Don Quijote HLDGS

2014 ANNUAL REPORT

Pioneering in Retail Innovation

We do it all for our customers

The Don Quijote Group comprises companies operating stores under several formats, notably, Don Quijote variety-style general discount stores, MEGA Don Quijote family-oriented general lifestyle discount stores, and Doit home centers handling do-it-yourself products. All formats are infused with the corporate philosophy of "valuing the customer as our utmost priority."

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

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 and others

Nagasakiya Co., Ltd.
General merchandise store operation

Doit Co., Ltd.
Retailing business emphasizing DIY goods

MARUKAI CORPORATION
Supermarkets in Hawaii and California, U.S.A.

Don Quijote HLDGS

Don Quijote Holdings Co., Ltd.

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

Japan Inbound Solutions Co., Ltd.
Promoting inbound business

D-ONE Co., Ltd.
Real estate business

Japan Asset Marketing Co., Ltd.
Leasing of real estate, property management and commercial facility maintenance business

株式会社サンアソート
Sun Assort Co., Ltd.
Casualty insurance agency services and services related to the sale (subscription) of life insurance policies

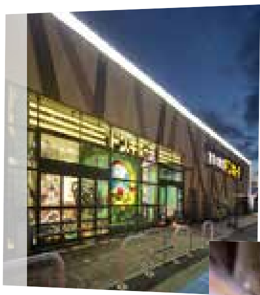
アクリーティブ株式会社
Accretive Co., Ltd.
Financial services to quickly acquire client accounts receivable, and outsourcing services to manage clients' payment processing operations

株式会社リアリット
REALIT Co., Ltd.
Internet service business

As of July 1, 2014

Disclaimer Regarding Forward-Looking Statements
Forward-looking content in this annual report is based on various assumptions and is not a guarantee of future performance or the realization of stated strategies.

Contents

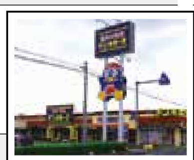


Fiscal 2014 Digest

2013

Quarter	Month	Don Quijote Group News	New Stores	Economic News in Japan
First Quarter	Jul.	Fiscal 2014 started. Established holding company in Singapore to support full-scale overseas business expansion.		Number of visitors to Japan in a single month surpassed one million for the first time.
	Aug.		Opened **Marugame store** in Marugame, Kagawa Prefecture, in vacant general merchandise store.	Domestic corporate goods price index showed big increase for first time in four years and nine months.
	Sept.	Turned MARUKAI CORPORATION, which operates supermarkets in Hawaii and California, into a consolidated subsidiary (see page 11 for details). Brings the overseas store network to 14.		
Second Quarter	Oct.		Opened **Hiyoshi store** in Yokohama, Kanagawa Prefecture; **Hirosaki store** in Hirosaki, Aomori Prefecture; and **MEGA Kariba Interchange store**, in Yokohama, Kanagawa Prefecture.	Government decided to raise consumption tax to 8%.
	Nov.		Opened **Shinonome store** in Koto-ku, Tokyo; **Kichijoji Ekimae store** in Musashino, Tokyo; **Kokusai Street store** in Naha, Okinawa Prefecture; **MEGA Uruma store** in Uruma, Okinawa Prefecture; and **MEGA Tondabayashi store** in Tondabayashi, Osaka.	Nikkei Stock Average closed at ¥15,727.12 on last business day of the month, marking highest level in six years.
	Dec.	2nd **Company name changed to Don Quijote Holdings Co., Ltd. under pure holding company structure designed to clarify authority and responsibility.** Don Quijote HLDGS	Opened **MEGA Sapporo Shinkawa store** in Sapporo, Hokkaido; **MEGA Higashi-Kurume store** in Kurume, Tokyo; **Asakusa store** in Taito-ku, Tokyo; and **Picasso Koiwa Ekimae** in Edogawa-ku, Tokyo.	Government decided on economic measures to bring about a virtuous cycle of growth.

2014

Quarter	Month	Don Quijote Group News	New Stores	Economic News in Japan
Third Quarter	Jan.		Opened **MEGA Kumamoto Kikuyo store** in Kikuchi-gun, Kumamoto Prefecture.	Land prices in Japan's three largest metropolitan areas (Tokyo, Osaka and Nagoya) rise in tandem for the first time since the Lehman Shock in 2008.
	Feb.		Opened **MEGA Okazaki store** in Okazaki, Aichi Prefecture. 	Ministry of Finance resumes production of one-yen coins for the first time in four years, because increase in consumption tax is expected to boost use of the coins.
	Mar.	Debuted original e-money payment system "majica."		In the Bank of Japan's *Tankan* (Short-Term Economic Survey of Enterprises in Japan), the diffusion index indicating business sentiment among nonmanufacturing companies reached its highest level in 22 years.
Fourth Quarter	Apr.		Opened **Town Doit Higashi-Mukojima store** in Sumida-ku, Tokyo; **MEGA Nagasaki Togitsu store** in Nishisonogi-gun, Nagasaki Prefecture; **Sanda store** in Sanda, Hyogo Prefecture; and **Kita Ageo PAPA store** in Ageo, Saitama Prefecture.	Consumption tax rises to 8%, from 5%, marking the first increase in 17 years.
	May		Opened **Nagoya Imaike store** in Nagoya, Aichi Prefecture. 	Consumer price index, overall index (excluding perishable foods), rose at its fastest rate in 32 years.
	Jun.	Membership in "majica" exceeded one million mark.	Opened **Omiya Higashi-guchi store** in Saitama, Saitama Prefecture; and **Mobara store** in Mobara, Chiba Prefecture.	Real wage index drops 3.8% year on year.

Dear Fellow Shareholders and Investors

Demonstrating responsiveness to change leads to 25 straight years of higher sales and operating income!

On December 2, 2013, the Don Quijote Group transitioned to a management structure under a pure holding company that took the name Don Quijote Holdings Co., Ltd. This move has facilitated noticeably faster decision making and business promotion, while establishing an organizational structure that enables us to fully maximize Group strengths.

In fiscal 2014, the year ended June 30, 2014, the economy in Japan experienced gradual recovery, fueled by positive results related to government policy designed to energize business conditions. However, the improvement in consumer spending, underpinned by the rush of buying activity ahead of the April 2014 increase in the consumption tax, was followed by a drop in consumption. Consequently, the economic road ahead continued to remain uncertain.

In the retail industry, consumer sentiment became more ambiguous, as well. The operating environment required a concerted response to increasingly diverse customer needs and a greater emphasis on the ability to respond to change and to quickly and flexibly address the continued preference for economizing.

Against this backdrop, the Don Quijote Group worked on various strategies to promote a store design that attracts and keeps customer interest, in line with our concept-creating business enterprise that was built on the corporate philosophy of “valuing the customer as our utmost priority.” This approach translated into 260 million customers at stores throughout the Group in fiscal 2014. We achieved higher sales and income, charting unbroken upward growth in sales and operating income since the first store opened in 1989. This performance is entirely due to the support of loyal customers and shareholders, and we extend our most heartfelt gratitude to you for enabling us to achieve this result.

The dividend for fiscal 2014 was raised ¥3 per share, for an annual dividend of ¥36 per share. This marks the 11th consecutive year of increase, tracking back to fiscal 2004. We will strive, as always, to reinforce our management foundation and further enhance business reforms and our financial position to ensure a stable return of profit to shareholders.

On behalf of the entire Don Quijote Group, we ask for the continued support and encouragement of shareholders. You are integral to our growth, now and tomorrow.

Takao Yasuda
Chairman of the Board and CEO

Koji Oohara
President and COO

Delegation x Innovation 1

Quickly Respond to Change

Making the most of our ability to quickly respond to change, Don Quijote just keeps on evolving.

Since its establishment, Don Quijote has maintained a corporate philosophy of “valuing the customer as our utmost priority,” and the Group it leads always strives to anticipate customer needs and respond to continual change. We have introduced several store concepts to attract the interest of singles—our traditional target demographic—as well as families, and develop and promote these different formats, as part of an ongoing process of trial and error to create appealing shopping environments that enable as many people as possible to enjoy the experience.

Delegation x Innovation ❷

Delegation of Authority

Delegation of authority—our organization always takes on challenges.

At Don Quijote, we have firmly embraced delegation of authority to our store staff. This approach facilitates flexible store operation, which underpins a vital corporate strength. Looking toward a new stage of growth, we established the following departments in fiscal 2014.

❶ Motivation Division

This section aims to create a better workplace environment for all employees, including part-timers, raise gross profit per man-hour and motivate everyone to brush up their skills. It considers ways to lay the groundwork for friendly competition among employees that leads to enhanced capabilities all around.

❷ Marketing Support Section

This section acts as a bridge connecting stores and product divisions with management teams, and supports marketing activities by facilitating the implementation of marketing-related strategies across the Group. The goal is to achieve exponential growth in excellence and know-how cultivated in all divisions/sections by encouraging communication across the organization while still ensuring the independence of product divisions and branch offices.

❸ Price & Inventory Control Section

This section undertakes price/competition analysis in the catchment area of each store and proposes appropriate prices and inventory volume for each location.

❹ Space Design Section

This section works with individual stores on store layout and other interior and exterior design issues and generates ideas for creating enjoyable spaces.

❺ Know-How Book Compilation Section

This section pulls together fundamental know-how related to store operation. The goal is to improve efficiency and reduce the burden of responsibility by sharing experiences—successes and failures—and to establish an environment in which each store can focus on activities that take the corporate philosophy of "valuing the customer as our utmost priority" to a deeper level.

We will promote a new stage in the development of individual stores by introducing a new organizational model even as we maintain delegation of authority as a fundamental concept. This process will continue to evolve.

Delegation x Innovation 3

Store Design

We continually seek to create stores that attract ever more customers.

The Don Quijote Group places great value on a store presentation bursting with entertainment quality that gives customers an amusing and exciting experience—as if they were on a treasure hunt. We are also directing concerted efforts into inbound business, that is, securing demand from visitors to Japan—as the number of tourists to Japan traces an upward path. We are pleased to be a frontrunner among Japan's retailers in offering services geared to foreign visitors. By demonstrating our uniqueness, namely, merchandise composition showcasing variety plus late-night hours of operation, we aim to cultivate greater customer loyalty and achieve a higher level of growth.

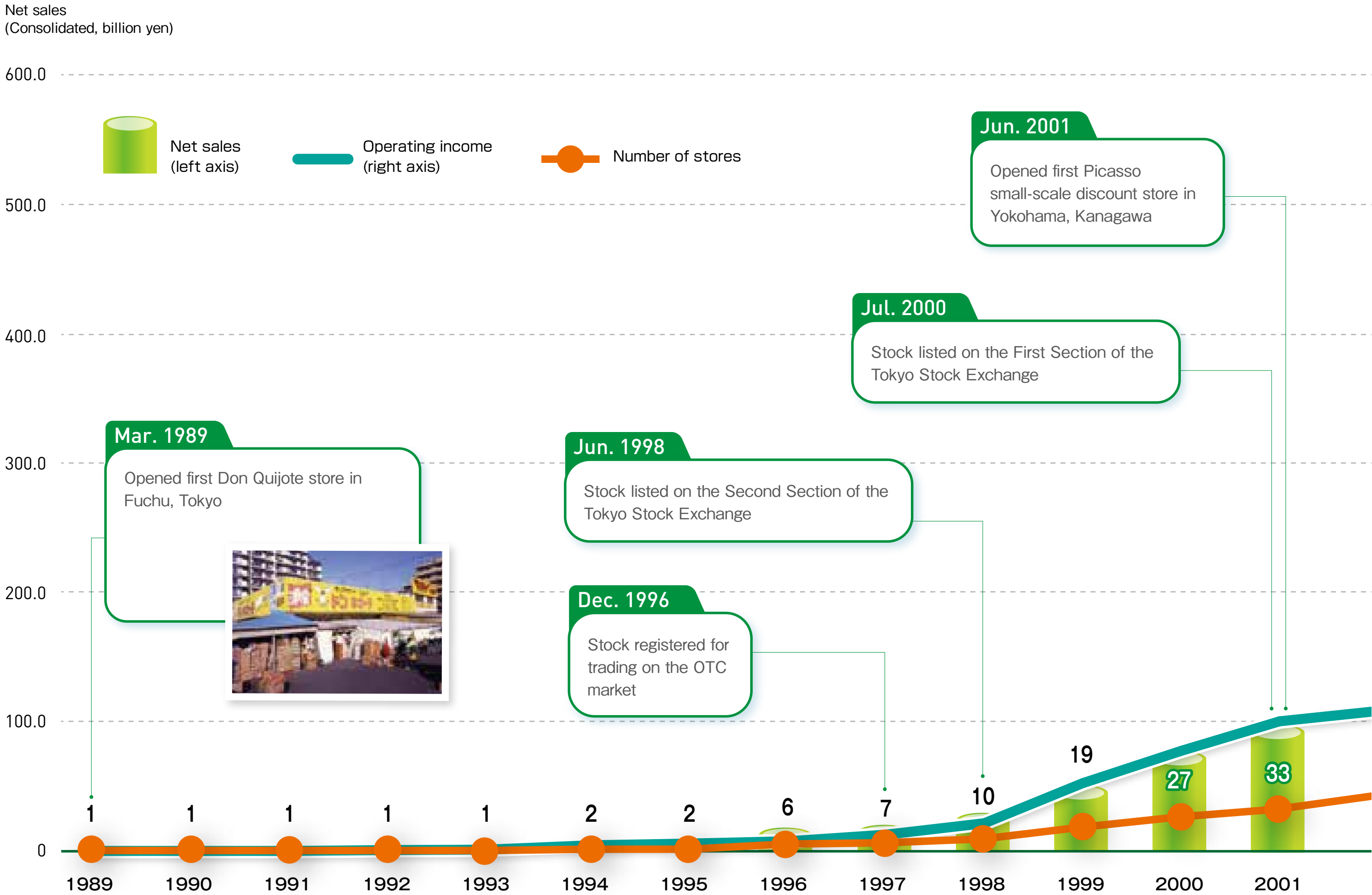

ホウレイ線にうるおいを
ハリーハリー 美容液パック
気になるほうれい線に!
ハリーハリー ラインズロールオンエッセンス
1050
集中ケア!
乾燥による
ホウレイ線に
HURRY HARRY
LINES LIFT PACK
洗い流さない
美容液
パック
EGF
濃まつ毛ケアで
濃く・強く・豊かな印象へ!

The Don Quijote Group: Stages in Our History

The first Don Quijote store opened 25 years ago, and with the support of an extensive customer base, the Don Quijote Group continues to grow.

Fiscal 2014 was a turbulent year for the retailing industry, impacted by a consumption tax hike—the first increase in 17 years—and the volatility of consumer spending. The operating environment presented more and more challenges to surmount. Despite the difficult business conditions, as a group we were able to attract more customers and achieve higher sales and income by adhering to the principle of "valuing the customer as our utmost priority."

We will continue to provide the convenience, discounts and amusement and excitement that we are known for—an emphasis that will bolster further growth.

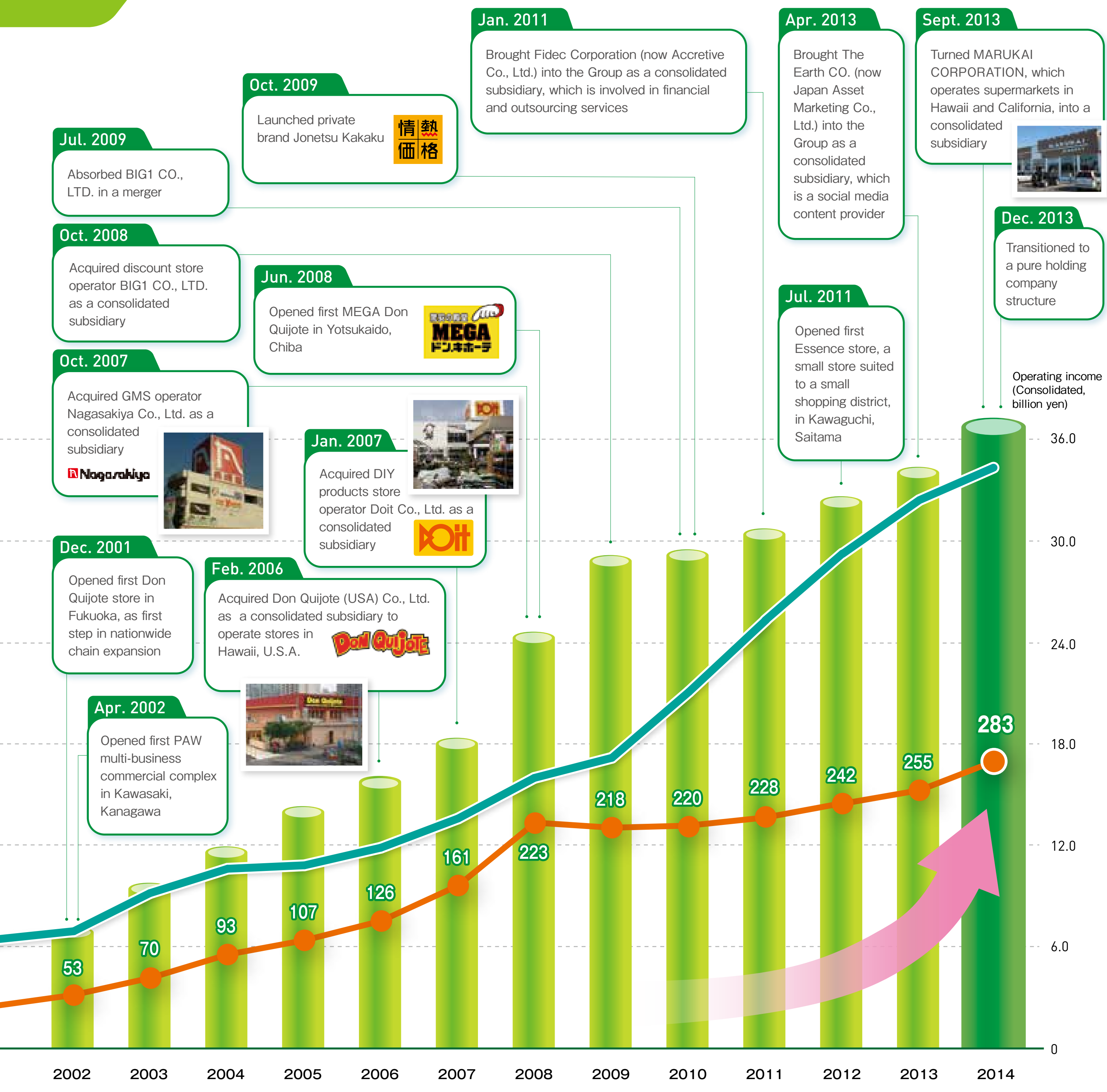


A Business Platform that Secures Profits Even When Times Are Bad

The starting point for the Don Quijote Group was a general merchandise store established in 1978 by Takao Yasuda, today the Group's chairman of the Board and CEO. The store was small, with only 60 to 70 square meters of area. Late one night, after the store had closed, Mr. Yasuda was restocking merchandise and arranging displays when a customer dropped by, thinking that the store was still open because the lights were on. This gave Mr. Yasuda the idea to target demand for late-night shopping. It was also here, in this small store, that "compression displays" for products and handwritten POP price cards, which filled all available space and then some, first appeared.

In 1989, the first Don Quijote store opened, in Fuchu, Tokyo. The know-how accumulated at this location provided the platform for developing a multi-store network, first in the Tokyo metropolitan area and then expanding across all of Japan.

Fast-forwarding to 2006, the Don Quijote Group kicked off merger and acquisition activity with the purchase of stores in Hawaii and then brought Doit, a home center operator, and Nagasakiya, a general merchandise



(For the fiscal years ended June 30)

store operator, under its umbrella in 2007, followed by BIG1 discount stores in 2008. In 2013, MARUKAI CORPORATION became a new addition to the Group.

Today, the Group stands as a retailing conglomerate with net sales of more than ¥600 billion.

Another notable marker was the 2009 launch of the private brand Jonetsu Kakaku.

Even during the economic slowdown that has persisted in Japan since the 1990s—an era dubbed the "Lost Two Decades"—the Don Quijote Group has grown by leaps and bounds. This reflects the undeterred adherence to our founding principle of "valuing the customer as our utmost priority" and our enduring quest to create new store formats.

As a result, consolidated sales and income have charted an upward path for 25 consecutive years, going right back to the opening of our first store in March 1989. According to surveys compiled by *Nikkei Marketing Journal* (*Nikkei MJ*), Don Quijote held onto its No.13 ranking among retailers in net sales[1] (please see page 23).

