This effort led to a 0.5% increase in sales at existing stores.

Nagasakiya Co., LTD., which currently focuses on expanding the MEGA Don Quijote general discount, family-oriented store network, marked a 9.2% year-on-year increase in sales, as stores that had been converted into the MEGA Don Quijote format sharpened their competitive edge and secured their position as the No. 1 shopping destination in their respective catchment area.

essence Sekimachi store

As far as product strategy is concerned, we enhanced our ability to bring together a product selection well matched to expanding customer composition and also worked to increase sales of the private brand "Jonetsu Kakaku" (passionate price) and reinforce Groupwide capabilities. We also emphasized original concepts in shopping, highlighted by the debut of a new store format—*essence*—featuring an enhanced lineup of products, such as cosmetics and beauty-related home appliances, to attract female consumers.

Three Priority Strategies

Since its establishment, Don Quijote has been committed to the idea of *kenshu sokko*—a feudal term for staunchly defending a castle or military camp from the enemy and attacking quickly to prevent the enemy from gaining any advantage—and has, with the rest of the Group on board, maintained steady growth by demonstrating an ability to respond flexibly to changes regardless of lackluster business conditions and deflationary environments and by turning adversity into opportunity. Going forward, the Group will emphasize three priority strategies designed to sustain steady growth into the future: 1) break records for continued growth in sales and income; 2) improve profitability through reinforced private brand content; and 3) develop solution stores.

1) Boost Consolidated Sales and Income

Don Quijote has achieved continuous growth in sales and income without any interruption whatsoever since the opening of its first store 23 years ago in 1989. Of the more-than-3,500 companies listed on domestic stock exchanges, Don Quijote's track record places it at the No. 2 spot. This remarkable accomplishment is surely a reflection of the loyalty accorded to us by customers and the dedication of staff in their day-to-day efforts, guided by our principle of "valuing the customer as our utmost priority." The Don Quijote Group will continue to strive for stable and ongoing growth by providing maximum customer satisfaction and demonstrating tireless determination in all its business pursuits.

2) Improve Profitability Through Reinforced Private Brand Content

"Jonetsu Kakaku," the Don Quijote private brand, was launched in October 2009 under a concept that accords relevance to customer feedback. The brand has been well-received, exemplified by a steadily climbing customer approval rating every year since the brand debuted. Currently, about 90% of combined net sales from all Group companies is derived from other brands, while Don Quijote's original products (including private brand (PB) and original equipment manufacture (OEM)) account for 9.6%.

Thanks to original store displays and the skills to bring together just the right selection of products, the operating income ratio has settled quite high—at 5.4%. However, there is still room for solid profit growth in the private brand. Going forward, we aim to take profitability to new heights by reinforcing private brand content.

3) Develop Solution Stores

A "solution store" refers to what we call a facility renewal format in which we open a store in a multiuse commercial complex, a small to mid-sized shopping center, community shopping center (CSC), or neighborhood shopping center (NSC), relatively inexpensively because we do so at the request of the operator who hopes that the customer-drawing ability of Don Quijote Group stores will draw more shoppers to the destination. Solution stores are tenant-ready spaces measuring around 3,000 m^2 and offer a fast and low-cost approach to store development. We will utilize this approach as a new growth strategy. Naturally, we aim to get solution stores up and running as quickly as possible for our own business reasons, but our presence in these facilities has additional benefits as we will be contributing to the revitalization of shopping centers and, by extension, invigorating regions and cities.

Don Quijote Morioka Kamidou store

Corporate Image We Aspire to

The medium- to long-term goals of the Don Quijote Group are to balance growth and profitability while expanding corporate value through the implementation of business plans emphasizing a more extensive store network, and to establish a business model that creates store formats and fosters the ability to respond to changes in the market. Customer needs are diversifying, and everyone is increasingly eager to exhibit his or her own individuality. Given these trends, we will not be held back by one-size-fits-all rules but strive instead to address prevailing consumer demands by constantly reviewing product mix from the customer's perspective and presenting new ways to think outside the box. In addition, we will reinforce our domestic network by flexibly adopting store formats tailored to market size and local characteristics— thereby setting the stage for securing future profits.

We want stores under the Group umbrella to attract a wide spectrum of age groups and become the all-time-favorite, No. 1 shopping destination in each catchment area all over Japan. We aim to continue to provide safe and entertaining products and services, based on the principle of "valuing the customer as our utmost priority," and together with our many stakeholders, strive to the very limits of our capabilities to improve corporate value and shareholder value.

MARKETING STRATEGY

All marketing-related activities within the Don Quijote Group are carefully coordinated, from market analysis and selection of possible sites for new stores, along with store size, to the merchandise lineup offered to customers. This meticulous approach is indeed a marketing strategy that aims to make the most of our accumulated expertise.

We have always maintained an efficient marketing strategy that maximizes our presence at home and abroad—a network of stores that now exceeds 240 locations.

Ideal Marketing Strategy Fine-Tuned to Each Area

The Don Quijote Group has several unique store formats. When planning to open a new store, we carefully analyze the catchment area and select a store format perfectly suited to local characteristics.

The enormous Don Quijote Umeda store, which celebrated its grand opening in March 2012, is open 24/7 to take advantage of its location in a prime commercial spot in front of a major railway station in Osaka, and offers shopping convenience to a diverse range of customers, from businessmen to tourists. In the space created by pilotis—ground-level support columns—at the front of the store, we installed giant aquariums and a large stone sculpture entitled "Umedon," a smile-inducing welcome to customers that epitomizes the amusement quality associated with Don Quijote and is sure to become a new landmark in Osaka's bustling Umeda district.

MEGA Don Quijote Ryugasaki, which opened in June 2012 in Ryugasaki, Ibaraki Prefecture, features aisles that curve like a meandering river, taking shoppers on an excursion-like tour with a panoramic view of myriad products. The store offers products to match the daily needs of all shoppers and provides an enjoyable shopping environment to everyone from children to senior citizens. Also of note, as a solution store— inside a multiuse commercial complex— it is thus designed to generate a lively atmosphere that extends to the surrounding area and thereby helps to revitalize the community as a whole.

When stores open, we believe the chosen format and scale to be ideal for each area. But conditions inevitably change once the doors open, and stores have to carefully adjust layout and merchandise mix to match constantly evolving customer needs. We seek to continuously improve aspects of the shopping experience to satisfy as many customers as possible.

Store Development at Home and Abroad

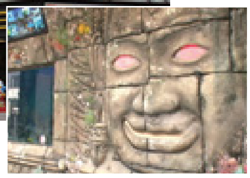
In our domestic store development strategy, we will reinforce the store network by adding roadside stores in the suburbs and by achieving a good balance of new store openings in city centers close to major train stations and commercial districts.

We will change up existing stores as necessary to reflect seasons and trends, and by boosting the repeat ratio we will establish a top-tier position in each catchment area and thereby reinforce profitability.

Overseas, we will continue to direct concerted effort toward improving business results at our three stores in Hawaii. But we also seek to build a wider presence in Asia to capitalize on anticipated growth in its markets, and so we will endeavor to secure and train people with the requisite skills for working abroad, such as fluency in other languages, knowledge of established business practices in other countries and collect market information.

Dominant store concept

Don Quijote Umeda store



Stone sculpture "Umedon"

Solution store concept

MEGA Don Quijote Ryugasaki store

Training candidates to run operations in China

STORE OPERATIONS

At stores operated by Don Quijote Group companies, everyone works together to improve the stores' ability to respond to change, facilitating quick adjustments to meet constantly changing customer needs, and enabling each store to create sales areas that teem with amusing features which make shopping a truly enjoyable experience.

"Consumable Time" Business Model Maximizes Responsiveness to Change and Raises Amusement Factor

Store Staff with a Strong Customer Connection Respond Quickly to Constantly Evolving Customer Needs

Adhering to the company principle of "valuing the customer as our utmost priority," companies in the Don Quijote Group delegate considerable authority for developing sales areas to staff who relate well to a specific customer group, that is, share similar sensibilities, lifestyles and age with the target customer base. These people design sales areas from a customer's perspective because they have a knack for accurately grasping the constantly evolving needs of customers while demonstrating a responsiveness to change that facilitates a fast and flexible approach toward ascertaining the right merchandise mix.

The ability of staff with a strong connection to customers to arrange sales areas from a shopper's point of view is a major strength for the Don Quijote Group.

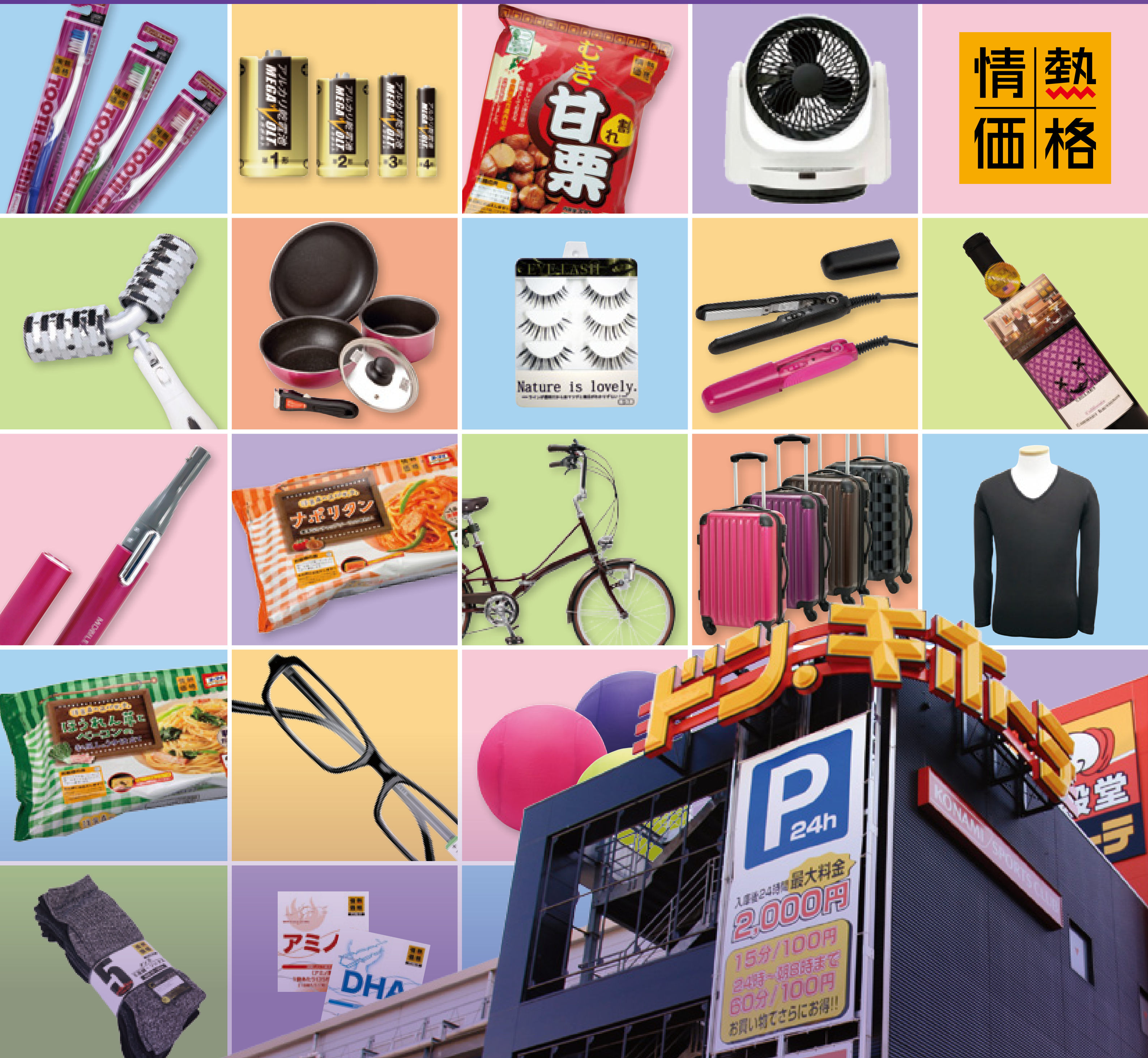
Store Displays that Amuse and Entertain Customers

Stores operated by Don Quijote Group companies are intended to be spaces for amusement that transform the typically routine chore of shopping into an entertaining experience through unique presentations featuring "compression displays" with handwritten POP (point-of-purchase) cards, huge storefront aquariums, and distinctive exteriors that inevitably become local landmarks. The originality exemplified by store presentations like these clearly differentiates Don Quijote Group stores from typical discount stores and supermarkets and, through this sense of fun and amusement, support the creation of sales areas. This entertainment factor is a key advantage for the Don Quijote Group.

Spot products, which are limited in quantity or in availability, are often seasonal goods and incredibly low-priced, unusual items. These products make up about 40% of a store's inventory. The mix of products for sale is constantly changing, which offers customers something new on every visit, and the potential for discovering a great product hugely entices customers to come back again and again.

"Compression displays" multiply the fun of shopping

POP cards maximize the appeal of products



PB DEVELOPMENT

Under the concept of “turning customer input into products,” the Don Quijote Group promotes "Jonetsu Kakaku" (passionate price), a private brand with a varied range of merchandise for everyday occasions.

The Don Quijote Group's Very Own "Jonetsu Kakaku," a One-of-a-Kind Private Brand Infused with a Sense of Fun and Discovery at a Reasonable Price

"Jonetsu Kakaku" Reflects a Passionate Philosophy

"Jonetsu Kakaku" is a Don Quijote private brand launched in October 2009 under the concept of "turning customer input into products." It is quality that differentiates "Jonetsu Kakaku" from typical low-priced private brands that are the epitome of you-get-what-you-pay-for. Aside from offering quality, "Jonetsu Kakaku" is an appealing brand because it provides the requisite elements of fun and discovery that are associated with Don Quijote. The brand currently comprises more than 2,000 items and is very popular with customers.

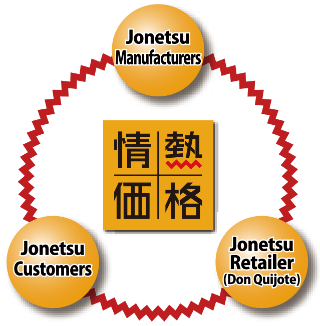
Designed with the principle of "valuing the customer as our utmost priority" in mind, the products under the "Jonetsu Kakaku" label address obvious market needs, of course, as well as underlying desires that customers themselves may not even realize they have. We are meticulous in our approach to product development, carefully considering such aspects as container shape and design as well as ease-of-use from a customer perspective.

Meticulous Product Development Underpinned by Customer Feedback

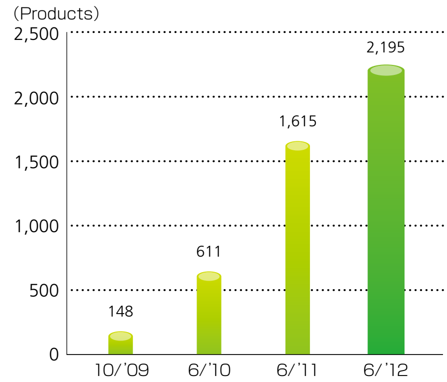
The product development process for "Jonetsu Kakaku" begins by listening carefully to the comments of each and every customer visiting our stores. We approach customer requests in good faith, utilizing these comments to fine-tune our efforts to provide customers with excellent products. This passionate philosophy fuels the creation of "Jonetsu Kakaku" products, which combine high quality at an unbeatable low price and also address customers' needs from a "Wouldn't that be nice?" perspective.

Products at the planning stage are carefully reviewed by the Product Planning Committee, which comprises the Private Brand Division and sections responsible for associated activities, such as marketing, advertising, design and the management of intellectual property, to determine if the product meets customer-oriented requirements for user-friendliness and cost-efficiency. Then the product is manufactured under a strict production control system and shipped out to stores throughout the Group network in Japan.

Going forward, guided by the principle of "valuing the customer as our utmost priority," we will continue to develop private brand products by pursuing value from a customer perspective to meet customers' needs and satisfaction.



Number of products under "Jonetsu Kakaku" brand



Production facility

Product inspections conducted in accordance with strict production control system.

DELEGATION OF AUTHORITY

The Don Quijote Group has fostered a corporate culture that encourages employees to embrace challenges without fear of failure. Store staff are delegated the authority to handle all merchandise-related tasks, from purchasing to pricing, and this allocation of responsibility motivates individuals to do well.

The delegation of authority to store staff nurtures a never-give-up spirit that permeates the entire organization.

Cultivating Excellent Human Resources Through Delegation of Authority

The delegation of authority to store staff is standard procedure throughout the Don Quijote Group, giving frontline employees responsibility for most operations dealing with the products that are carried in-store, from purchasing and pricing to displays and presentation. The delegation of authority begins with responsibility for product procurement for a limited range of products, in line with each person's capabilities, so that even new staff with little in-store experience can quickly acquire the necessary skills to create a sales area. In this way, we establish a practical, on-the-job learning environment. Under the delegation of considerable but focused authority, each person acts like an independent shop owner, considering factors from a customer's perspective, weighing the pros and cons of a purchase, making decisions and then acting on them. This process also lends itself to some friendly competition, as store staff compete with each other while honing skills that support store operations. We announce various rankings and run event-like seminars for employees so that work takes on a game-like atmosphere and the spirit of in-house competition becomes stronger. Utilizing the delegation of authority to cultivate excellent human resources is an approach unique to the Don Quijote Group, and it is a crucial piece of the corporate puzzle that supports the development of such popular stores.

In-house contest "Iron Man of Displays": Staff compete for best display arrangement and speed

Store staff arranging a display within a limited time period

Corporate Culture Encourages Employees to Embrace Challenges Without Fear of Failure

The Don Quijote Group adheres to a completely performance-based employee evaluation system, which assesses individuals on their current performance, not on past achievements or failures. Therefore, as long as employees maintain an indomitable fighting spirit that pushes them to bounce back after a misstep, they can try and try again to achieve successful results. The firmly entrenched practice of delegating authority to store staff is a key component of a corporate culture that encourages employees to embrace challenges without fear of failure, and it is what keeps store staff highly motivated and enables everyone to welcome challenges and develop new skills.

The vigorous growth that the Group enjoys today is without a doubt fueled by human resources who accept responsibilities and constantly welcome new challenges.

Store staff displaying merchandise

We promote the "consumable-time" business model to realize greater convenience, greater discounts and greater shopping pleasure for customers.

Don Quijote Co., Ltd. has adhered to a corporate philosophy of "valuing the customer as our utmost priority" since its establishment, and has always created stores with customers in mind. This philosophy is not merely a goal to achieve but an unwavering principle that underpins all activities, from corporate management to store operation.

Through shopping, we provide convenience and amusement in addition to offering a discount to customers. Moreover, the Group's store operations and merchandise strategies are based on this unique concept. Thus, we have created a store in which customers not only can find what they want when they want it but also spend a delightful time shopping, enjoying the entire Don Quijote experience.

We recognize that our business model, which excites customers and more than meets their satisfaction, is highly useful for meeting the needs of customers and cultivating markets.

Convenience

Cv

Through our philosophy of "valuing the customer as our utmost priority," we have endeavored to create store space that delivers convenience, as reflected in a vast array of store merchandise from daily necessities and foods to household appliances and high-level-branded merchandise. We offer a product lineup geared to all types of customers—from shoppers in the daytime to customers at night—in our efforts to establish the corporate brand of Don Quijote: a store that offers shoppers convenience and everything they need all the time.

Discount

D

We subscribe to the practice of "everyday low prices," whereby items are offered at deep discounts, not at certain times or for a set period, but all the time. This gives customers a never-ending opportunity to find amazing prices. In addition, we continually strive to uphold our promise to customers—that our prices are the lowest in the area—and toward this end, we check the prices charged at competitors' stores and stand by such pledges as our low-price guarantee, which refunds the difference if a product is sold at a price lower than what we have set for that product.

Amusement

A

Don Quijote trumped conventional "easy-to-see, easy-to-buy" retailing wisdom with compression displays, which pack as many items as possible in a given space. We propose that customers spend a delightful time shopping for "little treasures" amid a "jungle" of merchandise, in grab-bag fashion, aided by amusing point-of-purchase (POP) cards. Customers can find enjoyment in not only selecting items but also in searching for and finding them—an adventure in shopping that only Don Quijote can deliver.

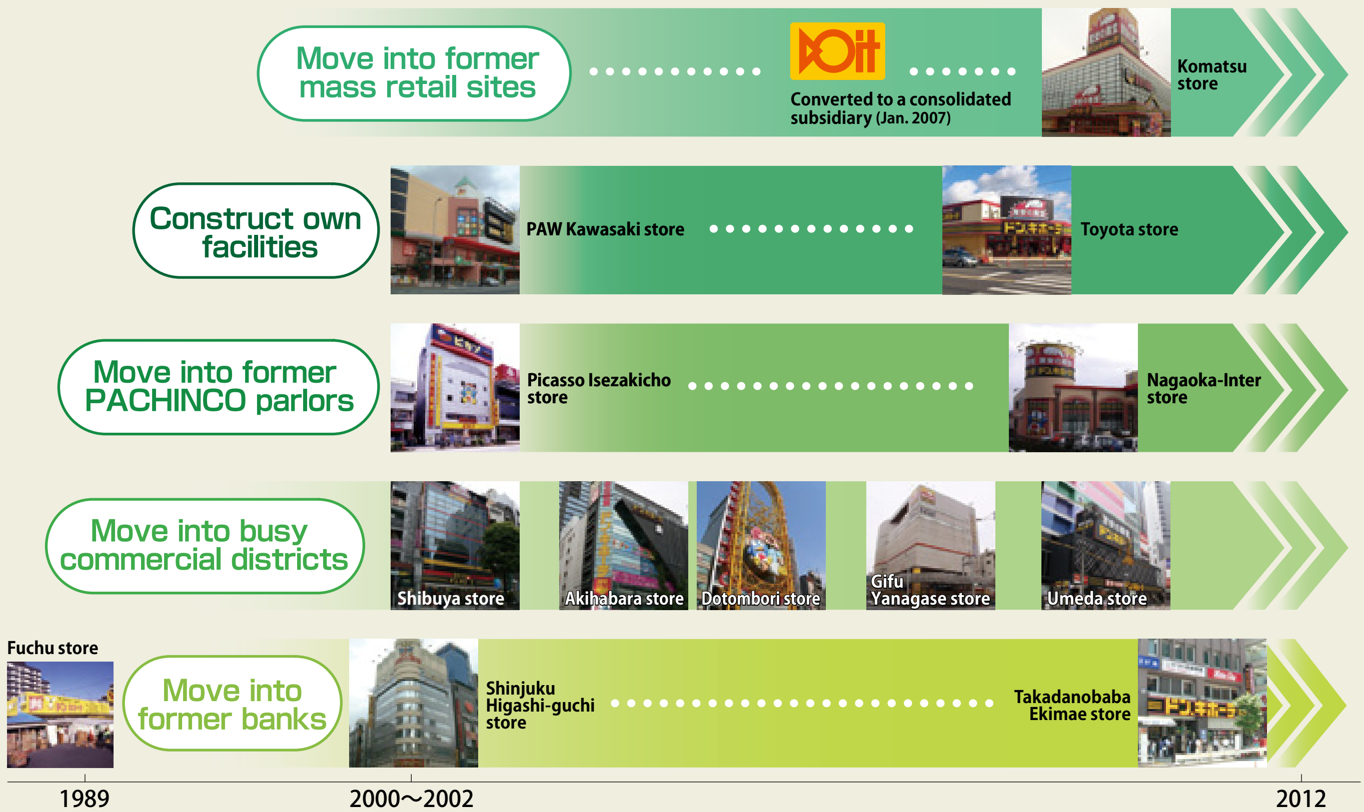
The Don Quijote Group Store-Opening Strategy

Whatever the times, the Don Quijote Group has always been thorough in its approach to meet evolving trends and has been rewarded with robust growth. This special feature focuses on store-opening activities—a corporate strength that supports Group expansion—and describes the “solution store,” a new format in the store-opening spotlight.

