

# MARUI CO., LTD.

Six-Month Fiscal Period Ended March 31, 2004



# FINANCIAL HIGHLIGHTS

Marui Co., Ltd. and Consolidated Subsidiaries

Six months ended March 31, 2004, eight months ended September 30, 2003, and year ended January 31, 2003

	Millions of yen except net income per share*			Thousands of United States dollars except net income per share**
	2004/3****	2003/9***	2003/1	2004/3
<b>Operating results:</b>				
Total operating revenues .....	¥290,931	¥353,408	¥558,867	\$2,744,632
Merchandise sales.....	232,446	273,608	443,933	2,192,887
Interest income on consumer loans .....	28,009	36,558	53,500	264,236
Operating income .....	21,735	16,009	34,317	205,047
Net income.....	10,341	6,154	17,620	97,557
Net income per share (Yen and dollars).*****				
Basic.....	¥29	¥17	¥48	\$0.27
Diluted.....	28	17	45	0.26
<b>Financial position at period-end and year-end:</b>				
Working capital .....	¥252,702	¥232,776	¥263,802	\$2,383,981
Total stockholders' equity.....	421,827	414,456	425,641	3,979,500
Total assets.....	691,560	734,157	729,901	6,524,151

\* All yen figures in this report are represented based on accounting principles generally accepted in Japan.

\*\* All dollar figures in this report refer to U.S. currency. Yen amounts have been translated, for convenience only, at the rate of ¥106 to US\$1.

\*\*\* The fiscal period ended September 30, 2003, consists of the eight months from February 1, 2003, to September 30, 2003, because of the change of the year-end.

\*\*\*\* The fiscal period ended March 31, 2004, consists of the six months from October 1, 2003, to March 31, 2004, because of the change of the year-end.

\*\*\*\*\* See Note 2 of the notes to consolidated financial statements.

## Note on Irregular Accounting Periods

Marui Co., Ltd., has changed its fiscal year-end from January 31 to March 31. During this transitional term, the Company used irregular accounting periods of eight months and six months, respectively. The fiscal period reviewed in this report is from October 1, 2003, to March 31, 2004, while the previous fiscal period was from February 1, 2003, to September 30, 2003. Consequently, performance comparisons of the fiscal period under review and the previous fiscal year have not been included.

## Forward-Looking Statements

This report includes certain "forward-looking statements". These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ due to changes in economic, business, competitive, technological, regulatory and other factors.

Cover: *Kitasenju Marui* (Opened in February 2004)

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# Marui Transformation

The Marui Group has established a distinctive position in Japan's retail industry thanks to its unique combination of retail and financial services operations. The extensive lineup of highly fashionable apparel, accessories, and interior goods that the Group offers through its retail operations is complemented by the convenient credit sales and cashing services of its financial services operations.

Marui stores are strongly patronized by young, trend-conscious customers. Every year, roughly 200 million people visit our network of 29 stores concentrated in metropolitan Tokyo. In our closely tied financial services, we provide credit card and other services for the 4.2 million holders of our house credit card, the *Akai Card*. Our other operations, such as logistics, computer systems, advertising, and store remodeling services, work hand-in-hand with our core businesses, achieving synergies that keep the Marui Group on track for continued growth.

During the period from the latter half of 2003 to spring 2004, Marui took measures to convert from a parent company oriented management system to integrated group management. The Company has taken this bold step of fundamentally restructuring its management to create a new growth path for Marui as a corporate group with advanced retail expertise. Through such measures, the Marui Group is dramatically improving its ability to respond to the changing times by strengthening its competitiveness and enhancing its management efficiency.



Tadao Aoi, President

In the six-month fiscal period under review, ended March 31, 2004, the Marui Group proceeded with its shift to integrated group management, further strengthening and solidifying its operating platform for future growth. The Company is reinforcing its competitive advantage as a highly original corporate group specializing in high-value-added businesses backed by its retail expertise. Central to these operations is the core Marui business, which features a unique combination of retail and financial services. Through such efforts, Marui is building an organization that can achieve steady profitability even in harsh operating conditions.

### Performance Overview

During the six-month fiscal period ended March 2004, there were some signs of economic recovery in Japan, led by higher private-sector capital investment and increased exports. However, consumer spending remained weak in the face of continued uncertainty with regard to employment and personal income. Also, unseasonable weather contributed to the continued difficult operating conditions in Japan's retail industry.

Under these circumstances, the Marui Group continued to implement its store scrap-and-build policy. The Group also acted decisively in carrying out a fundamental restructuring of its management organization, reinforcing the operating platform of the Marui Group and building a foundation for sustainable growth.

We continued to expand and improve the profitability of our store network in the fiscal period under review. In October 2003, we opened *Kobe Marui*, our first store in the Kansai region. And, in February 2004, we opened our largest-ever store, *Kitasenju Marui*, in Tokyo. Both stores have made highly favorable starts. Also during the term, we closed three stores and two annexes that were judged to be no longer capable of Marui's distinctive high-value-added merchandising for such reasons as dilapidated buildings or deterioration in the local operating environment. At existing stores, we carried out remodeling tailored to special regional features and the type of store to reinforce competitiveness and a fresh appearance.

At the same time, we further enhanced the scope of our merchandise lineup, developing new private brand lines and offering a broader selection of sizes. We stepped up our advertising on television and in other media for seasonal merchandise campaigns, bolstering our fashion promotion based marketing efforts. Through our sales subsidiaries, we took measures to hone the skills of our stores' sales staff.