[1] The 47th Survey on the Retailing Industry in Japan, *Nikkei MJ* (June 25, 2014)

Consolidated Financial Highlights

For the fiscal years ended June 30

	2005	2006	2007	2008
For the fiscal year				
Net sales	¥232,778	¥260,779	¥300,660	¥404,924
Cost of goods sold	179,330	200,425	227,537	296,215
Selling, general and administrative expenses	42,634	48,500	59,537	92,728
Operating income	10,814	11,854	13,586	15,981
Ordinary income	12,841	14,396	15,774	17,204
Income before income taxes	12,690	17,808	18,817	16,640
Net income	7,163	10,725	10,638	9,303

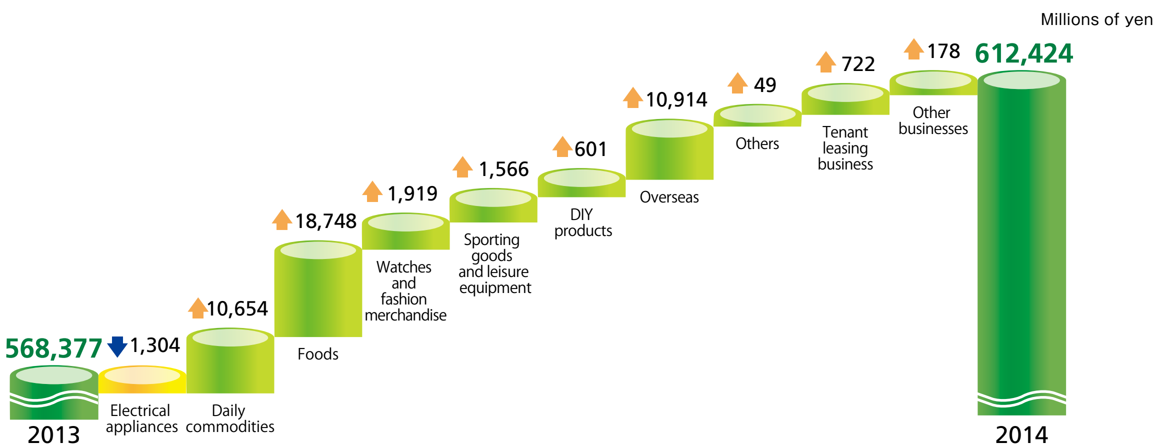
	2005	2006	2007	2008
At year-end				
Total assets	¥150,048	¥167,534	¥209,865	¥276,288
Total equity	52,128	72,741	82,470	84,625

	2005	2006	2007	2008
Per share*				
Basic earnings	¥112.25	¥158.31	¥148.89	¥130.78
Diluted earnings	96.10	140.66	138.32	122.00
Cash dividends (before retroactive adjustment)	40.00	50.00	20.00	22.00

	2005	2006	2007	2008
Key ratios				
ROA	5.2	6.8	5.6	3.8
ROE	15.3	17.2	13.7	11.3

* Per share amounts have been retroactively adjusted to reflect stock splits distributed in July 2006.

Net Sales by Product Category



While food and daily commodities categories—where pricing strategies were reformulated in conjunction with the consumption tax increase—drove sales up overall, it was M&A activity, namely, the consolidation of MARUKAI CORPORATION that spurred growth and raised the contribution to sales from overseas operations.

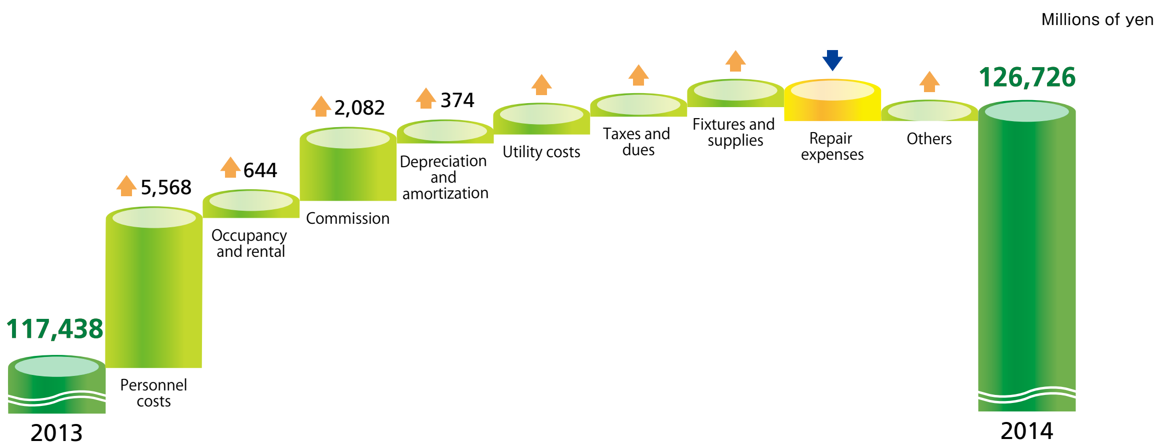
	2009	2010	2011	2012	2013	2014
						Millions of yen
	¥480,856	¥487,571	¥507,661	¥540,255	¥568,377	**¥612,424**
	353,616	364,065	378,587	400,712	418,570	**451,406**
	110,068	102,439	103,738	110,223	117,438	**126,726**
	17,172	21,067	25,336	29,320	32,369	**34,292**
	15,989	21,109	25,138	29,283	33,201	**35,487**
	14,214	16,845	21,147	30,395	33,382	**34,225**
	8,554	10,238	12,663	19,845	21,141	**21,471**

	2009	2010	2011	2012	2013	2014
						Millions of yen
	¥297,527	¥302,029	¥341,300	¥362,651	¥386,622	**¥432,135**
	89,972	106,760	125,242	145,735	170,178	**193,164**

	2009	2010	2011	2012	2013	2014
						Yen
	¥123.69	¥147.35	¥167.82	¥257.47	¥273.47	**¥274.68**
	123.69	137.64	164.34	256.90	272.34	**273.11**
	23.00	25.00	28.00	31.00	33.00	**36.00**

	2009	2010	2011	2012	2013	2014
						%
	3.0	3.4	3.9	5.6	5.6	**5.2**
	10.0	10.5	11.1	14.9	13.7	**12.1**

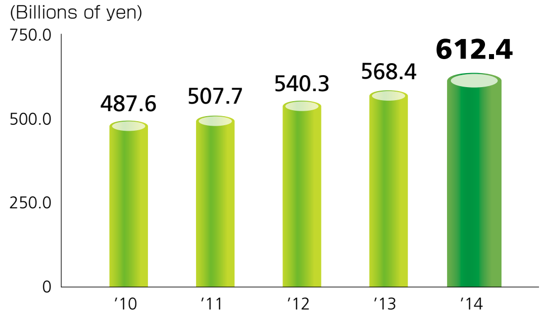
Selling, General and Administrative Expenses



Selling, general and administrative expenses rose 7.9%, to ¥126.7 billion, on a consolidated basis, owing to miscellaneous expenses associated with the opening of 22 new stores and higher personnel costs paralleling the addition of staff to prepare for the consumption tax increase and post-implementation measures as well as to reinforce the sales structure.

Consolidated Financial Highlights

Net Sales



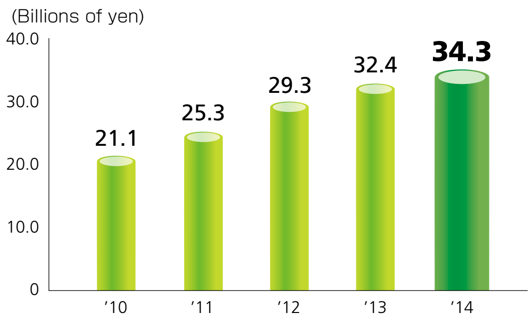
¥612.4 billion

Year on year

UP 7.7%

Ahead of the higher consumption tax, we emphasized efforts to enhance the product mix and sharpen price-competitiveness, especially for daily necessities. We experienced a rush of demand prior to the consumption tax increase but were able to limit the impact of the decrease that followed, and with the contribution of sales from **22 stores that opened during the year**, we achieved **net sales of ¥612.4 billion**, up 7.7% from a year ago.

Operating Income



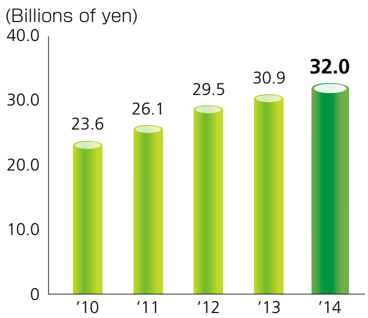
¥34.3 billion

Year on year

UP 5.9%

Personnel costs expanded, paralleling the opening of new stores as well as the resolving of prevailing issues, mainly preparations ahead of the consumption tax increase, and efforts to reinforce the sales structure. Nevertheless, measures such as successful product remixing—additions and eliminations—and a **careful review of inventory levels**, as well as **the effect of higher sales** led to operating income of ¥34.3 billion, up 5.9% from a year ago. This marked the **25th consecutive year of higher sales and operating income**, on a consolidated basis.

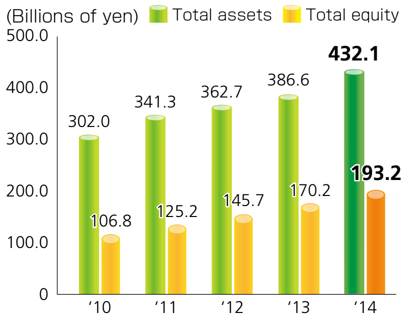
Free Cash Flow



Free cash flow was ¥32.0 billion, with the primary components of the increase coming from higher net income and depreciation and amortization.

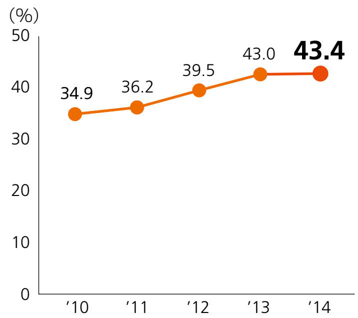
Note: Free cash flow = Net income after taxes + Depreciation and amortization + Extraordinary loss – Cash dividends paid

Total Assets/Total Equity



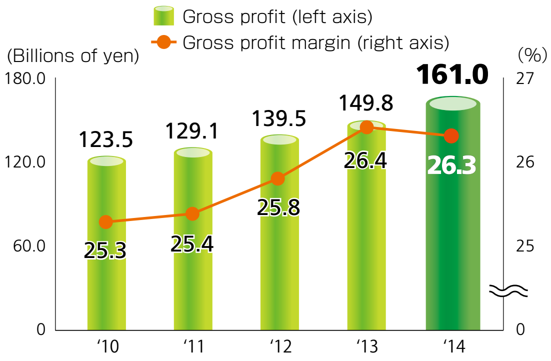
Total assets rose ¥45.5 billion, to ¥432.1 billion, as of June 30, 2014, mainly because of a **¥26.6 billion increase in property, plant and equipment**. **Total equity** settled at **¥193.2 billion**, up ¥23.0 billion from a year earlier.

Equity Ratio



The equity ratio improved 0.4 percentage point over fiscal 2013, to **43.4%, substantiating greater financial strength and stability**.

Gross Profit/Gross Profit Margin



¥161.0 billion

Year on year

UP 7.5%

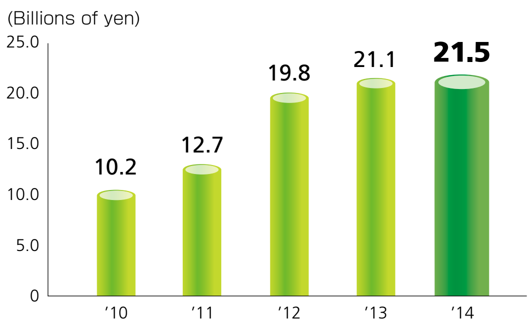
26.3%

Year on year

DOWN 0.1 ppt

We took steps to **enrich private brand content** and **realigned product lines**. We also implemented a sales promotion strategy showcasing daily commodity items. These measures gave us the flexibility to adjust the sales mix to customer needs. As a result, **gross profit rose** 7.5% over fiscal 2013, **to ¥161.0 billion**, and the **gross profit margin was 26.3%**.

Net Income



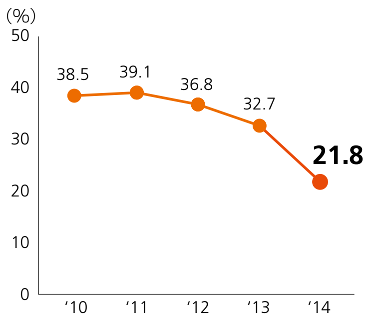
¥21.5 billion

Year on year

UP 1.6%

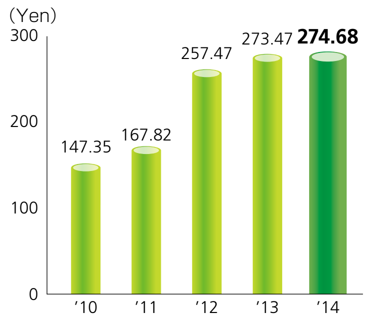
Net income reached ¥21.5 billion and, along with operating income and ordinary income, **broke previous records**.

Ratio of Interest-Bearing Debt to Total Assets



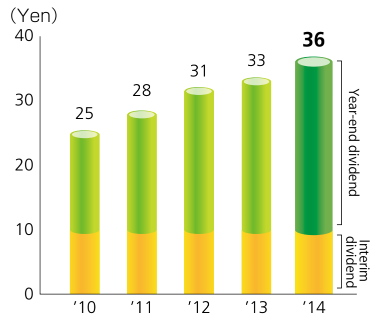
Interest-bearing liabilities amounted to ¥94.3 billion, down ¥32.2 billion from June 30, 2013. **The ratio of interest-bearing debt to total assets dropped 10.9 percentage points, to 21.8%**.

EPS



Earnings per share (EPS) hit **¥274.68** in fiscal 2014, up ¥1.21 from a year ago and **more than double the level** (¥130.78) **posted six years ago** in fiscal 2008.

Annual Dividends per Share



The **annual dividend** for fiscal 2014 came to **¥36 per share**, comprising an interim dividend of ¥10 per share and a year-end dividend of ¥26 per share. The year-end dividend increased ¥3 per share, from ¥23 per share in the previous fiscal year. Including effective increases through stock splits, the fiscal 2014 annual dividend marked the **11th consecutive year of higher dividends**.

Messages from the Chairman of the Board

Challenges Are Perfect Opportunities for Us!

Takao Yasuda
Chairman of the Board and CEO

Activities and Performance in Fiscal 2014

A new chapter in our story of corporate growth unfolded with the consumption tax increase, as we meticulously followed through on business measures directed in all sincerity to the benefit of customers. Don Quijote Co., Ltd., the core company of the Group, expanded the Don Quijote store network in key locations under a store-opening strategy emphasizing the greater Tokyo metropolitan area while building a stronger presence for the New MEGA Don Quijote store network in regional cities. Nagasakiya Co., Ltd., a Group company operating family-oriented stores, was on the side of consumers in the wake of the higher consumption tax and raised store-visit frequency in the family segment with a focus on daily necessities. Doit Co., Ltd., which operates home centers, and Don Quijote (USA) Co., Ltd., which operates stores in Hawaii, achieved steady improvement in sales. These companies contributed well to consolidated performance, with net sales up 7.7% year on year, to ¥612.4 billion; operating income up 5.9%, to ¥34.3 billion; ordinary income up 6.9%, to ¥35.5 billion; and net income up 1.6%, to ¥21.5 billion. Fiscal 2014 marked the 25th consecutive year of higher sales and operating income for the Group.

Maintaining Growth in a Challenging Environment

The environment for the retail industry is expected to become more challenging, with a rather bleak outlook for consumer spending. In fact, a comparison of household spending in 1997, when the consumption tax was last raised, and at the 2014 increase reveals a decrease of more than 10% per household.

The Don Quijote Group is one of a very limited number of companies that were able to post tremendous growth during the period called the "Lost Two Decades" that followed the collapse of Japan's bubble economy in 1991. We seem to truly excel when conditions are harsh. The more difficult an operating environment is, the harder we push forward, showing our mettle—our ability to respond to change—and turning difficulties into an opportunity for business expansion.

In the distribution retailing industry, competition is likely to become extremely intense from 2014 onward due to retailers' efforts to attract shoppers in light of the higher consumption tax. This will be a time of big changes, and the operating environment will be transformed accordingly.

Big changes invariably bring big challenges. When we overcome these challenges then we can use the achievements as a springboard for growth and development.

In July 2014, I scaled back my various duties so that I could concentrate on the responsibilities of chairman. Koji Oohara took over as president. He had served previously as vice president. Together, we will reinforce the structures that expedite decision-making processes and ensure a clear separation between management oversight and business execution.

Performance Highlights

Net sales ·········· ¥612.4 billion	Total assets·········· ¥432.1 billion
Operating income ····· ¥34.3 billion	Total equity·········· ¥193.2 billion
Net income ·········· ¥21.5 billion	Net income per share······ ¥274.68

Maintain Quest to Build a Strong and Constantly Evolving Organization

Koji Oohara
President and COO

Brief Personal History

Sept. 1995	Director and Division Director of 2nd Sales Division of the Company
Jan. 2005	President and Representative Director of REALIT Co., Ltd.
Apr. 2007	Resigned as Director of the Company
Apr. 2009	President and Representative Director of Japan Commercial Establishment Co., Ltd.
Sept. 2009	Director and CIO of the Company
Apr. 2013	Vice President and COO of the Company
Nov. 2013	Vice president, Representative Director and COO of the Company
Dec. 2013	President and Representative Director of Don Quijote Co., Ltd. (current)
Jul. 2014	President, Representative Director and COO of Don Quijote Holdings Co., Ltd. (current)

On Appointment to Position as President

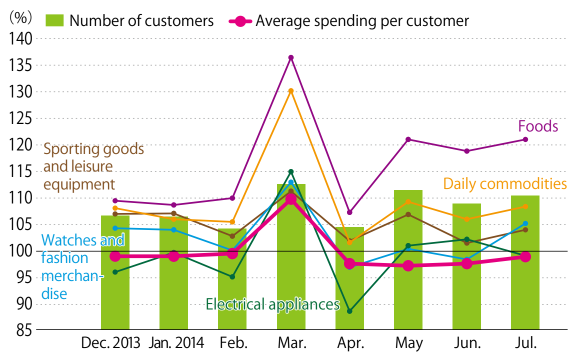
The ability of a company to sustain management practices that ensure a flexible response to changing, evolving times is, I think, the key to corporate longevity. We have to build a structure where employees feel motivated and enjoy work that is fun and exciting, while we never forget the entrepreneurial spirit that challenges us to address changing times and embrace new things. A company permeated with this idea to every last corner will be resilient to changing circumstances and exude vitality.

The Don Quijote Group's strength comes from employees, all of whom understand the importance of responding to change. This strength must be enhanced, polished to a brighter finish, and in this sense, it is my mission to make everyone realize that accepting change is not a necessarily scary prospect—it is the consequences of not changing that we should fear.

Measures Addressing Competition Related to Higher Consumption Tax, and the Results

Customers have become much more price-conscious since April 2014, when the consumption tax was raised, and I realized that this was the perfect opportunity to reacquaint people with the qualities that have made Don Quijote such a success. We demonstrated low-price superiority, compared with other retailers in respective catchment areas, to showcase the attractiveness of Don Quijote prices. As a result, we recovered more quickly than expected from the drop in demand that followed the general rush of buying prior to implementation of the higher consumption tax. Sales charted an upward path, indicating a favorable market response to our efforts. In addition, the number of customers steadily grew, with a noticeable increase in the number of products purchased. Positive developments such as these were seen throughout the Group.

■ Number of Customers and Sales by Product Category as a Percentage Change YoY

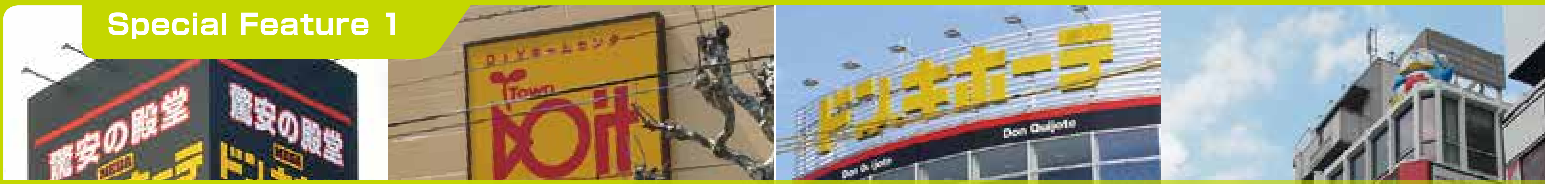


Fiscal 2015 Business Strategies and Full-Year Outlook

By responding accurately and flexibly to changes in the consumer environment that unfold in fiscal 2015, we will hone a sharper competitive edge in each catchment area where the Group's stores operate, and we will build a stronger brand image. In product strategy, we will continue the reorganization and evolution of product portfolios adapted to changing consumer sentiment as we strive to reinforce our high-value-added discount structure. In store strategy, we will promote the development of a well-balanced network from a nationwide perspective, opening stores in urban centers and areas close to city train stations as well as roadside stores in the suburbs. In addition, we will actively capitalize on demand from visitors to Japan to accelerate growth.

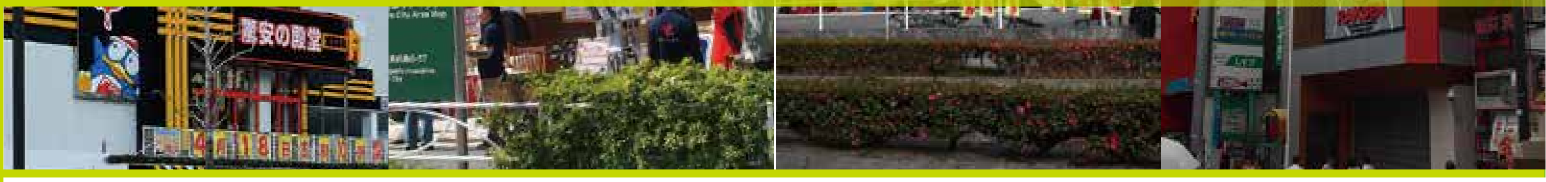
Our consolidated business outlook for fiscal 2015 calls for net sales of ¥634 billion, up 3.5%; operating income of ¥34.8 billion, up 1.5%; ordinary income of ¥35.6 billion, up 0.3%; and net income of ¥21.5 billion, up 0.1%.