The Group’s Existing Formats

Opening stores in vacant buildings

Most of the stores operated by Group companies are opened in vacant store buildings with all the fixtures of the previous tenant. Essentially, the new store moves into a building that another business—of the same or a different industry—has vacated. Many buildings suitable for such stores that are in great locations can be purchased under favorable conditions, and moving into an existing structure with the requisite fixtures keeps the cost of store openings down. Group stores have been opened in vacant buildings formerly occupied by such tenants as mass retailers, general merchandise stores, banks and businesses located in busy shopping districts. This approach has made quiet, empty spaces come alive again with activity while expediting expansion of the store network across the country.



Special Feature

Solution Stores

New store format revitalizes commercial complexes

Guided by the principle of "valuing the customer as our utmost priority," the Don Quijote Group has opened stores in various formats that draw on specialized know-how to create wonderful shopping experiences. A type of store-opening strategy currently emphasized by the Group as a particularly low-cost approach to network development is the solution store—a facility renewal format.

What is a solution store?

A solution store is a tenant-ready space filled by a Group store at the request of the operator of a multi-business commercial complex, like a shopping center, and presents merits for both the commercial complex and the Group. The level of capital investment required to open a store in a space with all of the requisite fixtures is considerably smaller than it would be if everything had to be installed from the ground up. In addition, because the request for occupancy comes from the operator of that particular commercial complex, the store can be opened without considerable burden. An example of such benefit would be comparatively low rent. For the Group, this approach offers a fast and low-cost approach to store development, and for the operator of the shopping center or other commercial facilities, the high profile of a Don Quijote Group store creates the potential to attract customers, which also extends to other tenants and invigorates the shopping environment.

The solution store format is a new option in store development that the Group will actively pursue.

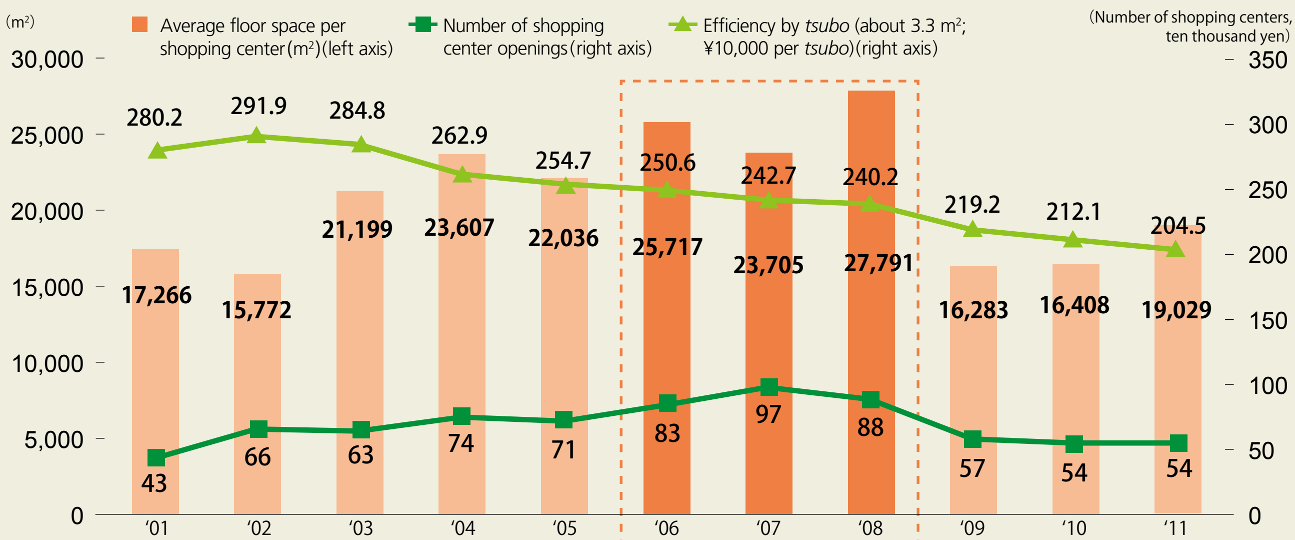
Future demand

First, in the last 10 years the number of new shopping centers and floor space per building were at their highest from 2006 to 2008. Second, tenants in typical shopping malls renew their leases every six years on average. This means today, six years on from 2006, tenant stores that opened during the shopping center boom are beginning to disappear as the store operators allow their leases to lapse. Their retreat from once-desired locations primarily reflects changes in the commercial environment and sluggish performances. This trend is likely to persist, heralding a period of increased vacancies in shopping centers.

Through the implementation of the Don Quijote Group's solution store strategy, the difficulties faced by shopping centers are solved, and at the same time the Group is able to open more stores with greater efficiency.

Going forward, the Group will strive to get this new store strategy on track as quickly as possible for its own sake but also to contribute to the revitalization of shopping centers, and by extension cities and regions.

SC Development Figures



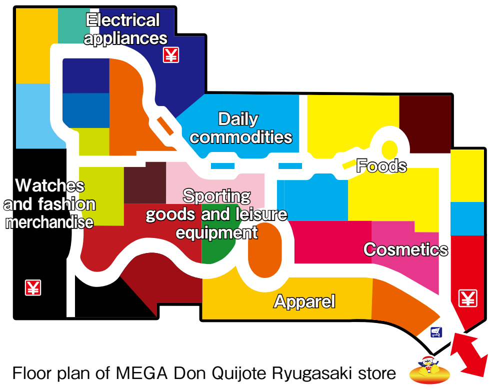
Source: Japan Council of Shopping Centers

Solution Store Introductions 1

MEGA Don Quijote Ryugasaki Store

The MEGA Don Quijote Ryugasaki store is a solution store that opened as a tenant at the shopping center Qiz MALL Ryugasaki. When this shopping center initially opened in March 2007, it was filled with specialty stores offering such products as household appliances, apparel and shoes, and also featured a drugstore and a ¥100 shop, the Japanese equivalent of a dollar store. However, tenants moved out one after another, leaving the shopping center with many vacancies. Seeking to remedy this situation, the operator approached Don Quijote with a request to open a store at the shopping center, leading to the June 2012 opening of MEGA Don Quijote Ryugasaki. The store's main aisle curves like a meandering river, taking shoppers on a winding "excursion" around the store. With wide aisles that facilitate relaxed browsing over an area of about 3,500 m^2 and a bright interior, this store offers an enjoyable shopping environment for young people as well as families and senior citizens.

Going forward, Don Quijote will strive to create stores loved by everyone in the community by devising shopping scenes bursting with an amusement quality that delights and excites customers.



Floor plan of MEGA Don Quijote Ryugasaki store

Solution Store Introductions 2

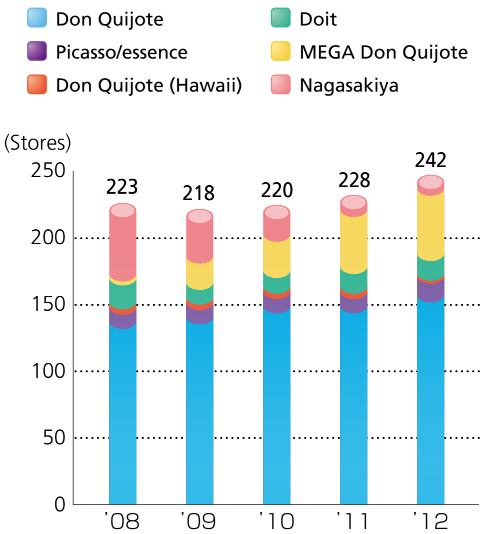
Don Quijote Kagoshima Usuki Store

The Don Quijote Kagoshima Usuki store is the very first store in Kagoshima Prefecture. The store is located in Square Mall Kagoshima Usuki, a multi-business commercial complex in the Usuki district that has been attracting attention as a new commercial zone in the city of Kagoshima. The number of visitors to Square Mall Kagoshima Usuki has tripled since last year, following the opening of the Don Quijote store. In addition, the number of people making their way to other tenants at the complex has also grown, exemplifying the revitalization effect that the Don Quijote presence has had on the shopping center overall.

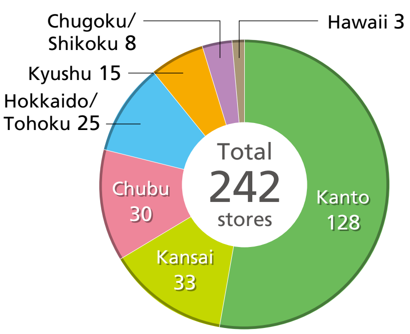
Going forward, we aim to generate a multiplier effect in the greater community and endeavor to put this shopping destination on the map of Usuki landmarks as a popular place to be.

Store Development

Number of stores by format (as of June 30)



Number of stores by region



Achieving a Network of 242 Stores

The Don Quijote Group promotes flexibility and efficiency in new store openings and store renovations to make shopping a wonderful experience for as many customers as possible. In fiscal 2012, efforts to reinforce the domestic network resulted in 21 store openings, including stores that underwent format conversions and stores that were integrated or relocated.

Our strategy for store openings follows two lines of approach. The first is the dominant store concept, which targets a top market share and greater operating efficiency within a certain catchment area as the face of the community. We opened 10 stores in the Kanto region, centering on Tokyo, in our efforts to promote a high concentration of stores in the nation's capital. Examples of the dominant store approach outside this region include the Nakasu store in Fukuoka and the Umeda store in Osaka.

The second approach is the solution store concept. We set up a store as a tenant inside a shopping mall at the request of the operator. The Kagoshima Usuki store in Kagoshima, the Garden Maebashi store in Gunma, the Ryugasaki store in Ibaraki and the Morioka Kamidou store in Iwate are a few of the stores that fall into this category and showcase successful development of highly profitable operations.

We are always keen to develop new store formats that capitalize on certain characteristics of the catchment area to better meet ever-diversifying customer needs. In fiscal 2012, this effort included *essence*, a new store format geared toward women. These stores offer a specialized lineup of cosmetics and beauty-related appliances.

Given these efforts, there were 242 stores under the Group umbrella as of June 30, 2012, compared with 228 a year ago, with the invigorated network comprising 239 stores in 40 prefectures in Japan and three stores in Hawaii.

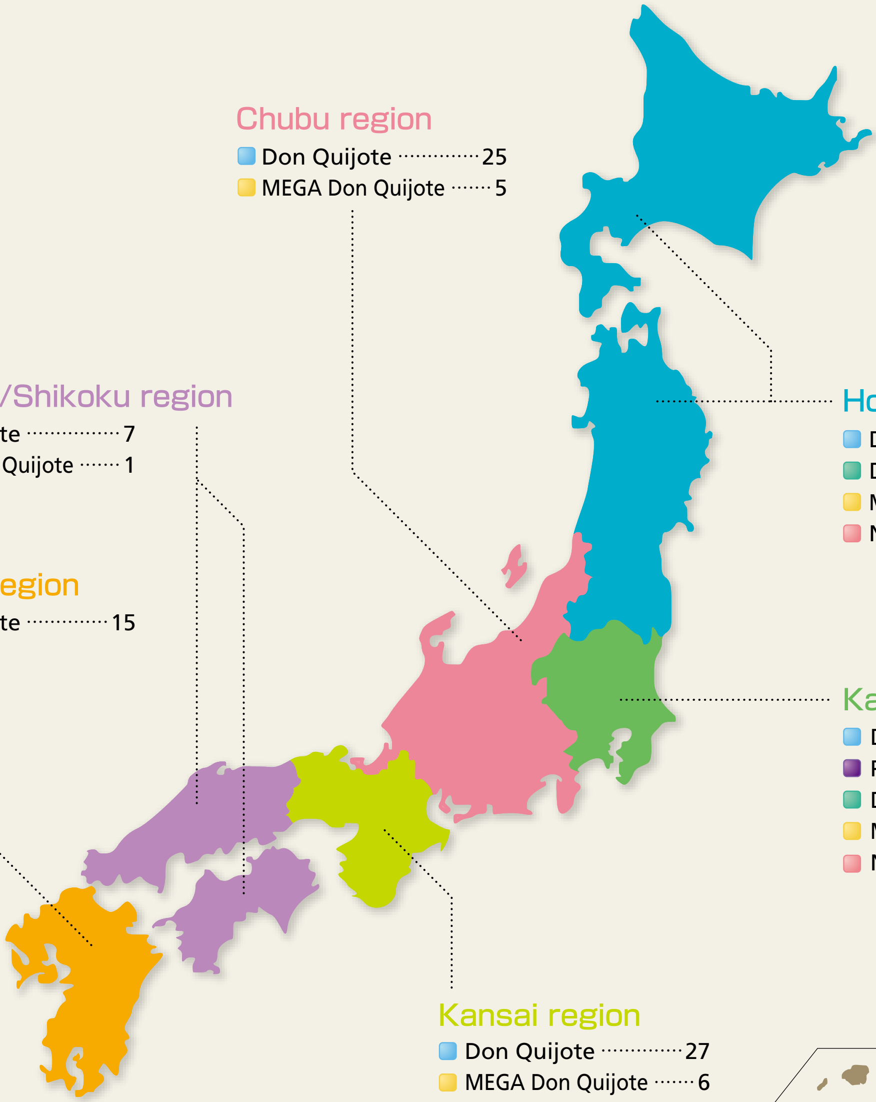
We will continue to identify store formats that harmonize with the special features of the buildings, locations and catchment areas where we establish stores, and we will reinforce the store network by adding roadside stores in the suburbs and by achieving a good balance of new store openings in city centers near major train stations and commercial districts. This emphasis will enhance our marketing capabilities and boost profitability.

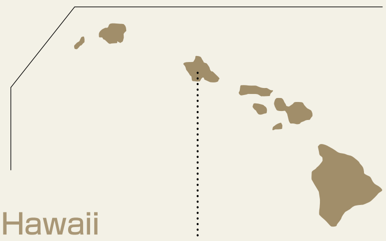
Stores opened by Don Quijote Group

Don Quijote Nakasu store

essence Ikebukuro Higashi-guchi store

Group store network (as of June 30, 2012)





Number of stores by format (Total: 242 stores)

- Don Quijote ··········· 157
- Picasso/essence ·········14
- Don Quijote (Hawaii)····· 3
- Doit·······························14
- MEGA Don Quijote ······49
- Nagasakiya ···················5

Please see detailed information, such as store access and operating hours, on the following websites:

Don Quijote, Picasso, essence	http://www.donki.com/
MEGA Don Quijote	http://mega.donki.com/
Doit	http://www.doit.co.jp/
Nagasakiya	http://www.nagasakiya.co.jp/

History of the Don Quijote Group and Its Standing in the Industry

History of creating new business formats and our growth

'80	Sep.	Established Just Co., Ltd. (currently Don Quijote Co., Ltd.)
'89	Mar.	Opened first Don Quijote store in Fuchu, Tokyo
'95	Sep.	Changed corporate name to Don Quijote Co., Ltd.
'96	Dec.	Stock registered for trading on the OTC market
'98	Jun.	Stock listed on the Second Section of the Tokyo Stock Exchange
'00	Jul.	Stock listed on the First Section of the Tokyo Stock Exchange
'01	Jun.	Opened first Picasso small-scale discount store in Yokohama, Kanagawa
	Dec.	Opened first Don Quijote store in Fukuoka-shi, Fukuoka as first step in nationwide chain expansion
'02	Apr.	Opened first PAW multi-business commercial complex in Kawasaki, Kanagawa
'06	Feb.	Converted Don Quijote (USA) Co., Ltd. into a consolidated subsidiary to operate stores in Hawaii, U.S.A.
'07	Jan.	Converted DIY products store operator Doit Co., Ltd. into a consolidated subsidiary
	Oct.	Converted GMS operator Nagasakiya Co., LTD. into a consolidated subsidiary
'08	Apr.	Opened first MEGA Don Quijote family-oriented discount store in Atsugi, Kanagawa
	Oct.	Converted discount store operator BIG1 CO., LTD. into a consolidated subsidiary
'09	Jul.	Absorbed BIG1 CO., LTD. in a merger
	Oct.	Launched private brand "Jonetsu Kakaku"
'11	Jan.	Brought into the Group as a consolidated subsidiary Fidec Corporation, (now Accretive Co., Ltd.) which is involved in financial services and outsourcing services, through third-party allocation of shares
	Jul.	Opened first *essence* store, a small store suited to a small shopping district, in Kawaguchi, Saitama Prefecture

A Business Platform that Secures Profits Even in a Recession

Don Quijote was the architect of consumable-time shopping, a novel approach to retailing that successfully encourages customers to spend copious amounts of time browsing even if just for entertainment. This was realized by creating innovative shopping spaces through various formats that trump conventional retailing wisdom. It is a multifaceted process that has been maintained since the Company was established and includes keeping stores open into the wee hours of the morning to cultivate the night market, offering a rich variety of merchandise, from daily commodities to luxury brands, and utilizing product display methods and décor that turn the search for items into a delightful shopping experience.

The Don Quijote Group's store format goes back to a general merchandise store established in 1978 by Takao Yasuda, the Group's chairman and CEO. The store was small, with only around 60 to 70 square meters of area. Since Mr. Yasuda did not have the means to hire staff, he was unable to restock merchandise during daytime operating hours. Meeting the demand of late-night shopping was therefore inspired by a chance event whereby a customer, late at night, mistakenly assumed that the store was still open upon seeing its lights on and the shelves being stocked and the displays being arranged.

Efforts to meet the needs of customers at this store led to the introduction of "compression displays," which turned the buying floor into a jungle of merchandise, and handwritten POP cards, which hung like vines throughout the store.

In 1989, we opened our first Don Quijote store, in Fuchu, a city within metropolitan Tokyo. The know-how accumulated at this location provided the platform for developing a multi-store network, and our unique store format kept business results expanding.

In 2006, the Don Quijote Group entered a new stage in its corporate history with its first merger and acquisition. Beginning with an acquisition of stores in Hawaii, the Group acquired the well-established do-it-yourself chain Doit and the general merchandise stores of Nagasakiya in 2007. Then in 2008, the Group followed up with the acquisition of BIG1 Co., LTD., a chain of discount stores based in the greater Nagoya and greater Gifu areas. These additions have dramatically transformed the Group into a retailing conglomerate of about ¥500 billion in net sales.

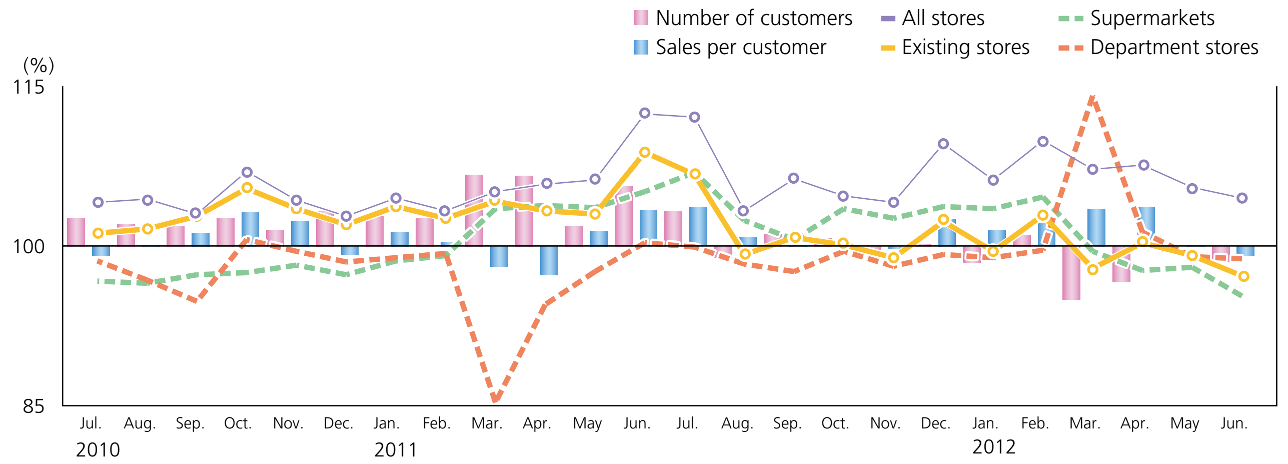
In 2009, we launched the private brand "Jonetsu Kakaku," which smashed existing perceptions about quality merchandise at unbelievably reasonable prices.

Despite the downturn that has persisted since Japan's economic bubble burst in the 1990s and the ensuing deflation, as well as the recession triggered primarily by the subprime mortgage crisis that began unfolding in 2007, the Don Quijote Group has grown by leaps and bounds and has done so at extraordinary speed. This achievement reflects tenacious adherence to the founding principle of "valuing the customer as our utmost priority," as well as efforts to pinpoint current trends and embrace the constant challenge to create new store formats.