Reflecting these efforts, consolidated total operating revenues amounted to ¥290.9 billion and ordinary income was ¥22.3 billion. Net income totaled ¥10.3 billion. Selling, general and administrative expenses (SGA) were lower than originally expected because of business-restructuring-driven improvements in the cost structure and the postponement of some store remodeling until the current fiscal year for greater effectiveness. As a result, the ratio of SGA expenses to operating revenues fell to 28.3%, down 3.0 percentage points from the previous accounting term.

Looking at segment performance, merchandising sales totaled ¥232.4 billion, with operating income of ¥11.3 billion. In credit and consumer services operations, revenues amounted to ¥33.2 billion, with operating income of ¥7.8 billion. Revenues of the other segment totaled ¥52.9 billion, with revenues from outside customers accounting for ¥25.3 billion of that total. Operating income amounted to ¥4.0 billion.

The Company has now completed the process of changing its fiscal year-end from January to March. During the transitional period, we used irregular accounting periods of eight months, from February 2003 through September 2003, and six months, from October 2003 through March 2004.

### **Dividend Policy**

Marui's basic profit distribution policy is to bolster its operating platform, increase return on equity (ROE), and continue stable dividend payments while giving overall consideration to such factors as performance trends and dividend payout ratios. We are committed to maintaining stable dividend payments to stockholders and to raise payments over the long term by using retained earnings to strengthen our financial position, to facilitate business development, and to open and renovate stores.

Cash dividends per share applicable to the period under review were ¥11, for a dividend payout ratio of 37.5%. Dividends as a proportion of stockholders' equity were 0.9%.

### **Outlook and Medium-Term Management Strategy**

Against the backdrop of improving corporate performances and a rising stock market, we expect a mild economic recovery in Japan in the current fiscal year. On the other hand, there are also certain major concerns, such as the unstable state of affairs internationally, that make it difficult to be overly optimistic about current conditions. Consumer anxiety about employment, personal income, and the national pension scheme has not been dispelled, leaving little hope for a rebound in consumer spending. Consequently, we do not anticipate a marked improvement in the difficult business environment.

Facing these conditions, the Marui Group is pressing forward with its store scrap-and-build program and the remodeling of existing stores. Specifically, we reopened two relocated specialty stores, *The Room* and *Field*, at our main Shinjuku store, and closed the aging Numazu store. We have designated our two store complexes in the Shinjuku area as the headquarters for each of our different store types and are constantly communicating the latest information on our operations to the market in an effort to increase the value of the Marui brand.

In store network development, Marui is firmly committed to opening stores in Nanba, Osaka, in 2006 and in Yurakucho, Tokyo, in 2007 and a new complex in Shinjuku, Tokyo, also in 2007. We are continuing to work actively on opening stores in other promising locations. On a consolidated basis, we expect capital investment in these store openings, in the remodeling of existing stores, in computer systems, and in other areas to total approximately ¥90.0 billion over the next three years. This amount is well within the scope of our cash flow, and no new financing is scheduled.

In April 2004, the Company commenced a major reorganization aimed at enabling it to respond even faster than before to customer needs. Through such measures as appointing rejuvenated management teams for each of our Group companies and positioning full-time presidents who are responsible solely for their own companies at each of our subsidiaries, we are establishing an organization under which Group companies can pursue stepped-up flexible business development. For example, the procurement of merchandise for Marui's directly managed sales floor space, which previously was handled by the parent company, has been outsourced to sales subsidiaries and set up as a retail business. By integrating procurement and sales, we have established an organization in which we can receive feedback on customer preferences for our merchandising strategies much faster.

In addition, we reorganized the business of sales subsidiary *Marui Fashion Freak Co., Ltd.*, into *Marui Palette Co., Ltd.*, a women's accessories shop, and *Marui Fashion Navi. Co., Ltd.*, a women's apparel shop. We took this measure to boost the sales capabilities and specialization of these businesses by narrowing their focus.

In financial services, Marui continues to build the membership of its house credit card, the *Akai Card*, and steadily expand the branch network of financial services subsidiary *Zero First Co., Ltd.* By continuing to adhere to our policy of prudent credit management, we will strive for stable growth in these operations.

Through such initiatives, the Marui Group will further strengthen its operating platform and enhance its specialization and originality. For the fiscal year ending March 2005, the first 12-month accounting term since the change in fiscal year-end, we forecast consolidated total operating revenues of ¥565.0 billion, ordinary income of ¥40.0 billion, and net income of ¥22.5 billion. ROE is anticipated to be 5% or greater.

In meeting the challenges ahead, I look forward to the continued support of our stockholders and friends.