Special Feature 1



Flexible Strategy for Store Openings

The Don Quijote Group opens stores well-matched to local characteristics and size of catchment area and steadily expands the store network. Read on for details about our store strategy.



Flexible Approach to Store Openings Possible Due to Diverse Store Formats

The store formats across the Don Quijote Group are diverse. The primary format is the one-and-only Don Quijote—a store concept unlike anything rival retailers offer—while Group companies take a variety of forms, from the small-store Picasso and Kyōyasudō, which target singles mainly in the cities, to the large-store MEGA Don Quijote, which targets families in the suburbs. Consequently, when opening new stores, we pursue a flexible approach, selecting a store format perfectly matched to the characteristics of the catchment area where the new store will operate and addressing the needs of each particular area.

Going forward, we will open stores at a steady pace of 20–30 new stores a year through the development of diverse store formats. We will strive to restrict store opening costs by moving into existing buildings vacated by retailers, such as household appliance retail stores and general merchandise stores, which have the kind of fixtures well-suited to our stores. We will emphasize the mainstay Don Quijote format and the family-oriented MEGA Don Quijote format in establishing a diverse assortment of new stores.

Varied store formats			Varied locations
MEGA	Large	House-wives,	☑ Roadside
New MEGA		families	☑ Busy shopping districts
DQ			☑ Shopping centers
Essence, Picasso	Small	Singles	☑ Small stores near train stations

Don Quijote Asakusa store offers rich assortment of tourist-oriented merchandise

In December 2013, the Don Quijote Asakusa store opened in Asakusa Rokku, in Tokyo. The selection of merchandise caters to local customer needs as well as tourist interests. The number of visitors to Japan has been increasing over the past few years, so this Don Quijote store offers a wonderful assortment of typically Japanese items, such as *hina* dolls, imitation swords and Arita pottery, to capitalize on demand from international tourists. The store also offers well-known Tokyo items, mainly food products, for domestic tourists. The store design is appealing, created with a vibrant décor evoking an entertainment hall, to capture the unique characteristics of Asakusa.

MEGA Don Quijote Nagasaki Togitsu, the first MEGA format store in Nagasaki

The town of Togitsu, in Nishisonogi-gun, Nagasaki Prefecture, where the MEGA Don Quijote Nagasaki Togitsu store opened in April 2014, is a vibrant community with a growing population. Cosmos, the official flower of Togitsu, decorates the store's entrance. Inside, the store is laid out to facilitate movement, with room for shopping carts or strollers, as part of efforts to remove the least inconvenience and make shopping a pleasant experience for customers of any age.

Enjoying the Growing Demand from Tourists

In recent years, Japan has seen a rapid increase in the number of visitors from abroad. Read on for details about our efforts to attract the purchasing interests of tourists.

In Japan, the government and the private sector have been coordinating efforts to turn the country into a more attractive tourist destination.

The number of visitors to Japan exceeded 10.36 million in 2013, reaching an all-time high. Various measures introduced at stores throughout the Don Quijote Group to attract the attention of foreign tourists have proven successful, substantiated by a steady increase in the number of foreign customers coming through our doors. For them, tax-free items, late-night hours and an extensive assortment of merchandise have made our stores increasingly popular as entertainment shopping spots unlike anything seen anywhere else in the world and give foreign customers a taste of fun and excitement—what we are famous for.

We will be directing concerted efforts into strategies designed to capture demand from tourists, which is expected to expand still further as Japan prepares to host the 2020 Olympic and Paralympic Games in Tokyo.

Specific measures

Connecting with Communities

Within the Don Quijote Group, the idea is to work as one with the communities in which a presence has been built, deepening connections with local districts and other businesses, not merely as a point on the store network map but more broadly sharing insights that will enhance the overall ability to attract people to stores as well as to the communities of which they are a part. For example, the "Yokoso! Map"—a welcome map distributed to travelers at no charge—shows the location of the Don Quijote store, of course, plus information on nearby tourist spots, accommodation, and restaurants. The map draws the interest of foreign travelers and promotes demand for local services.

New Tax-Free System

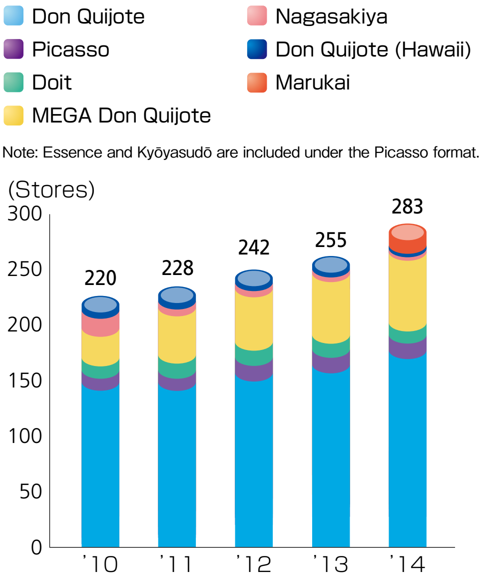
Don Quijote has prioritized an approach to offer tax-free purchases well ahead of other companies. In fact, more than 95% of its stores in Japan offer tax-free merchandise.

Tax-free merchandise used to be limited to luxury items, such as watches and jewelry, but on October 1, 2014, the range of goods was expanded to less expensive items including food, cosmetics and cigarettes. Taking advantage of a change in the tax-free system, Don Quijote will strive to boost demand for target items from tourists.

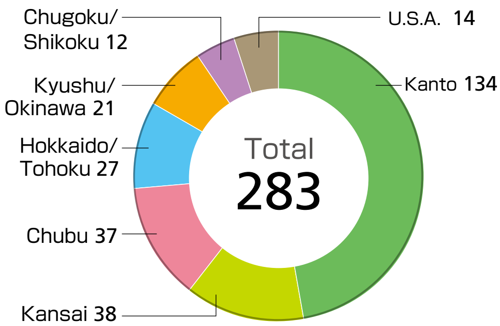
Store Network and Industry Data

Store Development

Number of stores by format
(as of June 30)



Number of stores by region



Store Network Hits 283 Groupwide

In fiscal 2014, the Don Quijote Group followed a strategy emphasizing the opening of stores in the best commercial districts of the Tokyo metropolitan area. The spotlight was on the core Don Quijote format, but efforts were directed toward development in all directions, including the family-oriented MEGA format and the first Doit store in three years. In total, we welcomed 22 new locations into our store network—12 under the Don Quijote format, eight under the MEGA Don Quijote format, one Picasso store and one Doit store.

In September 2013, Don Quijote acquired MARUKAI CORPORATION, which operates 11 stores in Hawaii and California. This brought the Group's store network to 283, comprising 269 stores in the 43 prefectures of Japan and 14 stores in the United States. At the end of June 2013, the store network had 255 locations.

Going forward, we will continue to emphasize two business formats—big convenience and discount stores typified by the Don Quijote format and the family-oriented general discount stores represented by the MEGA Don Quijote format—with small stores in city centers and solution stores in the suburbs becoming central to our store opening strategy as we accelerate the opening of stores matched to market size and local characteristics. A particular emphasis will be placed on opening solution stores, that is, MEGA Don Quijote stores, in spaces vacated by general merchandise stores as a way to revitalize shopping centers with a popular tenant. This approach keeps capital expenditures down and expedites the store-opening process.

Stores opened by the Don Quijote Group

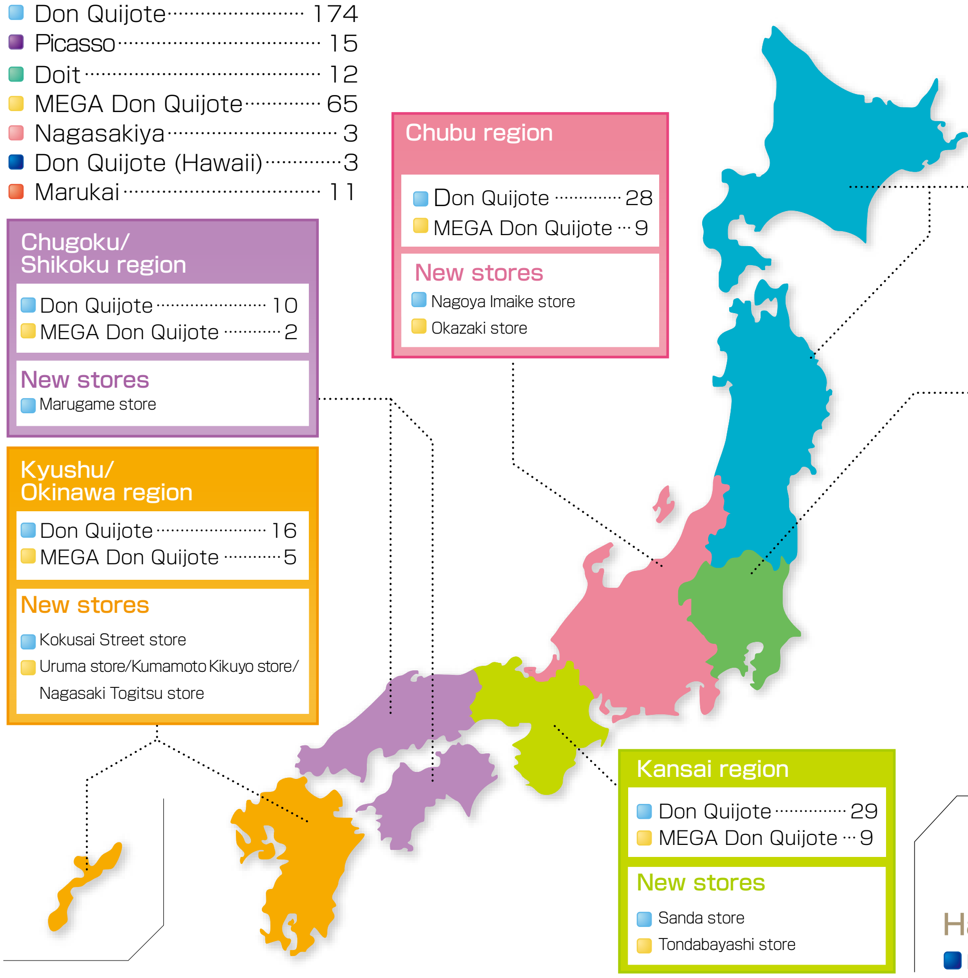
Don Quijote Nagoya Imaike store

Don Quijote Sanda store

Group store network (as of June 30, 2014)

Number of stores by format (Total: 283 stores)

- Don Quijote ········ 174
- Picasso ········ 15
- Doit ········ 12
- MEGA Don Quijote ········ 65
- Nagasakiya ········ 3
- Don Quijote (Hawaii) ········ 3
- Marukai ········ 11



Chugoku/ Shikoku region

- Don Quijote ········ 10
- MEGA Don Quijote ········ 2

New stores
- Marugame store

Kyushu/ Okinawa region

- Don Quijote ········ 16
- MEGA Don Quijote ········ 5

New stores
- Kokusai Street store
- Uruma store/Kumamoto Kikuyo store/ Nagasaki Togitsu store

Chubu region

- Don Quijote ········ 28
- MEGA Don Quijote ········ 9

New stores
- Nagoya Imaike store
- Okazaki store

Kansai region

- Don Quijote ········ 29
- MEGA Don Quijote ········ 9

New stores
- Sanda store
- Tondabayashi store

Hokkaido/ Tohoku region

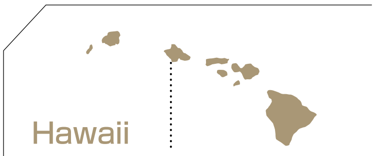
- Don Quijote ········ 13
- MEGA Don Quijote ········ 11
- Doit ········ 1
- Nagasakiya ········ 2

New stores
- Hirosaki store
- Sapporo Shinkawa store

Kanto region

- Don Quijote ········ 78
- MEGA Don Quijote ········ 29
- Picasso ········ 15
- Doit ········ 11
- Nagasakiya ········ 1

New stores
- Hiyoshi store/Shinonome store
  Kichijoji Ekimae store/
  Asakusa store/
  Oomiya Higashi-guchi store/
  Mobara store/Kita Ageo PAPA store
- Higashi-Kurume store/
  Kariba Interchange store
- Koiwa Ekimae store
- Higashi-Mukojima store



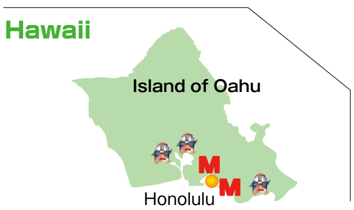
Hawaii

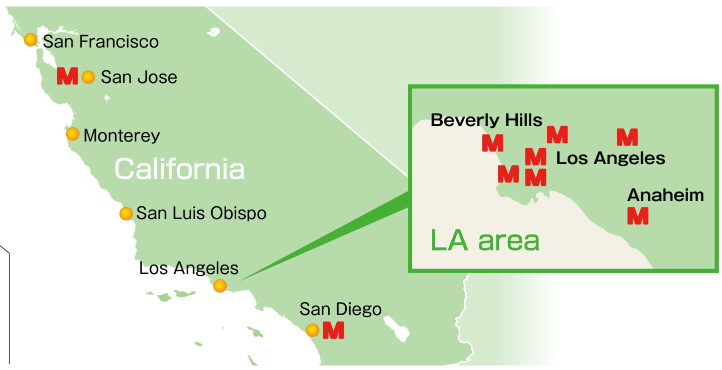
- Don Quijote ········ 3

MARUKAI CORPORATION, which operates supermarkets in the U.S.A., joined the Group in September 2013.

http://www.marukai.com/

M ···Marukai stores
···Existing DQ stores (in Hawaii)





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

Don Quijote	**http://www.donki.com/**	Doit	**http://www.doit.co.jp/**
MEGA Don Quijote	**http://mega.donki.com/**	Nagasakiya	**http://www.nagasakiya.co.jp/**
MARUKAI California	**http://www.marukai-market.com/**		
Hawaii	**http://www.marukaihawaii.com/**		

Store Concepts

Store Type		Sales Floor	Number of Items	Products Featured	Key Customers
MEGA Don Quijote		8,000 m²~ 10,000 m²	40,000~ 100,000	Clothing, food and household necessities; Mainly food items and daily necessities	Housewives, families+
New MEGA Don Quijote		3,000 m²~ 5,000 m²	40,000~ 60,000	Food: Fewer perishable foods Clothing: Mainly everyday wear	Housewives, families+
Don Quijote		1,000 m²~ 3,000 m²	40,000~ 60,000	Amusement and variety shops	Singles+
Essence/ Picasso		300 m²~ 1,000 m²	10,000~ 20,000	Emphasis on specialty products (drugstore/ convenience store/mini grocery)	Singles+
Doit		2,000 m²~ 7,000 m²	40,000~ 80,000	Do-it-yourself-related and home products	Craftsmen, do-it-yourselfers and families+

SOMETHING NEW!

Debut of "majica"—Don Quijote e-money

In March 2014, the Don Quijote Group debuted "majica," an original electronic payment system. This e-money card can be charged repeatedly, and customers can use the card at any Group store. In addition, as a loyalty card, the card provides a special discount—*enman kaikei* (reducing the last digit to zero)[1]—so that customers pay between ¥1 and ¥9 less on their purchases by showing the card. This applies only when the cash register rings up a total of ¥1,000 or more. Also, points[2] given when customers charge their cards—one point for each yen—can be redeemed at any store in the Group. Other perks are member-only pricing on selected merchandise, and special privileges available according to annual purchase amounts, as well as a variety of services and privileges enjoyed only by members who register *majica* membership information with the Club Donpen mobile phone service. These original services have been well received by customers, and in the first 12 weeks from the card's launch, the number of members already exceeded the target set for the first year—one million.

[1] *Enman kaikei* is not available at Doit.
[2] Points also given when paying with *majica* at Doit.

Cards are sold at all Don Quijote Group stores for ¥100 (includes tax). There is no annual fee.

Ranking of Retail Companies by Net Sales

2014 Ranking	2013 Ranking	Company Name	Business Category	FY Ended	Net Sales (Millions of yen)	Growth Rate (%)	Ordinary Income (Millions of yen)	Growth Rate (%)	Net Income (Millions of yen)
1	1	AEON CO., LTD.	Holding Company	Feb	6,395,142	12.5	176,854	- 16.8	45,600
2	2	Seven & i Holdings Co., Ltd.	Holding Company	Feb	5,631,820	12.8	339,083	14.6	175,691
3	3	YAMADA-DENKI CO., LTD.	Electronics Store	Mar	1,893,971	11.3	50,187	4.8	18,666
4	5	FAST RETAILING CO., LTD.	Apparel	Aug	1,382,907	21.0	156,828	5.3	78,118
5	4	Isetan Mitsukoshi Holdings Ltd.	Department Store	Mar	1,321,512	6.9	38,440	12.3	21,166
6	6	J. FRONT RETAILING Co., Ltd.	Department Store	Feb	1,146,319	4.9	40,502	25.8	31,568
7	7	UNY Group Holdings Co., Ltd.	General Merchandise Store	Feb	1,032,125	—	25,066	—	7,440
8	8	Takashimaya Co., Ltd.	Department Store	Feb	904,179	3.9	33,350	11.7	18,716
9	10	BIC CAMERA INC.	Electronics Store	Aug	829,833	3.0	24,063	56.8	9,852
10	11	EDION Corporation	Electronics Store	Mar	766,699	11.9	14,883	908.3	5,149
11	12	K'S HOLDINGS CORPORATION	Electronics Store	Mar	701,198	10.0	31,494	34.6	17,493
12	13	Yodobashi Camera Co., Ltd.	Electronics Store	Mar	690,814	8.4	53,182	13.3	30,849
13	14	Don Quijote Holdings Co., Ltd.	Discount Store	Jun	612,424	7.7	35,487	6.9	21,471
14	16	H2O RETAILING CORPORATION	Department Store	Mar	576,852	9.8	18,160	60.2	295
15	15	IZUMI CO., LTD.	General Merchandise Store	Feb	556,852	4.0	28,446	5.0	17,384
16	17	LIFE CORPORATION	Supermarket	Feb	534,923	2.9	7,702	5.4	3,798
17	18	SHIMAMURA CO., Ltd.	Apparel	Feb	502,901	2.2	44,016	- 7.6	26,583
18	20	Matsumotokiyoshi Holdings Co., Ltd.	Drug Store	Mar	495,385	8.6	24,514	13.1	13,355
19	19	LAWSON, INC.	Convenience Store	Feb	485,247	- 0.5	68,880	4.5	37,965
20	22	ARCS COMPANY, LIMITED	Supermarket	Feb	454,391	4.7	14,688	1.2	6,375
21	23	Valor Co., Ltd.	Supermarket	Mar	454,179	5.3	15,311	- 9.1	9,162
22	24	SUNDRUG CO., LTD.	Drug Store	Mar	447,819	9.9	28,781	13.8	15,754
23	21	DCM Holdings Co., Ltd.	Home Center	Feb	434,190	- 0.0	16,526	- 12.4	10,216
24	25	MARUI GROUP CO., Ltd.	Department Store	Mar	416,460	2.2	27,698	13.3	15,409
25	26	HEIWADO CO., LTD.	General Merchandise Store	Feb	404,596	3.1	13,806	7.4	7,799
26	27	Joshin Denki Co., Ltd.	Electronics Store	Mar	401,798	9.8	7,237	36.0	3,037
27	28	Nitori Holdings Co., Ltd.	Home Furnishings	Feb	387,605	11.1	63,474	2.1	38,425
28	31	CAINZ HOME	Home Center	Feb	369,592	8.3	27,591	8.3	15,893
29	30	SUGI Holdings Co., Ltd.	Drug Store	Feb	365,200	6.3	21,865	- 3.7	12,820
30	—	Co-op Mirai	Co-op	Mar	362,969	—	6,296	—	1,797

Note: Rankings were calculated by updating the company rankings that appeared in the Nikkei Marketing Journal's 47th Survey on the Retailing Industry in Japan issued on June 25, 2014, with the Company's performance indicators for the fiscal year ended June 30, 2014, and the performance indicators for FAST RETAILING CO., LTD., and BIC CAMERA INC., (made Kojima Co., Ltd. a consolidated subsidiary in June 2012) for their fiscal years ended August 31, 2014. FAST RETAILING CO., LTD., is a company subject to IFRS, but the results presented in the table above are those disclosed by the company according to Japanese standards.