As a result, the innovative retail formats that we have constructed by anticipating market needs have always been well received by our customers. Our success is substantiated by solid rankings based on net sales. According to surveys compiled by Nikkei Marketing Journal (Nikkei MJ), Don Quijote held onto its No. 13 ranking among retailers in net sales*[1], and maintained its No. 1 standing in general discount store net sales*[2], with an overwhelming lead over the rest of the industry.

*[1] The 45th Survey on the Retailing Industry in Japan, *Nikkei MJ* (June 27, 2012) *[2] The 40th Survey on Specialized Stores in Japan, *Nikkei MJ* (July 18, 2012)

Sales at Don Quijote (Monthly)



Sources: "Gross Sales of Department Stores in Japan" (Japan Department Store Association) and "Statistical Figures Concerning Chain Stores' Sales" (Japan Chain Store Association)

Ranking of Retail Companies by Net Sales

2012 Ranking	2011 Ranking	Company Name	Business Category	Fiscal Term	Net Sales (Millions of yen)	Growth Rate (%)	Ordinary Income (Millions of yen)	Growth Rate (%)	Net Income (Millions of yen)
1	2	AEON CO., LTD.	Holding Company	Feb.	5,206,131	2.1	212,260	16.6	66,750
2	1	Seven & i Holdings Co., Ltd.	Holding Company	Feb.	4,786,344	▲ 6.5	293,171	20.7	129,837
3	3	YAMADA-DENKI CO., LTD.	Electronics Store Mar	Mar.	1,835,454	▲ 14.8	102,225	▲ 25.8	58,235
4	4	Isetan Mitsukoshi Holdings Ltd.	Holding Company	Mar.	1,239,921	1.6	38,452	41.9	58,891
5	5	UNY CO., LTD.	Supermarket	Feb.	1,079,150	▲ 3.0	42,389	31.3	8,323
6	6	J. FRONT RETAILING Co., Ltd.	Holding Company	Feb.	941,415	▲ 0.9	22,941	8.8	18,804
7	10	FAST RETAILING CO., LTD.	Holding Company	Aug.	928,669	13.2	125,212	16.9	71,654
8	7	The Daiei, Inc.	Supermarket	Feb.	869,494	▲ 4.6	403	—	▲ 11,379
9	9	Takashimaya Co., Ltd.	Department Store	Feb.	858,123	▲ 1.3	24,355	8.3	10,895
10	8	EDION Corporation	Electronics Store	Mar.	759,025	▲ 15.8	16,384	▲ 52.4	3,697
11	11	K'S HOLDINGS CORPORATION	Electronics Store	Mar.	726,015	▲ 5.8	42,123	▲ 14.7	23,754
12	12	Yodobashi Camera Co., Ltd.	Electronics Store	Mar.	671,479	▲ 4.1	53,181	▲ 12.9	30,411
13	14	Don Quijote Co., Ltd.	Discount Store	Jun.	540,255	6.4	29,283	16.5	19,845
14	13	BIC CAMERA INC.	Electronics Store	Aug.	518,057	▲ 15.4	6,178	▲ 72.3	4,007
15	15	IZUMI CO., LTD.	Supermarket	Feb.	515,874	2.7	23,539	12.4	11,062
16	17	H2O RETAILING CORPORATION	Holding Company	Mar.	505,588	8.7	10,309	▲ 8.0	1,057
17	16	LIFE CORPORATION	Supermarket	Feb.	503,106	4.6	10,873	10.4	4,100
18	19	LAWSON, INC.	Convenience Store	Feb.	478,957	8.5	61,728	13.1	24,885
19	20	SHIMAMURA CO., Ltd.	Clothing Store	Feb.	467,362	6.0	45,263	10.3	25,213
20	23	DCM Japan Holdings Co., Ltd.	Holding Company	Feb.	441,906	4.6	19,595	48.9	8,120
21	22	Matsumotokiyoshi Holdings Co., Ltd.	Holding Company	Mar.	434,597	1.5	19,639	12.2	9,955
22	24	MARUI GROUP CO., Ltd.	Holding Company	Mar.	412,408	1.5	17,621	25.1	5,251
23	26	Valor Co., Ltd.	Supermarket	Mar.	410,577	8.3	16,020	25.0	7,149
24	21	Joshin Denki Co., Ltd.	Electronics Store	Mar.	410,174	▲ 5.8	12,111	1.1	6,245
25	25	HEIWADO CO., LTD.	Supermarket	Feb.	389,570	1.7	12,140	11.6	4,605
26	27	SUNDRUG CO., LTD.	Drug Store	Mar.	386,836	7.3	22,797	15.1	12,580
27	18	Kojima Co., Ltd.	Electronics Store	Mar.	370,380	▲ 17.6	4,200	▲ 64.1	508
28	28	Izumiya Co., Ltd.	Supermarket	Feb.	351,546	▲ 1.6	3,233	26.0	688
29	37	ARCS COMPANY, LIMITED	Holding Company	Feb.	348,198	14.7	12,080	20.1	13,303
30	30	Cainz Corp.	Home Center	Feb.	342,544	1.8	28,891	18.9	14,164

Progression of Don Quijote's Ranking

(Billions of yen)

	6/2008	6/2009	6/2010	6/2011	6/2012
Net sales	404.9	480.9	487.6	507.8	540.3
Ranking	24	16	15	14	13

* Ranking reflects replacement of originally published data with the Company's most recent fiscal results.

* The table above was created by updating the company rankings that appeared in the Nikkei Marketing Journal's 45th Survey on the Retailing Industry in Japan issued on June 27, 2012, with the Company's performance indicators for the fiscal year ended June 30, 2012, and the performance indicators for FAST RETAILING CO., LTD., and BIC CAMERA INC., for their fiscal years ended August 31, 2012. All the other companies listed in the table above close their books in either February or March, and while the majority of performance indicators apply to that time frame, the inclusion of the Company's most recent data should give readers a better idea of where Don Quijote stands in the retail industry.

Basic Policy on Corporate Governance

At Don Quijote, we firmly adhere to the corporate principle of "valuing the customer as our utmost priority" and strive to reinforce corporate governance and compliance. This commitment is integral to enhanced corporate value and is thus a top management priority. Indeed, business activities—executed to a high standard of ethics—are conditioned upon the existence of a company to undertake them, and we will build and maintain the in-house structure to expedite responses and when necessary seek advice from outside experts to establish and support internal controls and ensure that operations are conducted properly. Compliance will take center stage as we foster development in our corporate activities, with an even greater emphasis on having a strong business administration structure in place along with thorough and increasingly wider approaches that will, for example, deepen awareness of legal compliance, underpin more rigorous checks by the accounting department and see the creation of investigation and auditing departments and a compliance committee.

Summary of Corporate Governance and Reasons for Adopting Internal Control Structure

Details of Organization

Board of Directors

The highest decision-making body, with regard to the execution of operations, is the Board of Directors, which meets at least once a month to discuss and determine important issues concerning business activities. As of September 26, 2012, the Board of Directors had five members.

Board of Corporate Auditors

Don Quijote maintains a corporate auditor system, wherein the Board of Corporate Auditors audits the status of duties assigned to directors. As of September 26, 2012, the Board of Corporate Auditors had five members, four of whom were outside auditors. The Board of Corporate Auditors includes Makoto Iwade, a lawyer, and Yoshihiro Hongo, a certified public accountant and tax accountant, who apply their respective legal and corporate financing and accounting perspectives to confirm that duties are being executed properly.

Internal Audit Department

The Internal Audit Department, under the direct authority of the Board of Directors, provides a point of contact between the independent auditor and corporate auditors and undertakes audits, based on an auditing plan, to ascertain the legality and appropriateness of activities undertaken by each division and Group subsidiary. In addition, the department applies an internal control perspective to its monitoring of key business practices in all divisions and at stores as well as at subsidiaries.

Outside Directors

No outside directors are appointed at Don Quijote. Management believes that rational, efficient decision-making by the Board of Directors is best achieved if the directors involved are those who possess a thorough understanding of the Company's business. In addition, management feels the current structure is satisfactory since four out of the five of the Company's corporate auditors are outside auditors who lend a sufficient external perspective to the management supervisory function with regard to the execution of operations.

Outside Corporate Auditors

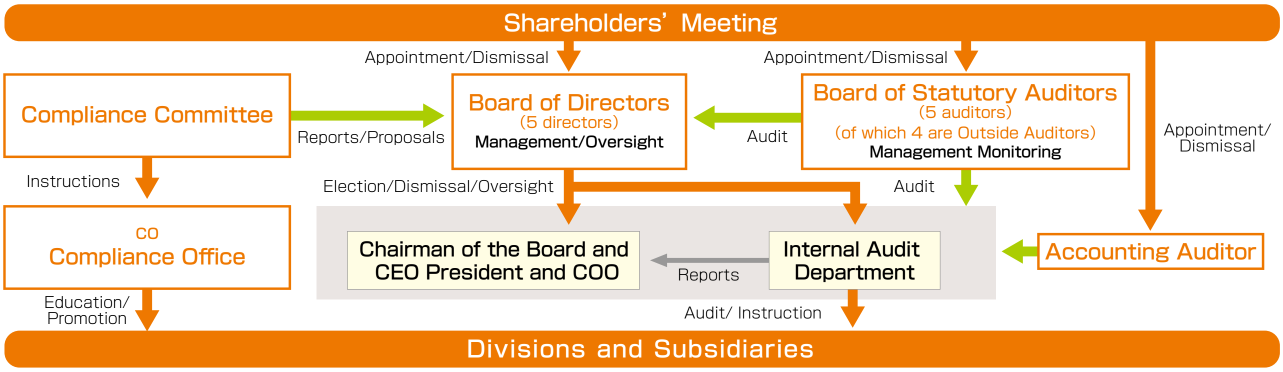
Don Quijote has four outside corporate auditors. They offer opinions as necessary on the execution of duties by directors from an external perspective, utilizing respective professional expertise in such areas as law, corporate accounting and taxation as well as accumulated business-related insights and experience, and they monitor operations from an objective and impartial position.
In addition to their own regularly scheduled Board of Corporate Auditors meetings, the Company's corporate auditors attend important meetings of other corporate bodies, including the Board of Directors, and strive to keep an open channel to the Internal Audit Department while implementing scheduled audits, based on auditing plans. Yukihiko Inoue, a corporate auditor, was designated an independent director, in accordance with a rule established by the Tokyo Stock Exchange, and the appropriate notification was submitted to the exchange. The Company has no clear-cut criteria or policies regarding the independence of individuals appointed as outside corporate auditors, but when such an appointment is made, the Company takes into consideration such factors as the professional expertise necessary to execute auditing duties as well as experience in the running of a business and will appoint outside corporate auditors with the ability to properly monitor the Company's business activities.

Compliance Committee

Members of this committee are primarily outside experts, such as lawyers and outside corporate auditors. Their duties include formulating fraud prevention measures, drafting investigation and auditing plans, examining the results of such investigations and audits, and sharing information on fraud cases that have occurred at other companies and verifying facts as a way to preclude such situations from happening to the Don Quijote Group.

The correlation between corporate structure and internal controls is as follows:

(As of September 26, 2012)



Status of Internal Control Structure

Don Quijote's internal control structure was established and is maintained in accordance with the Company Law of Japan and its Ordinance for Enforcement, to ensure the appropriateness of the Company's business operations.

1. System ensuring the execution of duties by directors complies with the Company's Articles of Incorporation and prevailing laws and regulations

1) Directors must consistently strive to ensure that the Company's business activities are undertaken in compliance of laws and regulations and must take the initiative to promote awareness of compliance practices at the Company and at each subsidiary.
2) To ensure that directors properly execute their duties, the Company's corporate auditors—at least three of whom must be external—conduct comprehensive audits through a fair and transparent process.
3) The Compliance Committee, comprising mainly outside experts such as lawyers, ensures that business activities follow strict moral standards and confirms the legality of the corporate governance structure and operations.

2. System for storing and managing information related to the execution of duties by directors

1) The minutes of shareholders' meetings, Board of Directors' meetings and other important meetings along with any and all related materials are stored and managed by a designated department and retained for a period of 10 years under conditions that facilitate examination whenever necessary.
2) The Company utilizes tools to improve the security of in-house information networks and performs careful and timely reviews of the Rules for Information Security Management. Concurrently, the Company encourages information-sharing within the organization and maintains systems to prevent confidential information from leaking out.

3. System for administering rules for managing the risk of loss

1) The Compliance Committee analyzes and evaluates lateral risks on a Groupwide basis and considers measures to deal with such risks.
2) Efforts are made to swiftly and accurately systemize rules and instruction manuals and standardize business practices to minimize operational risk.
3) Organizational and operating structures are swiftly and accurately established to control risks associated with administrative procedures, including financial accounting, purchasing, sales, stores and legal issues, which serve to minimize operational risk.

4. System ensuring efficient execution of duties by directors

1) Rules related to organizational structures are reviewed and updated in a timely and appropriate manner to clarify the division of directors' segregation of duties and respective oversight authority.
2) Organizational and administrative systems are revised as the occasion arises to meet changes in the business environment.

5. System ensuring the execution of duties by employees complies with the Company's Articles of Incorporation and prevailing laws and regulations

1) The Compliance Committee fulfills an advisory function for the Board of Directors and seeks to promote compliance and ensure thorough adherence to stated practices.
2) The Compliance Committee prepares plans, including proposals for education on compliance-related issues, and the Compliance Office, headed up by a Compliance Officer, handles the administrative aspect of these activities, based on instructions from the Compliance Committee.
3) The Company maintains a whistleblower system, dubbed "Gohatto 110," that enables employees to directly report questionable conduct—that is, possible violation of laws and regulations or in-house rules—to an outside entity, with complete confidentiality. Concerted efforts are made to promote awareness of this system to ensure that it continues to function effectively. In operating this system, the Company makes it a top priority to protect individuals who file reports so that they are not put at any sort of disadvantage for bringing potential infractions to light.

6. System ensuring the appropriateness of operations at the Company and at its subsidiaries

1) Timely and accurate reports on the status of operations—that is, progress in the execution of operations—at each Group company must be submitted to the Board of Directors.
2) To confirm the proper execution of operations at Group companies, the Internal Audit Department works with each company to determine progress in the establishment of internal controls. To further improve the internal control system, the Compliance Committee provides instruction and support as required, based on a shared understanding of internal control measures within the Group.
3) To confirm the proper execution of operations at Group companies, the Company has prepared "Rules for Management of Affiliated Companies." These rules provide guidelines for monitoring business activities at Group companies.

7. Issues pertaining to employees who assist corporate auditors when such assistance is required

The Company established an office to the Board of Corporate Auditors with staff exclusively dedicated to assisting corporate auditors and the Board of Corporate Auditors in their duties when required.

8. Issues pertaining to the independence of employees who assist corporate auditors

Disciplinary action, reassignment or any other treatment of employees in the Auditors' Office must be reported first to the standing statutory auditor.

9. System for submitting reports to corporate auditors, which includes the system for directors and employees to report to corporate auditors

1) The Internal Audit Department provides corporate auditors with timely and accurate updates regarding the implementation of internal controls.
2) Directors and employees must respond immediately to requests from corporate auditors and the office of the Board of Corporate Auditors when asked to provide information on the status of operations, assets or other corporate matters.

10. Other: ensuring effective application of audits by corporate auditors

1) Opportunities are made for corporate auditors to communicate with directors of the Company as well as the directors and corporate auditors of Group companies to make audits as effective as possible. Corporate auditors keep close ties with the Internal Audit Department and look over internal audit reports to complement standard audits performed in line with in-house rules. Also, if the independent auditor requests access to an audit report, corporate auditors confirm the appropriateness of the content therein.
2) Corporate auditors are informed of the operating status of Gohatto 110 on a regular basis.

Measures to Prevent Transactions with Antisocial Forces

Don Quijote's basic position—and one to which the entire Group subscribes—with regard to antisocial forces is to eliminate any and all relationships with such elements. An internal structure has been established to ensure this process, as described below.

1) Neither the Company nor any Group company will respond to inappropriate requests or any other form of request from antisocial forces and will cancel business dealings if the counterparty is found to be an individual, business, organization or any other type of entity with ties to antisocial forces.
2) To deal with any persistent approach by antisocial forces to engage in inappropriate activity, the Company established the Crisis Management Department to oversee measures to prevent relationships with antisocial forces and undertakes in-house training and addresses any questionable situations.
3) The Crisis Management Department collects information through its close ties with the police, legal counsel and other external organizations specialized in dealing with antisocial forces. In addition, a special position has been set up within the Company to deal with inappropriate requests and an internal structure is in place, with an intranet, to expedite responses in the event a situation arises.

Status of Accounting Audits

The Company has engaged the services of UHY Tokyo & Co. as its independent auditor and undergoes a strict review of its books at each consolidated and non-consolidated settlement of accounts. The structure for accounting audits in fiscal 2012 is as follows.

Certified public accountants who have provided auditing services: Two*
Accounting firm to which these accountants belong: UHY Tokyo & Co.
Assistants involved in the execution of accounting audits: four certified public accountants, eight junior accountants and three others

* The number of consecutive years that these certified public accountants have served the Company is omitted because it is seven years or fewer for all of them.

Personal, Capital or Business Relationships or Other Interests between the Company and Its Outside Directors/Auditors

There are no personal, capital or business relationships or any other interests between the Company and its four outside corporate auditors.

Status of Risk Management Efforts

Risk management for the Don Quijote Group is an exhaustively comprehensive process. The Compliance Committee is responsible for tracking Groupwide risks and ensures efficient execution of measures to manage risk. The CCO also promotes the implementation of appropriate compliance practices and strives to enhance the system of internal controls. The status of risk management efforts in each division is then audited by the Internal Audit Department, and the results are forwarded to representative directors on a regular basis. For compliance issues, the Company takes advantage of comments received through Gohatto 110, which allows employees to report suspicious behavior directly to an external entity.

The Company receives timely advice and direction on accounting matters through regular audits by an independent auditor, while legal matters are dealt with by the Company's attorneys, and taxation matters are addressed by tax accountants.

Whistleblower System "Gohatto 110"

The Company instituted a whistleblower system, dubbed "Gohatto 110," to ensure adherence to compliance practices and respect for laws and in-house regulations.

Gohatto 110 is an access point for Group personnel to directly report questionable conduct or seek guidance when a compliance-related situation occurs or seems likely to occur. The system is operated by an outside organization with no capital or personal connections to the Group, and this same organization conducts investigations on an issue. Steps have been taken to maintain the confidentiality of whistleblowers and ensure that no one is put at a disadvantage for reporting any potential infraction. Furthermore, Group companies take advantage of such opportunities as training for new employees to promote awareness of the system and encourage an environment that supports a solid stance on corporate ethics.

Implementing Internal Controls for Financial Reporting

The structure and implementation status of internal controls for financial reporting under the Financial Instruments and Exchange Law of Japan have been confirmed at Don Quijote and at Group companies.

An internal control report stating that relevant internal controls for financial reporting are effectively in place at all Group companies was submitted to the supervising authorities on September 26, 2012.

FINANCIAL SECTION

Five-Year Summary (Consolidated Data)

Years ended June 30

	Millions of yen					Millions of U.S. dollars
	2008	2009	2010	2011	**2012**	**2012**
For the fiscal year						
Net sales	¥404,924	¥480,856	¥487,571	¥507,661	**¥540,255**	**$6,812**
Cost of goods sold	296,215	353,616	364,065	378,587	**400,712**	**5,052**
Selling, general and administrative expenses	92,728	110,068	102,439	103,738	**110,223**	**1,390**
Operating income	15,981	17,172	21,067	25,336	**29,320**	**370**
Ordinary income	17,204	15,989	21,109	25,138	**29,283**	**369**
Income before income taxes	16,640	14,214	16,845	21,147	**30,395**	**383**
Net income	9,303	8,554	10,238	12,663	**19,845**	**250**
At year-end						
Total assets	¥276,288	¥297,527	¥302,029	¥341,300	**¥362,651**	**$4,573**
Total equity	84,625	89,972	106,760	125,242	**145,735**	**1,838**

	Yen					U.S. dollars
Per share	2008	2009	2010	2011	**2012**	**2012**
Basic earnings	¥130.78	¥123.69	¥147.35	¥167.82	**¥257.47**	**$3.25**
Diluted earnings	122.00	123.69	137.64	164.34	**256.90**	**3.24**
Cash dividends	22.00	23.00	25.00	28.00	**31.00**	**0.39**

	%				
Key ratios	2008	2009	2010	2011	**2012**
ROA	3.8	3.0	3.4	3.9	**5.6**
ROE	11.3	10.0	10.5	11.1	**14.9**

Consolidated Business Results

Net Sales and Operating Income

Economic conditions in Japan during the Company's fiscal 2012 accounting period, the year ended June 30, 2012, remained challenging, but gradual improvement sustained mainly by reconstruction demand pointed toward certain recovery. However, the path ahead was still obscured by uncertainties arising from downturns in markets overseas, which were caused by the lingering sovereign debt crisis in Europe, and compounded by domestic developments, namely, restrictions on power supply, issues due to the nuclear power plant accident, deflation and yen appreciation.

In the retail industry, conditions were difficult despite a promising direction in wages and the job market. Consumers were in more of a mind to spend, and government policies were successful enough to encourage a better business environment. To capitalize on opportunities, retailers placed greater emphasis on approaches that facilitated quick and flexible responses to diversifying customer needs, and to consumers' ever-present desire to save money.

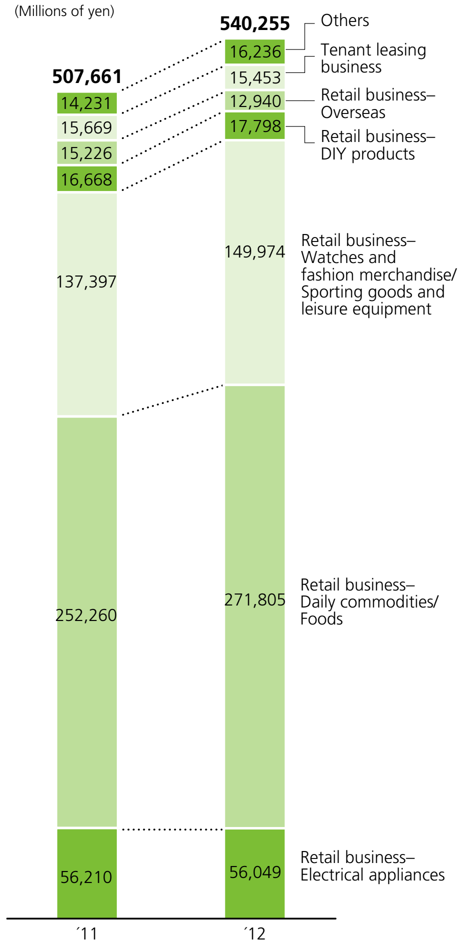
Against this backdrop, the Don Quijote Group embraced various measures designed to make shopping a wonderful experience for customers while constantly showcasing the high-quality amusement factor, great services and remarkable prices to be enjoyed at all stores under the Group umbrella. These efforts were implemented from the perspective of a concept-creating business enterprise putting the Company principle of "valuing the customer as our utmost priority" into practice.