July 2004



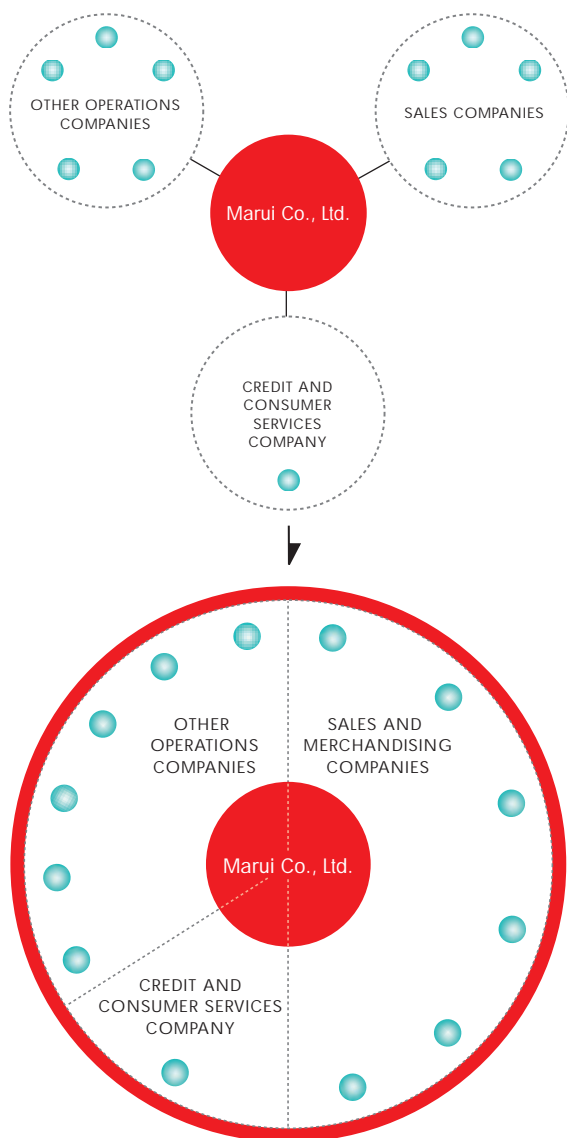
Tadao Aoi, President



**Marui Transformation**

# OUTLINE OF GROUP MANAGEMENT RESTRUCTURING PLAN

In October 2003, to solidify its growth base and to increase the degree of certainty of realizing sustainable growth, Marui implemented a fundamental restructuring to convert to an integrated group management organization. By shifting to a system whereby subsidiaries assume responsibility for various Group business functions centered on Marui's core high-value-added retail operations, the Company is targeting greater specialization and competitiveness to enhance the enterprise value of the entire Marui Group.



## Summary of the Restructuring and Its Purpose

The basic thinking behind the restructuring of management carried out in the latter part of 2003 was to convert from our previous parent company oriented management to integrated group management to enable us to respond more swiftly to changes in customer preferences. To that end, beginning in October 2003, we reorganized our Group operations along functional lines and assigned individual Group companies responsibility for separate business fields.

Under this new organization, as specialists in their designated fields, Marui Group companies will target a surge in competitiveness. Our goal is to expand the power of the Marui brand by combining our efforts Groupwide to create a new growth path for the Group.

We have also extended this specialization strategy to our personnel structure. Employees have been transferred to companies where their abilities and fields of expertise can be put to the best use. Moreover, we have introduced a horizontal personnel administration system to encourage individual employees to further develop their degree of expertise.

In other words, we have restructured our management to raise the level of specialization of each of the businesses of the Marui Group. Starting with improvement in the sales service of our store staff, one of the most important aspects of retailing, our purpose was to achieve merchandising that delivers an even higher degree of customer satisfaction.

## Developments behind the Restructuring

From the outset, we set our sights on realizing stable growth by expanding our following of fans of the Marui brand. We have sought to do this by delighting customers with offerings of constantly trendy, high-value-added merchandise.

However, the prolonged stagnation in consumer spending as well as growing numbers of retail outlets have led to an increasingly overcrowded marketplace and a higher degree of homogeneity.

As a result, it became crucial for Marui to increase the originality of its business approach and further differentiate itself in its market. Our top priority became achieving highly precise business development based on producing and marketing our own distinctive merchandise.

By 1998, we had already begun to develop our own private brands in anticipation of these conditions. To enhance the originality of our merchandise and its profitability, we abandoned the traditional apparel manufacturer outsourcing method used by department stores and built our own proprietary supply organization. In 2000, we established sales subsidiaries on a trial basis and staffed them with employees seconded from our own sales floors. The goal was to contribute to improved sales capabilities, and the system produced extremely good results.

Our current restructuring aims to build on the success of our sales subsidiaries and to take it one step further. In the past, if anything, Marui has been a generalist, often making staff reassignments that completely changed the nature of employees' jobs. However, the experience gained by setting up our sales subsidiaries made us realize that, without a major conversion to an organization that would nurture specialists with strong practical skills, our competitiveness was not going to improve.

*Visaruno*



Through our sales subsidiaries, we also discovered that if we employed young people who enjoyed sales they would quickly fit in and become good salespeople themselves by working alongside our veteran sales staff. However, the gap between compensation and other benefits of employees dispatched from the parent company and the full-time employees of the sales subsidiaries gradually became a problem.

This gave us the idea of transferring the seconded employees to the subsidiaries they worked for, and effective October 1, 2003, we permanently reassigned 95% of parent company employees, excluding managers and executives, to Group subsidiaries that could use their individual skills and areas of expertise. We transferred not only salespeople but also staff from our administration, credit, loan, advertising, and sales promotion operations to their areas of expertise within our subsidiaries.

Also, we changed our employee compensation system. We reviewed and ranked jobs throughout the Group companies, introducing a results-based system that promotes employees who achieve practical results and evaluates staff based on their job description and performance. Through these measures, we have established a highly motivated organization.

At each of the Group companies, in view of their high-value-added sales, we set employee salaries slightly higher than industry averages. In addition, to increase the spirit of solidarity within the Group, we established a bonus system whereby every employee receives bonus payments based on the Company's consolidated performance.