Ranking of Companies by Years of Consecutive Growth in Sales and Income

As of June 30, 2014

Ranking	Securities Code	Company Name	Date of Listing (M/Y)	Start of Consecutive Growth (M/FY)	Years of Consecutive Growth	Net Sales (Millions of yen)	Operating Income (Millions of yen)
1	9843	Nitori Holdings Co., Ltd.	9/1989	2/1988	27	387,605	63,073
2	7532	Don Quijote Holdings Co., Ltd.	12/1996	6/1990	25	612,424	34,292
3	9989	SUNDRUG CO., LTD.	8/1994	3/1991	24	447,819	28,057
4	4689	Yahoo Japan Corporation	11/1997	3/1998	17	386,284	197,416
5	6869	SYSMEX CORPORATION	11/1995	3/2002	13	184,538	32,870
5	2413	M3, Inc.	9/2004	3/2002	13	36,887	12,324
5	9795	STEP CO., LTD.	6/1995	9/2001	13	8,804	2,117
8	2309	CMIC HOLDINGS Co., Ltd.	6/2002	9/2002	12	50,934	4,156
8	3079	DVx Inc.	4/2007	3/2003	12	26,420	1,297
8	9381	AIT Corporation	3/2007	2/2003	12	19,126	1,387
8	3769	GMO Payment Gateway, Inc.	4/2005	9/2002	12	5,764	2,048
8	8771	eGuarantee, Inc.	3/2007	3/2003	12	3,737	1,300
13	9984	SoftBank Corp.	7/1994	3/2004	11	6,666,651	1,085,362
13	2670	ABC-MART, INC.	10/2000	2/2004	11	188,045	34,126
13	7611	HIDAY Co., Ltd.	9/1999	2/2004	11	31,997	3,743
13	3092	START TODAY CO., LTD.	12/2007	3/2004	11	38,580	12,388
17	2175	SMS Co., Ltd.	3/2008	3/2005	10	12,046	1,730

Note: When years of consecutive growth are equal in number, ranking is based on net sales.

Corporate Governance

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 while actively carrying out disclosure practices and encouraging a deeper understanding of Don Quijote as a company coexisting with society. 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 problem solving 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 extend the scope of our corporate activities, with an emphasis on an even stronger organizational framework along with thorough and increasingly wider approaches that will, for example, improve awareness of legal compliance and underpin more rigorous checks by our accounting department, Internal Audit Department and monitoring and auditing departments.

Summary of Corporate Governance and Reasons for Adopting Internal Control Structure

Details of the 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, 2014, the Board of Directors had a small number of directors—six—to expedite management decisions. One of these directors is from outside the Company, and management has designated this person as an independent director, contributing broad-based knowledge from an objective position free from any conflicts of interest with general shareholders. Such input is applied to issues important from a corporate administration perspective, such as the formulation of companywide business strategies, and management therefore believes that the current Board of Directors structure is conducive to suitable decision-making processes.

Audit & Supervisory Board

Don Quijote maintains an audit & supervisory board member system, wherein the Audit & Supervisory Board audits the status of decision-making processes and the execution of duties by directors. As of September 26, 2014, the Audit & Supervisory Board had four members, three of whom were outside audit & supervisory board members. The Audit & Supervisory Board includes Yoshihiro Hongo, a certified public accountant and tax accountant, who applies his corporate financing and accounting perspectives to the proper execution of duties.

Internal Audit Department

The Internal Audit Department, under the direct authority of the Board of Directors, is separate from divisions that execute operations. This department provides a point of contact, as necessary, between the independent auditor and audit & supervisory board members 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, at stores, as well as at subsidiaries.

Outside Directors

The Company has one outside director.

The outside director is appointed on the expectation that the individual will offer opinions and point out issues helpful to management from an external perspective, based on specialized knowledge and experience in corporate management, and thereby contribute to enhanced management soundness and transparency. Outside Director Yukihiko Inoue is deemed to present no risk of a conflict of interest with general shareholders, and was designated independent director in accordance with rules set by the Tokyo Stock Exchange, to which notification was submitted.

The Company has no clear-cut criteria or policies regarding the independence of individuals appointed as outside directors. However, in the appointment process, a candidate for outside director is evaluated on the ability to maintain a sufficient degree of separation to perform assigned duties independent of the management team.

Outside Audit & Supervisory Board Members

Don Quijote has three outside audit & supervisory board members. 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 Audit & Supervisory Board meetings, the Company's audit & supervisory board members 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.

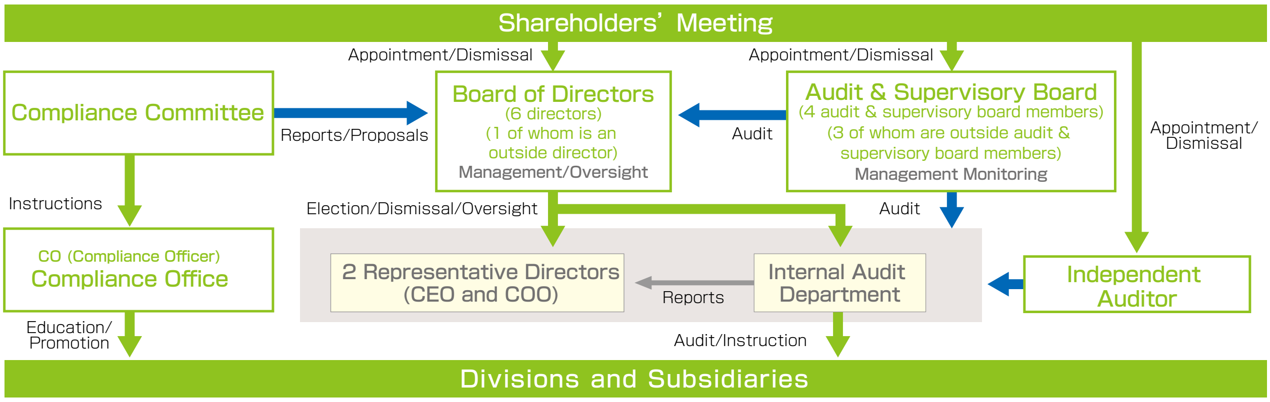
The Company has no clear-cut criteria or policies regarding the independence of individuals appointed as outside audit & supervisory board members, but when such an appointment is made, the Company takes into consideration such factors as the professional expertise necessary to execute auditing duties as well as experience in the running of a business and will appoint outside audit & supervisory board members who are capable of properly monitoring the Company's business activities.

Compliance Committee

Members of this committee are primarily outside experts, including lawyers, outside directors and outside audit & supervisory board members. Their duties include formulating fraud prevention measures, drafting monitoring 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 incidents from happening to the Don Quijote Group.

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

(As of September 26, 2014)



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 ensure that the Company's business activities are undertaken in compliance with 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 audit & supervisory board members—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 ethical standards while it also confirms the legality of the corporate governance structure and related 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 its Rules for Information Security Management. Concurrently, the Company encourages information sharing within the organization and maintains systems to prevent leaks of confidential information.

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

1) The Compliance Committee analyzes and evaluates lateral risks from a compliance standpoint for the entire Group 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 effectively established to control risks associated with administrative procedures, including financial accounting, purchasing, sales, store operation 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' 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 Compliance Hotline, that enables employees and business partners of the Group to directly report questionable conduct—that is, possible violations of the law or regulations or in-house rules—to an outside entity or an in-house point of contact, with complete confidentiality. Concerted efforts are made to promote awareness of this system to ensure that it continues to

function effectively. The Company makes it a top priority to protect individuals who report an actual or possible violation from 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 establishing 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 audit & supervisory board members when such assistance is required

The Company established an office of the Audit & Supervisory Board (Auditors' Office) with staff exclusively dedicated to assisting audit & supervisory board members and the Audit & Supervisory Board in their duties as required.

8. Issues pertaining to the independence of employees who assist audit & supervisory board members

Disciplinary action, reassignment or any other treatment of employees in the Auditors' Office must be reported first to the standing audit & supervisory board member.

9. System for submitting reports to audit & supervisory board members, which includes the system for directors and employees to report to audit & supervisory board members

1) The Internal Audit Department provides audit & supervisory board members with timely and accurate updates on the implementation of internal controls.
2) Directors and employees must respond immediately when requested to provide information on the status of operations, assets or other corporate matters by audit & supervisory board members and the Auditors' Office.

10. Other: ensuring effectiveness of audits by audit & supervisory board members

1) Opportunities are made for audit & supervisory board members to communicate with directors of the Company as well as the directors and audit & supervisory board members of Group companies to make audits as effective as possible. Audit & supervisory board members 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, when the independent auditor submits an audit report, audit & supervisory board members confirm the appropriateness of the content therein.
2) Audit & supervisory board members are informed on a regular basis of how the Compliance Hotline is operating.

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 follows:

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 to address any questionable activities.
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, along with intranet, to expedite responses in the event a situation arises.

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 2014 is as follows:

Certified public accountants who have provided auditing services: Three*
Assistants involved in the execution of accounting audits: Seven certified public accountants, six junior accountants and two 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.

Appointing Outside Directors and Outside Audit & Supervisory Board Members

The Company has one outside director. Management believes this individual can execute the duties of an outside director and brings an external perspective different to that of management, based on expertise and experience in corporate management.

The Company is confident that its management supervisory function is fully developed and sufficient from an objective and independent perspective, given that three out of the four of the Company's audit & supervisory board members are outside audit & supervisory board members, and that they have presented their views based on their respective professional fields.

Ties Between Outside Directors, Outside Audit & Supervisory Board Members, the Internal Audit Division and the Independent Auditor

The outside director works with audit & supervisory board members, the internal audit division and the independent auditor on the content discussed at Board of Directors' meetings.

Outside audit & supervisory board members exchange information, as necessary, and maintain close ties with the internal audit division and the independent auditor and thereby enhance the efficiency and effectiveness of internal audits and independent audits.

Personal, Capital or Business Relationships or Other Interests Between the Company and Its Outside Directors/Audit & Supervisory Board Members

Personal, capital or business relationships or any other interests between the Company and its one outside director and three outside audit & supervisory board members are as follows.

Tomiaki Fukuda, an outside audit & supervisory board member, is the president of the Japan Wrestling Federation. The Company has a minor business relationship with this federation. Outside audit & supervisory board member Yasunori Yoshimura is the chairman of the Yoshimura Bioteic Literacy Institute. The Company has a minor business relationship with this institute. Except for these two relationships, there are no other special relationships between the Company and companies where the outside director or outside audit & supervisory board members hold important concurrent positions.

Risk Management

The Group's risk management process is exhaustive and comprehensive. The Compliance Committee is responsible for tracking Groupwide risks and ensures efficient execution of measures to manage risk. The Compliance Committee also promotes the implementation of appropriate compliance practices and strives to enhance the system of internal controls. The status of risk management 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 note of information received through the Compliance Hotline, which allows employees and business partners of the Group to report suspicious behavior directly to an external entity or an in-house point of contact.

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—Compliance Hotline

The Company instituted a whistleblower system, dubbed Compliance Hotline, to ensure adherence to compliance practices and respect for laws and in-house regulations. The Compliance Hotline is an access point for Group personnel to directly report questionable conduct or seek guidance when a compliance-related issue occurs or seems likely to occur. In addition to the internal channel, the Company provides an external access point, an outside organization with no capital or personal connections to the Group. Steps have been taken to maintain the confidentiality of whistleblowers and ensure that no one is put at a disadvantage for reporting any actual or potential infraction. Furthermore, Group companies take advantage of such opportunities as training of new employees to promote awareness of the system and encourage an environment strong in corporate ethics.

Implementing Internal Controls for Financial Reporting

The structure and implementation of internal controls for financial reporting under the Financial Instruments and Exchange Law of Japan have been verified at Don Quijote Holdings 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, 2014.

A Message from an Audit & Supervisory Board Member

Koichi Otoshi
Standing Audit & Supervisory Board Member

On behalf of shareholders, audit & supervisory board members ensure that the executive team is carrying out assigned duties properly. Additionally, audit & supervisory board members are tasked with the vital role of providing advice to the executive team when necessary.

In performing my duties as an audit & supervisory board member, I attend important meetings, such as Board of Directors' meetings. I also strive for greater understanding of different approaches, particularly business strategies, embraced by the Don Quijote Group and a deeper awareness about issues of concern. I try to engage in the issues and keep to the corporate principle of "valuing the customer as our utmost priority" in formulating a more accurate perspective.

I will continue to contribute to the enhancement of corporate governance practices and higher corporate value, which will underpin confidence in the Group and raise its reputation in the eyes of all stakeholders.

CSR Activities

The Don Quijote Group is involved in various philanthropic and CSR activities in its efforts to contribute to a better world.

Participating in Community Disaster-Prevention and Anti-Crime Activities

To create stores that impart safety and peace of mind and as part of contingency planning, we ensure that the morning assembly for store staff includes a pledge to uphold the five articles of disaster prevention and the eight articles of fire prevention. In addition, teams of volunteer fire-fighters from our stores actively participate in annual competitions organized by the fire department in each jurisdiction. As members of their respective communities, our store staff make every effort to keep the community safe and willingly take part in disaster-prevention activities organized by neighborhood associations and local governments and also get involved in local anti-crime initiatives, which include night watch activities and neighborhood anti-vandalism/beautification campaigns.

Efforts to Reduce Environmental Impact

As a corporate group, we pursue environmentally conscious activities to support the aim of a sustainable society. At Group stores in Japan—about 260 locations—we have replaced indoor fluorescent lights with LED lighting, and we have installed water-saving fixtures in the kitchens and toilets at about 30 large stores, particularly MEGA Don Quijote stores. In addition, we recycle 100% of the cardboard boxes used in product delivery operations and strive to reduce industrial waste, mainly by dissolving foamed polystyrene plastics.

Work Experience and Store Tours under Shoiku® Project

Shoiku® is an ongoing work-based learning project offered at Don Quijote Group stores across Japan that gives children—the generation that carries the torch on to future generations—an opportunity to get a feel for the fun side of having a job while learning a sense of responsibility and mission through retail sales activities. Children who participate in this project experience the joys as well as the challenges that accompany retail sales through involvement in daily store activities, such as stocking shelves with products, greeting customers, creating POP (point-of-purchase) cards, arranging merchandise displays, making in-store announcements, cleaning up, and answering customers' questions.

Note: Shoiku is a term coined by Don Quijote and trademarked in 2008 (No. 5103295).

Working with Government to Attract Visitors to Japan

In recent years, visitors to Japan have gradually comprised a larger percentage of our customer count. Given this trend, we implemented the Shinjuku Shopping Campaign—Spring 2014, a joint promotion initiative with the Shinjuku district, through which seven companies in different sectors, including department stores, large-scale commercial complexes and volume retailers, along with hotels and shopping hubs—all operating in the Shinjuku area—work together to encourage more foreign tourists to spend their time in this part of Tokyo.

FINANCIAL SECTION

Consolidated Business Results

Net Sales and Operating Income

The economic environment in Japan during fiscal 2014—July 1, 2013 to June 30, 2014—showed signs of gradual recovery, underpinned by the positive effect of such measures as government policy designed to energize business conditions. But a rush of buying activity ahead of the April 2014 increase in the consumption tax was followed by a reactionary drop in consumer spending after the revised tax went into effect. According to surveys by the Ministry of Internal Affairs and Communications on household budgets, consumption expenditures and disposable family income have trended downward, leaving the path ahead still shrouded in unknowns.

In the retail industry, consumer sentiment became more uncertain, as well. The operating environment required measures to deal with increasingly diverse customer needs and placed a greater emphasis on operator ability to respond to changes and thereby quickly and flexibly address a heightened consumer preference for saving money. Against this backdrop, the Company pushed the Group further in its quest for ever greater convenience, discounts and amusement characteristic of a concept-creating business enterprise putting the principle of "valuing the customer as our utmost priority" into practice. Various measures were implemented to create stores that keep customers coming back.

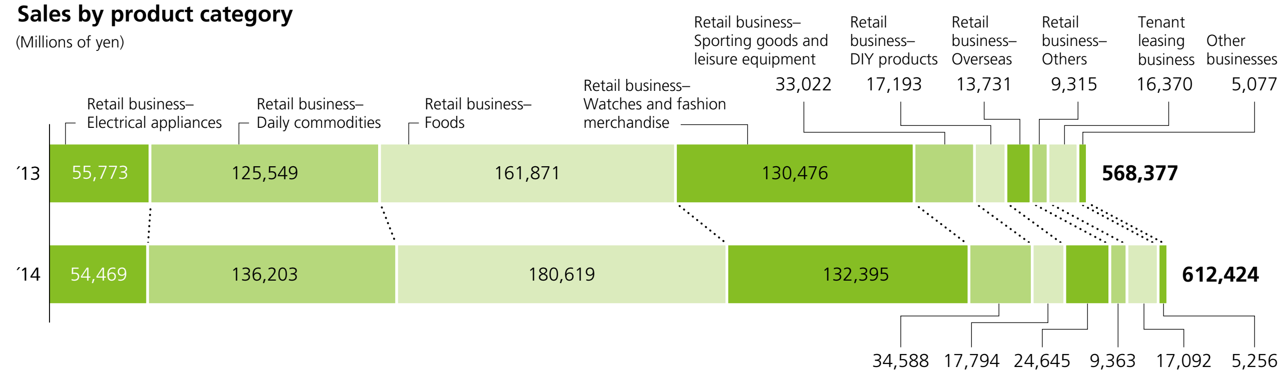
Stores under the Group umbrella worked to enrich the selection of products under respective store formats and match the evolving purchasing habits and needs of customers. The effort was not limited to specialty goods—consumer durables and hobby items that customers shop around for, looking at specifications and comparing prices—but extended to everyday goods, such as food items and daily commodities as well. The satisfying selection of products, along with prices that customers deemed reasonable, led to higher customer loyalty.

In network development, the Company emphasized the opening of stores with optimal formats— Don Quijote, MEGA Don Quijote, New MEGA Don Quijote, Picasso and Doit—matched to market size and local characteristics. And in private brand development, Jonetsu Kakaku delivered higher sales.

In March 2014, the Company launched the "majica" card, an original electronic payment system, for use at Group stores. Customers sign up as members and earn points corresponding to the number of times and amount put onto the e-money card, and also qualify for member-only pricing on selected merchandise. In addition, the card provides a special

Sales by product category

(Millions of yen)



Sales and composition by product category	2013 Net sales (Millions of yen)	2013 Percentage (%)	2014 Net sales (Millions of yen)	2014 Percentage (%)
Retail business	546,930	96.2	**590,076**	**96.3**
Electrical appliances	55,773	9.8	**54,469**	**8.9**
Daily commodities	125,549	22.1	**136,203**	**22.2**
Foods	161,871	28.5	**180,619**	**29.5**
Watches and fashion merchandise	130,476	23.0	**132,395**	**21.6**
Sporting goods and leisure equipment	33,022	5.8	**34,588**	**5.6**
DIY products	17,193	3.0	**17,794**	**2.9**
Overseas	13,731	2.4	**24,645**	**4.0**
Others	9,315	1.6	**9,363**	**1.6**
Tenant leasing business	16,370	2.9	**17,092**	**2.8**
Other businesses	5,077	0.9	**5,256**	**0.9**
Total	568,377	100.0	**612,424**	**100.0**

discount—*enman kaikei* (reducing the last digit of the purchase total to zero)— so that members pay between ¥1 and ¥9 less on their purchases with presentation of the card. This applies only when the cash register rings up a total of more than ¥1,000. These perks were rolled out as a way to encourage customer loyalty. As of June 30, 2014, membership had surpassed the 1.2 million mark.

In the end, consolidated net sales increased 7.7% over the previous fiscal year, to ¥612,424 million; operating income grew 5.9%, to ¥34,292 million; ordinary income climbed 6.9%, to ¥35,487 million; and net income rose 1.6%, to ¥21,471 million. These results extended the Company’s upward trend in consolidated sales and income.

Store Network

In fiscal 2014, the Company oversaw the opening of 11 stores in the Kanto region, one in the Hokkaido region, one in the Tohoku region, two in the Chubu region, two in the Kinki region, one in the Shikoku region, and four in the Kyushu region. Three stores were temporarily closed due to store renovation and relocation activities, and two locations were closed permanently as part of efforts to improve business efficiency. Meanwhile, the Iruma store, in Saitama Prefecture, was converted to the Don Quijote format. It had previously been run by Doit.

Overseas, on September 30, 2013, Don Quijote acquired MARUKAI CORPORATION and 11 supermarkets that the company operates in the U.S. states of Hawaii and California.

As a result, the Group's store network grew to 283 stores as of June 30, 2014, compared with 255 stores as of June 30, 2013.

Net Sales by Business Segment

Retail Business

In fiscal 2014, the retail business generated sales of ¥590,076 million, up ¥43,146 million, or 7.9%, from fiscal 2013, and operating income grew to ¥24,381 million. These results are primarily due to a boost from the sale of foods, daily commodities, watches and fashion goods, which reflects a flexible approach to the merchandise mix and pricing that emphasizes local demand factors and consumer reaction to economic trends.

Tenant Leasing Business

In fiscal 2014, the tenant leasing business advanced, recording sales of ¥17,092 million, up ¥722 million, or 4.4%, year on year, and operating income reached ¥6,505 million.

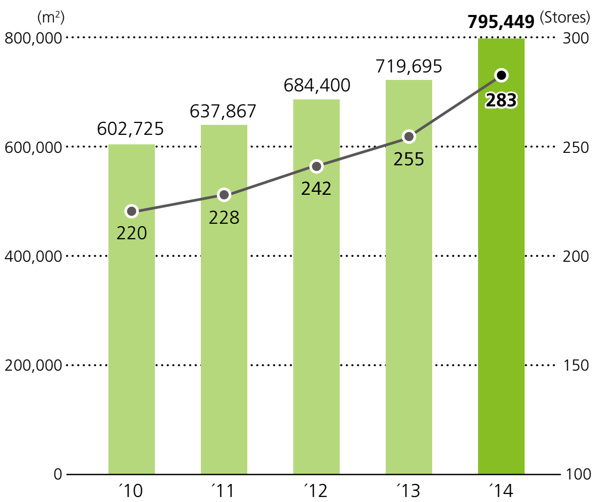
Other Businesses

In fiscal 2014, sales from other businesses grew to ¥5,256 million, up ¥179 million, or 3.5%, year on year, and operating income increased to ¥3,540 million.