The Group also endeavored to enrich the selection of products offered through respective store formats, from shopping goods—items that consumers shop around for, looking at specifications and comparing prices—to convenience goods, such as food items and daily commodities, all at reasonable prices to match changing customer habits and preferences. This approach was rewarded with higher customer loyalty. Other priorities were to promote flexibility and efficiency in new store openings and store renovations to make shopping a wonderful experience for as many customers as possible, while strengthening overall capabilities, including approaches to boost sales of the "Jonetsu Kakaku" private brand.

In the end, consolidated net sales increased 6.4% over the previous fiscal year, to ¥540,255 million, and operating income climbed 15.7%, to ¥29,320 million. Net sales and operating income rose for the 23rd consecutive year on a non-consolidated basis; on a consolidated

Sales by product category

(Millions of yen)



* Sales of Others are the combined total of Other products and Other operations.

Sales and composition by product category	2011 Net sales	2011 Percentage	2012 Net sales	2012 Percentage
	Millions of yen	%	Millions of yen	%
Retail business	487,875	96.1	**519,891**	**96.2**
Electrical appliances	56,210	11.1	**56,049**	**10.3**
Daily commodities	108,691	21.4	**117,420**	**21.7**
Foods	143,569	28.3	**154,385**	**28.6**
Watches and fashion merchandise	107,833	21.2	**119,246**	**22.1**
Sporting goods and leisure equipment	29,564	5.8	**30,728**	**5.7**
DIY products	16,668	3.3	**17,798**	**3.3**
Overseas	15,226	3.0	**12,940**	**2.4**
Others	10,114	2.0	**11,325**	**2.1**
Tenant leasing business	15,669	3.1	**15,453**	**2.9**
Other businesses	4,117	0.8	**4,911**	**0.9**
Total	507,661	100.0	**540,255**	**100.0**

basis, this was the 16th consecutive year—an uninterrupted pattern of growth since the opening of the first Don Quijote store in 1989. Meanwhile, ordinary income and net income showed solid expansion, breaking previous records with new all-time highs of ¥29,283 million, up 16.5%, and ¥19,845 million, up 56.7%, respectively.

Store Network

During fiscal 2012, the Company oversaw the opening of 10 stores in the Kanto region, one in the Tohoku region, four in the Chubu region, two in the Kinki region, one in the Chugoku region, and three in the Kyushu region. Meanwhile, relocation and consolidation led to the closure of two stores, store format conversions also caused the closure of two stores, and a review of business efficiency prompted the closure of two stores. In addition, one store closed because of issues associated with the Great East Japan Earthquake.

As a result, there were 242 stores under the Group umbrella as of June 30, 2012, compared with 228 stores at the end of June 30, 2011.

Net Sales by Business Segment

• Retail Business

In fiscal 2012, the retail business generated sales of ¥519,891 million, up ¥32,016 million, or 6.6%, from fiscal 2011, and operating income of ¥22,009 million. The increases were primarily due to a boost from the sale of foods, daily commodities, watches and fashion goods, reflecting a flexible approach toward merchandise mix and prices, bearing in mind local demand factors and consumer reaction to economic trends.

• Tenant Leasing Business

In fiscal 2012, sales from the tenant leasing business declined ¥216 million, or 1.4%, from fiscal 2011, to ¥15,453 million, and operating income was ¥5,710 million.

• Other Businesses

In fiscal 2012, sales from other businesses grew ¥794 million, or 19.3%, from fiscal 2011, to ¥4,911 million, and operating income was ¥1,843 million.

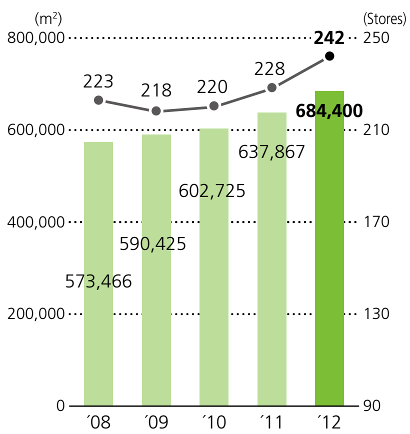
Operating Income

Don Quijote Group stores actively reshuffled the merchandise mix and also focused on measures to enrich the selection of products under the private brand and to boost sales of seasonal products. This led to an improved gross profit margin. Selling, general and administrative expenses rose, owing to more stores in operation, but successful cost control management held the increase below the gross profit margin for a 15.7% gain in operating income, to ¥29,320 million from fiscal 2011.

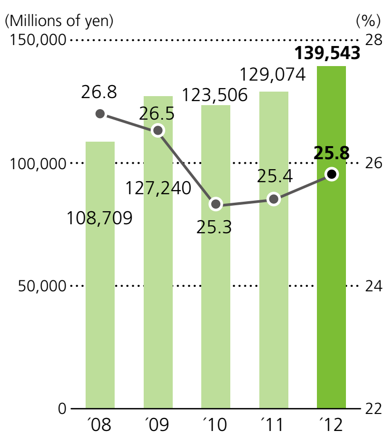
Ordinary Income, Net Income

The Company provided ¥576 million in allowance for doubtful accounts under other expenses and recorded a ¥778 million loss on close of stores under other and extraordinary expenses. Nevertheless, healthy operating income, along with ¥1,782 million in gain on liquidation of reorganization claim and ¥318 million from compensation income for expropriation recorded under other and extraordinary income, covered outlays and supported ordinary income of ¥29,283 million, up 16.5%, and net income of ¥19,845 million, up 56.7% from fiscal 2011.

Total sales floor space (left axis)
Number of stores (right axis)



Gross profit (left axis)
Gross profit margin (right axis)



Outlook for Fiscal 2013

Looking to fiscal 2013, the path ahead remains obscured by uncertainties, mainly concern over possible downturns in markets overseas due to the unresolved sovereign debt crisis in Europe and the impact of developments in Japan, namely, restrictions on power supply, deflation and yen appreciation. In addition, it appears that more time will be needed to achieve a full-scale economic recovery that includes positive employment news and improved household earnings. A challenging environment in the retail industry is therefore likely to persist.

Against this backdrop, the Group will strive to achieve the highest degree of customer satisfaction while securing continuous growth underpinned by stable profits. These goals will be met by seeking further improvement in business efficiency and by promoting store operations that elicit greater customer loyalty.

In store development, the Company wants to build a nationwide network and will work toward this goal by emphasizing formats matched to market size and local characteristics and by complementing the opening of roadside locations under the core Don Quijote format in the suburbs with a good balance of store openings in city centers close to large train stations and bustling commercial districts. The Company will also promote MEGA Don Quijote general discount stores catering to family-oriented lifestyles and develop new business models that encourage daily customer visits while working to enhance profitability and marketing capabilities and consistently reviewing business efficiency.

In store operations, management aims to reinforce the marketing platform for existing stores through measures designed to enhance customer service, product salability and price competitiveness. This will not be a cookie-cutter approach but a flexible approach drawing on the special characteristics of each store. Another marketing emphasis will be on wider sales of private brand products under the "Jonetsu Kakaku" label and efforts to encourage customers to shop more often and buy more on each visit. Furthermore, the Group will continue to emphasize corporate social responsibility activities and a variety of measures perfectly attuned to environmental issues in the communities where stores under the Group umbrella operate.

Overall, management will strive to reinforce the internal control structure and promote efficiency on a more widespread scale. Internal monitoring systems will be reconfigured and an all-out effort will be made to build a stronger corporate platform.

In light of anticipated market conditions and the Group's responses to future developments, management expects the following business results in fiscal 2013: net sales up 3.7%, to ¥560.0 billion; operating income up 4.0%, to ¥30.5 billion; ordinary income up 3.5%, to ¥30.3 billion; and net income up 0.8%, to ¥20.0 billion.

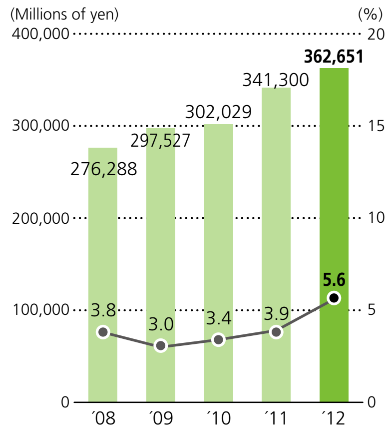
Financial Position

As of June 30, 2012, total assets stood at ¥362,651 million, up ¥21,351 million from a year earlier.

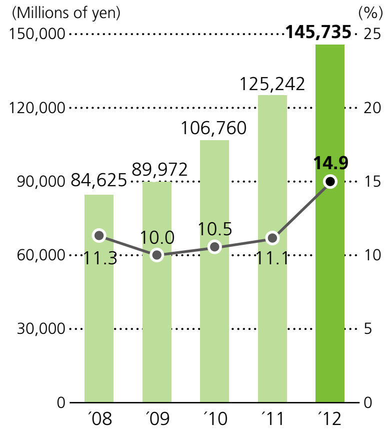
Current assets reached ¥138,816 million, up ¥4,301 million compared with the previous fiscal year. A major component of this change was inventories, which grew ¥2,059 million, in tandem with the opening of new stores.

Property, plant and equipment came to ¥169,336 million, up ¥14,466 million compared with the previous fiscal year. A major component of this change was buildings and structures, following

Total assets (left axis)
Return on assets (right axis)



Total equity (left axis)
Return on equity (right axis)



capital investment associated with new store openings, up ¥1,843 million, as well as the acquisition of land for future new stores, up ¥10,130 million, compared with the previous fiscal year.

Intangible assets grew ¥3,805 million, to ¥10,266 million, from June 30, 2011, mainly due to higher goodwill coinciding with the purchase of investments in subsidiaries.

Total liabilities stood at ¥216,916 million on June 30, 2012, up ¥858 million from a year earlier.

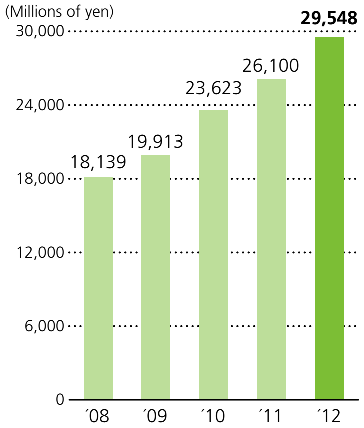
Current liabilities reached ¥120,243 million, up ¥14,172 million compared with the previous fiscal year, despite a decrease of ¥2,978 million in derivative liabilities and due to a ¥2,363 million increase in accounts payable–trade and a ¥1,349 million increase in accrued income taxes.

Non-current liabilities came to ¥96,673 million, down ¥13,314 million compared with the previous fiscal year. This was largely due to a ¥10,559 million decrease in bonds. The debt-to-equity ratio dropped 15.2 percentage points, to 91.5%. Net interest-bearing liabilities settled at ¥133,341 million as of June 30, 2012, for a ratio of interest-bearing debt to total assets of 36.8%, compared with 39.1% a year ago. Net liabilities rose ¥555 million, to ¥99,104 million.

Reflecting higher income, total equity grew ¥20,493 million, to ¥145,735 million, due to a ¥19,298 million increase in retained earnings.

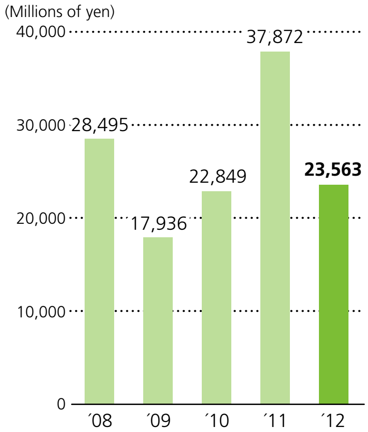
The equity ratio improved 3.3 percentage points, to 39.5%, and return-on-equity rose 3.8 percentage points, to 14.9%.

Free cash flow



* Free cash flow = net income after taxes + depreciation and amortization + extraordinary loss – cash dividends

Capital expenditure



Cash Flows

Cash provided by operating activities in fiscal 2012 amounted to ¥33,962 million, as inflow, primarily net income and depreciation and amortization, outweighed outflow, namely expanded inventories corresponding to the opening of new stores.

Cash used in investing activities came to ¥29,794 million, owing to the purchase of property, plant and equipment for new stores and the proceeds for purchase of subsidiaries' securities resulting in changes in the scope of consolidation.

Cash used in financing activities totaled ¥4,637 million, mainly due to the repayments of secured reorganization claim and the payment of cash dividends.

These changes led to cash and cash equivalents of ¥29,973 million at the end of fiscal 2012, up ¥3,098 million from a year earlier.

Capital Investment

In fiscal 2012, the Group applied funds toward 21 newly built stores to purchase land, buildings, facilities, fixed leasehold deposits, software, and others for future new stores related to expanding the retail and tenant leasing businesses.

As a result, capital investment by reporting segment totaled as follows: ¥19,437 million in the retail business; ¥4,050 million in the tenant leasing business, and ¥76 million in other business.

The Company also recorded ¥184 million under impairment losses and ¥778 million under loss on closing of stores.

Risk Information

Business risks, etc.

Listed below are the main risks that could affect the business or corporate affairs of the Don Quijote Group. We make every effort to avoid and mitigate these risks upon recognizing the possibility of these risks in the future. The following description of risks include future events, which are based on our judgments and forecasts made from information available as of September 26, 2012, the date of filing the annual securities report to the Financial Services Agency of Japan.

1. Store expansion and human resources

The Group has been expanding its business stronghold from the Greater Tokyo metropolitan area to all over Japan, while increasing the number of subsidiaries in order to expand business areas. If the Group fails to appropriately secure or train its employees, the quality of business could be deteriorated, which leads to a decline in business results.

2. Import and distribution

The Group is importing an increasing portion of its merchandise from sources outside Japan. As an importer, the Group's business is subject to the risks generally associated with doing business abroad, such as foreign political conditions regulations or economic environment.

Two distribution centers in Saitama and Osaka are operated by a third party contractor on behalf of the Group. Any significant interruption in the operation of these facilities would have a material adverse effect on the Group's distribution and logistics.

3. Marketing

The Group's success depends in part upon the ability of its marketing staff, particularly those in their twenties and thirties, who anticipate customer trends and provide merchandise that appeals to customers. The failure to maintain and improve the quality of those staff members and to keep managing the Group's organizational systems could lead to the decline of the Group's business results.

4. Consumer demand, weather and seasonality

Sales at the Group's stores are subject to changes in consumer demand, weather and seasonal variations. The peak sales periods for the Group are the months of August and December. Consequently, if the Group fails to appropriately such changes or variations, this could have a material adverse effect on the Group's business, financial condition and results of operation.

5. Regulatory environment

The Group is subject to the Large Scale Retail Store Location Law. The purpose of the law is to give local governments the power to regulate the development of large stores with a sales floor space of more than 1,000 square meters. If the local communities have special regulations for stores with a sales floor space of less than 1,000 square meters, in particular, the Group's store development strategies or sales plan may be adversely affected.

6. Future capital requirements

The Group has to secure enough finance through the use of the various financial instruments including bonds for its further expansion. To the extent that such funding is not available to the Group in the future or is only available at very high cost, the Group's business, financial condition and results of operations are likely to be adversely affected.

7. Security of customers' data

The Group handles customers' data with precise care. Any data leak would have a material adverse effect on the Group's reputation, financial condition and results of operations that could lead to legal matters.

8. Impairment of non-current assets

The Group estimates future cash flows of its assets in order to check whether impairment loss will be incurred or not. Potential impairment would have material adverse effect on the Group's business, financial condition and results of operations.

9. Decline in the value of subsidiary and affiliated company shares

Shares of subsidiaries and affiliates are valued at cost. To the extent that the operation of subsidiaries and affiliates become loss continually, by applying the Financial Accounting Standards Impairment Guidance No. 6, the potential impairment on shares without quoted market prices would have material adverse effect on the Group's business, financial condition and results of operations.

10. Expansion by mergers and acquisitions

The Company has implemented mergers and acquisitions as a means of its business expansion. The Company avoids risks by precise due diligence about the target company, its business and contractual relevant matters. There is, however, possibility of incurrence or revelation of liabilities after mergers and acquisitions are completed. In addition, there is a possibility that expected synergy effect could not be seen by various factors. For this case, it would have adverse effect on the Group's business, financial condition and results of operations.

11. Stock option

The Company adopts an incentive system that gives stock option to directors and employees in the Group in order to improve their morale or recruit excellent people. For when the currently given stock option as well as prospectively given stock option are exercised, the Company shares would be diluted. Stock option given after May 1, 2006 essentially needs to be allocated as expense, and so it would possibly have material adverse effect on the Group's business, financial condition and results of operations.

12. Loss on close of stores

The Group is proactively opening positive new stores, and withdrawing unprofitable stores. The Group put into place a policy that unprofitable stores be closed if they cannot achieve scheduled profits, or if their performance is not recovered even by augmenting sales or reducing selling, general and administrative expenses. Loss on close of stores might be an adverse effect on business performance.

13. Foreign currency risks

The Company imports commodities directly and indirectly from overseas. Generally, stronger-yen introduces lower purchase price, and weaker-yen introduces higher purchase price. Therefore, ratio of gross profit to sales is still open to currency risks despite forward exchange contract in purpose of avoiding Company's exposure to fluctuations in foreign currency rates.

14. Natural disaster

When a natural disaster such as a large-scale earthquake or typhoon occurs, the results of the Group's operations and financial position may be affected due to restoration expenses incurred for store facilities, the interruption of business activities, and possible interference in logistics and shipping operations.

Note: The risks described above do not cover all of the potential risks that the Don Quijote Group may face. Other risks include, but are not limited to, litigation and amendments to laws or ordinances, which could affect the business of the Group.

Consolidated Balance Sheets

Don Quijote Co., Ltd. and Consolidated Subsidiaries
As of June 30, 2012 and 2011

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
ASSETS	**2012**	2011	**2012**
Current assets:			
Cash and deposits (Notes 6, 16 and 23)	**¥34,237**	¥35,031	**$432**
Notes and Accounts receivable-trade (Note 6)	**4,889**	4,585	**62**
Less: Allowance for doubtful accounts (Note 6)	**(13)**	(13)	**(0)**
Purchased receivables (Notes 6 and 16)	**6,761**	6,787	**85**
Inventories (Note 4)	**83,641**	81,582	**1,055**
Prepaid expenses	**2,124**	2,096	**27**
Deferred tax assets (Note 17)	**2,958**	1,868	**37**
Other current assets	**4,219**	2,579	**53**
Total current assets	**138,816**	134,515	**1,751**
Investments and advances:			
Investments in securities and capital to affiliates (Note 6)	**407**	422	**5**
Investment securities (Notes 6 and 7)	**3,372**	3,940	**43**
Advance payment for fixed leasehold deposits	**2,881**	487	**37**
Long-term loans receivable (Note 6)	**1,665**	1,332	**21**
Less: Allowance for doubtful accounts (Note 6)	**(765)**	(203)	**(10)**
Total investments and advances	**7,560**	5,978	**96**
Property, plant and equipment (Notes 12, 16, 19 and 24):			
Land	**97,317**	87,187	**1,227**
Buildings and structures	**104,703**	96,947	**1,320**
Furniture and fixtures	**38,485**	33,839	**485**
Construction in progress	**558**	180	**7**
Other property, plant and equipment	**180**	166	**2**
Total	**241,243**	218,319	**3,041**
Less: Accumulated impairment loss	**(3,899)**	(3,970)	**(49)**
Less: Accumulated depreciation	**(68,008)**	(59,479)	**(857)**
Net property, plant and equipment	**169,336**	154,870	**2,135**
Intangibles:	**10,266**	6,461	**129**
Other assets:			
Long-term deposits	**300**	300	**4**
Fixed leasehold deposits (Notes 6 and 16)	**32,286**	33,303	**407**
Less: Allowance for doubtful accounts (Note 6)	**(2,111)**	(1,787)	**(27)**
Long-term prepaid expenses	**2,058**	2,014	**26**
Deferred tax assets (Note 17)	**1,379**	2,320	**17**
Other non-current assets	**2,761**	3,326	**35**
Total other assets	**36,673**	39,476	**462**
Total assets	**¥362,651**	¥341,300	**$4,573**

The accompanying notes are an integral part of the statements.

LIABILITIES AND EQUITY	Millions of yen (Note 2) 2012	2011	Millions of U.S. dollars (Note 2) 2012
Current liabilities:			
Accounts payable-trade (Note 6)	¥44,793	¥42,430	$565
Short-term loans (Notes 6, 8 and 16)	14,866	14,935	187
Current portion of long-term debt (Notes 6, 8 and 16)	34,201	24,765	431
Accrued income taxes (Note 6)	5,783	4,434	73
Accrued expenses (Note 6)	6,229	5,739	79
Allowance for point program	179	186	2
Allowance for loss on disaster	193	1,132	2
Asset retirement obligations (Note 25)	—	153	—
Derivative liabilities (Notes 6 and 11)	—	2,978	—
Other current liabilities (Note 16)	13,999	9,319	177
Total current liabilities	120,243	106,071	1,516
Non-current liabilities:			
Long-term debt (Notes 6, 8 and 16)	84,313	93,981	1,063
Derivatives liabilities (Notes 6 and 11)	119	128	2
Allowance for retirement benefits for directors	387	367	5
Asset retirement obligations (Note 25)	2,163	1,705	27
Negative goodwill	1,592	2,449	20
Other non-current liabilities (Notes 16 and 17)	8,099	11,357	102
Total non-current liabilities	96,673	109,987	1,219
Total liabilities	216,916	216,058	2,735
Equity (Notes 3, 13 and 21):			
Common stock			
Authorized:			
2011—234,000,000 shares			
2012—234,000,000 shares			
Issued and outstanding:			
2011—77,030,780 shares			
2012—77,134,880 shares	19,664	19,561	248
Additional paid-in capital	22,466	22,364	283
Retained earnings	104,463	85,165	1,317
Net unrealized losses on investment securities	(391)	(327)	(5)
Foreign currency translation adjustments	(3,004)	(3,155)	(38)
Less: Treasury stock, at cost			
2011—1,244 shares			
2012—1,244 shares	(3)	(3)	(0)
Total	143,195	123,605	1,806
Minority interests	2,540	1,637	32
Total equity	145,735	125,242	1,838
Total liabilities and equity	¥362,651	¥341,300	$4,573

The accompanying notes are an integral part of the statements.