By March 2003, we could already see that this employee benefits system would collapse. Consequently, the Company liquidated the Marui Welfare and Pension Fund and paid retirement benefits to employees transferred to its subsidiaries, establishing a profit structure

that is less susceptible to retirement benefit obligations. Looking at it in another way, our employees have become self-employed individuals. If they achieve results as professionals in their particular business field, they will be promoted regardless of age or experience and their benefits will increase.

In carrying out the restructuring of the Company's workforce, management proceeded on the premise of keeping everybody on board. However, there was a request by the labor union to the effect that those employees who wished to leave the Company and take up new careers should be allowed to do so. Therefore, we initiated a voluntary retirement program with premium severance for employees 40 years old or over. A total of 750 people opted for this program.

Our restructuring reduced personnel expenses by approximately ¥18.0 billion. We would stress, however, that this figure was not our target; our goal was to boost employee motivation and form teams of professionals with a high degree of practical expertise. Rather than reducing compensation, we are seeking to improve the quality of employees' work and to create growth for the Group.

The *Kitasenju Marui* store opened in February 2004, and we have firm plans to open several more large-scale stores, including the Nanba store in 2006 and the Yurakucho store in 2007. These openings will mean many new jobs and posts, giving employees a chance for promotion every two-to-three years. We feel, therefore, that the timing of the restructuring of our personnel organization was excellent.

Effective April 1, 2004, we took several steps to further efforts begun in October 2003 to introduce an integrated group management organization. In addition to carrying out a major reorganization, we rejuvenated the management teams of each of our Group companies and put in place presidents dedicated solely to the operation of their company. By clarifying authority and responsibility, we established an offensive as opposed to a defensive management structure that enables flexible business development.



## Group Management Concept

As the core business of the Marui Group, our Marui retail operations have extremely advanced know-how that enables the sale of large volumes of constantly changing fashion merchandise. This know-how is also one of the biggest assets that our Group companies have to achieve business expansion in their respective fields of responsibility.

Consequently, it is essential for Group companies to become thoroughly entrenched in their allotted Marui businesses, building their expertise and developing their operations. Know-how accumulated through this process can be used in business development other than our Marui businesses and lead to further differentiation and greater competitiveness. Put another way, the Group companies can each cultivate their own business and work to achieve stable growth for Marui operations. And, Marui can draw on their know-how as a tool for developing business in other areas and expanding the business domain of the Marui Group. It is this basic concept that underpins our integrated group management.

## Business Development outside the Group

During the period under review, revenues generated from outside the Group by the top five companies excluding Marui in the Marui Group accounted for 51% of their total sales. Among these companies, this figure stands at about 80% for our distribution subsidiary, *Moving Co., Ltd.*, which boasts major general merchandise and consumer electronics store chains among its customers.

*Zero First Co., Ltd.*, which has a network of 64 outlets offering mainly consumer loan services at highly convenient locations, is commissioned to handle Marui's payment collection services, and outside business accounts for 70% of its revenues. In the fiscal period under review, *Zero First* became profitable. Another company, *AIM Create Co., Ltd.*,

which handles advertising, design, display and operation of commercial facilities, generates approximately 35% of its sales from outside the Group, as does information processing services company *M&C Systems Co., Ltd.*

*Moving* offers high-value-added delivery services that include the assembly of furniture and consumer electronic products as well as moving. To provide its customers with more highly refined operations and to expand its business with companies outside the Group, *Moving* has set up four regional delivery service companies.

*AIM Create*, which designs interiors for prominent and popular commercial facilities and restaurants, is also steadily expanding its business. The company is branching out into the planning and operation of commercial facilities.

For some time, *M&C Systems* has been marketing business system packages to other retailers for everything from customer management systems to consumer loan business development. In addition, the company is actively expanding its business outside the Group by offering system support services and accepting system development commissions.

Marui Group companies will continue to work together to achieve synergies and create new business opportunities.

Our new stores are showcases for our innovations. Through our strategic scrap-and-build program, the planning of highly original trend-conscious stores, and sales strategies, we are expanding our following of fans of the Marui brand and creating growth for Marui.



Nanba store (Scheduled to open in autumn 2006)



New Shinjuku store complex  
(Scheduled to open in 2007)



Kitanenju Marui (Opened in February 2004)



Yurakucho store (Scheduled to open in 2007)

### Scrap-and-Build Program for Stores

The Marui Group is constantly implementing a store scrap-and-build program to improve the profitability of its store network. While continuing to open highly profitable stores in promising locations, we are also closing stores that are no longer capable of Marui's distinctive high-value-added merchandising for such reasons as dilapidated buildings or deterioration in the local operating environment. By May 2004, we have closed four stores and two annexes.

We opened two stores during the fiscal period under review: *Kobe Marui* in October 2003 and *Kitasenju Marui* in February 2004. *Kitasenju Marui* is adjacent to Kitasenju station, a major railroad terminal in northeast Tokyo that connects five different commuter lines and is used by more than 700,000 people daily. With sales floor space totaling 35,300 square meters, *Kitasenju Marui* is our biggest store to date. Families as well as Marui's target customer group—young people—can enjoy shopping at this store thanks to such features as a young people's corner and expanded and improved selections of women's and children's apparel and food products. The appeal of this wider range of merchandise is reflected in the store's strong sales. Also in Tokyo, we have decided to open a store in Yurakucho in 2007. The store is located in an area between Ginza, one of Tokyo's major downtown shopping district, and Marunouchi, which is Japan's largest business district and where many new commercial buildings have been built recently. Because of this excellent positioning, the Yurakucho store is certain to enjoy substantial traffic from shoppers and office workers. The store will have a sales floor space of about 20,000 square meters. In addition, we are opening a new complex in shinjuku, Tokyo, where a new subway line is to be put through and more traffic is expected, as a part of ongoing reorganization of Shinjuku stores, also in 2007.