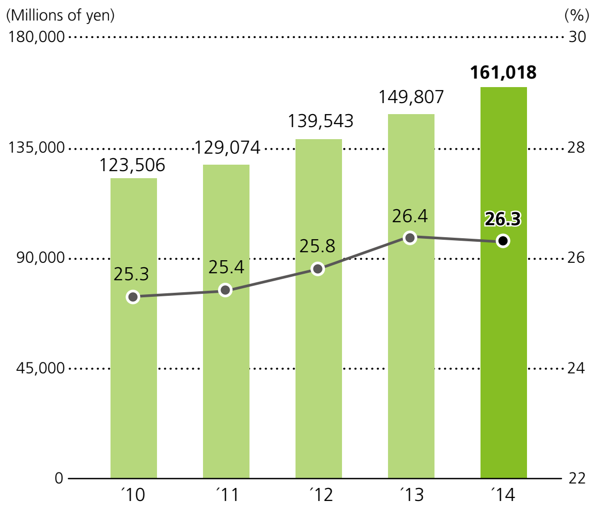
Operating Income

The Company actively encouraged stores to make merchandise adjustments and enhance content under private brands and, once the higher consumption tax took effect, to generate a different sales mix through resourceful sales promotion strategies showcasing commodities to match constantly evolving consumer needs. The gross profit margin held relatively steady, year on year, despite the tough business environment, mainly due to progress in the disposal of slow-moving

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



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



inventory. Selling, general and administrative expenses grew, paralleling an increase in the number of stores opened, preparations ahead of the consumption tax increase and then post-implementation measures, efforts to reinforce the sales structure, and reorganization of Group operations. The success of these approaches, complemented by a higher net sales starting point, kept the ratio of selling general and administrative expenses to net sales at a year-on-year par. This led to a 5.9% improvement in operating income over fiscal 2013, to ¥34,292 million.

Ordinary Income, Net Income

Ordinary income reached ¥35,487 million, up 6.9% year on year, owing to other income of ¥1,195 million, which was largely due to lower interest expenses paralleling reduced interest-bearing debt. The Company booked ¥762 million in loss on closing of stores and ¥390 million in loss on disposal of non-current assets under extraordinary loss, which led to income before income taxes and minority interests of ¥34,225 million. After deducting ¥10,172 million in income taxes and ¥2,582 million in minority interests, the Company showed net income of ¥21,471 million, up 1.6%, which set a new all-time high.

Outlook for Fiscal 2015

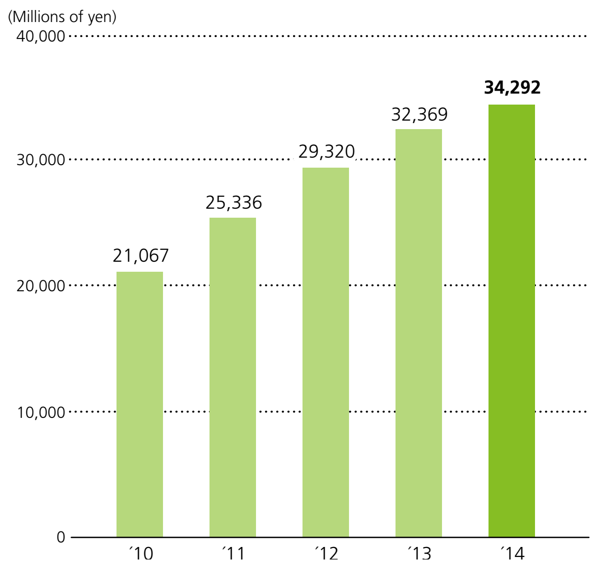
The outlook for fiscal 2015 remains unclear. Various factors, including the government's economic policy, should continue to have a positive impact, and issues associated with the April 2014 consumption tax increase are gradually subsiding. At the same time, rising raw material costs will drive up product prices as well as the cost of gasoline, and as household budgets get squeezed, consumers will become even more sensitive to the prices of the products they buy. As a result, uncertainty still obscures the path ahead.

Amid this uncertainty, the consumption tax is scheduled to rise again—to 10% from the current 8%—in October 2015. This second increase in as many years could have a hugely negative effect on consumer sentiment, dampening any regained enthusiasm for spending. Retailers able to mitigate the challenges that the higher tax will bring are few and far between, and the situation is likely to accelerate the victory or demise of those in the industry.

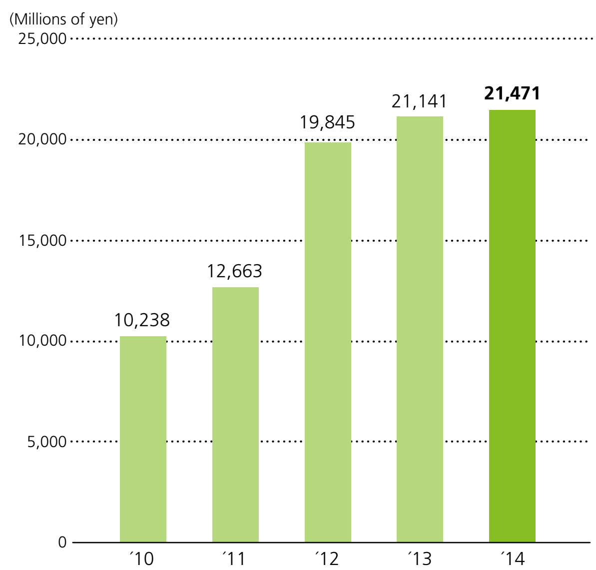
Nevertheless, the Company will turn these potential challenges into opportunities for growth and guide the Group to create stores with appealing formats that translate into a high level of customer satisfaction.

In store development, management remains keen to extend the Don Quijote network nationwide while working to achieve a good balance of store openings, complementing those in city centers close to large train stations and bustling commercial districts with additional roadside stores in the suburbs matched to market size and local characteristics, under the prevailing store-opening strategy based on the existing core format. Efforts will also be directed toward evolution of family-oriented MEGA Don Quijote general discount stores through the New MEGA Don Quijote format, which is slightly smaller and presents greater flexibility in store-opening options in that a store can be set up

Operating income



Net income



in an existing building vacated by a retailing tenant. Management is pushing the solution store concept as well. A solution store is a format that facilitates fast and low-cost store development by moving operations into a tenant-ready location within an existing multiuse commercial complex such as a shopping center. These approaches will sharpen marketing capabilities, boost profitability and improve operating efficiency.

In store operations, the ultimate goal is to attract and keep the loyalty of more customers. Toward this end, management seeks to reinforce the marketing platform at existing stores by enabling each location to acquire the ability to cater to the needs of customers in respective commercial districts while boosting the level of customer service, product salability and price competitiveness. Management also wants to strengthen sales of the private brand Jonetsu Kakaku and enrich the selection of products under this label, while invigorating sales promotion activities showcasing *majica*—the Group's own e-money card.

Taking an environmental perspective, management will continue to undertake corporate social responsibility activities and implement measures well-attuned to environmental issues in the communities where stores under the Group umbrella operate.

Given anticipated market conditions and the Group's efforts to maximize business opportunities, management expects the following results for fiscal 2015: net sales up 3.5%, to ¥634 billion; operating income up 1.5%, to ¥34.8 billion; ordinary income up 0.3%, to ¥35.6 billion; and net income up 0.1%, to ¥21.5 billion.

Financial Position

As of June 30, 2014, total assets stood at ¥432,135 million, up ¥45,513 million from a year earlier.

Current assets amounted to ¥158,834 million, up ¥15,443 million, compared with the previous fiscal year. The primary components of this change were increases of ¥10,992 million in cash and deposits and ¥3,108 million in inventories, paralleling the opening of new stores.

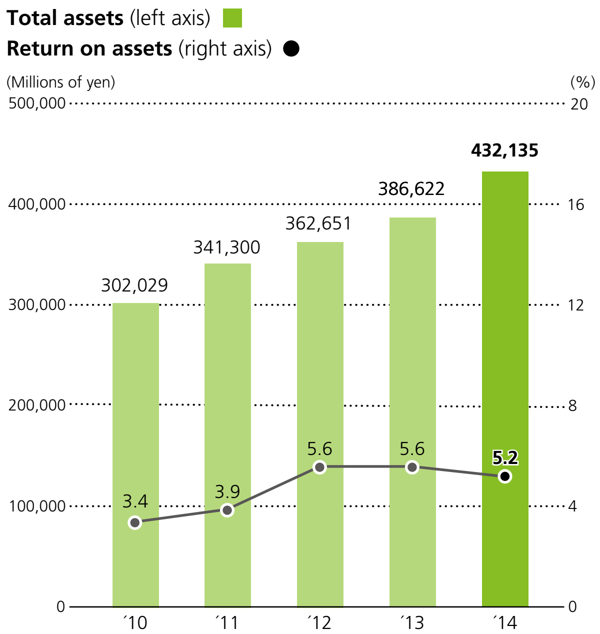
Property, plant and equipment totaled ¥212,723 million, up ¥26,629 million, compared with the previous fiscal year. The primary components of this change were buildings and structures, up ¥10,981 million, and land, up ¥11,775 million, reflecting the opening of new stores and acquisition of candidate buildings for future stores since the end of fiscal 2014.

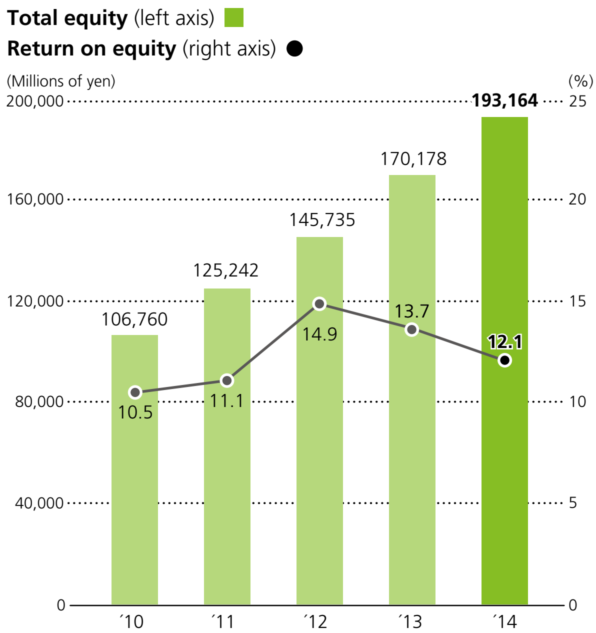
Intangible assets grew ¥3,382 million, to ¥15,356 million, from June 30, 2013, mainly because of higher goodwill.

Total liabilities stood at ¥238,971 million on June 30, 2014, up ¥22,527 million from a year earlier.

Current liabilities amounted to ¥114,444 million, down ¥6,726 million from a year earlier, as a ¥14,462 million drop in current portion of long-term debt and bonds outweighed increases of ¥7,082 million in accounts payable–trade and ¥5,912 million in payables under fluidity lease receivables.

Non-current liabilities reached ¥124,527 million, up ¥29,253 million, as long-term payables under fluidity lease receivables rose ¥34,345 million and combined





with other changes to completely offset a ¥5,692 million decrease in corporate bonds and long-term debt. The debt-to-equity ratio improved 25.5 percentage points, to 48.8%. Net interest-bearing liabilities at the end of June 30, 2014, amounted to ¥94,275 million, for a ratio of interest-bearing debt to total assets of 21.8%, compared with 32.7% a year earlier. Net liabilities declined ¥43,223 million, to ¥51,584 million.

Total equity grew ¥22,986 million, to ¥193,164 million, as of June 30, 2014.

The equity ratio rose 0.4 percentage point, to 43.4%, but return-on-equity edged down 1.6 percentage points, to 12.1%.

Cash Flows

Cash provided by operating activities in fiscal 2014 amounted to ¥39,684 million, as inflow, primarily net income, depreciation and amortization, and increase in trade payables, more than offset outflow, namely higher inventories paralleling the opening of new stores as well as income taxes paid.

Cash used in investing activities came to ¥36,593 million, largely owing to payments for purchase of property, plant and equipment, payments for purchase of intangible assets, and payments for purchase of subsidiaries' securities resulting in changes in the scope of consolidation.

Cash provided by financing activities totaled ¥4,440 million, mainly because proceeds from fluidity of lease receivables exceeded payments for redemption of bonds, a decrease in loans, and payments of cash dividends.

As a result, cash and cash equivalents came to ¥44,105 million at the end of fiscal 2014, up ¥7,973 million from a year earlier.

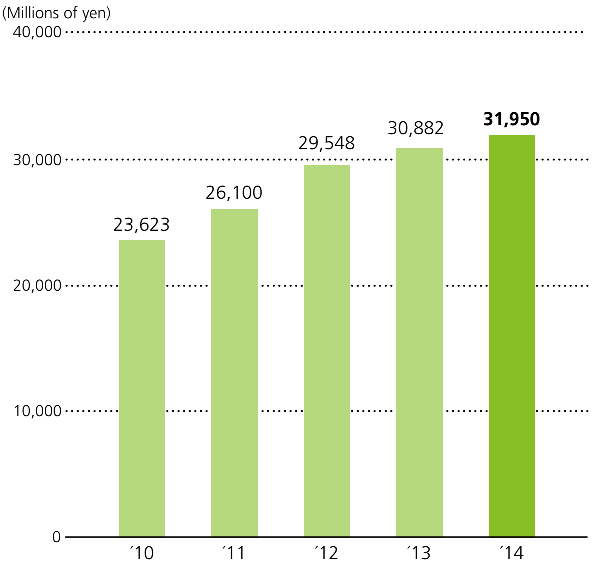
Capital Investment

In fiscal 2014, the Group allocated capital investment, mainly to purchase land, buildings and facilities, pay fixed leasehold deposits and acquire software, for 22 newly built stores and thereby expand the retail and tenant leasing businesses.

As a result, capital investment by reporting segment was ¥22,679 million in the retail business, ¥12,811 million in the tenant leasing business and ¥72 million in other businesses.

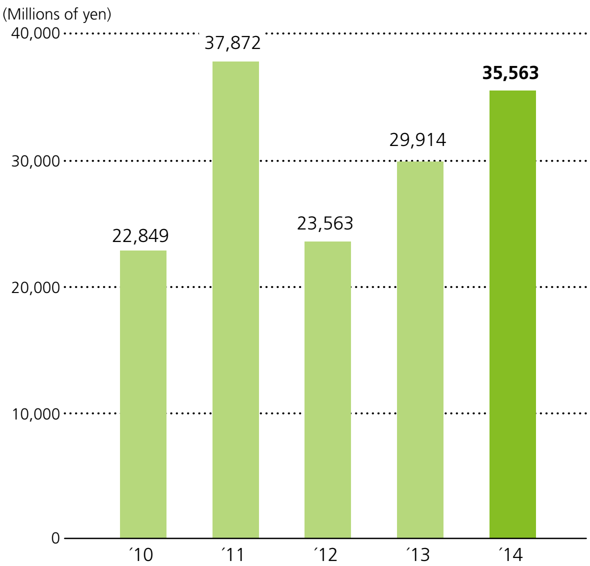
The Company also recorded ¥762 million under loss on closing of stores.

Free cash flow



Note: Free cash flow = Net income after taxes + Depreciation and amortization + Extraordinary loss – Cash dividends paid

Capital investment



Risk Information

Business risks

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 as soon as we recognize the possibility of such risks arising. The following summary of risks includes future events, which are based on judgments and forecasts made by the Group based on the information available as of September 26, 2014, 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, and increasing the number of subsidiaries in order to expand its business fields. If the Group fails to recruit and appropriately train its employees, the quality of business could deteriorate, which could lead 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 the economic environment.

Distribution centers including 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

Business results are greatly influenced by the ability of young marketing staff, particularly those in their 20s and 30s, to quickly and accurately pinpoint demand and expertly apply this information to the selection of merchandise matching customer needs. Failure to retain and train such staff, or to maintain the appropriate organizational structure to support such efforts, could lead to sluggish business results.

4. Consumer demand, weather and seasonality

Business results may be influenced by unavoidable factors, including fluctuations in consumer demand, changes in the weather and seasonal variations. The inability to prepare for and respond to changing external factors such as these may dampen improvement in business results.

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 retail stores with a sales floor of more than 1,000 square meters. Should there also be specific regulations in a community or prefecture for stores with sales floors smaller than 1,000 square meters, the Group's store development strategies or sales plans may be adversely affected.

6. Future capital requirements

To expand Group operations, the Company may have to derive capital in new ways, such as bond issuance, depending on the amount of capital required for the target investment. Business expansion plans could be hampered by an unfavorable economic environment, high interest rates or other problematic fund procurement conditions.

7. Data security

The Group handles customers' personal information with precision and care. Any data leak would have a material adverse effect on the Group's reputation, financial condition and results of operations and could lead to possible litigation.

8. Impairment of non-current assets

The Group estimates future cash flows of its assets in order to assess the possibility of the occurrence of an impairment loss. Potential impairment would have a 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 financial condition of subsidiaries and affiliates continues to deteriorate, by applying the Accounting for Financial Instruments, the potential impairment on shares without quoted market prices would have a material adverse effect on the Group's business, financial condition and results of operations.

10. Expansion by mergers and acquisitions

The Group has implemented mergers and acquisitions as a means of business expansion. The Company avoids risks through a thorough due diligence review of the target company, its business and relevant contractual matters. There is, however, the possibility of incurring contingent liabilities or discovering unrecognized liabilities after the merger and acquisition has taken place. In addition, there is the possibility that the expected synergy does not materialize, for any number of reasons. In either case, there would be an adverse effect on the Group's business, financial condition and results of operations.

11. Stock options

The Group adopts an incentive system that gives stock options to directors and employees of the Group in order to improve their morale or recruit excellent people. When the given stock options as well as the prospectively given stock options are exercised, the Company shares become diluted. Stock options given after May 1, 2006, are essentially allocated to expenses, and as such may have a material adverse effect on the Group's business, financial condition and results of operations.

12. Loss on closing of stores

Store-operating Group companies actively pursue new store openings but may also close locations that prove unprofitable. A policy is in place stating that any newly opened store failing to achieve its initial revenue target will be closed if a turnaround in performance is unattainable even with management efforts to expand sales and reduce selling, general and administrative expenses. Losses associated with the closure of one or more stores due to poor performance could have a negative impact on consolidated results.

13. Foreign currency transactions

Store-operating Group companies import certain merchandise directly from overseas. If indirect imports are also included, most of the merchandise sold comes from outside Japan. Generally, the effective purchase price will trend downward if the yen is strong, and rise when the yen weakens. The gross profit margin is therefore susceptible to the risk of currency fluctuations. On occasion, merchandise-importing Group companies will undertake forward exchange contracts and formulate measures to avoid exchange rate risk. But there is no guarantee that these efforts will be completely effective, and general market risk from fluctuations in forex markets, in particular, will inevitably affect business results.

14. Natural disaster

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

15. Inventory

Inventories at stores throughout the Group have recently tended to rise because of the Company’s aggressive stance on store openings. To minimize inventory risk, stores monitor sales trends and inventory volumes in real time through POS (point of sale) and core operating systems. However, changes in the operating environment, mainly fluctuating consumer demand and changes in the weather, could cause the turnover of inventory to slow, and the subsequent disposal of inventory and booking of loss on valuation of merchandise could adversely affect the Group’s business results and financial position.

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 Holdings Co., Ltd. and Consolidated Subsidiaries
As of June 30, 2014 and 2013

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
ASSETS	**2014**	2013	**2014**
Current assets:			
Cash and deposits (Notes 6, 16 and 24)	**¥42,690**	¥31,698	**$421**
Notes and accounts receivable–trade (Note 6)	**5,730**	5,371	**56**
Purchased receivables (Notes 6 and 16)	**6,009**	6,738	**59**
Inventories (Notes 4 and 16)	**89,105**	85,997	**879**
Prepaid expenses	**2,596**	2,210	**26**
Deferred tax assets (Note 17)	**5,228**	3,987	**52**
Other current assets	**7,517**	7,428	**74**
Less: Allowance for doubtful accounts (Note 6)	**(41)**	(38)	**(0)**
Total current assets	**158,834**	143,391	**1,567**
Investments and advances:			
Investments in securities and capital to affiliates (Note 6)	**360**	405	**3**
Investment securities (Notes 6 and 7)	**4,054**	4,732	**40**
Advance payment for fixed leasehold deposits	**3,215**	3,265	**32**
Long-term loans receivable (Note 6)	**1,069**	1,136	**11**
Less: Allowance for doubtful accounts (Note 6)	**(190)**	(197)	**(2)**
Total investments and advances	**8,508**	9,341	**84**
Property, plant and equipment (Notes 16, 20 and 25)**:**			
Land	**119,680**	107,905	**1,181**
Buildings and structures	**136,063**	117,151	**1,342**
Furniture and fixtures	**45,617**	40,093	**450**
Construction in progress	**3,441**	1,049	**34**
Other property, plant and equipment	**260**	187	**3**
Total	**305,061**	266,385	**3,010**
Less: Accumulated impairment loss	**(3,855)**	(3,632)	**(38)**
Less: Accumulated depreciation	**(88,483)**	(76,659)	**(873)**
Net property, plant and equipment	**212,723**	186,094	**2,099**
Intangibles:			
Goodwill	**6,332**	4,640	**62**
Other intangibles	**9,024**	7,334	**89**
Total intangibles	**15,356**	11,974	**151**
Other assets:			
Long-term deposits	**300**	300	**3**
Fixed leasehold deposits (Notes 6 and 16)	**30,963**	31,762	**305**
Long-term prepaid expenses	**2,147**	2,261	**21**
Deferred tax assets (Note 17)	**2,050**	658	**20**
Other non-current assets	**2,815**	3,060	**28**
Less: Allowance for doubtful accounts (Note 6)	**(1,561)**	(2,219)	**(15)**
Total other assets	**36,714**	35,822	**362**
Total assets	**¥432,135**	¥386,622	**$4,263**

The accompanying notes are an integral part of the statements.