Consolidated Statements of Income

Don Quijote Co., Ltd. and Consolidated Subsidiaries
For the years ended June 30, 2012 and 2011

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2012	2011	2012
Net sales	¥540,255	¥507,661	$6,812
Cost of goods sold (Note 4)	400,712	378,587	5,052
Gross profit	139,543	129,074	1,760
Selling, general and administrative expenses (Note 18)	110,223	103,738	1,390
Operating income	29,320	25,336	370
Other income (expenses):			
Interest and dividend income	614	497	8
Gain on liquidation of reorganization claim	1,782	258	22
Interest expenses	(1,690)	(1,681)	(21)
Loss on close of stores (Note 22)	(778)	(425)	(10)
Loss on valuation of derivative instruments (Note 11)	(283)	(253)	(4)
Loss on valuation of investment securities (Note 7)	(6)	(716)	(0)
Loss on disaster	—	(1,894)	—
Other income and expenses, net (Notes 12, 14, 19 and 22)	1,436	25	18
Income before income taxes and minority interests	30,395	21,147	383
Income taxes:			
Current	9,523	7,732	120
Deferred (Notes 3 and 17)	135	179	2
Income before minority interests	20,737	13,236	261
Minority interests	(892)	(573)	(11)
Net income	¥19,845	¥12,663	$250

The accompanying notes are an integral part of the statements.

Ordinary Income

According to accounting principles and practices generally accepted in Japan, Ordinary income is shown below:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2012	2011	2012
Operating income	¥29,320	¥25,336	$370
Other income (expenses):			
Interest and dividend income	614	497	8
Interest expenses	(1,690)	(1,681)	(21)
Loss on valuation of derivative instruments	(283)	(253)	(4)
Other income and expenses, net	1,322	1,239	16
Ordinary income	29,283	25,138	369
Other and extraordinary income (expenses):			
Gain on liquidation of reorganization claim	1,782	258	22
Loss on valuation of investment securities	(6)	(716)	(0)
Loss on close of stores	(778)	(425)	(10)
Loss on disaster	—	(1,894)	—
Other income and expenses, net	114	(1,214)	2
Income before income taxes and minority interests	¥30,395	¥21,147	$383

Consolidated Statements of Comprehensive Income (Note 15)

Don Quijote Co., Ltd. and Consolidated Subsidiaries
For the years ended June 30, 2012 and 2011

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2012	2011	2012
Income before minority interests	¥20,737	¥13,236	$261
Other comprehensive income			
Net unrealized losses on investment securities	(48)	(223)	(1)
Foreign currency translation adjustments	151	(1,169)	2
Total other comprehensive income	103	(1,392)	1
Comprehensive income	¥20,840	¥11,844	$262
Comprehensive income attributable to			
Comprehensive income attributable to owners of the parent	¥19,944	¥11,271	$251
Comprehensive income attributable to minority interests	896	573	11

Amount per share of common stock	Yen (Note 2)		U.S. dollars (Note 2)
Basic earnings (Note 21)	¥257.47	¥167.82	$3.25
Diluted earnings (Note 21)	256.90	164.34	3.24
Cash dividends applicable to the year	31.00	28.00	0.39

The accompanying notes are an integral part of the statements.

Consolidated Statements of Changes in Net Assets

Don Quijote Co., Ltd. and Consolidated Subsidiaries
For the years ended June 30, 2012 and 2011

	Millions of yen (Note 2)								
	Common stock	Additional paid- in capital	Stock acquisition rights	Retained earnings	Valuation difference on investment securities	Foreign currency translation adjustments	Treasury stock, at cost	Minority interests	Total net assets
Balance at June 30, 2010	¥15,049	¥17,856	¥0	¥74,503	¥(104)	¥(1,986)	¥(1)	¥1,443	¥106,760
Cash dividends	—	—	—	(1,850)	—	—	—	—	(1,850)
Net income	—	—	—	12,663	—	—	—	—	12,663
Issuance of new shares	4,512	4,508	—	—	—	—	—	—	9,020
Purchase of treasury stock	—	—	—	—	—	—	(2)	—	(2)
Change of scope of consolidation	—	—	—	(150)	—	—	—	—	(150)
Other	—	—	(0)	—	(223)	(1,169)	—	194	(1,198)
Balance at June 30, 2011	¥19,561	¥22,364	¥—	¥85,165	¥(327)	¥(3,155)	¥(3)	¥1,637	¥125,242
Cash dividends	—	—	—	(2,157)	—	—	—	—	(2,157)
Net income	—	—	—	19,845	—	—	—	—	19,845
Issuance of new shares	103	102	—	—	—	—	—	—	205
Effect of changes in fiscal year-end date applied to subsidiaries	—	—	—	940	—	—	—	—	940
Change of scope of consolidation	—	—	—	670	—	—	—	—	670
Other	—	—	—	—	(64)	151	—	903	990
Balance at June 30, 2012	¥19,664	¥22,466	¥—	¥104,463	¥(391)	¥(3,004)	¥(3)	¥2,540	¥145,735

	Millions of U.S. dollars (Note 2)								
	Common stock	Additional paid-in capital	Stock acquisition rights	Retained earnings	Valuation difference on investment securities	Foreign currency translation adjustments	Treasury stock, at cost	Minority interests	Total net assets
Balance at June 30, 2011	$247	$282	$—	$1,074	$(4)	$(40)	$(0)	$21	$1,580
Cash dividends	—	—	—	(27)	—	—	—	—	(27)
Net income	—	—	—	250	—	—	—	—	250
Issuance of new shares	1	1	—	—	—	—	—	—	3
Effect of changes in fiscal year-end date applied to subsidiaries	—	—	—	12	—	—	—	—	12
Change of scope of consolidation	—	—	—	8	—	—	—	—	8
Other	—	—	—	—	(1)	2	—	11	12
Balance at June 30, 2012	$248	$283	$—	$1,317	$(5)	$(38)	$(0)	$32	$1,838

The accompanying notes are an integral part of the statements.

Consolidated Statements of Cash Flows

Don Quijote Co., Ltd. and Consolidated Subsidiaries
For the years ended June 30, 2012 and 2011

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2012	2011	2012
Cash flows from operating activities:			
Income before income taxes	¥30,395	¥21,147	$383
Depreciation and amortization	10,474	9,908	132
Impairment loss	184	779	2
Amortization of negative goodwill	(857)	(857)	(11)
Increase for doubtful accounts	599	129	8
Provision for retirement benefits for directors	20	21	0
Increase (Decrease) in allowance for loss on disaster	(75)	1,132	(1)
Loss on disaster	—	762	—
Interest and dividend income	(614)	(497)	(8)
Loss on valuation of derivative instruments	283	253	4
Equity in loss of affiliated company	1	175	0
Interest expenses	1,690	1,681	21
Loss on sales of investment securities, net	10	148	0
Loss on valuation of investment securities	6	716	0
Loss on sales of property, plant and equipment, net	153	123	2
Loss on close of stores	235	245	3
Offset rent expense from deposit received from lessees	1,326	1,171	17
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	682	—
Gain on liquidation of reorganization claim	(1,782)	(258)	(22)
Increase in trade receivable	(196)	(501)	(3)
Increase in inventories	(4,517)	(7,655)	(57)
Decrease in other current assets	445	913	6
Increase in trade payable	1,814	4,750	23
Increase in other current liabilities	2,925	545	37
Increase (Decrease) in other non-current liabilities	78	(809)	1
Other-net	930	(20)	12
Cash generated from operations	43,527	34,683	549
Received interest and dividend income	432	330	5
Interest paid	(1,654)	(1,681)	(21)
Income taxes paid	(8,067)	(7,303)	(102)
Payments for loss on disaster	(276)	—	(3)
Net cash provided by operating activities	33,962	26,029	428
Cash flows from investing activities:			
Time deposits transferred from cash	(29,863)	(45,962)	(377)
Proceeds from time deposits	31,960	41,498	403
Payments for purchase of property, plant and equipment	(18,348)	(34,864)	(231)
Proceeds from sale of property, plant and equipment	41	482	0
Payments for purchase of intangible assets	(1,727)	(2,704)	(22)
Payments for fixed leasehold deposits	(1,379)	(869)	(17)
Proceeds from termination of fixed leasehold deposits	1,349	794	17
Advance payment for fixed leasehold deposits	(2,846)	(353)	(36)
Payments for purchase of investment securities	—	(0)	—
Proceeds from sales of investment securities	494	1,045	6
Payments for purchase of subsidiaries' securities resulting in changes in the scope of consolidation (Note 23)	(6,360)	(4,935)	(80)
Proceeds from purchase of subsidiaries' securities resulting in changes in the scope of consolidation (Note 23)	—	1,178	—
Payments for purchase of subsidiaries' securities	—	(321)	—
Payments for the settlement of derivative instruments	(3,272)	—	(41)
Other, net	157	222	2
Net cash used in investing activities	(29,794)	(44,789)	(376)
Cash flows from financing activities:			
Decrease of short-term bank loans	(69)	(964)	(1)
Borrowing of long-term debt	14,500	28,300	183
Repayment of long-term debt	(13,919)	(12,731)	(176)
Proceeds from issuance of bonds	12,855	37,591	162
Payments for redemption of bonds	(13,422)	(42,407)	(169)
Repayment of lease liabilities	(68)	(109)	(1)
Repayments of secured reorganization claims	(2,550)	(139)	(32)
Issuance of common stock	205	420	3
Payments of cash dividends	(2,157)	(1,850)	(27)
Cash dividends paid to minority shareholders	—	(945)	—
Other, net	(12)	108	(0)
Net cash provided by (used in) financing activities	(4,637)	7,274	(58)
Effect of exchange rate changes on cash and cash equivalents	60	(344)	1
Net decrease in cash and cash equivalents	(409)	(11,830)	(5)
Cash and cash equivalents at beginning of the year	26,875	38,911	339
Increase in cash and cash equivalents due to the effect of the additional consolidation	—	9	—
Decrease in cash and cash equivalents due to the effect of the deconsolidation	(0)	(215)	(0)
Increase in cash and cash equivalents resulting from change in fiscal year-end of consolidated subsidiaries	3,507	—	44
Cash and cash equivalents at end of the year (Note 23)	¥29,973	¥26,875	$378

The accompanying notes are an integral part of the statements.

Notes to Consolidated Financial Statements

For the years ended June 30, 2012 and 2011

1. DESCRIPTION OF BUSINESS

The Don Quijote Group (the "Group") is composed of Don Quijote Co., Ltd. (the "Company"), 22 consolidated subsidiaries (Japan Commercial Establishment Co., Ltd., Donki Johokan Co., Ltd., D-ONE Co., Ltd., REALIT Co., Ltd., Don Quijote (USA) Co., Ltd., Doit Co., Ltd., Nagasakiya Co., Ltd., Fidec Corporation*, and 14 other subsidiaries), seven subsidiaries excluded from consolidation and one affiliated companies accounted for by the equity method and two affiliated companies not accounted for by the equity method.

* Fidec Corporation changed its name to Accretive Co., Ltd. on July 1, 2012.

Major operations of the Group are as follows:

(Retail business)

The Company, Don Quijote (USA) Co., Ltd., Doit Co., Ltd., and Nagasakiya Co., Ltd., operate a retail chain business by selling electrical appliances, daily commodities, foods, watches, fashion goods, sports and leisure goods, and DIY products with the concept of "big convenience and discount stores".

(Tenant leasing business)

Japan Commercial Establishment Co., Ltd., operates tenant leasing business and rents floor space in shopping malls to tenants. The company is also carrying out a management of these tenants.

The Company, Don Quijote (USA) Co., Ltd., and Doit Co., Ltd., operate the tenant leasing business and lease part of their stores to tenants.

(Other businesses)

Donki Johokan Co., Ltd. operates as an agent who sells cellular phones and call plans.

D-ONE Co., Ltd. operates store development and real estate business for the Group stores.

REALIT Co., Ltd. operates POS-linked cellular phones for sales promotion system.

Fidec Corporation provides financial services such as early financing of accounts receivable and outsourcing services for payments.

2. BASIS OF PRESENTING CONSOLIDATIED FINANCIAL STATEMENTS

Accounting applied to the Company and significant subsidiaries is on a consolidated basis.

The Company prepares its consolidated financial statements in conformity with accounting principles and practices generally accepted in Japan as per the requirements of the Japanese Corporate Law and other applicable rules and regulations. The Company files its financial statements with the local finance bureau of the Ministry of Finance (MOF) as required by the Financial Instruments and Exchange Law (formerly, the Japanese Securities and Exchange Law) and its related laws, rules, and regulations. In preparing these financial statements, they have been restructured and translated into English from the statutory Japanese language consolidated financial statements in order to present them in a form that is more useful to readers outside Japan. The consolidated financial statements are not intended to present the financial position, results of operations, and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The foreign subsidiary maintains its books of account in conformity with accounting methods generally accepted under accounting standards in U.S.A.

The accompanying notes include additional information, which is not required under generally accepted accounting principles and practices in Japan.

Monetary figures are rounded off to the nearest million yen. The U.S. dollar amounts are included solely for convenience of readers and stated at the exchange rate of ¥79.31 to U.S.$1, the rate prevailing on June 30, 2012. These translations should not be construed as representations that the yen actually represent, or have been or could be converted into U.S. dollars at that or any other rates.

Certain items in the financial statements of fiscal year ended June 30, 2011, have been reclassified for comparative purposes with fiscal year ended June 30, 2012.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

As of June 30, 2012 the Company has 29 subsidiaries, including 22 consolidated subsidiaries, presented in the following table:

	Group interest of capital	Activity
Japan Commercial Establishment Co., Ltd.	100.0%	Leasing of real estate including management of these tenants
Donki Johokan Co., Ltd.	51.0%	Agency handling new subscriber sign-ups and model exchange procedures as well as sales of cellular phones and devices.
D-ONE Co., Ltd.	100.0%	Operation of development of the group companies, and real estate business
REALIT Co., Ltd.*	5.4%	Operation of POS-linked cellular phones for sales promotion system
Don Quijote (USA) Co., Ltd.	100.0%	Operation of retail stores and tenant leasing business
Doit Co., Ltd.	100.0%	Operation of retail stores and tenant leasing business
Nagasakiya Co., Ltd.	100.0%	Operation of retail stores
Fidec Corporation*	48.6%	Financial services such as early financing of accounts receivable and outsourcing service for payments
Koigakubo SC TMK	100.0%	Tenant leasing business
Nagoya Sakae Jisho Limited Liability Co.	100.0%	Real estate management business
And 12 other companies		

* The Company's equity holdings in REALIT Co., Ltd., and Fidec Corporation are less than 50%, but the Company has power to exercise control over both companies. Therefore, REALIT Co., Ltd., and Fidec Corporation are considered to be consolidated subsidiaries.

Those companies which the Company controls directly or indirectly are fully consolidated.

Investments in non-consolidated subsidiaries and affiliated companies over which the Group has significant influence are accounted for under the equity method.

The financial statements used in the preparation of the consolidated financial statements are prepared as of the same reporting date, except for some of the subsidiaries listed below. However, the differences between the reporting dates are no more than three months and adjustments are made for the effects of significant transactions or events that occur between the dates of these subsidiaries' and the Company's financial statements.

Don Quijote (USA) Co., Ltd., and its one subsidiary	Last Saturday of March
Doit Co., Ltd.	March 31

The subsidiary listed below prepared, for consolidation purposes, additional financial statements as of the same date as the financial statements of the Company because the difference between the reporting dates is in excess of three months.

Koigakubo SC TMK	December 31
Nagoya Sakae Jisho Limited Liability Co. and its consolidated subsidiary	December 31

To provide more appropriate management information, Fidec Corporation, a consolidated subsidiary, prepared additional financial statements as of the Company's reporting date, although the subsidiary's reporting date is March 31.

A consolidated subsidiary, Nagasakiya Co., Ltd., and one other consolidated subsidiary changed their reporting date for the fiscal year under review, to June 30 from April 30 in order to provide more appropriate management information. Because of the change in reporting date, the current fiscal year of the subsidiaries covers 14 months, from May 1, 2011 to June 30, 2012. The gain (loss) from May 1, 2011 to June 30, 2011 is directly recorded as a "change in retained earnings," and an increase (decrease) in cash and cash equivalents is shown as an "increase in cash and cash equivalents resulting from the change in fiscal year-end of consolidated subsidiaries" in the consolidated statements of cash flows.

In the consolidated fiscal year ended June 30, 2012, the Company sold all of the shares of World Victory Road Inc.—which became a non-consolidated subsidiary—and liquidated three other non-consolidated subsidiaries.

All material intercompany transactions and accounts are eliminated in consolidation.

Equity method companies

(1) Affiliates accounted for under the equity method: one company
THE GALAXY RAILWAYS II Production Partnership

(2) Non-consolidated subsidiaries and affiliates not accounted for under the equity method
Seven subsidiaries and two affiliates are not accounted for under the equity method because they are, individually or in aggregate, immaterial to the Group's financial position and results of operation.

(3) When the end of the reporting period of an equity method company differs from that of the Company, the Company uses financial statements of the equity method company using the year-end date of the Company with adjustment for the effects of any significant transactions or events occurring between the accounting period ends.

Cash and cash equivalents

For the purpose of preparation of the consolidated statement of cash flows, cash and cash equivalents include cash in hand, demand deposits and all highly liquid investments with original maturities of three months or less.

Foreign currency translation

All assets and liabilities denominated in foreign currencies are translated at current exchange rates prevailing at the respective balance sheet dates. Exchange gains or losses resulting from translation of assets and liabilities are recognized in other income and expenses.

The assets and liabilities of foreign consolidated subsidiaries that operate in local currency are translated into Japanese yen at the prevailing rates of exchange at the balance sheet date. Income and expense items are translated at the average exchange rate prevailing during the year.

Gains or losses resulting from translation of financial statements are recognized as foreign currency translation adjustments in equity.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the dates of the financial statements, and the reported amount of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Marketable securities and Investment securities

Available-for-sale securities with quoted market prices are recorded at fair value. The amounts of unrealized gains or losses from such securities, after accounting for tax effects, are presented in equity. Realized gains or losses from sales of securities are calculated using the moving-average method. Available-for-sale securities without quoted market prices are stated at moving-average cost.

Investments in affiliates over which the Group has significant influence but does not have control are accounted for under the equity method.

Inventories

The Company, Doit Co., Ltd., Nagasakiya Co., Ltd., and foreign subsidiaries use the retail method for inventories, except for fresh food, which is recorded at the last purchased price method.

Property, plant and equipment

Property, plant and equipment, including significant renewals and additions, are carried at cost.

Depreciation of property, plant and equipment is calculated according to the declining-balance method based mainly on the articles of the Japanese Tax Law except for buildings, which are depreciated using the straight-line method.

For the foreign subsidiaries, the depreciation of property, plant and equipment is computed by the straight-line method.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected future cash flows is less than the carrying amount of the assets, an impairment loss is recorded based on the fair value of the assets.

Intangible assets

Software is amortized using straight-line method over estimated useful life of five years, except for Don Quijote (USA) during the years ended June 30, 2012 and 2011.

Identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an intangible asset may not be recoverable. If the sum of the expected future cash flows is less than the carrying amount of the assets, an impairment loss is recorded based on the fair value of the assets.

Goodwill and negative goodwill

Goodwill is amortized using the straight-line method over 20 years. Negative goodwill incurred by business combinations before April 1, 2010 is amortized using the straight-line method over the estimated useful lives.

Lease transactions

Finance leases that do not transfer ownership are recognized as purchase transactions. They are recognized as lease assets and amortized using the straight-line method over their lease periods with zero residual value.

Common stock issuance costs

Common stock issuance costs are expensed as incurred. The Japanese Corporate Law prohibits deducting such stock issuance costs from capital accounts.

Bond issuance costs

Bond issuance costs are expensed as incurred.

Allowance for doubtful accounts

Allowance for doubtful accounts is provided in amounts sufficient to cover possible losses on collection. It consists of the estimated uncollectible amount with respect to certain identified doubtful receivables and the amount calculated using actual historical rate of losses.

Allowance for point program

Allowance for the point program is provided for the use of points given to customers at the amount expected to be used on the balance sheet date in accordance with the sales promotion point program. The amount is based on historical redemption experience.

Allowance for retirement benefits for directors

The Company has retirement benefit plans for Directors and Audit & Supervisory Board Members. Allowance for retirement benefits for Directors and Audit & Supervisory Board Members is provided at the amount expected to be paid on the balance sheet date in accordance with the company rules.

Allowance for loss on disaster

Allowance for loss on disaster is provided for the estimated amount of the restoration and other expenses for the damage caused by the Great Eastern Japan Earthquake as of the end of consolidated fiscal year ended June 30, 2012.

Revenues recognition

The revenue of the Company, Nagasakiya Co., Ltd., Doit Co., Ltd., and Don Quijote (USA) Co., Ltd., consists of sales through retail outlets. The revenue is recognized at the time of sale and recorded net of returns.

The revenue of Japan Company Establishment Co., Ltd. consists of rental income from tenants, which is recorded over the contract term.

Income taxes

Tax expenses include tax payable and deferred tax.

Deferred tax is calculated according to the asset liability method on the basis of temporary differences between book value on the balance sheet and the tax basis of assets and liabilities under the Corporation Tax Act.

Deferred tax assets are recognized for deductible temporary differences and for unused tax losses, to the extent it is likely that taxable profit will be available against which the deductible temporary difference may be used.

Financial instruments

The Company has adopted "Accounting Standard for Financial Instruments" (Statement No. 10, issued by the Accounting Standards Board of Japan, with final amendments made on March 10, 2008) and "Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, issued on March 10, 2008).

Derivatives

The Group uses derivative financial instruments for the purpose of hedging its exposure to fluctuation in foreign exchange rates and interest rates on loans payable. Derivatives are recognized at the market value.