*Kobe Marui*, on the other hand, is the Marui Group's first store in the Kansai region, Japan's second largest economic

center, and represents a departure from the Group's past emphasis on the Tokyo metropolitan area. Situated in front of Sannomiya Station, a large railway terminal, the store has been designed as one of our new downtown stores. We created a more sophisticated atmosphere and other features to broaden the store's appeal beyond our traditional young customer base.

*Kobe Marui* quickly earned a reputation as a trendy store, and sales have been favorable. We have decided to open another store in Nanba, one of Kansai's most popular shopping district. The opening of that store, which will have approximately 17,000 square meters of sales floor space, is scheduled for autumn 2006.

In the future, we will extend our store network development to other major cities and other areas, such as the Chukyo region, in addition to metropolitan Tokyo and the newly entered Kansai region. By broadening the scope of our expansion efforts, we will proceed with the development of a highly efficient store network.

#### NEWLY OPENED STORES

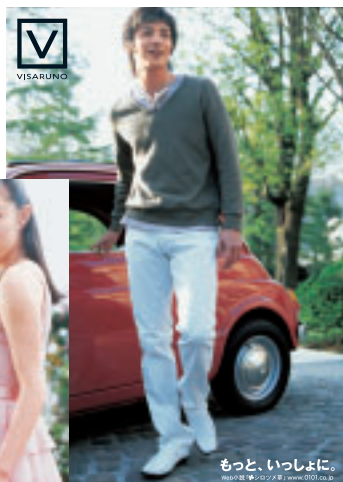
	Date of Opening	Location	Sales Floor Space
KOBE MARUI	October 2003	One of most popular downtown shopping areas in the Kansai region	6,940m <sup>2</sup>
KITASENJU MARUI	February 2004	Adjacent to Kitasenju Station, the largest railroad terminal in northeast Tokyo	35,300m <sup>2</sup>

#### NEW STORES AND A COMPLEX SCHEDULED FOR OPENING

	Date of Opening	Location	Sales Floor Space
NANBA STORE	Autumn 2006	One of Kansai's most popular shopping district	17,000m <sup>2</sup>
NEW SHINJUKU COMPLEX	2007	One of Tokyo's most popular shopping district	(9,000m <sup>2</sup> )
YURAKUCHO STORE	2007	Adjacent to Ginza, Tokyo's prestigious downtown shopping area	20,000m <sup>2</sup>

#### STORE AND BUILDING CLOSURES

	Date of Closure	Sales Floor Space
HACHIOJI STORE	January 2004	11,797m <sup>2</sup>
KAWAGUCHI STORE	January 2004	6,299m <sup>2</sup>
TSUCHIURA STORE	January 2004	4,774m <sup>2</sup>
MARUI ONE SHIBUYA	January 2004	5,980m <sup>2</sup>
IN THE ROOM JIYUGAOKA	January 2004	1,724m <sup>2</sup>
NUMAZU STORE	May 2004	3,868m <sup>2</sup>
MARUI ONE SHINJUKU	August 2004	3,895m <sup>2</sup>



## Marui's Sales Strategies—Demonstrating Originality

In its sales strategies, Marui does not aim to achieve uniformity of operation throughout its store network; rather, it seeks to stress individualism rooted in regional characteristics. In April 2004, guided by this concept, we reorganized our stores into three groups based on special market features, the age range of customer base, and other aspects. We are now implementing measures in accordance with the characteristics of individual stores.

Our core customer base remains young people. Depending on the circumstances of individual stores, however, we are creating shopping environments that appeal to older customers, moving away from the image of “Young Marui” toward an image of stores that can be enjoyed by young and older adults. *Kitasenju Marui*, which projects this new Marui image, has posted an extremely strong performance since its February 2004 opening.

Among other sales strategies, we have always conducted trend-creation marketing by promoting new fashions and styles during each of our seasonal sales campaigns. In addition to that strategy, we are now strengthening our market-creation sales efforts, whereby we develop latent demand that other retailers cannot meet into new markets. This strategy will further strengthen Marui's distinctive originality in market positioning. By tapping strong latent demand for broader selections of sizes, seasonal merchandise, gifts, and other goods and services, we will strive to develop highly original businesses centered on our private brandshops and other directly managed sales floor space.

## Operating Results by Business Segment Merchandising

In the six-month fiscal period under review, ended March 31, 2004, companies in Japan's retail industry continued to face harsh business conditions. Although there were signs of recovery in the Japanese economy, anxiety over job security and personal income remained deeply rooted. Unseasonable weather served to exacerbate these economic woes, and consumer spending remained devoid of stimulus. In this business environment, Marui expanded and improved the efficiency of its store network. The Company also took steps to reflect the needs of its customers on a greater scale in planning its sales floor space.

In the period under review, we opened two stores—*Kobe Marui* and *Kitasenju Marui*. Opened in October 2003, *Kobe Marui* is our first store in the Kansai region. Situated in an area frequented by style-minded people, the store specializes in fashionable apparel and other goods. Opened in February 2004 in Tokyo, *Kitasenju Marui*, which is our biggest store yet, is ideally designed for its location adjacent to a major railroad terminal that connects the city with the suburbs. The store features an expanded family-oriented sales floor space that offers restaurants, a food department, and a variety of other sales areas. And, we have included specialty stores that sell electric appliances, books, and other items that can be expected to have a synergistic effect on the store's performance. Both new stores achieved sales performances that exceeded original expectations.