LIABILITIES AND EQUITY	Millions of yen (Note 2) 2014	2013	Millions of U.S. dollars (Note 2) 2014
Liabilities			
Current liabilities:			
Accounts payable–trade (Note 6)	¥55,118	¥48,036	$544
Short-term loans (Notes 6, 8, 9, 10 and 16)	2,197	14,286	22
Current portion of long-term debt (Notes 6, 8 and 16)	17,755	32,217	175
Payables under fluidity lease receivables (Notes 6 and 11)	5,912	—	58
Accrued expenses (Note 6)	7,321	6,431	72
Accrued income taxes (Note 6)	7,883	6,746	78
Allowance for point program	413	221	4
Other current liabilities (Notes 16 and 17)	17,845	13,233	176
Total current liabilities	114,444	121,170	1,129
Non-current liabilities:			
Long-term debt (Notes 6, 8, 10 and 16)	74,338	80,030	733
Long-term payables under fluidity lease receivables (Notes 6 and 11)	34,345	—	339
Allowance for retirement benefits for directors	360	337	4
Asset retirement obligations (Note 26)	3,285	2,521	33
Negative goodwill	622	964	6
Other non-current liabilities (Notes 16 and 17)	11,577	11,422	114
Total non-current liabilities	124,527	95,274	1,229
Total liabilities	238,971	216,444	2,358
Equity (Notes 3, 13 and 22)**:**			
Common stock			
Authorized:			
2013—234,000,000			
2014—234,000,000			
Issued and outstanding:			
2013—77,863,880			
2014—78,393,980	21,366	20,613	211
Additional paid-in capital	24,169	23,416	238
Retained earnings	142,105	123,207	1,402
Net unrealized gains (losses) on investment securities	472	736	5
Foreign currency translation adjustments	(764)	(1,625)	(8)
Less: Treasury stock, at cost			
2013—1,244			
2014—1,244	(3)	(3)	(0)
Total	187,345	166,344	1,848
Minority interests	5,819	3,834	57
Total equity	193,164	170,178	1,905
Total liabilities and equity	¥432,135	¥386,622	$4,263

The accompanying notes are an integral part of the statements.

Consolidated Statements of Income

Don Quijote Holdings Co., Ltd. and Consolidated Subsidiaries
For the fiscal years ended June 30, 2014 and 2013

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2014	2013	**2014**
Net sales	**¥612,424**	¥568,377	**$6,042**
Cost of goods sold (Note 4)	**451,406**	418,570	**4,453**
Gross profit	**161,018**	149,807	**1,589**
Selling, general and administrative expenses (Notes 18 and 19)	**126,726**	117,438	**1,251**
Operating income	**34,292**	32,369	**338**
Other income (expenses):			
Interest and dividend income	**523**	522	**5**
Gain on sales of non-current assets (Note 23)	**214**	5	**2**
Gain on sales of investment securities	**18**	505	**0**
Gain on sales of affiliates' securities	**—**	602	**—**
Interest expenses	**(1,064)**	(1,460)	**(10)**
Cost of claim's liquidation	**(250)**	—	**(2)**
Loss on sales of non-current assets (Note 23)	**(201)**	(126)	**(2)**
Loss on disposal of non-current assets (Note 23)	**(390)**	(296)	**(4)**
Loss on closing of stores (Note 23)	**(762)**	(144)	**(7)**
Other income and expenses, net (Notes 14 and 20)	**1,845**	1,405	**18**
Income before income taxes and minority interests	**34,225**	33,382	**338**
Income taxes (Note 17):			
Current	**13,100**	11,463	**129**
Deferred	**(2,928)**	(135)	**(28)**
Income before minority interests	**24,053**	22,054	**237**
Minority interests	**(2,582)**	(913)	**(25)**
Net income	**¥21,471**	¥21,141	**$212**

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 as follows:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2014	2013	**2014**
Operating income	**¥34,292**	¥32,369	**$338**
Other income (expenses):			
Interest and dividend income	**523**	522	**5**
Interest expenses	**(1,064)**	(1,460)	**(10)**
Cost of claim's liquidation	**(250)**	—	**(2)**
Other income and expenses, net	**1,986**	1,770	**19**
Ordinary income	**35,487**	33,201	**350**
Extraordinary income (loss):			
Gain on sales of non-current assets	**214**	5	**2**
Gain on sales of investment securities	**18**	505	**0**
Gain on sales of affiliates' securities	**—**	602	**—**
Loss on sales of non-current assets	**(201)**	(126)	**(2)**
Loss on disposal of non-current assets	**(390)**	(296)	**(4)**
Loss on closing of stores	**(762)**	(144)	**(7)**
Other extraordinary income and loss, net	**(141)**	(365)	**(1)**
Income before income taxes and minority interests	**¥34,225**	¥33,382	**$338**

Consolidated Statements of Comprehensive Income (Note 15)

Don Quijote Holdings Co., Ltd. and Consolidated Subsidiaries
For the fiscal years ended June 30, 2014 and 2013

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2014	2013	**2014**
Income before minority interests	**¥24,053**	¥22,054	**$237**
Other comprehensive income			
Net unrealized gains (losses) on investment securities	**(262)**	1,148	**(3)**
Foreign currency translation adjustments	**859**	1,379	**9**
Total other comprehensive income	**597**	2,527	**6**
Comprehensive income	**¥24,650**	¥24,581	**$243**
Comprehensive income attributable to:			
Owners of the parent	**¥22,067**	¥23,647	**$218**
Minority interests	**2,583**	934	**25**

Amount per share of common stock:	Yen (Note 2)		U.S. dollars (Note 2)
	2014	2013	**2014**
Basic earnings (Note 20)	**¥274.68**	¥273.47	**$2.71**
Diluted earnings (Note 20)	**273.11**	272.34	**2.69**
Cash dividends applicable to the year	**36.00**	33.00	**0.36**

The accompanying notes are an integral part of the statements.

Consolidated Statements of Changes in Net Assets

Don Quijote Holdings Co., Ltd. and Consolidated Subsidiaries
For the fiscal years ended June 30, 2014 and 2013

	Millions of yen (Note 2)							
	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains (losses) on investment securities	Foreign currency translation adjustments	Treasury stock, at cost	Minority interests	Total equity
Balance at June 30, 2012	¥19,664	¥22,466	¥104,463	¥(391)	¥(3,004)	¥(3)	¥2,540	¥145,735
Cash dividends	—	—	(2,392)	—	—	—	—	(2,392)
Net income	—	—	21,141	—	—	—	—	21,141
Issuance of new shares	949	949	—	—	—	—	—	1,899
Change of scope of consolidation	—	—	(5)	—	—	—	—	(5)
Other	—	—	—	1,127	1,379	—	1,294	3,799
Balance at June 30, 2013	**¥20,613**	**¥23,416**	**¥123,207**	**¥736**	**¥(1,625)**	**¥(3)**	**¥3,834**	**¥170,178**
Cash dividends	—	—	**(2,573)**	—	—	—	—	**(2,573)**
Net income	—	—	**21,471**	—	—	—	—	**21,471**
Issuance of new shares	**753**	**753**	—	—	—	—	—	**1,506**
Other	—	—	—	**(264)**	**861**	—	**1,985**	**2,582**
Balance at June 30, 2014	**¥21,366**	**¥24,169**	**¥142,105**	**¥472**	**¥(764)**	**¥(3)**	**¥5,819**	**¥193,164**

	Millions of U.S. dollars (Note 2)							
	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains (losses) on investment securities	Foreign currency translation adjustments	Treasury stock, at cost	Minority interests	Total equity
Balance at June 30, 2013	**$204**	**$231**	**$1,215**	**$7**	**$(16)**	**$(0)**	**$38**	**$1,679**
Cash dividends	—	—	**(25)**	—	—	—	—	**(25)**
Net income	—	—	**212**	—	—	—	—	**212**
Issuance of new shares	**7**	**7**	—	—	—	—	—	**14**
Other	—	—	—	**(2)**	**8**	—	**19**	**25**
Balance at June 30, 2014	**$211**	**$238**	**$1,402**	**$5**	**$(8)**	**$(0)**	**$57**	**$1,905**

The accompanying notes are an integral part of the statements.

Consolidated Statements of Cash Flows

Don Quijote Holdings Co., Ltd. and Consolidated Subsidiaries
For the fiscal years ended June 30, 2014 and 2013

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2014	2013	2014
Cash flows from operating activities:			
Income before income taxes	¥34,225	¥33,382	$338
Depreciation and amortization	11,408	11,051	112
Impairment loss	19	317	0
Amortization of negative goodwill	(342)	(628)	(3)
Decrease in allowance for doubtful accounts	(114)	(44)	(1)
Increase (Decrease) in allowance for retirement benefits for directors	23	(50)	0
Interest and dividend income	(523)	(522)	(5)
Interest expenses	1,064	1,460	10
Loss (Gain) on sales of affiliates' securities	48	(602)	0
Gain on sales of investment securities, net	(18)	(485)	(0)
Loss on sales and disposal of property, plant and equipment, net	377	417	4
Loss on closing of stores	266	135	3
Offset rent expense from deposit received from lessees	1,302	1,295	13
Decrease (Increase) in trade receivables	483	(81)	5
Increase in inventories	(1,739)	(2,180)	(17)
Increase in trade payables	6,402	3,155	63
Decrease (Increase) in other current assets	(1,697)	1,227	(17)
Increase in other current liabilities	835	1,085	8
Increase in other non-current liabilities	412	1,219	4
Other, net	86	(94)	1
Subtotal	52,517	50,057	518
Received interest and dividend income	386	372	4
Interest paid	(1,186)	(1,510)	(11)
Income taxes paid	(12,033)	(10,477)	(119)
Payments for loss on disaster	—	(172)	—
Net cash provided by operating activities	39,684	38,270	392
Cash flows from investing activities:			
Time deposits transferred from cash	(491)	(7)	(5)
Proceeds from time deposits	7	6,167	0
Payments for purchase of property, plant and equipment	(31,872)	(27,770)	(314)
Proceeds from sales of property, plant and equipment	2,363	722	23
Payments for purchase of intangible assets	(2,045)	(434)	(20)
Payments for fixed leasehold deposits	(1,072)	(1,117)	(11)
Proceeds from termination of fixed leasehold deposits	872	608	9
Advance payment for fixed leasehold deposits	(575)	(621)	(6)
Proceeds from sales of investment securities	423	897	4
Payments for purchase of subsidiaries' securities resulting in changes in the scope of consolidation (Note 24)	(2,948)	(1,381)	(29)
Proceeds from purchase of subsidiaries' securities resulting in changes in the scope of consolidation (Note 24)	—	575	—
Payments of loans receivable	(1,136)	(525)	(11)
Other, net	(119)	(407)	(1)
Net cash used in investing activities	(36,593)	(23,293)	(361)
Cash flows from financing activities:			
Net decrease of short-term bank loans	(12,421)	(2,143)	(123)
Borrowing of long-term debt	20,500	11,500	202
Repayment of long-term debt	(23,030)	(15,747)	(227)
Proceeds from issuance of bonds	1,960	21,590	19
Payments for redemption of bonds	(20,330)	(23,559)	(200)
Redemption of convertible bonds	(350)	—	(3)
Proceeds from fluidity of lease receivables	42,792	—	422
Repayments of payables under fluidity lease receivables	(2,988)	—	(29)
Issuance of common stock	1,506	1,899	14
Payments of cash dividends	(2,573)	(2,392)	(25)
Cash dividends paid to minority shareholders	(552)	(630)	(5)
Other, net	(74)	(28)	(1)
Net cash provided by (used in) financing activities	4,440	(9,510)	44
Effect of exchange rate changes on cash and cash equivalents	442	691	4
Increase in cash and cash equivalents	7,973	6,158	79
Cash and cash equivalents at beginning of the year	36,132	29,973	356
Increase in cash and cash equivalents due to the effect of the additional consolidation	—	1	—
Cash and cash equivalents at end of the year (Note 24)	¥44,105	¥36,132	$435

The accompanying notes are an integral part of the statements.

Notes to Consolidated Financial Statements

For the years ended June 30, 2014 and 2013

1. DESCRIPTION OF BUSINESS

The Don Quijote Group (the "Group") comprises pure holding company Don Quijote Holdings Co., Ltd. (the "Company"), 39 consolidated subsidiaries (Don Quijote Co., Ltd., Japan Commercial Establishment Co., Ltd., D-ONE Co., Ltd., REALIT Co., Ltd., Don Quijote (USA) Co., Ltd., Doit Co., Ltd., Nagasakiya Co., Ltd., MARUKAI CORPORATION, Accretive Co., Ltd., Japan Asset Marketing Co., Ltd., Don Quijote Shared Services Co., Ltd., and 28 other subsidiaries), 13 subsidiaries excluded from consolidation and one affiliated company accounted for by the equity method and one affiliated company not accounted for by the equity method.

Major operations of the Group are as follows:

Retail business

Donq Quijote Co., Ltd., Don Quijote (USA) Co., Ltd., Doit Co., Ltd., Nagasakiya Co., Ltd., and MARUKAI CORPORATION 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 a tenant leasing business and rents floor space in shopping malls to tenants. The company also manages these tenants.

Don Quijote Co., Ltd., Don Quijote (USA) Co., Ltd., Doit Co., Ltd. and MARUKAI CORPORATION are engaged in the tenant leasing business and lease part of their stores to tenants.

Japan Asset Marketing Co., Ltd., is involved in the tenant leasing business through leasing of commercial buildings to Group companies. The company also manages these tenants.

Other businesses

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.

Accretive Co., Ltd. provides financial services such as early financing of accounts receivable and outsourcing services for payments.

Don Quijote Shared Services Co., Ltd. provides shared services for the Group's back-office operations.

2. BASIS OF PRESENTING CONSOLIDATED 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.

Foreign subsidiaries maintain their books of account in conformity with accounting methods generally accepted under accounting standards in the respective countries.

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 ¥101.36 to U.S.$1, the rate prevailing on June 30, 2014. 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, 2013, have been reclassified for comparative purposes with fiscal year ended June 30, 2014.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

As of June 30, 2014 the Company has 52 subsidiaries, including 39 consolidated subsidiaries, presented in the following table:

	Equity holdings by the Group	Activity
Don Quijote Co., Ltd.	100.0%	Operation of retail stores and tenant leasing business
Japan Commercial Establishment Co., Ltd.	100.0%	Leasing of real estate including management of these tenants
D-ONE Co., Ltd.	100.0%	Operation of store development of the group companies, and real estate business
REALIT Co., Ltd.*	2.6%	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
Accretive Co., Ltd.*	49.2%	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
Don Quijote Shared Services Co., Ltd.	100.0%	Shared services for the Group's back-office operations
Japan Asset Marketing Co., Ltd.*	49.2%	Leasing of real estate including management of these tenants
MARUKAI CORPORATION	100.0%	Operation of retail stores
And 26 other companies		

*The Company's equity holdings in REALIT Co., Ltd., Accretive Co., Ltd. and Japan Asset Marketing Co., Ltd. are less than 50%, but the Company can exercise control over these companies. Therefore, REALIT Co., Ltd., Accretive Co., Ltd. and Japan Asset Marketing Co., Ltd. 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.

On December 2, 2013, the Company transitioned to a pure holding company structure and through an absorption-type split executed on the same date, all operations in which the Company was engaged—except for business relating to the control and management of business activities of companies in which the Company held shares and business relating to the operation of the Don Quijote Group—were assumed by Don Quijote Split Preparatory Co., Ltd., newly established in the fiscal year ended June 30, 2014. The trade name of Don Quijote Split Preparatory Co., Ltd., was changed to Don Quijote Co., Ltd., also effective December 2, 2013. Due to the transfer of operations, Don Quijote Co., Ltd., falls under the scope of consolidation from the fiscal year ended June 30, 2014. MARUKAI CORPORATION is also included in the scope of consolidation through acquisition of all shares in that company in the fiscal year ended June 30, 2014. An additional eight companies were established during the fiscal year ended June 30, 2014 and are also included in the scope of consolidation. Two other companies merged with a consolidated subsidiary in the fiscal year ended June 30, 2014 and have been removed from the scope of consolidation.

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
MARUKAI CORPORATION	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.

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

To provide relevant operating information, the subsidiaries listed below prepared additional financial statements as of the same date as the financial statements of the Company, while their reporting date is different.

Accretive Co., Ltd. and its four subsidiaries March 31

Japan Asset Marketing Co., Ltd. and its two subsidiaries March 31

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
Thirteen subsidiaries and one affiliate 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

Don Quijote Co., Ltd., 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 Corporation Tax Act 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 the straight-line method over an estimated useful life of five years, except for Don Quijote (USA) Co., Ltd. and MARUKAI CORPORATION, during the years ended June 30, 2014 and 2013.

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.

Revenue recognition

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

The revenue of Japan Commercial Establishment Co., Ltd. and Japan Asset Marketing 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.

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, 2014 and 2013 were as follows:

Common stock outstanding (number of shares)	2014	2013
Balance at beginning of the year	77,863,880	77,134,880
Exercise of stock options	530,100	729,000
Balance at end of the year	78,393,980	77,863,880

Changes in the number of treasury stock during the years ended June 30, 2014 and 2013 were as follows:

Treasury stock outstanding (number of shares)	2014	2013
Balance at beginning of the year	1,244	1,244
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.

4. INVENTORIES

Inventories as of June 30, 2014, and 2013 were as follows:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2014	2013	2014
Electrical appliances	¥13,427	¥13,551	$132
Daily commodities	21,213	19,524	209
Foods	7,665	7,007	76
Watches, fashion goods	33,599	33,678	332
Sports, leisure goods	6,097	5,839	60
DIY products	3,482	4,113	34
Others	3,622	2,285	36
Total	¥89,105	¥85,997	$879

Note: 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)
	2014	2013	2014
Loss on valuation of inventories	¥1,991	¥2,227	$20

5. LEASE TRANSACTIONS

OPERATING LEASES

Unexpired lease payments for non-cancellable leases:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2014	2013	2014
Due within one year	¥3,504	¥3,310	$34
Due after one year	15,681	11,402	155
Total	¥19,185	¥14,712	$189

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 minimize exposure to fluctuations in foreign currency exchange and interest rates and to achieve investment returns.

(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 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. Significant transactions of marketable securities require prior consultation with the Investment Committee and approval of the Board of Directors.

Long-term debt, corporate bonds and payables under fluidity lease receivables provide funds primarily for capital investment and for working capital. The Company and some of its subsidiaries have entered into separate derivative transactions—interest rate swap—for a portion of long-term debt and corporate bonds to convert the interest rate basis from variable to fixed as a hedging method to limit exposure to fluctuations in interest rates.

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 12 "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, 2014 and 2013 are presented below. Note that the following tables do not include financial instruments for which fair values are extremely difficult to determine.

Fiscal year ended June 30, 2014

	Millions of yen (Note 2)		
	Carrying amount	Fair value	Difference
(1) Cash and deposits	¥42,690	¥42,690	¥ —
(2) Notes and accounts receivable-trade	5,730		
Less: Allowance for doubtful accounts*1	(36)		
Net	5,694	5,694	—
(3) Purchased receivables	6,009	6,009	—
(4) Investment securities	3,913	3,913	—
(5) Long-term loans receivable	678		
Less: Allowance for doubtful accounts*2	(1)		
Net	677	678	1
(6) Fixed leasehold deposits	8,647	8,137	(510)
Total assets	67,630	67,121	(509)
(1) Accounts payable-trade	55,118	55,118	—
(2) Short-term loans	2,197	2,197	—
(3) Current portion of long-term debt	11,607	11,583	(24)
(4) Current portion of corporate bonds	6,140	6,141	1
(5) Current portion of convertible bonds	—	—	—
(6) Payables under fluidity lease receivables	5,912	5,911	(1)
(7) Accrued expenses	7,321	7,321	—
(8) Accrued income taxes	7,883	7,883	—
(9) Corporate bonds	44,300	43,996	(304)
(10) Long-term debt	30,030	29,895	(135)
(11) Long-term payables under fluidity lease receivables	34,345	34,421	76
Total liabilities	204,853	204,466	(387)
Derivative transactions*3	(43)	(43)	—

	Millions of U.S. dollars (Note 2)		
	Carrying amount	Fair value	Difference
(1) Cash and deposits	$421	$421	$ —
(2) Notes and accounts receivable-trade	56		
Less: Allowance for doubtful accounts*1	(0)		
Net	56	56	—
(3) Purchased receivables	59	59	—
(4) Investment securities	39	39	—
(5) Long-term loans receivable	7		
Less: Allowance for doubtful accounts*2	(0)		
Net	7	7	0
(6) Fixed leasehold deposits	85	80	(5)
Total assets	667	662	(5)
(1) Accounts payable-trade	544	544	—
(2) Short-term loans	22	22	—
(3) Current portion of long-term debt	114	114	(0)
(4) Current portion of corporate bonds	61	61	0
(5) Current portion of convertible bonds	—	—	—
(6) Payables under fluidity lease receivables	58	58	(0)
(7) Accrued expenses	72	72	—
(8) Accrued income taxes	78	78	—
(9) Corporate bonds	437	434	(3)
(10) Long-term debt	296	295	(1)
(11) Long-term payables under fluidity lease receivables	339	340	1
Total liabilities	2,021	2,018	(3)
Derivative transactions*3	(0)	(0)	—

*1Not including allowance for doubtful accounts booked separately under notes and accounts receivable trade.
*2Not including allowance for doubtful accounts booked separately under long-term loans receivable.
*3Net credit (obligation) arising from derivative transactions is shown as a net amount. If the total is a net obligation, the number appears in parentheses.