Accounting for consumption taxes

Japanese consumption taxes withheld and consumption tax paid are not included in the accompanying consolidated statements of income. Accrued consumption tax is included in other current liabilities.

Shareholders' equity

Changes in the number of shares issued and outstanding during the years ended June 30, 2012 and 2011 were as follows:

Common stock outstanding (number of shares)	2012	2011
Balance at beginning of the year	77,030,780	72,095,109
Exercise of stock options	104,100	213,000
Increase due to conversion of convertible bonds	—	4,722,671
Balance at end of the year	77,134,880	77,030,780

Changes in the number of treasury stock during the years ended June 30, 2012 and 2011 were as follows:

Treasury stock outstanding (number of shares)	2012	2011
Balance at beginning of the year	1,244	473
Increase through the purchase of treasury stock	—	771
Balance at end of the year	1,244	1,244

Per share data

Basic net income per share is computed based on the weighted-average number of shares of common stock outstanding during the reported period. Diluted net income per share reflects the potential dilution and is computed based on the weight-average number of shares of common stock outstanding during each year after incorporating the dilutive potential common stocks to be issued upon the exercise of stock options and convertible bonds.

Accounting changes and error corrections

Any accounting changes and corrections of past errors made at or after the beginning of the consolidated fiscal year ended June 30, 2012 are subject to the "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No. 24, issued on December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, issued on December 4, 2009).

4. INVENTORIES

Inventories as of June 30, 2012, and 2011 were as follows:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2012	2011	2012
Electrical appliances	¥13,661	¥13,713	$172
Daily commodities	18,516	17,362	234
Foods	6,764	7,230	85
Watches, fashion goods	32,238	30,741	407
Sports, leisure goods	5,892	5,799	74
DIY products	4,370	4,518	55
Others	2,200	2,219	28
Total	¥83,641	¥81,582	$1,055

* The value of inventories is stated after writing down the carrying amount when the contribution of inventories to profitability declines and the following loss on valuation of inventories is included in cost of sales.

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2012	2011	2012
Loss on valuation of inventories	¥2,487	¥2,174	$31

5. LEASE TRANSACTIONS

1. Lease transactions derived from Special Purpose Entity (SPE)

(a) Assumed acquisition cost:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2012	2011	2012
Land	¥ —	¥3,671	$ —
Buildings	—	4,349	—
Structures	—	70	—

(b) Lease payments:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2012	2011	2012
Lease payments	¥ —	¥878	$ —

2. Operating leases

(a) Leasing transactions (unexpired lease payments) using SPEs:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2012	2011	2012
Due within one year	¥ —	¥878	$ —
Due after one year	—	2,780	—
Total	¥ —	¥3,658	$ —

(b) Leasing transactions (unexpired lease payments) through leases:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2012	2011	2012
Due within one year	¥3,675	¥3,120	$46
Due after one year	13,045	13,845	165
Total	¥16,720	¥16,965	$211

6. FINANCIAL INSTRUMENTS

1. Status of financial instruments

(1) Policy for financial Instruments

The Group's basic policy for management of surplus funds is to give priority to low risk financial assets, investing only in short-term financial instruments. For fund procurement, the Company raises funds mainly through bank loans. The Group uses derivative instruments to manage its exposure to fluctuation in foreign currency exchange and interest rates.

(2) Financial instruments, associated risks and risk management systems

Notes and accounts receivable-trade are mainly due from credit companies. They are exposed to credit risk, although the Group has little or no exposure to the credit risk related to these credit companies. For operating receivables other than those due from credit companies, the Group monitors due dates and outstanding balances, respectively.

Purchased receivables are exposed to the credit risk of customers. Within the Group, the Credit Department regularly monitors the status of major business partners and manages due dates and outstanding balances of each partner in accordance with the receivables management rule, while promptly identifying and minimizing concerns over collection due to the deterioration of financial condition.

Marketable securities and investment securities are exposed mostly to credit risk and liquidity risk. The Group manages and controls exposures to the risks within acceptable limits in accordance with its internal rules for managing marketable securities and investment securities. Significant transactions of marketable securities and investment securities require prior consultation with the Investment Committee and approval of the Board of Directors.

Long-term debt and corporate bonds provide funds primarily for capital investment purposes. To limit exposure to fluctuations in interest rates, the Company and some of its subsidiaries have entered into certain interest rate swap agreements for a portion of long-term debts to convert their interest rate basis from a variable rate to a fixed rate. Other than these agreements, the Group's long-term debt and corporate bonds have fixed interest rates and are not exposed to interest rate fluctuation risk.

The Group has policies and procedures for the risk management of derivative transactions. Significant transactions of derivative instruments require prior consultation with the Investment Committee and approval of the Board of Directors. The Group minimizes its exposure to credit risk by limiting them to counterparties with high credit rating.

Trade payable, loans and bonds are exposed to liquidity risk. The Company and its subsidiaries manage the liquidity risk by such measures as monthly cash flow planning.

Fixed leasehold deposits are mainly related to leasing properties for stores. They are exposed to credit risk of lessors. The Group performs credit checks before lease agreements and monitors creditworthiness of their counterparts regularly to limit the credit risk.

Convertible bonds are restricted-clause euroyen convertible bonds with stock acquisition rights due in 2013. These convertible bonds are zero coupon securities and are not exposed to the risk of interest rate fluctuation.

(3) Supplementary information on fair value

Fair values of financial instruments include quoted market prices if available. If a quoted market price is not available, fair value is estimated by using a reasonable valuation technique. The valuation techniques incorporate various assumptions. Estimated fair values may change depending on the different assumptions.

The contract amounts of the derivatives listed in Note 11 "Derivatives" indicate the notional amounts, not indicating the extent of market risk exposure.

2. Fair value of financial instruments

Carrying amounts on the consolidated balance sheets, fair value and respective differences as of June 30, 2012 and 2011 are presented below. Note that the following tables do not include financial instruments for which fair values are extremely difficult to determine.

	Millions of yen (Note 2)		
	2012		
	Carrying amount	Fair value	Difference
(1) Cash and deposits	¥34,237	¥34,237	¥ —
(2) Notes and accounts receivable-trade	4,889		
Less: Allowance for doubtful accounts*1	(13)		
Net	4,876	4,876	—
(3) Purchased receivables	6,761	6,761	—
(4) Current portion of long-term loans receivable	68		
Less: Allowance for doubtful accounts*2	(0)		
Net	68	67	(1)
(5) Investment securities	3,285	3,285	—
(6) Long-term loans receivable	721		
Less: Allowance for doubtful accounts*3	(3)		
Net	718	721	3
(7) Fixed leasehold deposits	10,933	10,229	(704)
Total assets	60,878	60,176	(702)
(1) Accounts payable-trade	44,793	44,793	—
(2) Short-term loans	14,866	14,866	—
(3) Current portion of long-term debt	11,121	11,112	(9)
(4) Current portion of corporate bonds	23,059	23,027	(32)
(5) Accrued expenses	6,229	6,229	—
(6) Accrued income taxes	5,783	5,783	—
(7) Corporate bonds	47,470	47,093	(377)
(8) Convertible bonds	350	348	(2)
(9) Long-term debt	36,476	36,645	169
Total liabilities	190,147	189,896	(251)
Derivative transactions*4	(101)	(101)	—

	Millions of U.S. dollars (Note 2)		
	2012		
	Carrying amount	Fair value	Difference
(1) Cash and deposits	$432	$432	$ —
(2) Notes and accounts receivable-trade	62		
Less: Allowance for doubtful accounts*1	(0)		
Net	62	62	—
(3) Purchased receivables	85	85	—
(4) Current portion of long-term loans receivable	1		
Less: Allowance for doubtful accounts*2	(0)		
Net	1	1	(0)
(5) Investment securities	41	41	—
(6) Long-term loans receivable	9		
Less: Allowance for doubtful accounts*3	(0)		
Net	9	9	0
(7) Fixed leasehold deposits	138	129	(9)
Total assets	768	759	(9)
(1) Accounts payable-trade	565	565	—
(2) Short-term loans	187	187	—
(3) Current portion of long-term debt	140	140	(0)
(4) Current portion of corporate bonds	291	290	(1)
(5) Accrued expenses	79	79	—
(6) Accrued income taxes	73	73	—
(7) Corporate bonds	599	594	(5)
(8) Convertible bonds	4	4	(0)
(9) Long-term debt	460	462	2
Total liabilities	2,398	2,394	(4)
Derivative transactions*4	(1)	(1)	—

	Millions of yen (Note 2)		
	2011		
	Carrying amount	Fair value	Difference
(1) Cash and deposits	¥35,031	¥35,031	¥ —
(2) Notes and accounts receivable-trade	4,585		
Less: Allowance for doubtful accounts*1	(13)		
Net	4,572	4,572	—
(3) Purchased receivables	6,787	6,787	—
(4) Current portion of long-term loans receivable	73		
Less: Allowance for doubtful accounts*2	(1)		
Net	72	73	1
(5) Investment securities	3,643	3,643	—
(6) Long-term loans receivable	792		
Less: Allowance for doubtful accounts*3	(3)		
Net	789	797	8
(7) Fixed leasehold deposits	11,796	10,881	(915)
Total assets	62,690	61,784	(906)
(1) Accounts payable-trade	42,430	42,430	—
(2) Short-term loans	14,935	14,935	—
(3) Current portion of long-term debt	11,774	11,776	2
(4) Current portion of corporate bonds	12,922	12,913	(9)
(5) Accrued expenses	5,739	5,739	—
(6) Accrued income taxes	4,434	4,434	—
(7) Corporate bonds	58,029	57,821	(208)
(8) Convertible bonds	350	354	4
(9) Long-term debt	35,570	35,581	11
Total liabilities	186,183	185,983	(200)
Derivative transactions*4	(2,154)	(2,154)	—

*1 Deducts allowance for doubtful accounts applicable to notes and accounts receivable-trade.
*2 Deducts allowance for doubtful accounts applicable to the current portion of long-term loans receivable.
*3 Deducts allowance for doubtful accounts applicable to long-term loans receivable.
*4 Net credit (obligation) arising from derivative transactions is shown as a net amount. If the total is a net obligation, the number appears in parentheses.

Calculation method for fair value of financial instruments and matters related to securities and derivative transactions

Assets

(1) Cash and deposits; (2) Notes and accounts receivable-trade (3) Purchased receivables

These are stated at book value, since the book values approximate fair value because of the short-term nature of these instruments.

(4) Current portion of long-term loans receivable; (6) Long-term loans receivables

The fair values are calculated by discounting total principal and interest by the interest rate that would be applied if similar new loans were entered into.

(5) Investment securities

For stocks, the fair values are the quoted market prices. For bonds, the fair values are the quoted market prices or the prices obtained from financial institutions. Refer to Note 7. "Marketable securities and investment securities" for further information.

(7) Fixed leasehold deposits

The fair values of fixed leasehold deposits are calculated by discounting the future cash flows using the interest rate based on the risk-free rate, such as the yields on government bonds, plus credit risk premium.

Liabilities

(1) Accounts payable-trade; (2) Short-term loans; (5) Accrued expenses; (6) Accrued income taxes

These are stated at book value, since the book values approximate fair value because of the short-term nature of these instruments.

(3) Current portion of long-term debt; (4) Current portion of corporate bonds; (7) Corporate bonds; (9) Long-term debt

The fair values are calculated by discounting the total principal and interest payment by the interest rate that would be applied to similar new borrowings.

(8) Convertible bonds

The fair values are measured at the quoted market prices.

Derivative Transactions

Please refer to Note 11. "Derivatives".

Financial instruments for which fair values are extremely difficult to determine:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2012	2011	2012
Investment securities	¥87	¥297	$2
Investments in securities and capital to affiliates	407	422	5
Long-term loans receivable	944	540	12
Less: Allowance for doubtful accounts*1	(762)	(200)	(10)
Net	182	340	2
Fixed leasehold deposits	21,353	21,507	269
Less: Allowance for doubtful accounts*2	(2,111)	(1,787)	(27)
Net	19,242	19,720	242

*1 Deducts allowance for doubtful accounts applicable to each respective long-term loans receivable.

*2 Deducts allowance for doubtful accounts applicable to each respective fixed leasehold deposits.

The figures above are not included in "(5) investment securities," "(6) long-term loans receivable," or "(7) fixed leasehold deposits" because these financial instruments do not have quoted market prices and thus it is not possible to estimate future cash flows to determine fair value.

*Maturity analysis for assets and securities with contractual maturities:

Fiscal year ended June 30, 2012

	Millions of yen (Note 2)			
	2012			
	Due in one year	Due after one year and within five years	Due after five years and within ten years	Due after ten years
1. Cash and deposits	¥34,237	¥ —	¥ —	¥ —
2. Notes and accounts receivable-trade	4,889	—	—	—
3. Purchased receivables	6,761	—	—	—
4. Long-term loans receivable	68	286	351	84
5. Fixed leasehold deposits	1,624	4,618	3,010	1,681
Total	¥47,579	¥4,904	¥3,361	¥1,765

	Millions of U.S. dollars (Note 2)			
	2012			
	Due in one year	Due after one year and within five years	Due after five years and within ten years	Due after ten years
1. Cash and deposits	$432	$ —	$ —	$ —
2. Notes and accounts receivable-trade	62	—	—	—
3. Purchased receivables	85	—	—	—
4. Long-term loans receivable	1	4	4	1
5. Fixed leasehold deposits	21	58	38	21
Total	$601	$62	$42	$22

Fiscal year ended June 30, 2011

	Millions of yen (Note 2)			
	2011			
	Due in one year	Due after one year and within five years	Due after five years and within ten years	Due after ten years
1. Cash and deposits	¥35,031	¥ —	¥ —	¥ —
2. Notes and accounts receivable-trade	4,585	—	—	—
3. Purchased receivables	6,787	—	—	—
4. Bonds				
(1) National and local government bonds	—	—	—	—
(2) Bonds	—	—	—	189
(3) Other	—	—	—	—
5. Long-term loans receivable	73	284	355	153
6. Fixed leasehold deposits	1,823	4,904	3,124	1,945
Total	¥48,299	¥5,188	¥3,479	¥2,287

* Please refer to Note 8. "Short-term loans and long-term debt" for the redemption schedule for corporate bonds, convertible bonds and long-term debt.

7. MARKETABLE SECURITIES AND INVESTMENT SECURITIES

1. Information regarding marketable securities and investment securities with quoted market prices as of June 30, 2012 and 2011 is as follows:

The following table summarizes carrying amount, acquisition cost and unrealized gains (losses) as of June 30, 2012 and 2011.

Fiscal year ended June 30, 2012

	Millions of yen (Note 2)		
	2012		
	Carrying amount	Acquisition cost	Net unrealized gains (losses)
Carrying amount exceeds acquisition cost:			
Equity securities	¥44	¥36	¥8
Others	818	762	56
Subtotal	862	798	64
Carrying amount does not exceed acquisition cost:			
Equity securities	2,055	2,682	(627)
Others	368	414	(46)
Subtotal	2,423	3,096	(673)
Total	¥3,285	¥3,894	¥(609)

Note: In the fiscal year ended June 30, 2012, the Company wrote down ¥6 million ($0 million) in investment securities.

	Millions of U.S. dollars (Note 2)		
	2012		
	Carrying amount	Acquisition cost	Net unrealized gains (losses)
Carrying amount exceeds acquisition cost:			
Equity securities	$1	$0	$0
Others	10	10	1
Subtotal	11	10	1
Carrying amount does not exceed acquisition cost:			
Equity securities	26	34	(8)
Others	5	5	(0)
Subtotal	31	39	(8)
Total	$41	$49	$(8)

Fiscal year ended June 30, 2011

	Millions of yen (Note 2)		
	2011		
	Carrying amount	Acquisition cost	Net unrealized gains (losses)
Carrying amount exceeds acquisition cost:			
Equity securities	¥9	¥5	¥4
Others	796	762	34
Subtotal	805	767	38
Carrying amount does not exceed acquisition cost:			
Equity securities	2,265	2,714	(449)
Bonds:			
Corporate bonds	189	300	(111)
Others	384	415	(31)
Subtotal	2,838	3,429	(591)
Total	¥3,643	¥4,196	¥(553)

Note: In the fiscal year ended June 30, 2011, the Company wrote down ¥716 million in investment securities.

2. Sales amounts and gains (losses) on sales of investment securities during the years ended June 30, 2012 and 2011 were as follows:

Fiscal year ended June 30, 2012

	Millions of yen (Note 2)		
	2012		
	Proceeds from sales	Gain on sales	Loss on sales
Equity securities	¥303	¥100	¥ —
Bonds:			
Corporate bonds	191	—	109
Total	¥494	¥100	¥109

	Millions of U.S. dollars (Note 2)		
	2012		
	Proceeds from sales	Gain on sales	Loss on sales
Equity securities	$4	$1	$ —
Bonds:			
Corporate bonds	2	—	1
Total	$6	$1	$1

Fiscal year ended June 30, 2011

	Millions of yen (Note 2)		
	2011		
	Proceeds from sales	Gain on sales	Loss on sales
Bonds:			
Corporate bonds	¥412	¥ —	¥ —
Others	332	—	148
Total	¥744	¥ —	¥148

8. SHORT-TERM LOANS AND LONG-TERM DEBT

Short-term loans are principally comprised of bank loans (average interest rate was 2.1%).

Substantially all of the loans with banks (including short-term loans) have basic written agreements, which state that the borrowers would need to provide collateral or guarantors immediately upon the banks' request with respect to all present or future loans and that any collateral furnished pursuant to such agreements will be used against repayment of debts in case of default.

Long-term debt as of June 30, 2012, consisted of the following:

	Millions of yen (Note 2)	Millions of U.S. dollars (Note 2)
Borrowings from banks and insurance companies at interest ranging from 0.9% to 2.5%	¥47,597	$600
0.00% unsecured convertible bonds due 2013 (convertible at ¥3,571 ($45) for one common share, redeemable before due date)*	350	4
1.21% unsecured straight bonds due 2012	200	2
1.30% unsecured straight bonds due 2012	188	2
1.07% unsecured straight bonds due 2012	250	3
1.17% unsecured straight bonds due 2012	100	1
0.81% unsecured straight bonds due 2012	100	1
1.17% unsecured straight bonds due 2012	500	6
0.79% unsecured straight bonds due 2012	100	1
0.74% unsecured straight bonds due 2012	525	7
1.79% unsecured straight bonds due 2012	11,000	139
1.20% unsecured straight bonds due 2013	700	9
0.99% unsecured straight bonds due 2013	600	8
1.08% unsecured straight bonds due 2013	600	8
1.30% unsecured straight bonds due 2013	400	5
1.38% unsecured straight bonds due 2013	600	8
1.24% unsecured straight bonds due 2013	600	8
1.39% unsecured straight bonds due 2013	450	6
0.68% unsecured straight bonds due 2013	416	5
1.27% unsecured straight bonds due 2014	1,600	20
1.00% unsecured straight bonds due 2014	1,200	15
1.10% unsecured straight bonds due 2014	1,000	13
1.05% unsecured straight bonds due 2014	1,200	15
0.97% unsecured straight bonds due 2014	12,000	151
0.95% unsecured straight bonds due 2015	1,200	15
0.74% unsecured straight bonds due 2015	1,400	18
0.59% unsecured straight bonds due 2015	2,100	26
0.66% unsecured straight bonds due 2015	1,400	18
0.94% unsecured straight bonds due 2015	700	9
TIBOR 6-month interest rate plus 0.20% unsecured straight bonds due 2015	700	9
0.92% unsecured straight bonds due 2016	1,600	20
0.74% unsecured straight bonds due 2016	800	10
TIBOR 6-month interest rate plus 0.20% unsecured straight bonds due 2016	800	10
1.57% unsecured straight bonds due 2016	13,000	164
0.62% unsecured straight bonds due 2016	1,800	23
0.76% unsecured straight bonds due 2016	1,800	23
0.77% unsecured straight bonds due 2016	900	11
1.21% unsecured straight bonds due 2016	8,000	101
Subtotal	118,476	1,494
Finance lease liabilities	38	0
Less: Current portion of long-term debt	34,201	431
Total	¥84,313	$1,063

* A summary of stock acquisition rights (SARs) as of June 30, 2012 is as follows:

Issued on	Exercisable during	Exercise price		Total number of SARs to be issued	Outstanding balance	Number of shares of outstanding balance
		Yen	Dollars			
July 24, 2006	August 7, 2006 to July 10, 2013	¥3,571	$45	2,300	35	98,256 common shares

Convertible bonds are treated solely as bonds in accordance with accounting principles generally accepted in Japan. The total amount of the convertible bonds has been included in long-term debt.

Long-term debt is principally comprised of bank loans (with average interest rate of 1.4%).

The Company signed a syndicated loan agreement with 14 financial institutions, totaling ¥5,000 million ($63 million). This agreement includes financial covenants based on certain indices calculated from net assets of the consolidated and unconsolidated balance sheets and ordinary income and loss of the consolidated and unconsolidated statements of income. The balance of loans payable as of June 30, 2012 is ¥4,500 million ($57 million).

Fidec Corporation, a consolidated subsidiary of the Group, signed a syndicated loan agreement with 20 financial institutions, totaling ¥15,201 million ($192 million). The balance of loans paypable as of June 30, 2012 is ¥13,941 million ($176 million) at the end of the consolidated fiscal year ended

June 30, 2012. This agreement includes financial covenants based on certain indices calculated from net assets of the consolidated and unconsolidated balance sheets and ordinary income and loss of the consolidated and unconsolidated statements of income for the second quarter of each fiscal year and for each fiscal year. In addition, as a borrower's commitment, the ratio of the sum of the following items to the outstanding loan should not fall below a predetermined amount: (1) the amount of purchased receivables as of the end of each month that can be used as collateral less liabilities such as deposits received; and (2) the balance of savings account designated by the lender. In addition, there is a negative pledge covenant that stipulates that collateral will not be provided for current or future liabilities of Fidec Corporation or a third party, with the exception of liabilities based on this agreement.

Japan Commercial Establishment Co., Ltd., a consolidated subsidiary of the Group, and the Company, its guarantor, signed a syndicated loan agreement with six financial institutions, totaling ¥12,000 million ($151 million). This agreement has financial covenants based on certain indices calculated from net assets of the unconsolidated balance sheet and ordinary income and loss of unconsolidated statement of income for each fiscal year. In addition, there is a negative pledge covenant that stipulates collateral will not be provided for liabilities of Japan Commercial Establishment Co., Ltd., or a third party, with the exception of liabilities based on this agreement. The balance of loans payable as of June 30, 2012 is ¥11,400 million ($144 million).