There were also store closures during the period under review. In January 2004, we closed the Hachioji, Kawaguchi, and Tsuchiura stores as well as *Marui One Shibuya* and *in The Room Jiyugaoka*. These stores were closed due to dilapidated buildings or deterioration in the local operating environment.

To improve the competitiveness of our store network, we continued to remodel existing stores to suit their regional features and the type of store. At the same time, we made efforts to increase our marketing appeal. We expanded our merchandise lineup by stepping up the development of private brand goods and offering broader size selections. And, we closely coordinated our television commercials for seasonal merchandise with sales floor promotions.

As a result of these measures, the merchandising segment posted operating revenues of ¥232.4 billion and operating income of ¥11.3 billion.

Among scheduled store openings, we plan to open a second Kansai region store in autumn 2006, in Nanba, Osaka, a store in the Yurakucho-Ginza district of central Tokyo in 2007, and a new complex in Shinjuku, Tokyo, also in 2007. We will continue to consider opening stores in promising locations and actively develop our store network.

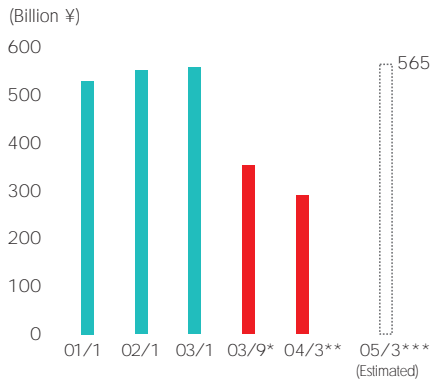
## SALES BREAKDOWN BY MERCHANDISE CATEGORY

	Billions of yen (% of total)							
	2004/3*		2003/9**		2003/1		2002/1	
Women's apparel.....	¥ 80.7	(34.7)	¥ 94.9	(34.7)	¥150.5	(33.9)	¥145.6	(32.8)
Men's apparel and sporting goods.....	45.1	(19.4)	49.3	(18.0)	87.3	(19.7)	90.9	(20.5)
Luxury and accessory goods.....	71.0	(30.6)	87.1	(31.8)	141.3	(31.8)	147.9	(33.4)
Furniture and household appliances.....	11.5	(4.9)	15.1	(5.5)	24.7	(5.5)	26.0	(5.9)
Foodstuffs and restaurant sales.....	24.1	(10.4)	27.2	(10.0)	40.2	(9.1)	33.0	(7.4)
<b>Total.....</b>	<b>¥232.4</b>	<b>(100.0)</b>	<b>¥273.6</b>	<b>(100.0)</b>	<b>¥444.0</b>	<b>(100.0)</b>	<b>¥434.3</b>	<b>(100.0)</b>

\* Six months ended March 31, 2004

\*\* Eight months ended September 30, 2003

### TOTAL OPERATING REVENUES

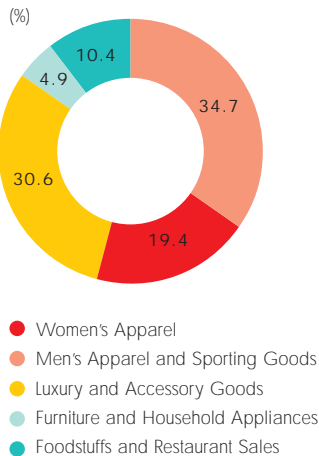


\* Eight months ended September 30, 2003

\*\* Six months ended March 31, 2004

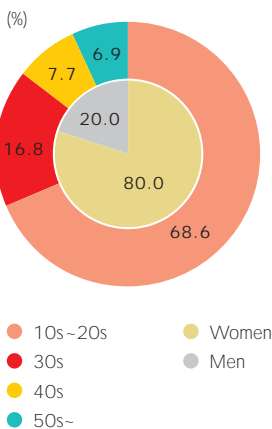
\*\*\* Full year ending March 31, 2005

### SALES BREAKDOWN BY MERCHANDISE CATEGORY



- Women's Apparel
- Men's Apparel and Sporting Goods
- Luxury and Accessory Goods
- Furniture and Household Appliances
- Foodstuffs and Restaurant Sales

### COMPOSITION OF CUSTOMER BASE BY AGE AND GENDER



- 10s-20s
- 30s
- 40s
- 50s-
- Women
- Men

### Credit and Consumer Services

In credit and consumer services operations, Marui grew *Akai Card* membership and steadily expanded its network of *Zero First* roadside consumer loan service branches. In our mainstay consumer loan business, we continued our consistently prudent credit management policy, maintaining a sound default rate of 1.7%. Outstanding loans at the end of the fiscal period increased 1.1%, to ¥219.5 billion, while interest income on consumer loans for the period totaled ¥28.0 billion. As a result, credit and consumer services operating revenues were ¥33.2 billion and operating income was ¥7.8 billion.

### Other

The other segment mainly comprises the moving and delivery, advertising and store remodeling, and building maintenance and management operations of subsidiaries. The segment's operating revenues totaled ¥52.9 billion, with operating income of ¥4.0 billion.