Fiscal year ended June 30, 2013

	Millions of yen (Note 2)		
	Carrying amount	Fair value	Difference
(1) Cash and deposits	¥31,698	¥31,698	¥ —
(2) Notes and accounts receivable-trade	5,371		
Less: Allowance for doubtful accounts*1	(35)		
Net	5,336	5,336	—
(3) Purchased receivables	6,738	6,738	—
(4) Investment securities	4,677	4,677	—
(5) Long-term loans receivable	760		
Less: Allowance for doubtful accounts*2	(1)		
Net	759	760	1
(6) Fixed leasehold deposits	9,662	9,006	(656)
Total assets	58,870	58,215	(655)
(1) Accounts payable-trade	48,036	48,036	—
(2) Short-term loans	14,286	14,286	—
(3) Current portion of long-term debt	11,726	11,717	(9)
(4) Current portion of corporate bonds	20,130	20,096	(34)
(5) Current portion of convertible bonds	350	350	—
(6) Payables under fluidity lease receivables	—	—	—
(7) Accrued expenses	6,431	6,431	—
(8) Accrued income taxes	6,746	6,746	—
(9) Corporate bonds	48,640	48,240	(400)
(10) Long-term debt	31,374	31,474	100
(11) Long-term payables under fluidity lease receivables	—	—	—
Total liabilities	187,719	187,376	(343)
Derivative transactions*3	(77)	(77)	—

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) 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.

(5) Long-term loans receivable
The fair values are calculated by discounting total principal and interest by the interest rate that would be applied to similar new loans.

(6) 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) Current portion of convertible bonds; (7) Accrued expenses; (8) 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; (6) Payables under fluidity lease receivables; (9) Corporate bonds; (10) Long-term debt; (11) Long-term payables under fluidity lease receivables
The fair values are calculated by discounting the total principal and interest payment as well as the redemption total from the interest rate that would be applied to similar new fund procurement.

Derivative Transactions

Please refer to Note 12. "Derivatives.

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

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2014	2013	2014
Investment securities	¥481	¥55	$5
Investments in securities and capital to affiliates	360	405	3
Long-term loans receivable	391	376	4
Less: Allowance for doubtful accounts[*1]	(189)	(196)	(2)
Net	202	180	2
Fixed leasehold deposits	22,316	22,100	220
Less: Allowance for doubtful accounts[*2]	(1,482)	(2,084)	(14)
Net	20,834	20,016	206

[*1]Not including allowance for doubtful accounts booked seperately under long-term loans receivable.
[*2]Not including allowance for doubtful accounts booked seperately under fixed leasehold deposits.
The figures above are not included in "(4) investment securities," "(5) long-term loans receivable,"or "(6) 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, 2014

	Millions of yen (Note 2)			
	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	¥42,690	¥ —	¥ —	¥ —
2. Notes and accounts receivable-trade	5,730	—	—	—
3. Purchased receivables	6,009	—	—	—
4. Long-term loans receivable	—	365	313	—
5. Fixed leasehold deposits	1,317	3,467	2,397	1,466
Total	¥55,746	¥3,832	¥2,710	¥1,466

	Millions of U.S. dollars (Note 2)			
	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	$421	$ —	$ —	$ —
2. Notes and accounts receivable-trade	56	—	—	—
3. Purchased receivables	59	—	—	—
4. Long-term loans receivable	—	4	3	—
5. Fixed leasehold deposits	13	34	24	14
Total	$549	$38	$27	$14

Fiscal year ended June 30, 2013

	Millions of yen (Note 2)			
	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	¥31,698	¥ —	¥ —	¥ —
2. Notes and accounts receivable-trade	5,371	—	—	—
3. Purchased receivables	6,738	—	—	—
4. Long-term loans receivable	—	357	391	12
5. Fixed leasehold deposits	1,486	4,045	2,611	1,520
Total	¥45,293	¥4,402	¥3,002	¥1,532

Redemption schedule for corporate bonds, convertible bonds and long-term debt:

Fiscal year ended June 30, 2014

	Millions of yen (Note 2)					
	Due in one year	Due after one year and within two years	Due after two years and within three years	Due after three years and within four years	Due after four years and within five years	Due after five years
Short-term loans	¥2,197	¥ —	¥ —	¥ —	¥ —	¥ —
Corporate bonds	6,140	17,400	10,200	16,500	200	—
Long-term debt	11,607	15,700	13,014	917	70	329
Total	¥19,944	¥33,100	¥23,214	¥17,417	¥270	¥329

	Millions of U.S. dollars (Note 2)					
	Due in one year	Due after one year and within two years	Due after two years and within three years	Due after three years and within four years	Due after four years and within five years	Due after five years
Short-term loans	$22	$ —	$ —	$ —	$ —	$ —
Corporate bonds	61	171	101	163	2	—
Long-term debt	114	155	128	9	1	3
Total	$197	$326	$229	$172	$3	$3

Fiscal year ended June 30, 2013

	Millions of yen (Note 2)					
	Due in one year	Due after one year and within two years	Due after two years and within three years	Due after three years and within four years	Due after four years and within five years	Due after five years
Short-term loans	¥14,286	¥ —	¥ —	¥ —	¥ —	¥ —
Corporate bonds	20,130	5,740	17,000	9,800	16,100	—
Convertible bonds	350	—	—	—	—	—
Long-term debt	11,726	11,679	6,595	3,750	1,550	7,800
Total	¥46,492	¥17,419	¥23,595	¥13,550	¥17,650	¥7,800

7. MARKETABLE SECURITIES AND INVESTMENT SECURITIES

1. Information regarding marketable securities and investment securities with quoted market prices as of June 30, 2014 and 2013 is as follows:

The following table summarizes carrying amount, acquisition cost and net unrealized gains (losses) as of June 30, 2014 and 2013.

Fiscal year ended June 30, 2014

	Millions of yen (Note 2)		
	Carrying amount	Acquisition cost	Net unrealized gains (losses)
Carrying amount exceeds acquisition cost:			
Equity securities	¥2,814	¥2,337	¥477
Others	1,082	781	301
Subtotal	3,896	3,118	778
Carrying amount does not exceed acquisition cost:			
Others	17	28	(11)
Subtotal	17	28	(11)
Total	¥3,913	¥3,146	¥767

	Millions of U.S. dollars (Note 2)		
	Carrying amount	Acquisition cost	Net unrealized gains (losses)
Carrying amount exceeds acquisition cost:			
Equity securities	$28	$23	$5
Others	11	8	3
Subtotal	39	31	8
Carrying amount does not exceed acquisition cost:			
Others	0	0	(0)
Subtotal	0	0	(0)
Total	$39	$31	$8

Fiscal year ended June 30, 2013

	Millions of yen (Note 2)		
	Carrying amount	Acquisition cost	Net unrealized gains (losses)
Carrying amount exceeds acquisition cost:			
Equity securities	¥3,217	¥2,356	¥861
Others	1,443	1,149	294
Subtotal	4,660	3,505	1,155
Carrying amount does not exceed acquisition cost:			
Others	17	28	(11)
Subtotal	17	28	(11)
Total	¥4,677	¥3,533	¥1,144

Note: In the fiscal year ended June 30, 2013, the Company wrote down ¥6 million in investment securities.

2. Sales amounts and gains (losses) on sales of investment securities during the years ended June 30, 2014 and 2013 were as follows:

Fiscal year ended June 30, 2014

	Millions of yen (Note 2)		
	Proceeds from sales	Gain on sales	Loss on sales
Equity securities	¥21	¥18	¥ —
Total	¥21	¥18	¥ —

	Millions of U.S. dollars (Note 2)		
	Proceeds from sales	Gain on sales	Loss on sales
Equity securities	$0	$0	$ —
Total	$0	$0	$ —

Fiscal year ended June 30, 2013

	Millions of yen (Note 2)		
	Proceeds from sales	Gain on sales	Loss on sales
Equity securities	¥897	¥ 505	¥20
Total	¥897	¥ 505	¥20

8. SHORT-TERM LOANS AND LONG-TERM DEBT

Short-term loans are principally comprised of bank loans (average interest rate was 1.4%).

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, 2014, 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 0.4% to 3.3%	¥41,637	$410
1.10% unsecured straight bonds due 2014	200	2
1.05% unsecured straight bonds due 2014	240	2
0.95% unsecured straight bonds due 2015	400	4
0.74% unsecured straight bonds due 2015	600	6
0.59% unsecured straight bonds due 2015	900	9
0.66% unsecured straight bonds due 2015	600	6
0.94% unsecured straight bonds due 2015	300	3
TIBOR 6-month interest rate plus 0.20% unsecured straight bonds due 2015	300	3
0.92% unsecured straight bonds due 2016	800	8
0.74% unsecured straight bonds due 2016	400	4
TIBOR 6-month interest rate plus 0.20% unsecured straight bonds due 2016	400	4
1.57% unsecured straight bonds due 2016	13,000	128
0.62% unsecured straight bonds due 2016	1,000	10
0.76% unsecured straight bonds due 2016	1,000	10
0.77% unsecured straight bonds due 2016	500	5
1.21% unsecured straight bonds due 2016	8,000	79
0.67% unsecured straight bonds due 2017	1,050	10
0.49% unsecured straight bonds due 2017	1,050	10
0.53% unsecured straight bonds due 2017	700	7
0.62% unsecured straight bonds due 2017	700	7
0.85% unsecured straight bonds due 2017	15,000	148
0.74% specified bonds with general security due 2017	300	3
0.60% unsecured straight bonds due 2018	1,200	12
TIBOR 6-month interest rate unsecured straight bonds due 2018	1,800	18
Subtotal	92,077	908
Finance lease liabilities	16	0
Less: Current portion of long-term debt	17,755	175
Total	¥74,338	$733

Long-term debt is principally comprised of bank loans (with average interest rate of 1.0%).

The Company signed a syndicated loan agreement with 14 financial institutions, totaling ¥5,000 million ($49 million). This agreement includes financial covenants based on certain indices calculated from net assets of the consolidated and non-consolidated balance sheets and ordinary income and loss of the consolidated and non-consolidated statements of income. The balance of loans payable as of June 30, 2014 is ¥2,500 million ($25 million).

Accretive Co., Ltd., a consolidated subsidiary of the Company, signed a syndicated loan agreement with three financial institutions, totaling ¥10,500 million ($104 million) as of June 30, 2014; and with seven financial institutions, totaling ¥13,000 million as of June 30, 2013. This agreement includes financial covenants based on certain indices calculated from net assets on the consolidated balance sheets and ordinary income and loss on the consolidated 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 Accretive Co., Ltd. or a third party, with the exception of liabilities based on this agreement.

Japan Commercial Establishment Co., Ltd., a consolidated subsidiary of the Company, and the Company, its guarantor, signed a syndicated loan agreement with five financial institutions, totaling ¥12,000 million as of June 30, 2013, however, the entire amount was paid back in the fiscal year ended June 30, 2014.

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)
2015	¥17,747	$175
2016	33,100	326
2017	23,214	229
2018	17,417	172
2019 and thereafter	599	6
Total	¥92,077	$908

9. OVERDRAFT AGREEMENTS

As of June 30, 2014 and 2013, the Company and its consolidated subsidiaries had overdraft agreements to ensure efficient procurement of funds for working capital with 35 banks. The balances of unused financing based on these agreements as of June 30, 2014 and 2013 were as follows:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2014	2013	2014
Total overdraft limit granted	¥37,212	¥33,300	$367
Bank loans arranged	1,179	—	12
Unused amount of the agreed overdraft limit	¥36,033	¥33,300	$355

10. LOAN COMMITMENT AGREEMENT

The Company and its consolidated subsidiaries have entered into loan commitment agreements with 11 banks as of June 30, 2014 and nine banks as of June 30, 2013 to ensure the efficient procurement of funds as working capital. The balance of unused funds based on these agreements as of June 30, 2014 and 2013 was as follows:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2014	2013	2014
Total amount of loan commitment	¥23,496	¥12,500	$232
Bank loans arranged	713	423	7
Unused amount of the agreed loan commitment	¥22,783	¥12,077	$225

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

11. FLUIDITY LEASE RECEIVABLES

Payables under fluidity lease receivables at Japan Asset Marketing Co., Ltd., a consolidated subsidiary, are liabilities arising through the liquidation of anticipated rental income to be booked by the company. The balance of payables under fluidity lease receivables was as follows:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2014	2013	2014
Payables under fluidity lease receivables	¥5,912	¥ —	$58
Long-term payables under fluidity lease receivables	34,345	—	339
Total	¥40,257	¥ —	$397

12. DERIVATIVES

Derivative transaction hedge accounting is not applied to:

Fiscal year ended June 30, 2014

	Millions of yen (Note 2)			
	Contract amount	Due after one year	Fair value	Unrealized gain (loss)
Interest rate swap contracts, variable receipts and fixed payments	¥7,263	¥3,575	¥(42)	¥(42)
Forward exchange contracts	62	—	(1)	(1)

	Millions of U.S. dollars (Note 2)			
	Contract amount	Due after one year	Fair value	Unrealized gain (loss)
Interest rate swap contracts, variable receipts and fixed payments	$72	$35	$(0)	$ (0)
Forward exchange contracts	1	—	(0)	(0)

Fiscal year ended June 30, 2013

	Millions of yen (Note 2)			
	Contract amount	Due after one year	Fair value	Unrealized gain (loss)
Interest rate swap contracts, variable receipts and fixed payments	¥13,831	¥7,263	¥(76)	¥(76)
Forward exchange contracts	68	—	67	(1)

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

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 ($19). 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, 2014, was 60,300 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 ($31). The number of stock options exercisable as of June 30, 2014 was 667,500 shares.

14. OTHER INCOME, NET

Other income, net for the years ended June 30, 2014 and 2013 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)
	2014	2013	2014
Other income:			
Amortization of negative goodwill	¥342	¥628	$3
Fees and commissions received	379	378	4
Gain on disposal of debts	65	10	1
Other	1,612	1,464	16
Other income total	2,398	2,480	24
Other expenses:			
Bond issuance costs	38	202	1
Allowance for doubtful accounts	—	146	—
Impairment loss	19	317	0
Other	496	410	5
Other expenses total	553	1,075	6
Other income, net	¥1,845	¥1,405	$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, 2014 and 2013 was as follows:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2014	2013	2014
Net unrealized gains (losses) on investment securities:			
Gain (loss) arising during the fiscal year	¥(347)	¥2,277	$(3)
Reclassification adjustment to net income	(45)	(505)	(1)
Amount before tax effect	(392)	1,772	(4)
Tax effect	130	(624)	1
Net unrealized gains (losses) on investment securities	(262)	1,148	(3)
Foreign currency translation adjustments:			
Gain arising during the fiscal year	859	1,379	9
Total other comprehensive income	¥597	¥2,527	$6

16. PLEDGED ASSETS

The Company's assets pledged as collateral as of June 30, 2014 and 2013 were as follows:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2014	2013	2014
Cash and deposits	¥4,003	¥3,537	$40
Purchased receivables*	6,210	8,733	61
Debt deducted from claims used for collateral such as deposits payable	—	(28)	—
Merchandise and finished goods	1,224	—	12
Buildings and structures	964	4,713	10
Land	1,151	14,599	11
Fixed leasehold deposits	431	395	4
Other	270	—	3
Total	¥14,253	¥31,949	$141

*Purchased receivables of ¥6,210 million ($61 million) and ¥6,230 million were eliminated for consolidation purposes in the fiscal year ended June 30, 2014 and 2013, respectively.

Secured liabilities as of June 30, 2014 and 2013 were as follows:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2014	2013	2014
Short-term loans	¥210	¥12,838	$2
Current portion of long-term debt	729	2,200	7
Long-term debt	10,435	14,050	103
Other current liabilities	82	15	1
Other non-current liabilities	383	555	4

17. TAX-EFFECT ACCOUNTING

1. The effective tax rate in Japan is based on corporate tax, business tax, and inhabitant tax rates, resulting in 38.0% in the fiscal years ended June 30, 2014 and 2013.

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)
	2014	2013	2014
Deferred tax assets:			
Accrued enterprise taxes	¥653	¥575	$6
Inventories	1,382	1,193	14
Net operating loss carry forwards	17,799	19,398	176
Excess depreciation and amortization	1,154	700	11
Impairment loss	2,357	2,072	23
Loss on valuation of investment securities not deductible for tax purposes	66	72	1
Long-term accounts payable	374	416	4
Excess allowance for doubtful accounts	685	898	7
Asset retirement obligations	762	396	7
Others	2,259	1,489	22
Total gross deferred tax assets	27,491	27,209	271
Valuation allowance	(19,563)	(22,082)	(193)
Total deferred tax assets	7,928	5,127	78
Deferred tax liabilities:			
Goodwill	—	(859)	—
Valuation of assets and liabilities of subsidiaries at market value for the purpose of consolidation	(1,511)	(1,087)	(15)
Net unrealized gains on investment securities	(277)	(407)	(3)
Others	(629)	(8)	(6)
Total deferred tax liabilities	(2,417)	(2,361)	(24)
Net deferred tax assets	¥5,511	¥2,766	$54

Net deferred tax assets as of June 30, 2014 and 2013 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)
	2014	2013	2014
Current assets–Deferred tax assets	¥5,228	¥3,987	$52
Other assets (non-current)–Deferred tax assets	2,050	658	20
Current liabilities–Others	1	—	0
Non-current liabilities–Others	1,797	1,879	18

2. The reconciliation of the difference between the statutory tax rate and the effective tax rate for the fiscal years ended June 30, 2014 and 2013 was as follows:

	2014	2013
Statutory tax rate	38.0%	38.0%
Per capita levy	1.6%	2.1%
Change in valuation allowance	(5.1)%	(2.9)%
Amortization of goodwill and other consolidation adjustments	(2.5)%	(3.9)%
Allocation of losses carried forward from subsidiaries recording losses	(2.0)%	(0.3)%
Tax deduction	(1.2)%	(0.1)%
Other	0.9%	1.0%
Effective income tax rate	29.7%	33.9%

3. Revision to amounts of deferred tax assets and deferred tax liabilities due to change in corporate income tax rates

Following promulgation of the Act for Partial Revision to the Income Tax Act (Act No. 10 of 2014) on March 31, 2014, the Special Reconstruction Corporate Tax is no longer levied on companies for consolidated fiscal years beginning on or after April 1, 2014. Consequently, the statutory effective tax rate used to calculate deferred tax assets and deferred tax liabilities will change from the current 38.0% to 35.6% for temporary differences that the Company expects to eliminate in the consolidated fiscal year beginning July 1, 2014. The impact caused by this change in tax rate is minimal.

18. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major items included in selling, general and administrative expenses for the fiscal years ended June 30, 2014 and 2013 were as follows:

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2014	2013	**2014**
Employees' compensation and benefits	**¥43,695**	¥39,522	**$431**
Occupancy and rental	**17,855**	17,211	**176**
Commission	**15,442**	13,360	**153**
Depreciation and amortization	**10,402**	10,028	**103**
Allowance for doubtful accounts	**9**	29	**0**
Allowance for point program	**441**	171	**4**
Allowance for retirement benefits for directors	**23**	21	**0**
Amortization of goodwill	**300**	186	**3**
Retirement benefit costs	**11**	—	**0**
Other	**38,548**	36,910	**381**
Total	**¥126,726**	¥117,438	**$1,251**

Note: "Allowance for point program" is recorded from the fiscal year ended June 30, 2014, due to increased monetary significance. The expense item and associated amount for the previous fiscal year are presented to reflect the change in presentation method.

19. RETIREMENT BENEFIT COSTS

Retirement benefit costs for the fiscal year ended June 30, 2014 are summarized as follows:

1. Retirement benefit plans in use

Some consolidated subsidiaries maintain defined contribution pension plans.

2. Defined contribution plans

Some consolidated subsidiaries adopted defined contribution plans in April 2014. The contribution amount is ¥11 million ($0 million).

20. IMPAIRMENT LOSS

Impairment losses for the fiscal years ended June 30, 2014 and 2013 were as follows:

Fiscal year ended June 30, 2014

Location	Use	Category	Millions of yen (Note 2)	Millions of U.S. dollars (Note 2)
Kanto	Business assts	Software	**¥19**	**$0**
	Total		**¥19**	**$0**

Fiscal year ended June 30, 2013

Location	Use	Category	Millions of yen (Note 2)
Kanto	Stores and facilities	Buildings, structures and land	¥293
Kanto	Idle assets	Land	24
	Total		¥317

The Company groups assets based on individual stores and operating divisions as basic units. For investment and rental property and idle assets, each property is regarded as a minimum cash-generating unit.