The aggregate annual maturities of long-term debt and corporate bonds are as follows:

Fiscal years ending June 30	Millions of yen (Note 2)	Millions of U.S. dollars (Note 2)
2013	¥34,180	$431
2014	28,734	362
2015	16,947	214
2016	20,015	252
2017 and thereafter	18,600	235
Total	¥118,476	$1,494

9. OVERDRAFT AGREEMENTS

As of June 30, 2012 and 2011, the Company had overdraft agreements to ensure efficient procurement of funds for working capital with 32 banks and 23 banks, respectively. The balances of unused financing based on these agreements as of June 30, 2012 and 2011 were as follows:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2012	2011	**2012**
Total amount of overdraft granted	**¥30,800**	¥22,800	**$388**
Bank loans arranged	—	—	—
Unused amount of the agreed overdraft limit	**¥30,800**	¥22,800	**$388**

10. LOAN COMMITMENT AGREEMENT

The Company has entered into loan commitment agreements with five banks to ensure the efficient procurement of funds for working capital. The balance of unused funds based on these agreements as of June 30, 2012 and 2011 was as follows:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2012	2011	**2012**
Total amount of loan commitment	**¥10,000**	¥ —	**$126**
Bank loans arranged	—	—	—
Unused financing commitments	**¥10,000**	¥ —	**$126**

* This agreement includes financial covenants based on certain indices calculated from net assets of the consolidated and unconsolidated balance sheets and ordinary income and loss of the consolidated and unconsolidated statements of income.

11. DERIVATIVES

1. Derivative transaction hedge accounting is not applied to:

Fiscal year ended June 30, 2012

	Millions of yen (Note 2)			
	Contract amount	Due after one year	Fair value	Unrealized gain
Interest rate swap contracts, variable receipts and fixed payments	**¥16,085**	**¥11,981**	**¥(122)**	**¥(122)**
Forward exchange contracts	**644**	—	**665**	**21**

	Millions of U.S. dollars (Note 2)			
	Contract amount	Due after one year	Fair value	Unrealized gain
Interest rate swap contracts, variable receipts and fixed payments	**$203**	**$151**	**$(2)**	**$(2)**
Forward exchange contracts	**8**	—	**8**	**0**

Fiscal year ended June 30, 2011

	Millions of yen (Note 2)			
	Contract amount	Due after one year	Fair value	Unrealized gain
Interest rate swap contracts, variable receipts and fixed payments	¥13,601	¥9,086	¥(133)	¥(133)
Forward exchange contracts	952	—	947	(5)
Knock-out equity option contracts	4,999	—	(2,968)	(2,768)

* To calculate fair value, the Company uses the price presented by a partner financial institution or securities company that signed such agreement.

2. Derivative transaction hedge accounting is applied to:

Not applicable

12. USE OF SPECIAL PURPOSE ENTITIES (SPEs) FOR PROPERTY OWNERSHIP

Fiscal year ended June 30, 2012
Not applicable

(Additional information)

In the consolidated fiscal year ended June 30, 2012, the Company liquidated the special purpose entity (SPE)—which was within the scope of disclosure—after having terminated the leaseback agreement with the SPE.

Fiscal year ended June 30, 2011

1. The Company securitized its real estate assets using a sales and lease back structure in order to diversify and stabilize its funds procurement. For securitization, the Company transfers its real estates to the SPEs, which procure funds from financial institutions using the real estate assets as collateral. The Company receives these funds as proceeds from sales. After securitization, the same real estate is leased back to the Company.

   The Company invests in SPE through silent partnership agreements. There is one SPE with a transaction balance.

   Total assets held by SPEs as of the most recent fiscal year-end amounted to ¥8,945 million and total liabilities were ¥6,890 million.

   The Company's investments do not grant it voting rights in the SPEs. Also, the Company does not assign any directors or employees to these SPEs.

2. Transactions between SPEs for consolidated fiscal year ended June 30, 2011 were as follows:

	Millions of yen (Note 2)		
	Major transaction amount or balance	Profit and loss	
		Account	Amount
Investments in silent partnerships (*Tokumei Kumiai*)	¥ —	Loss on SPE	¥4
Lease back transactions	—	Lease payment	878

No investments were made in the fiscal year ended June 30, 2011. As of June 30, 2011, there is no balance of investments in silent partnerships associated with the securitization of property because the potential loss expected to incur in the fiscal year ended June 30, 2011, of ¥440 million was recorded as a valuation loss. Losses in these silent partnership investments were recorded under other expenses.

13. STOCK INCENTIVE PLANS

The shareholders of the Company approved a stock incentive plan on September 28, 2004. The options can be exercised during the period from October 2, 2006 until October 1, 2016, at an exercise price of ¥1,970 ($25). The terms of options are subject to adjustment for stock splits, consolidation of shares or additional shares issued at a price less than the market price per share. The unexercised and outstanding balance of SAR, as of June 30, 2012, was 533,700 shares.

The shareholders of the Company also approved a stock incentive plan on September 29, 2005. The options can be exercised during the period from October 2, 2007 until October 1, 2017, at an exercise price of ¥3,134 ($40). The terms of options are subject to adjustment for stock splits, consolidation of shares or additional shares issued at price less than the market price per share. The number of stock options exercisable as of June 30, 2012 was 1,487,100 shares.

14. OTHER INCOME, NET

Other income, net for the years ended June 30, 2012 and 2011 consisted of Other income and Other expenses. Other income and Other expenses were as follows:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2012	2011	2012
Other income:			
Amortization of negative goodwill	¥857	¥857	$11
Fees and commissions received	364	343	4
Gain on the sale of fixed assets	3	21	0
Legal settlement	—	167	—
Compensation income for expropriation	318	387	4
Gain on step acquisition	—	197	—
Other	1,483	1,360	19
Other income total	3,025	3,332	38
Other expenses:			
Bond issuance costs	139	390	2
Impairment loss	184	779	2
Loss on disposal of fixed assets	159	118	2
Equity in loss of affiliated company	1	175	0
Allowance for doubtful accounts	576	—	7
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	682	—
Other	530	1,163	7
Other expenses total	1,589	3,307	20
Other income, net	¥1,436	¥25	$18

15. COMPREHENSIVE INCOME

The reclassification adjustments and tax effects allocated to each component of other comprehensive income for the fiscal year ended June 30, 2012 was as follows:

	Millions of yen (Note 2)	Millions of U.S. dollars (Note 2)
	2012	
Net unrealized losses on investment securities:		
Loss arising during the fiscal year	¥(151)	$(2)
Reclassification adjustment to net income	108	1
Amount before tax effect	(43)	(1)
Tax effect	(5)	(0)
Net unrealized losses on investment securities	(48)	(1)
Foreign currency translation adjustments:		
Gain arising during the fiscal year	151	2
Total other comprehensive income	¥103	$1

16. PLEDGED ASSETS

The Company's assets pledged as collateral as of June 30, 2012 and 2011 were as follows:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2012	2011	2012
Cash and deposits	¥3,911	¥2,612	$50
Time deposits	260	263	3
Purchased receivables*	8,706	10,749	110
Debt deducted from claims used for collateral such as deposits payable	(492)	(90)	(6)
Land	13,878	15,405	175
Buildings and structures	4,512	5,157	57
Fixed leasehold deposits	572	4,502	7
Other	21	149	0
Total	¥31,368	¥38,747	$396

* Purchased receivables of ¥5,259 million ($66 million) and ¥5,283 million were eliminated for consolidation purposes in the consolidated fiscal year ended June 30, 2012 and 2011, respectively.

Secured liabilities as of June 30, 2012 and 2011 were as follows:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2012	2011	2012
Short-term loans	¥13,941	¥14,562	$176
Current portion of long-term debt	1,500	1,200	19
Long-term debt	13,125	13,350	165
Other current liabilities	19	383	0
Other non-current liabilities	569	4,551	7

17. TAX-EFFECT ACCOUNTING

1. The effective tax rate in Japan is based on corporate tax, business tax and inhabitant tax rates, 40.7% in the fiscal year ended June 30, 2012 and 2011. Significant components of deferred tax assets and deferred tax liabilities were as follows:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2012	2011	2012
Deferred tax assets:			
Accrued enterprise taxes	¥449	¥377	$6
Excess allowance for doubtful accounts	1,230	1,706	16
Inventories	987	950	12
Net operating loss carryforwards	6,122	7,798	77
Loss on valuation of investment securities not deductible for tax purposes	95	112	1
Excess depreciation and amortization	591	711	7
Impairment loss	2,230	2,304	28
Net unrealized losses on investment securities	217	225	3
Long-term accounts payable	462	670	6
Allowance for loss on disaster	74	499	1
Asset retirement obligations	325	308	4
Others	1,368	1,057	17
Total gross deferred tax assets	14,150	16,717	178
Valuation allowance	(9,008)	(11,640)	(114)
Total deferred tax assets	5,142	5,077	64
Deferred tax liabilities:			
Goodwill	(823)	(889)	(10)
Valuation of assets and liabilities of subsidiaries at market value for the purpose of consolidation	(973)	(306)	(12)
Others	(9)	(1)	(0)
Total deferred tax liabilities	(1,805)	(1,196)	(22)
Net deferred tax assets	¥3,337	¥3,881	$42

Net deferred tax assets as of June 30, 2012 and 2011 were included in the following assets and liabilities in the consolidated balance sheets:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2012	2011	2012
Current assets-Deferred tax assets	¥2,958	¥1,868	$37
Other assets (non-current)-Deferred tax assets	1,379	2,320	17
Current liabilities-Others	—	—	—
Non-current liabilities-Others	1,000	307	12

2. The reconciliation of the difference between the statutory tax rate and the effective tax rate for the fiscal years ended June 30, 2012 and 2011 was as follows:

	2012	2011
Statutory tax rate	40.7%	40.7%
Per capita levy	2.1%	2.8%
Amortization of negative goodwill	(1.1)%	(1.6)%
Change in valuation allowance	(0.3)%	(0.9)%
Loss on recognition of goodwill	(3.8)%	(5.7)%
Allocation of losses carried forward from subsidiaries recording losses	(6.2)%	(0.9)%
Reduction of deferred tax assets at the end of the period due to changes in tax rates	0.7%	—
Other	(0.3)%	3.0%
Effective income tax rate	31.8%	37.4%

3. Correction of the amounts of deferred tax assets and deferred tax liabilities due to the changes in the corporate tax and other tax rates

The "Act to partially revise the Income Tax Act and others in order to construct a tax system corresponding to changes in the structure of the economic system" (Act No. 114 of 2011) and the "Special measures act to secure the financial resources required to implement a policy on restoration after the Great East Japan Earthquake" (Act No. 117 of 2011) were promulgated on December 2, 2011, and, as a result, from consolidated fiscal years beginning on or after April 1, 2012, the corporate tax rate will be reduced and a special corporate tax for reconstruction will be imposed. Pursuant to these changes, the effective statutory tax rate for calculating deferred tax assets and deferred tax liabilities will be changed from 40.7% to 38.0% for temporary differences that are expected to be realized in the period from the consolidated fiscal year beginning on July 1, 2012 to the consolidated fiscal year beginning on July 1, 2014, and to 35.6% for temporary differences that are expected to be realized in or after the consolidated fiscal year beginning on July 1, 2015.

As a result, the amount of deferred tax assets (deferred tax assets less deferred tax liabilities) decreased by ¥244 million ($3 million), while income tax–deferred and valuation difference on investment securities increased by ¥214 million ($3 million) and ¥30 million ($0 million), respectively.

18. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major items included in selling, general and administrative expenses for the fiscal years ended June 30, 2012 and 2011 were as follows:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2012	2011	2012
Employees' compensation and benefits	¥37,617	¥35,060	$474
Occupancy and rental	17,832	18,053	225
Commission	12,499	12,181	158
Depreciation and amortization	9,566	9,385	121
Allowance for doubtful accounts	18	6	0
Provision for retirement benefits for directors	20	21	0
Amortization of goodwill	150	27	2
Other	32,521	29,005	410
Total	¥110,223	¥103,738	$1,390

19. IMPAIRMENT LOSS

Impairment losses for the fiscal years ended June 30, 2012 and 2011 were as follows:

Fiscal year ended June 30, 2012

			Millions of yen (Note 2)	Millions of U.S. dollars (Note 2)
Location	Use	Category	2012	
Tohoku	Idle assets	Land	¥54	$1
Koshinetsu	Idle assets	Land	47	0
Kanto	Idle assets	Land	83	1
	Total		¥184	$2

Fiscal year ended June 30, 2011

			Millions of yen (Note 2)
Location	Use	Category	2011
Kanto	Stores and facilities	Buildings and structures	¥380
Kansai	Stores and facilities	Buildings and structures	329
—	Other	Goodwill	70
		Total	¥779

The Company identifies groups of assets based on individual stores and operating divisions, which are minimum cash-generating units. For investment and rental properties, individual properties are identified as minimum cash-generating units.

The Company recognizes impairment losses for stores incurring continuous operating losses, facilities with no further use, business assets with deteriorated economic performance, and idle assets whose fair value declined. The carrying amounts of these assets are reduced to their recoverable amounts. The amounts of these reductions were recorded as impairment losses.

In the consolidated fiscal year ended June 30, 2012, the Company recognized impairment losses on idle assets whose fair value declined.

In the consolidated fiscal year ended June 30, 2011, the Company recognized an impairment loss of ¥709 million on stores incurring continuous operating losses, facilities with no further use, and business assets with deteriorated economic performance. They consist of buildings and structures of ¥647 million, intangible assets of ¥42 million, and long-term prepaid expenses of ¥20 million. The Company recorded an impairment loss on goodwill totaling ¥70 million, due to some consolidated subsidiaries being unlikely to achieve the profits initially expected.

The recoverable amounts of these asset groups are values in use or net selling prices. Net selling price is determined based on the real estate appraisal value. Calculation of value in use is based on the estimated future cash flows discounted by a rate of 4%.

20. RELATED PARTY TRANSACTIONS

Related party transactions for the years ended June 30, 2012 and 2011 were as follows:

Fiscal year ended June 30, 2012

			Millions of yen (Note 2)*2	Millions of U.S. dollars (Note 2)
Related party	Category	Description of the transactions	2012	
Anryu Shoji Co., Ltd.	Company in which directors hold the majority of voting rights	Leasing of real estate*1	¥38	$0

Fiscal year ended June 30, 2011

			Millions of yen (Note 2)*2
Related party	Category	Description of the transactions	2011
Anryu Shoji Co., Ltd.	Company in which directors hold the majority of voting rights	Leasing of real estate*1	¥38

*1 The rental value on real estate is determined under the same conditions as a regular transaction.
*2 Transaction amounts do not include consumption tax.

21. CALCULATION OF EARNINGS PER SHARE

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2012	2011	2012
Net income	¥19,845	¥12,663	$250
Net income after adjustments	¥19,845	¥12,663	$250

	Shares	
	2012	2011
Weighted average number of shares	77,076,446	75,451,847
Effective of dilutive securities:		
Stock options	170,650	164,591
Convertible bonds	—	1,435,385
Diluted weighted average number of shares	77,247,096	77,051,823

	Yen (Note 2)		U.S. dollars (Note 2)
	2012	2011	2012
Shareholders' equity per share	¥1,856.45	¥1,604.65	$23.41
Basic earnings per share	257.47	167.82	3.25
Diluted earnings per share	256.90	164.34	3.24

22. SUPPLEMENTARY PROFIT AND LOSS INFORMATION

Breakdown of gain on sales of fixed assets	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2012	2011	2012
Buildings and structures	¥—	¥20	$—
Furniture and fixtures	2	1	0
Other	1	0	0
Total	¥3	¥21	$0

Breakdown of gain on liquidation of reorganization claims
Fiscal year ended June 30, 2012

In liquidation of reorganization claims, a gain is recognized differences in payments for land and profitable properties, and the differences in pledges for fixed leasehold deposits.

Fiscal year ended June 30, 2011

In liquidation of reorganization claims, a gain recognized on the differences in payments for properties such as buildings and structures, land, and leaseholds of ¥134 million, and differences in pledges for fixed leasehold deposits of ¥124 million.

Breakdown of loss on disposal of fixed assets	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2012	2011	2012
Buildings and structures	¥78	¥34	$1
Furniture and fixtures	56	72	1
Other	25	12	0
Total	¥159	¥118	$2

Breakdown of loss on close of stores	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2012	2011	2012
Buildings and structures	¥311	¥149	$4
Furniture and fixtures	14	79	0
Other	453	197	6
Total	¥778	¥425	$10

23. CASH FLOW INFORMATION

Cash flow information as of June 30, 2012 and 2011 is as follows:

1. Cash and cash equivalents

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2012	2011	2012
Cash and deposits	¥34,237	¥35,031	$432
Deposits paid, included in other current assets	1,902	96	24
Time deposits with maturities of more than three months	(5,906)	(7,988)	(75)
Pledged time deposits (over three months)	(260)	(263)	(3)
Cash and cash equivalents	¥29,973	¥26,875	$378

2. Significant non-cash transactions

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2012	2011	2012
Increase in capital due to conversion of convertible bonds	¥—	¥4,302	$—
Increase in additional paid-in capital due to conversion of convertible bonds	—	4,298	—
Decrease in convertible bonds through conversion	¥—	¥8,600	$—

Note: Due to the adoption of "Accounting Standard for Asset Retirement Obligations" and "Guidance on Accounting Standard for Asset Retirement Obligations" from the consolidated fiscal year ended June 30, 2011, buildings and structures (net) increased by ¥1,032 million, and asset retirement obligations increased by ¥1,858 million as of June 30, 2011.

3. Major components of the assets and liabilities of a company that was consolidated through acquisition of shares

Fiscal year ended June 30, 2012

The Company consolidated Nagoya Sakae Jisho Limited Liability Co. and its subsidiary through the acquisition of investments. The acquired assets and assumed liabilities as of the acquisition date, the acquisition cost of investments, and payments for the acquisition (net) were as follows:

	Millions of yen (Note 2)	Millions of U.S. dollars (Note 2)
	2012	
Current assets	¥47	$1
Non-current assets	5,280	66
Goodwill	1,870	24
Current liabilities	(50)	(1)
Non-current liabilities	(787)	(10)
Acquisition costs of Nagoya Sakae Jisho Limited Liability Co. and its subsidiary	6,360	80
Cash and cash equivalents of Nagoya Sakae Jisho Limited Liability Co. and its subsidiary	0	0
Net		
Payments for acquisition of Nagoya Sakae Jisho Limited Liability Co. and its subsidiary	¥6,360	$80

Fiscal year ended June 30, 2011

The Company consolidated Koigakubo SC TMK through the acquisition of preferred equity securities. The acquired assets and assumed liabilities as of the acquisition date, the acquisition cost of preferred securities, and payments for the acquisition (net) were as follows:

	Millions of yen (Note 2)
	2011
Current assets	¥31
Non-current assets	4,641
Current liabilities	(15)
Acquisition cost of Koigakubo SC TMK	4,657
Cash and cash equivalents of Koigakubo SC TMK	(30)
Net:	
Payments for the acquisition of Koigakubo SC TMK	¥4,627

Major components of assets and liabilities of Fidec Corporation and its two subsidiaries, which changed from being equity method companies to consolidated subsidiaries due to an additional acquisition of shares, acquisition costs of shares and proceeds from acquisition (net) were as follows:

	Millions of yen (Note 2)
	2011
Current assets	¥15,123
Non-current assets	1,798
Goodwill	1,292
Current liabilities	(15,603)
Non-current liabilities	(21)
Minority interests	(639)
Stock acquisition rights	(54)
Gain on step acquisition	(197)
Acquisition costs of Fidec Corporation and its two subsidiaries	1,700
Cash and cash equivalents of Fidec Corporation and its two subsidiaries	(2,878)
Net:	
Proceeds from acquisition of Fidec Corporation and its two subsidiaries	¥(1,178)

24. INVESTMENT AND RENTAL PROPERTY

Information on investment and rental property in the fiscal years ended June 30, 2012 and 2011 is as follows:

The Company and some of its consolidated subsidiaries own commercial properties and facilities (including land) for lease in Tokyo and other areas.

For the fiscal year ended June 30, 2012, rental income related to such properties and facilities was ¥1,370 million ($17 million) and the impairment loss was ¥184 million ($2 million). Rental income was recorded in net sales, and significant rental expenses were recorded in cost of sales and selling, general and administrative expenses.

For the fiscal year ended June 30, 2011, rental income related to such properties and facilities was ¥1,007 million. Rental income was recorded in net sales, and significant rental expenses were recorded in cost of sales and selling, general and administrative expenses.

The balance sheet carrying amounts, changes and fair values of these assets for the fiscal years ended June 30, 2012 and 2011 are as follows:

Fiscal year ended June 30, 2012

Millions of yen (Note 2)			
Carrying amount			Fair value as of June 30, 2012*2
Balance as of June 30, 2011	Net change*3	Balance as of June 30, 2012*1	
¥25,541	¥1,450	¥26,991	¥27,654

Millions of U.S. dollars (Note 2)			
Carrying amount			Fair value as of June 30, 2012*2
Balance as of June 30, 2011	Net change*3	Balance as of June 30, 2012*1	
$322	$18	$340	$349

Fiscal year ended June 30, 2011

Millions of yen (Note 2)			
Carrying amount			Fair value as of June 30, 2011*2
Balance as of June 30, 2010	Net change*3	Balance as of June 30, 2011*1	
¥15,152	¥10,389	¥25,541	¥26,498

Notes: 1. The carrying amount on the consolidated balance sheet is the acquisition cost minus accumulated depreciation and accumulated impairment loss.
2. Fair value is an amount that was calculated by the Company based primarily on Japanese Real Estate Appraisal Standards, including adjustments made by using certain financial indicators.
3. For the consolidated fiscal year ended June 30, 2012, major components of the increase were ¥640 million ($8 million) for the acquisition of real estate and ¥994 million ($13 million) for change in the proportion of leases and a major component of the decrease was ¥184 million ($2 million) for impairment loss. For the consolidated fiscal year ended June 30, 2011, a major component of the increase was ¥10,448 million for the acquisition of real estate, and major components of the decrease were depreciation and ¥158 million for expropriation.