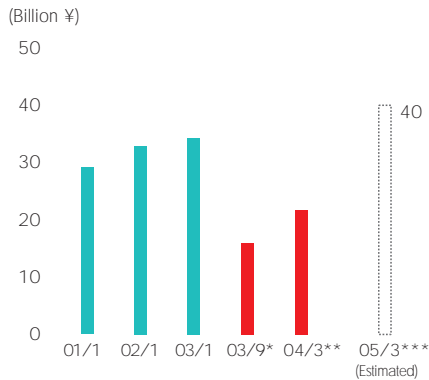
### Consolidated Operations

In the fiscal period under review, total operating revenues amounted to ¥290.9 billion and cost of goods sold was ¥186.9 billion. Gross profit was ¥104.1 billion, representing a gross profit ratio of 35.8%. Selling, general and administrative (SGA) expenses totaled ¥82.3 billion, and SGA expenses as a ratio of operating revenues were 28.3%. As a result, the Company recorded operating income of ¥21.7 billion.

In other gains (losses), the chief component was ¥1.7 billion loss on disposal of property and equipment related to store closures, with net special losses amounting to ¥4.7 billion.

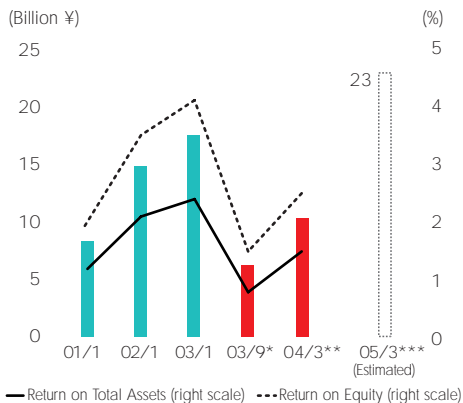
Marui posted income before income taxes and minority interests of ¥17.6 billion and net income of ¥10.3 billion. Diluted net income per share was ¥28. Return on total assets was 1.5%, and return on stockholders' equity was 2.5%.

### OPERATING INCOME



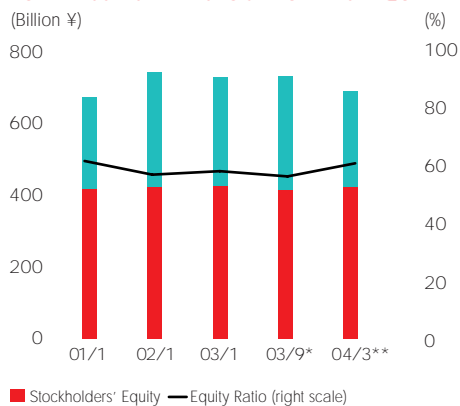
\* Eight months ended September 30, 2003  
 \*\* Six months ended March 31, 2004  
 \*\*\* Full year ending March 31, 2005

### NET INCOME



\* Eight months ended September 30, 2003  
 \*\* Six months ended March 31, 2004  
 \*\*\* Full year ending March 31, 2005

### TOTAL ASSETS AND STOCKHOLDERS' EQUITY



\* September 30, 2003  
 \*\* March 31, 2004

### Cash Flow

In the fiscal period under review, the Company worked to generate adequate cash flow to fund timely strategic capital investment for growth.

In cash flows from operating activities, income before income taxes and minority interests of ¥17.6 billion, depreciation and amortization of ¥9.6 billion, and severance payments and special severance of ¥49.9 billion contributed to net cash used in operating activities of ¥15.0 billion.

In cash flows from investing activities, proceeds from redemption of securities of ¥10.0 billion were offset by cash outlays, such as payments for purchase of property and equipment and other expenses related to store openings and remodeling of existing stores. As a result, net cash used in investing activities totaled ¥6.7 billion.

In cash flows from financing activities, the major outlay was ¥5.3 billion in dividends paid, and net cash used in financing activities was ¥5.4 billion. As a result, cash and cash equivalents at the end of the fiscal period decreased ¥27.1 billion from the end of the previous fiscal term, to ¥41.5 billion.

### Financial Condition

Marui aims to further strengthen its sound financial condition through such measures as downsizing total assets. In the period under review, the Company maintained a solid financial position.

At the end of the fiscal period, total current assets amounted to ¥385.1 billion and total current liabilities were ¥132.4 billion. Working capital was ¥252.7 billion, and the current ratio was 2.9 times. Total assets stood at ¥691.6 billion, and total stockholders' equity amounted to ¥421.8 billion. The equity ratio was 61.0%, and the debt-to-equity ratio was 44.4%.

### Dividends

Cash dividends per share amounted to ¥11, for a dividend payout ratio of 37.5%. Dividends as a proportion of stockholders' equity were 0.9%.

# CONSOLIDATED FIVE-PERIOD SUMMARY

Marui Co., Ltd. and Consolidated Subsidiaries

Six months ended March 31, 2004, eight months ended September 30, 2003, and years ended January 31, 2003, 2002 and 2001