In the fiscal year ended June 30, 2014, the Company reduced the carrying amounts of business assets to the recoverable amount, since such assets were deemed difficult-to-recover investments due to their poor profitability. The amounts of these reductions were recorded as impairment losses under extraordinary loss. Of this amount, ¥19 million ($0 million) was for software.

In the fiscal year ended June 30, 2013, the Company recognized impairment losses for the business assets of stores incurring continuous operating losses. The carrying amount of each asset is reduced to its recoverable amount. The amounts of these reductions were recorded as impairment losses. They consist of buildings and structures of ¥76 million and land of ¥217 million.

The recoverable amounts of these asset groups are net selling prices. Net selling price is determined based on the real estate appraisal value.

21. RELATED PARTY TRANSACTIONS

Related party transactions for the fiscal years ended June 30, 2014 and 2013 were as follows:

Fiscal year ended June 30, 2014

Related party	Category	Description of the transactions	Millions of yen (Note 2)*[2]	Millions of U.S. dollars (Note 2)
Anryu Shoji Co., Ltd.	Company in which directors and relatives hold the majority of voting rights	Leasing of real estate*[1]	**¥16**	**$0**

Fiscal year ended June 30, 2013

Related party	Category	Description of the transactions	Millions of yen (Note 2)*[2]
Anryu Shoji Co., Ltd.	Company in which directors and relatives 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.

22. CALCULATION OF EARNINGS PER SHARE

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2014	2013	**2014**
Net income	**¥21,471**	¥21,141	**$212**
Net income after adjustments	**¥21,471**	¥21,141	**$212**

	Shares	
	2014	2013
Weighted average number of shares	**78,166,248**	77,308,069
Effective of dilutive securities:		
Stock options	**447,561**	321,055
Diluted weighted average number of shares	**78,613,809**	77,629,124

	Yen (Note 2)		U.S. dollars (Note 2)
	2014	2013	**2014**
Shareholders' equity per share	**¥2,389.82**	¥2,136.38	**$23.58**
Basic earnings per share	**274.68**	273.47	**2.71**
Diluted earnings per share	**273.11**	272.34	**2.69**

23. SUPPLEMENTARY PROFIT AND LOSS INFORMATION

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
Breakdown of gain on sales of non-current assets	**2014**	2013	**2014**
Furniture and fixtures	**¥1**	¥2	**$0**
Land	**211**	1	**2**
Other	**2**	2	**0**
Total	**¥214**	¥5	**$2**

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
Breakdown of loss on disposal of non-current assets	**2014**	2013	**2014**
Buildings and structures	**¥148**	¥182	**$2**
Furniture and fixtures	**48**	55	**0**
Removal expenses	**135**	47	**1**
Other	**59**	12	**1**
Total	**¥390**	¥296	**$4**

Breakdown of loss on closing of stores	Millions of yen (Note 2) 2014	2013	Millions of U.S. dollars (Note 2) 2014
Buildings and structures	¥636	¥54	$6
Furniture and fixtures	5	10	0
Other	121	80	1
Total	¥762	¥144	$7

Breakdown of loss on sales of non-current assets	Millions of yen (Note 2) 2014	2013	Millions of U.S. dollars (Note 2) 2014
Buildings and structures	¥(48)	¥27	$(0)
Land	246	98	2
Other	3	1	0
Total	¥201	¥126	$2

24. CASH FLOW INFORMATION

Cash flow information as of June 30, 2014 and 2013 is as follows:

1. Cash and cash equivalents

	Millions of yen (Note 2)		Millions of U.S. dollars (Note 2)
	2014	2013	2014
Cash and deposits	¥42,690	¥31,698	$421
Deposits paid, included in other current assets	1,905	4,429	19
Money held in trust, included in other current assets	—	12	—
Time deposits with maturities of more than three months	(487)	—	(5)
Pledged time deposits (over three months)	(3)	(7)	(0)
Cash and cash equivalents	¥44,105	¥36,132	$435

2. Major components of the assets and liabilities of companies that were consolidated through the acquisition of shares

Fiscal year ended June30, 2014

The Company acquired the ownership of MARUKAI CORPORATION during the fiscal year ended June 30, 2014, and consolidated their financial statements. The fair values of assets acquired and liabilities assumed as of the relevant acquisition date, the acquisition cost of the shares and net of payments for the acquisition of the company were as follows:

	Millions of yen (Note 2)	Millions of yen (Note 2)
Current assets	¥2,601	$26
Non-current assets	3,785	37
Goodwill	1,974	19
Current liabilities	(2,758)	(27)
Non-current liabilities	(1,438)	(14)
Acquisition costs of MARUKAI CORPORATION	4,164	41
Cash and cash equivalents of MARUKAI CORPORATION	(1,216)	(12)
Net: Payments for acquisition of MARUKAI CORPORATION	¥2,948	¥29

Fiscal year ended June 30, 2013

The Company acquired the ownership of The Earth CO.(now Japan Asset Marketing Co., Ltd.) including its three subsidiaries, and also Koei Enterprises Ltd. during the fiscal year ended June 30, 2013, and consolidated their financial statements. The fair values of assets acquired and liabilities assumed as of the relevant acquisition date, the acquisition cost of the shares and net of payments for the acquisition of these companies were as follows:

(The Earth CO. and its three subsidiaries)

	Millions of yen(Note 2)
Current assets	¥1,783
Non-current assets	221
Goodwill	836
Current liabilities	(59)
Non-current liabilities	(51)
Minority interests	(962)
Loss on step acquisition	27
Acquisition costs of The Earth CO. and its three subsidiaries	1,795
Acceptance of an allocation of new shares to a third party of The Earth CO.	(1,690)
Cash and cash equivalents of The Earth CO. and its three subsidiaries	(54)
Net:	
Payments for acquisition of The Earth CO. and its three subsidiaries	¥51

(Koei Enterprises Ltd.)

	Millions of yen (Note 2)
Current assets	¥178
Non-current assets	914
Goodwill	493
Current liabilities	(20)
Non-current liabilities	(135)
Acquisition costs of Koei Enterprises Ltd.	1,430
Cash and cash equivalents of Koei Enterprises Ltd.	(100)
Net:	
Payments for acquisition of Koei Enterprises Ltd.	¥1,330

The Company acquired the ownership of Medical Service Co., Ltd. during the fiscal year ended June 30, 2013, and consolidated its financial statements. The fair values of assets acquired and assumed liabilities as of the relevant acquisition date, the acquisition cost of the shares and net of proceeds for the acquisition of these companies were as follows:

	Millions of yen (Note 2)
Current assets	¥1,693
Non-current assets	4
Goodwill	197
Current liabilities	(1,589)
Acquisition costs of Medical Service Co., Ltd.	305
Cash and cash equivalents of Medical Service Co., Ltd.	(880)
Net:	
Proceeds from acquisition of Medical Service Co., Ltd.	¥(575)

25. INVESTMENT AND RENTAL PROPERTY

Information on investment and rental property in the fiscal years ended June 30, 2014 and 2013 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, 2014, rental income related to such properties and facilities was ¥1,406 million ($14 million). Rental income was recorded in net sales, and significant rental expenses were recorded in cost of goods sold and selling, general and administrative expenses.

For the fiscal year ended June 30, 2013, rental income related to such properties and facilities was ¥1,385 million and the impairment loss was ¥311 million. Rental income was recorded in net sales, and significant rental expenses were recorded in cost of goods sold and selling, general and administrative expenses. Impairment loss was recorded under extraordinary loss.

The balance sheet carrying amounts, changes and fair values of these assets for the fiscal years ended June 30, 2014 and 2013 are as follows:

Fiscal year ended June 30, 2014

Millions of yen (Note 2)			
Carrying amount			Fair value*2
Beginning of the year	Net change*3	End of the year*1	
¥30,681	¥(127)	¥30,554	¥32,883

Millions of U.S. dollars (Note 2)			
Carrying amount			Fair value*2
Beginning of the year	Net change*3	End of the year*1	
$303	$(1)	$302	$324

Fiscal year ended June 30, 2013

Millions of yen (Note 2)			
Carrying amount			Fair value*2
Beginning of the year	Net change*3	End of the year*1	
¥26,991	¥3,690	¥30,681	¥32,111

*1 The carrying amount on the consolidated balance sheet is the acquisition cost minus accumulated depreciation and accumulated impairment loss.
*2 Fair value at year-end is primarily an amount calculated by the Company based on Japanese Real Estate Appraisal Standards, including adjustments made using certain financial indicators.
*3 For the fiscal year ended June 30, 2014, a major increase was the acquisition of real estate at ¥1,147 million ($11 million), and major decreases included a change in the proportion of leases at ¥81 million ($1 million) and sale of real estate at ¥1,193 million ($11 million). For the fiscal year ended June 30, 2013, a major component of the increase was acquisition of real estate at ¥6,309 million and major components of the decrease were ¥2,308 million reflecting a change in the proportion of leases and impairment loss of ¥311 million.

26. 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)
	2014	2013	2014
Beginning of the year	¥2,606	¥2,163	$26
Increase due to acquisition of property, plant and equipment	664	408	7
Adjustments over time	46	35	0
Decrease due to fulfillment of asset retirement obligations	(11)	—	(0)
End of the year	¥3,305	¥2,606	$33

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.

27. BUSINESS COMBINATIONS

Information pertaining to business combinations in the fiscal year ended June 30, 2014 is as follows:

(Consolidation of MARUKAI CORPORATION through share acquisition)

1. Overview of business combination

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

Name of company	MARUKAI CORPORATION
Business activities	Retailing (mainly supermarkets), development, import and sales of food and household items

(2) Main reason for the business combination
Turning MARUKAI CORPORATION, the operator of 11 supermarkets in the U.S. states of Hawaii and California, into a consolidated subsidiary extends the Don Quijote Group's operations in North America. The acquisition of shares also marks the Group's first step in a strategy aimed at full-scale global growth and will significantly enhance business value.
(3) Date of business combination
September 30, 2013
(4) Legal form of the business combination
Acquisition of shares
(5) Name of company after the business combination
MARUKAI CORPORATION
(6) Share of voting rights acquired
Before acquisition: 0%
After acquisition: 100%
(7) Basis for determining the acquiring company
Pan Pacific International & Co., a consolidated subsidiary of the Company, acquired all outstanding shares in MARUKAI CORPORATION and turned the company into a subsidiary, thereby making the company the acquiring company.

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

October 1, 2013 – March 31, 2014
The acquired company has a fiscal year-end of March 31, three months before the consolidated fiscal year-end. The acquired company's performance underwent the necessary consolidated adjustment to cover the three months from April 1, 2014 through June 30, 2014.

3. Acquisition cost of the acquired company and its breakdown

	Millions of yen (Note 2)	Millions of U.S. dollars (Note 2)
Acquisition consideration	¥3,988	$39
Costs directly incurred in acquisition	176	2
Acquisition cost	4,164	41

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

Amount of goodwill recognized: ¥1,974 million ($19 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

5. 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)	Millions of U.S. dollars (Note 2)
Current assets	¥2,601	$26
Non-current assets	3,785	37
Total assets	6,386	63
Current liabilities	(2,758)	(27)
Non-current liabilities	(1,438)	(14)
Total liabilities	¥(4,196)	$(41)

6. Estimated effect and its calculation method used on the consolidated statements of income for the fiscal year ended June 30, 2014, when the business combination is assumed to have been completed on July 1, 2013

	Millions of yen (Note 2)	Millions of U.S. dollars (Note 2)
Sales	¥15,292	$151
Operating income	627	6
Ordinary income	616	6

(Method of calculating estimated amount)

Estimated effect is the difference between sales and profit information calculated assuming that the business combination is completed on July 1, 2013 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.

28. SUBSEQUENT EVENTS

1. Cash dividends

The following cash dividend of the Company was approved at the shareholders' meeting held on September 26, 2014. The cash dividend is not reflected in the consolidated financial statements for the fiscal year ended June 30, 2014.

	Millions of yen (Note 2)	Millions of U.S. dollars (Note 2)
Cash dividend (¥26.00=$0.26 per share)	¥2,038	$20

2. Abolition of retirement benefit plan for directors and audit & supervisory board members, and introduction of share-based compensation stock options for directors

On August 18, 2014, the Board of Directors resolved to abolish the retirement benefit plan for directors and members of the Audit and Supervisory Board, following a review of the executive compensation structure, and to implement share-based compensation stock options for directors. This resolution was approved by shareholders at the General Meeting of Shareholders on September 26, 2014.

29. 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."

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

Information on amounts of sales, profit or loss, assets, and other items by reportable segment for the fiscal years ended June 30, 2014 and 2013 is as follows:

Fiscal year ended June 30, 2014

	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	¥590,076	¥17,092	¥607,168	¥5,256	¥612,424	¥ —	¥612,424
Intersegment sales	—	8,812	8,812	4,195	13,007	(13,007)	—
Total	590,076	25,904	615,980	9,451	625,431	(13,007)	612,424
Segment income	24,381	6,505	30,886	3,540	34,426	(134)	34,292
Segment assets	251,484	139,484	390,968	40,231	431,199	936	432,135
Other items*4							
Depreciation and amortization	8,137	2,716	10,853	305	11,158	250	11,408
Increase in property, plant and equipment and intangible assets	22,541	47,250	69,791	119	69,910	(34,676)	35,234

	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	$5,821	$169	$5,990	$52	$6,042	$ —	$6,042
Intersegment sales	—	87	87	41	128	(128)	—
Total	5,821	256	6,077	93	6,170	(128)	6,042
Segment income	241	64	305	35	340	(2)	338
Segment assets	2,481	1,376	3,857	397	4,254	9	4,263
Other items*4							
Depreciation and amortization	80	27	107	3	110	2	112
Increase in property, plant and equipment and intangible assets	222	466	688	1	689	(342)	347

Fiscal year ended June 30, 2013

	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	¥546,930	¥16,370	¥563,300	¥5,077	¥568,377	¥ —	¥568,377
Intersegment sales	3	2,721	2,724	3,525	6,249	(6,249)	—
Total	546,933	19,091	566,024	8,602	574,626	(6,249)	568,377
Segment income	25,328	4,987	30,315	1,989	32,304	65	32,369
Segment assets	298,358	84,438	382,796	31,549	414,345	(27,723)	386,622
Other items*4							
Depreciation and amortization	9,067	1,745	10,812	309	11,121	(70)	11,051
Increase in property, plant and equipment and intangible assets	16,278	12,733	29,011	67	29,078	(72)	29,006

*1In the fiscal year ended June 30, 2014, "Others," which is not a reportable segment, included real estate business, marketing business, and financial services business. In the fiscal year ended June 30, 2013, this non-reportable segment also included mobile phone equipment sales business.

*2Components of "Adjustments" are as follows:

(1) Fiscal year ended June 30, 2014

The ¥(134) million ($(2) million) adjustment to segment income is an intersegment elimination. The ¥936 million adjustment to segment assets includes surplus funds of ¥27,722 million ($273 million) of the Company, Don Quijote Co., Ltd. and Nagasakiya Co., Ltd., which are company-wide assets (cash and deposits, long-term deposits, and investment securities), and elimination of receivables between reportable segments of ¥(26,786) million ($(264) million).

(2) Fiscal year ended June 30, 2013

The ¥65 million adjustment to segment income is an intersegment elimination. The ¥(27,723) million adjustment to segment assets includes surplus funds of ¥23,228 million of the Company, Don Quijote Co., Ltd. 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 ¥(50,951) million.

*3Segment income is adjusted to operating income on the consolidated statements of income.

*4Increase 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) Net 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, 2014

	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	¥ —	¥ —	¥ —	¥19	¥19	¥ —	¥19

	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	$ —	$ —	$ —	$0	$0	$ —	$0

Fiscal year ended June 30, 2013

	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	¥5	¥288	¥293	¥ —	¥293	¥24	¥317

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

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

Fiscal year ended June 30, 2014

	Millions of yen (Note 2)						
	Reportable segment						Amount recorded on consolidated financial statements
	Retail business	Tenant leasing business	Total	Others	Total	Adjustments	
Amortization for the year	**¥74**	**¥82**	**¥156**	**¥144**	**¥300**	**¥ —**	**¥300**
Balance at year-end	**2,392**	**1,467**	**3,859**	**2,473**	**6,332**	**—**	**6,332**

	Millions of U.S. dollars (Note 2)						
	Reportable segment						Amount recorded on consolidated financial statements
	Retail business	Tenant leasing business	Total	Others	Total	Adjustments	
Amortization for the year	**$1**	**$1**	**$2**	**$1**	**$3**	**$ —**	**$3**
Balance at year-end	**24**	**14**	**38**	**24**	**62**	**—**	**62**

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						Amount recorded on consolidated financial statements
	Retail business	Tenant leasing business	Total	Others	Total	Adjustments	
Amortization for the year	**¥217**	**¥125**	**¥342**	**¥ —**	**¥342**	**¥ —**	**¥342**
Balance at year-end	**622**	**—**	**622**	**—**	**622**	**—**	**622**

	Millions of U.S. dollars (Note 2)						
	Reportable segment						Amount recorded on consolidated financial statements
	Retail business	Tenant leasing business	Total	Others	Total	Adjustments	
Amortization for the year	**$2**	**$1**	**$3**	**$ —**	**$3**	**$ —**	**$3**
Balance at year-end	**6**	**—**	**6**	**—**	**6**	**—**	**6**

Fiscal year ended June 30, 2013

	Millions of yen (Note 2)						
	Reportable segment						Amount recorded on consolidated financial statements
	Retail business	Tenant leasing business	Total	Others	Total	Adjustments	
Amortization for the year	¥ —	¥50	¥50	¥136	¥186	¥ —	¥186
Balance at year-end	493	1,549	2,042	2,598	4,640	—	4,640

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						Amount recorded on consolidated financial statements
	Retail business	Tenant leasing business	Total	Others	Total	Adjustments	
Amortization for the year	¥366	¥262	¥628	¥ —	¥628	¥ —	¥628
Balance at year-end	839	125	964	—	964	—	964

6. Gain on negative goodwill by reportable segment

Not applicable

Independent Auditor's Report

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

We have audited the accompanying consolidated balance sheets of Don Quijote Holdings Co., Ltd. (formerly Don Quijote Co., Ltd.) and consolidated subsidiaries as of June 30, 2014 and 2013, 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 Holdings Co., Ltd. (formerly Don Quijote Co., Ltd.) and consolidated subsidiaries as of June 30, 2014 and 2013, 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, 2014

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, 2014)

COMPANY NAME
Don Quijote Holdings Co., Ltd.

SCOPE OF BUSINESS
Corporate planning for and management of Group companies through the holding of shares in such companies, contracted administrative operation of subsidiaries, and real estate management

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
¥21,366 million

NUMBER OF EMPLOYEES
40 (5,282 on consolidated basis)

NUMBER OF STORES (Consolidated basis)
283

Board of Directors and Audit & Supervisory Board (as of September 26, 2014)

Chairman of the Board and CEO	Takao Yasuda
President and COO	Koji Oohara
Senior Managing Director and CFO	Mitsuo Takahashi
Senior Managing Director	Naoki Yoshida
Director	Kenji Sekiguchi
Director[1]	Yukihiko Inoue
Standing Audit & Supervisory Board Member	Koichi Otoshi
Audit & Supervisory Board Member[2]	Tomiaki Fukuda
Audit & Supervisory Board Member[2]	Yoshihiro Hongo
Audit and Supervisory Board Member[2]	Yasunori Yoshimura

[1] An outside director as provided by Article 2, Paragraph 15, of the Japanese Corporate Law
[2] Outside audit & supervisory board members as provided by Article 2, Paragraph 16, and Article 335, Paragraph 3, of the Japanese Corporate Law

Share Information (as of June 30, 2014)

SHARES OF COMMON STOCK

Authorized:	234,000,000
Issued:	78,393,980
Treasury stock:	1,244

NUMBER OF SHAREHOLDERS

3,369

PRINCIPAL SHAREHOLDERS

	Number of shares held	Percentage of total shares in issue (%)
La Mancha	9,000,000	11.48
Takao Yasuda	7,746,000	9.88
Anryu Shoji Co., Ltd.	4,140,000	5.28
The Master Trust Bank of Japan, Ltd. (Trust Account)*	3,491,200	4.45
The Chase Manhattan Bank 385036	3,133,700	4.00
Japan Trustee Service Bank, Ltd. (Trust Account)*	3,109,200	3.97
State Street Bank and Trust Company	2,573,437	3.28
State Street Bank and Trust Company 505225	2,241,574	2.86
Mellon Bank, N.A. as Agent for its Client Mellon Omnibus US Pension	2,232,838	2.85
Mellon Bank Treaty Clients Omnibus	2,052,043	2.62

*Shares held by these institutions include shares in trust.
Note: Percentage of total shares does not include treasury stock (1,244 shares).
Where Don Quijote Holdings 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	81	14,317,512	18.26
Other Japanese Corporations	42	6,036,980	7.70
Foreign Corporations and Individuals	425	49,012,083	62.52
Japanese Individuals and Others*	2,821	9,027,405	11.52
Total	3,369	78,393,980	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 Holdings Co., Ltd.

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