25. ASSET RETIREMENT OBLIGATIONS

1. Asset retirement obligations recorded on consolidated balance sheets

(1) Summary of asset retirement obligations

It relates to restoration obligations for land and buildings used for stores according to fixed-term leasehold for commercial use and fixed-term lease contracts for buildings.

(2) Calculation of asset retirement obligations

Asset retirement obligations are calculated on the basis of estimated period of use of 4 to 31 years and discount rates of 0.39%–2.15%.

(3) Changes in asset retirement obligations

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2012	2011	2012
Beginning balance*	¥1,858	¥1,635	$24
Increase due to acquisition of property, plant and equipment	335	197	4
Adjustments over time	29	26	0
Decrease due to fulfillment of asset retirement obligations	(59)	—	(1)
Ending balance	¥2,163	¥1,858	$27

* The beginning balance of the consolidated fiscal year ended June 30, 2011 was calculated based on "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, issued on March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, issued on March 31, 2008).

2. Asset retirement obligations not recorded on consolidated balance sheets

For real estate lease contracts other than fixed-term leasehold for commercial use and fixed-term lease contracts for buildings, the Company and its consolidated subsidiaries have restoration obligations when vacating premises, but it is impossible to reasonably estimate asset retirement obligations because the period of use of the leased properties related to such obligations is not clear, and there is no current plan to vacate the premises in the future. Therefore, the asset retirement obligations that correspond to these obligations are not recorded.

26. BUSINESS COMBINATIONS

Information pertaining to business combinations in the fiscal years ended June 30, 2012 and 2011 is as follows:

Fiscal year ended June 30, 2012
Not applicable

Fiscal year ended June 30, 2011
(Business combination by acquisition)
(Consolidation of Fidec Corporation due to the acceptance of an allocation of new shares to a third party)

1. Overview of business combination

(1) Name of the acquired company and its scope of business

Name of company	Fidec Corporation
Business activities	Accounting outsourcing and liquidation of receivables

(2) Major reason for the business combination

The Company signed a new agreement on a business and capital alliance with Fidec Corporation on October 15, 2010 and supports the management of Fidec Corporation.

Based on this agreement, the Company consolidated Fidec Corporation by accepting an allocation of new shares to a third party to remove concerns over the capital deficit of Fidec Corporation and further strengthen its financial base.

(3) Date of the business combination
January 27, 2011

(4) Legal form of the business combination
Acquisition of shares

(5) Name of company after the business combination
Fidec Corporation

(6) Share of voting rights acquired
Before acquisition: 10.33%
After acquisition: 48.60%

(7) Basis for determining the acquiring company
The Company accepted an allocation of new shares to a third party of Fidec Corporation, which led to an increase in the ratio of voting rights, and resulted in the Company owning 50.9% of voting rights together with the shares of Fidec Corporation owned by a director of the Company.

2. Financial periods of the acquired company included in consolidated financial statements

Because the reporting date of Fidec Corporation is March 31, the difference between the reporting date of the Company is three months. Therefore, financial statements as of June 30, 2011 were used for consolidation. Accordingly, the results between March 31, 2011 (deemed acquisition date) and June 30, 2011 were included in the consolidated financial statements. However, as Fidec Corporation was an equity method company, the equity method was applied to results between April 1, 2010 and December 31, 2010, while adjustments necessary for consolidation were made for the period from January 1, 2011 to June 30, 2011.

3. Acquisition cost of the acquired company

Acquisition cost: ¥1,700 million

4. Difference between acquisition cost of the acquired company and the aggregation of the purchase prices for the acquired company's shares

Gain on step acquisition: ¥197 million

5. Amount of goodwill recognized, reason for recognition of goodwill, amortization method, and amortization period

Amount of goodwill recognized: ¥1,292 million

Reason for recognition of goodwill: Because the acquisition cost exceeded the market value of net assets at the time of the business combination, the difference is recognized as goodwill.

Amortization method and amortization period: Straight-line amortization over 20 years

6. Amounts of assets acquired and liabilities assumed as of the date of business combination and major components of these assets and liabilities

	Millions of yen (Note 2)
	2011
Current assets	¥15,123
Non-current assets	1,798
Total assets	16,921
Current liabilities	(15,603)
Non-current liabilities	(21)
Total liabilities	¥(15,624)

7. Estimated effect and its calculation method used on the consolidated statements of income for the consolidated fiscal year ended June 30, 2011, when the business combination is assumed to have been completed on the first day of the consolidated fiscal year ended June 30, 2011

	Millions of yen (Note 2)
	2011
Sales	¥1,261
Operating income	340
Ordinary income	510

(Method of calculating estimated amount)

Estimated effect is the difference between sales and profit information calculated assuming that the business combination is completed on the first day of the consolidated fiscal year ended June 30, 2011 and sales and profit information of the acquired company presented in the consolidated statements of income. This note is not covered by an audit certificate.

(Consolidation of subsidiaries, making them second-generation subsidiaries, by acquisition of equity investment in SPC of consolidated subsidiaries)

1. Overview of business combination

(1) Name of the acquired company and scope of business activities

Name of company	KAG Six Investment SPC
Business activities	Transfer of designated assets and management and disposal of those assets in accordance with the asset liquidation plan based on laws regarding liquidation of assets

(2) Major reason for the business combination
Japan Commercial Establishment Co., Ltd., a consolidated subsidiary of the Company, determined to acquire preferred equity investment and designated equity investment of SPC, which owns retail properties, in order to engage in store operation and tenant leasing businesses of the Group.

(3) Date of the business combination
March 31, 2011

(4) Legal form of the business combination
Acquisition of equity investment

(5) Name of company after the business combination
Koigakubo SC TMK

(6) Share of voting rights acquired
Before acquisition: 0.00%
After acquisition: 100.00%

(7) Basis for determining the acquiring company
A consolidated subsidiary of the Company acquired 100% of the equity investment in exchange for cash.

2. Financial periods of the acquired company included in consolidated financial statements

Because the reporting date of Koigakubo SC TMK is December 31, the financial statements for the term ended June 30, 2011 were used for consolidation. Results between March 31, 2011 (date of the business combination) and June 30, 2011 were included in the consolidated financial statements.

3. Acquisition cost of the acquired company

Acquisition cost: ¥4,657 million

4. Difference between acquisition cost of acquired company and the aggregation of the purchase prices for the acquired company's shares

Not applicable

5. Amount of goodwill recognized, reason for recognition of goodwill, amortization method, and amortization period

Not applicable

6. Amounts of assets acquired and liabilities assumed as of the date of business combination and major components of these assets and liabilities

	Millions of yen (Note 2)
	2011
Current assets	¥31
Non-current assets	4,641
Total assets	4,672
Current liabilities	(15)
Non-current liabilities	—
Total liabilities	¥(15)

7. Estimated effects and its calculation method used on the consolidated statements of income for the consolidated fiscal year ended June 30, 2011, when the business combination is assumed to have been completed on the first day of the consolidated fiscal year ended June 30, 2011

Because it was difficult to estimate, it was not calculated. This note is not covered by an audit certificate.

27. SUBSEQUENT EVENTS

1. Cash dividends

The following cash dividend of the Company was approved at the shareholders' meeting held on September 26, 2012.
The cash dividend is not reflected in the consolidated financial statements for the fiscal year ended June 30, 2012.

	Millions of yen (Note 2)	Millions of U.S. dollars (Note 2)
Cash dividend (¥21.00=$0.26 per share)	**¥1,620**	**$20**

2. Commitment lines by syndication

The Company approved a resolution on the following commitment lines by syndication at a Board of Directors' meeting held on September 13, 2012, and signed the contract on September 24, 2012 to secure expeditious and stable financing.

1. Date of contract: September 24, 2012
2. Term of contract: September 24, 2012–September 22, 2014
3. Amount of commitment line: ¥12,000 million ($151 million)
4. Basic interest rate: TIBOR corresponding to basic loan term
5. Spread: 0.4% per annum
6. Collateral: None
7. Financial covenant: The amounts of net assets on the consolidated balance sheets at the end of each fiscal year and each second quarter are required to be equal or greater than 75% of net assets at the end of each corresponding period of the previous year.
   The amount of net assets on the Company's individual balance sheet is required to be equal or greater than 75% of net assets at the balance sheet date of the previous year.
   The Company should not record ordinary loss on the consolidated statements of income for each fiscal year and the second quarter.
   The Company should not record ordinary loss on the individual statements of income for each fiscal year.
8. Arranger: Resona Bank, Limited
9. Co-arranger: Sumitomo Mitsui Banking Corporation and Mizuho Bank, Ltd.
10. Agent: Resona Bank, Limited
11. Participating financial institutions: Resona Bank, Limited, and eight other banks
12. Purpose: Working capital

28. SEGMENT INFORMATION

1. Overview of reportable segments

Reportable segments of the Company are components of the Company whose segregated financial information is available and that are under regular review by the Board of Directors for determining the allocation of management resources and assessment of financial results.

The Company consists of segments categorized by how goods and services are provided, and "retail business" and "tenant leasing business" are the Company's two reportable segments. The "retail business" conducts sales of electrical appliances, daily commodities, foods, watches, fashion merchandise, sporting goods, leisure equipment, DIY products, and others. This segment includes "Don Quijote," a large-scale convenience and discount store, "MEGA Don Quijote," a general discount store for families; "Nagasakiya," a GMS; and, "Doit," a DIY store. "Tenant leasing business" recruits and manages tenants of retail properties.

2. Method of calculating sales, profit or loss, assets, liabilities, and other items by reportable segment

Accounting procedures of reportable operating segments are as described in Note 3. "Summary of Significant Accounting Policies."
The sum of income in the reportable segments and other operating segments is operating income.
Intersegment sales are mainly based on quoted market prices.

3. Information on amounts of sales, profit or loss, assets, liabilities, and other items by reportable segment

Information on amounts of sales, profit or loss, assets, liabilities, and other items by reportable segment for the fiscal years ended June 30, 2012 and 2011 is as follows:

Fiscal year ended June 30, 2012	Millions of yen (Note 2)						
	Reportable segment						
	Retail business	Tenant leasing business	Total	Others*1	Total	Adjustments*2	Consolidated*3
Sales							
Sales to third parties	¥519,891	¥15,453	¥535,344	¥4,911	¥540,255	¥ —	¥540,255
Intersegment sales	8	3,251	3,259	2,162	5,421	(5,421)	—
Total	519,899	18,704	538,603	7,073	545,676	(5,421)	540,255
Segment income	22,009	5,710	27,719	1,843	29,562	(242)	29,320
Segment assets	276,114	68,150	344,264	32,513	376,777	(14,126)	362,651
Other items *4							
Depreciation and amortization	8,726	1,502	10,228	294	10,522	(48)	10,474
Increase in property, plant and equipment and intangible assets	16,316	2,561	18,877	75	18,952	1,545	20,497

	Millions of U.S. dollars (Note 2)						
	Reportable segment						
	Retail business	Tenant leasing business	Total	Others*1	Total	Adjustments*2	Consolidated*3
Sales							
Sales to third parties	$6,555	$195	$6,750	$62	$6,812	$ —	$6,812
Intersegment sales	0	41	41	27	68	(68)	—
Total	6,555	236	6,791	89	6,880	(68)	6,812
Segment income	278	72	350	23	373	(3)	370
Segment assets	3,482	859	4,341	410	4,751	(178)	4,573
Other items *4							
Depreciation and amortization	110	19	129	4	133	(1)	132
Increase in property, plant and equipment and intangible assets	206	32	238	1	239	19	258

Fiscal year ended June 30, 2011	Millions of yen (Note 2)						
	Reportable segment						
	Retail business	Tenant leasing business	Total	Others*1	Total	Adjustments*2	Consolidated*3
Sales							
Sales to third parties	¥487,875	¥15,669	¥503,544	¥4,117	¥507,661	¥ —	¥507,661
Intersegment sales	4	2,601	2,605	1,159	3,764	(3,764)	—
Total	487,879	18,270	506,149	5,276	511,425	(3,764)	507,661
Segment income	19,821	4,485	24,306	1,174	25,480	(144)	25,336
Segment assets	255,925	66,550	322,475	24,074	346,549	(5,249)	341,300
Other items *4							
Depreciation and amortization	8,436	1,382	9,818	157	9,975	(67)	9,908
Increase in property, plant and equipment and intangible assets	19,597	18,945	38,542	231	38,773	(477)	38,296

*1 "Others", which is not a reportable segment, includes real estate business, marketing business, mobile equipment sales business, and financial services business.
*2 Components of "Adjustments" are as follows:
(1) Fiscal year ended June 30, 2012
The adjustments to segment income of ¥(242) million ($(3) million) are eliminations of intersegment transactions.
The adjustments to segment assets of ¥(14,126) million ($(178) million) include surplus funds of ¥26,752 million ($337 million) of the Company and Nagasakiya Co., Ltd., which are company-wide assets (cash and deposits, long-term deposits, and investment securities), and elimination of receivables between reportable segments of ¥(40,878) million ($(515) million).
(2) Fiscal year ended June 30, 2011
The adjustments to segment income of ¥(144) million are eliminations of intersegment transactions.
The adjustments to segment assets of ¥(5,249) million include surplus funds of ¥34,318 million of the Company and Nagasakiya Co., Ltd., which are company-wide assets (cash and deposits, long-term deposits, and investment securities), and elimination of receivables between reportable segments of ¥(39,567) million.
*3 Segment income is adjusted to operating income on the consolidated statements of income.
*4 Increase in property, plant and equipment, and intangible assets includes the increase in long-term prepaid expenses.

(Relevant information)

1. Information by product and service

Descriptions are omitted because the classification is the same as that of reportable segments.

2. Information by region

(1) Sales

Description is omitted because the Company's domestic sales to third parties exceed 90% of net sales on the consolidated statements of income.

(2) Property, plant and equipment

Description is omitted because property, plant and equipment located in Japan exceed 90% of the property, plant and equipment on the consolidated balance sheets.

3. Information by major customer

Description is omitted because no third-party customer accounts for 10% or above of net sales on the consolidated statements of income.

4. Loss on impairment of non-current assets by reportable segment

Fiscal year ended June 30, 2012

Millions of yen (Note 2)

	Reportable segment						
	Retail business	Tenant leasing business	Total	Others	Total	Adjustments*	Amount recorded on consolidated statements of income
Impairment loss	¥—	¥—	¥—	¥—	¥—	¥184	¥184

*The amount of "Adjustments" is attributable to idle assets classified as company-wide assets.

Millions of U.S. dollars (Note 2)

	Reportable segment						
	Retail business	Tenant leasing business	Total	Others	Total	Adjustments	Amount recorded on consolidated statements of income
Impairment loss	$—	$—	$—	$—	$—	$2	$2

Fiscal year ended June 30, 2011

Millions of yen (Note 2)

	Reportable segment						
	Retail business	Tenant leasing business	Total	Others	Total	Adjustments	Amount recorded on consolidated statements of income
Impairment loss	¥638	¥141	¥779	¥—	¥779	¥—	¥779

5. Amortization of goodwill and unamortized balance of goodwill by reportable segment

Fiscal year ended June 30, 2012

Millions of yen (Note 2)

	Reportable segment						
	Retail business	Tenant leasing business	Total	Others	Total	Adjustments	Amount recorded on consolidated statements of income
Amortization for the year	¥—	¥15	¥15	¥135	¥150	¥—	¥150
Balance at year-end	—	288	288	3,012	3,300	—	3,300

Millions of U.S. dollars (Note 2)

	Reportable segment						
	Retail business	Tenant leasing business	Total	Others	Total	Adjustments	Amount recorded on consolidated statements of income
Amortization for the year	$—	$0	$0	$2	$2	$—	$2
Balance at year-end	—	4	4	38	42	—	42

Amortization of negative goodwill and unamortized balance of negative goodwill incurred by business combinations conducted before April 1, 2010 were as follows:

Millions of yen (Note 2)

	Reportable segment						
	Retail business	Tenant leasing business	Total	Others	Total	Adjustments	Amount recorded on consolidated statements of income
Amortization for the year	¥511	¥346	¥857	¥—	¥857	¥—	¥857
Balance at year-end	1,205	387	1,592	—	1,592	—	1,592

Millions of U.S. dollars (Note 2)

	Reportable segment						
	Retail business	Tenant leasing business	Total	Others	Total	Adjustments	Amount recorded on consolidated statements of income
Amortization for the year	$7	$4	$11	$—	$11	$—	$11
Balance at year-end	15	5	20	—	20	—	20

Fiscal year ended June 30, 2011

Millions of yen (Note 2)

	Reportable segment						
	Retail business	Tenant leasing business	Total	Others	Total	Adjustments	Amount recorded on consolidated statements of income
Amortization for the year	¥7	¥4	¥11	¥16	¥27	¥—	¥27
Balance at year-end	—	304	304	1,276	1,580	—	1,580

Amortization of negative goodwill and unamortized balance of negative goodwill incurred by business combinations conducted before April 1, 2010 were as follows:

Millions of yen (Note 2)

	Reportable segment						
	Retail business	Tenant leasing business	Total	Others	Total	Adjustments	Amount recorded on consolidated statements of income
Amortization for the year	¥511	¥346	¥857	¥—	¥857	¥—	¥857
Balance at year-end	1,716	733	2,449	—	2,449	—	2,449

6. Gain on negative goodwill by reportable segment

There is no applicable item for the consolidated fiscal year ended June 30, 2012. A description is omitted because the amounts had no material effect on the financial statements for the consolidated fiscal year ended June 30, 2011.

Independent Auditor's Report

To the Shareholders and the Board of Directors of Don Quijote Co., Ltd.

We have audited the accompanying consolidated balance sheets of Don Quijote Co.,Ltd. and consolidated subsidiaries as of June 30, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in net assets, cash flows for the year then ended, and notes to the consolidated financial statements, all expressed in yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Don Quijote Co.,Ltd. and consolidated subsidiaries as of June 30, 2012 and 2011, and their consolidated results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The accompanying consolidated financial statements expressed in yen have been translated into U.S. dollars on the basis set forth in Note 2.

UHY Tokyo & Co
Tokyo, Japan
September 26, 2012

STATEMENT ON ACCOUNTING PRINCIPLES AND AUDITING STANDARDS

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying consolidated financial statements are prepared based on accounting principles generally accepted in Japan, and filed with the local finance bureau of the Ministry of Finance (MOF) as required by the Financial Instruments and Exchange Law. The auditing standards and their application in practice are those generally accepted in Japan, and Report of Independent Auditors is translated into English from the statutory Japanese language consolidated financial statements.

Accordingly, the accompanying financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

Corporate Information

Corporate Data (as of June 30, 2012)

COMPANY NAME
Don Quijote Co., Ltd.

SCOPE OF BUSINESS
Operation of discount stores that sell electrical appliances, daily commodities, foods, watches, fashion merchandise, sporting goods, leisure equipment, DIY products and others

HEAD OFFICE
2-19-10, Aobadai, Meguro-ku, Tokyo 153-0042, Japan
Tel: +81-3-5725-7532 Fax: +81-3-5725-7322

DATE OF ESTABLISHMENT
September 5, 1980

PAID-IN CAPITAL
¥19,664 million

NUMBER OF EMPLOYEES
2,760

NUMBER OF STORES (Consolidated basis)
242

Board of Directors (as of September 26, 2012)

Chairman of the Board and CEO	Takao Yasuda
President and COO	Junji Narusawa
Senior Managing Director and CFO	Mitsuo Takahashi
Director and CIO	Koji Oohara
Director	Naoki Yoshida
Standing Statutory Auditor	Koichi Otoshi
Standing Statutory Auditor	Yukihiko Inoue
Statutory Auditor	Tomiaki Fukuda
Statutory Auditor	Makoto Iwade
Statutory Auditor	Yoshihiro Hongo

Note: The four statutory auditors are outside auditors as provided by Article 2, Paragraph 16, and Article 335, Paragraph 3, of the Japanese Corporate Law, except for Standing Statutory Auditor Koichi Otoshi.

Share Information (as of June 30, 2012)

SHARES OF COMMON STOCK

Authorized:	234,000,000
Issued:	77,134,880
Treasury stock:	1,244

NUMBER OF SHAREHOLDERS

3,964

PRINCIPAL SHAREHOLDERS

	Number of shares held	Percentage of total shares in issue (%)
Takao Yasuda	10,872,000	14.10
La Mancha	9,000,000	11.67
Anryu Shoji Co., Ltd.	4,140,000	5.37
Japan Trustee Service Bank, Ltd. (Trust Account)*	3,727,000	4.83
The Chase Manhattan Bank 385036	3,369,500	4.37
BBH for Fidelity Low-priced Stock Fund (Principal All Sector Subportfolio)	3,100,000	4.02
The Master Trust Bank of Japan, Ltd. (Trust Account)*	3,051,800	3.96
Mellon Bank, N.A. as Agent for its Client Mellon Omnibus US Pension	2,386,677	3.09
State Street Bank and Trust Company 505225	2,109,300	2.73
Northern Trust Company AVFC Re Fidelity Funds	1,818,400	2.36

* Shares held by these institutions include shares in trust.
Percentage of total shares does not include treasury stock (1,244 shares).

Note: Where Don Quijote Co., Ltd. has confirmed the actual number of shares held by the shareholder, the number of actual shares is reflected in the status of shareholding of the principal shareholders listed above.

SHARE OWNERSHIP BY CATEGORY

	Number of shareholders	Number of shares held	Percentage of total shares in issue (%)
Financial Institutions, Financial Products Traders	75	14,854,649	19.26
Other Japanese Corporations	54	6,083,580	7.89
Foreign Corporations and Individuals	247	43,297,579	56.13
Japanese Individuals and Others*	3,588	12,898,892	16.72
Total	3,964	77,134,880	100.00

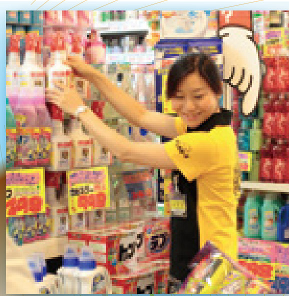
* Shares held by Japanese Individuals and Others include treasury stock (1,244 shares).

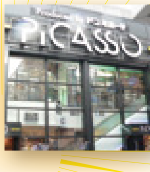
TRANSFER AGENT

Mitsubishi UFJ Trust and Banking Corporation
1-4-5, Marunouchi, Chiyoda-ku, Tokyo 100-8212, Japan

STOCK LISTING

Tokyo Stock Exchange, First Section





Don Quijote Co., Ltd.

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