	Millions of yen except per share amounts and other information*					Thousands of United States dollars except per share amounts**
	2004/3****	2003/9***	2003/1	2002/1	2001/1	2004/3
<b>Operating results:</b>						
Total operating revenues .....	<b>¥290,931</b>	¥353,408	¥558,867	¥551,564	¥530,485	<b>\$2,744,632</b>
Merchandise sales .....	<b>232,446</b>	273,608	443,933	443,358	434,206	<b>2,192,887</b>
Finance charges earned on installment sales .....	<b>1,031</b>	1,417	2,348	2,509	2,537	<b>9,726</b>
Interest income on consumer loans.....	<b>28,009</b>	36,558	53,500	46,324	37,591	<b>264,236</b>
Other revenues.....	<b>29,445</b>	41,825	59,086	59,373	56,151	<b>277,783</b>
Cost of goods sold.....	<b>186,864</b>	226,966	356,558	353,252	341,763	<b>1,762,868</b>
Selling, general and administrative expenses .....	<b>82,332</b>	110,433	167,992	165,383	159,580	<b>776,717</b>
Operating income.....	<b>21,735</b>	16,009	34,317	32,929	29,142	<b>205,047</b>
Net income.....	<b>10,341</b>	6,154	17,620	14,910	8,335	<b>97,557</b>
<b>Per share amounts (Yen and dollars):</b>						
Net income***** – Basic.....	<b>¥29</b>	¥17	¥48	¥40	¥23	<b>\$0.27</b>
– Diluted.....	<b>28</b>	17	45	38	22	<b>0.26</b>
Cash dividends .....	<b>11</b>	15	22	22	22	<b>0.10</b>
<b>Financial position at period-end and year-end:</b>						
Working capital.....	<b>¥252,702</b>	¥232,776	¥263,802	¥213,289	¥227,038	<b>\$2,383,981</b>
Receivables .....	<b>248,628</b>	247,327	247,924	239,862	194,855	<b>2,345,547</b>
Total stockholders' equity .....	<b>421,827</b>	414,456	425,641	424,400	417,396	<b>3,979,500</b>
Total assets .....	<b>691,560</b>	734,157	729,901	743,791	675,239	<b>6,524,151</b>
Long-term debt, less current maturities...	<b>128,089</b>	129,689	129,689	82,889	99,562	<b>1,208,387</b>
<b>Other information:</b>						
Average number of shares outstanding (thousands) .....	<b>351,459</b>	353,810	367,512	368,656	368,658	
Sales floor space (m <sup>2</sup> ) .....	<b>499,017</b>	488,875	488,875	475,245	456,219	
Number of employees .....	<b>9,245</b>	9,181	10,379	9,957	10,171	

\* All yen figures in this report are represented based on accounting principles generally accepted in Japan.

\*\* All dollar figures in this report refer to U.S. currency. Yen amounts have been translated, for convenience only, at the rate of ¥106 to US\$1.

\*\*\* The fiscal period ended September 30, 2003, consists of the eight months from February 1, 2003, to September 30, 2003, because of the change of the year-end.

\*\*\*\* The fiscal period ended March 31, 2004, consists of the six months from October 1, 2003, to March 31, 2004, because of the change of the year-end.

\*\*\*\*\* See Note 2 of the notes to consolidated financial statements.

# NON-CONSOLIDATED FIVE-PERIOD SUMMARY

Marui Co., Ltd.

Six months ended March 31, 2004, eight months ended September 30, 2003, and years ended January 31, 2003, 2002 and 2001

	Millions of yen except per share amounts and other information*					Thousands of United States dollars except per share amounts**
	2004/3****	2003/9***	2003/1	2002/1	2001/1	2004/3
<b>Operating results:</b>						
Total operating revenues .....	¥262,527	¥313,830	¥504,329	¥498,507	¥482,090	\$2,476,670
Merchandise sales .....	232,440	273,598	443,840	443,156	433,904	2,192,830
Finance charges earned on installment sales .....	1,031	1,417	2,348	2,509	2,537	9,727
Interest income on consumer loans.....	24,274	32,292	48,529	42,969	35,348	229,000
Other revenues.....	4,782	6,523	9,612	9,873	10,301	45,113
Cost of goods sold.....	167,956	196,310	315,970	313,342	306,623	1,584,491
Selling, general and administrative expenses .....	78,213	103,414	157,297	156,801	150,623	737,858
Operating income.....	16,358	14,106	31,062	28,364	24,844	154,321
Net income.....	6,320	4,944	16,255	12,815	9,360	59,623
Per share amounts (Yen and dollars):						
Net income***** – Basic.....	¥18	¥14	¥44	¥35	¥25	\$0.17
– Diluted.....	17	14	42	33	25	0.16
Cash dividends .....	11	15	22	22	22	0.10
<b>Financial position at period-end and year-end:</b>						
Working capital.....	¥231,687	¥215,182	¥229,544	¥188,545	¥206,762	\$2,185,726
Receivables .....	212,755	214,261	221,310	219,781	180,514	2,007,123
Total stockholders' equity .....	379,442	376,108	388,522	388,640	383,754	3,579,642
Total assets .....	613,325	645,147	652,919	675,465	614,322	5,786,085
Long-term debt, less current maturities..	119,839	119,839	119,839	79,839	99,562	1,130,557
<b>Other information:</b>						
Average number of shares outstanding (thousands) .....	351,459	353,810	367,512	368,656	368,658	
Sales floor space (m <sup>2</sup> ) .....	499,017	488,875	488,875	475,245	456,219	
Number of employees .....	1,406	1,477	2,335	2,458	4,904	

\* All yen figures are represented based on accounting principles generally accepted in Japan.

\*\* All dollar figures refer to U.S. currency. Yen amounts have been translated, for convenience only, at the rate of ¥106 to US\$1.

\*\*\* The fiscal period ended September 30, 2003, consists of the eight months from February 1, 2003, to September 30, 2003, because of the change of the year-end.

\*\*\*\* The fiscal period ended March 31, 2004, consists of the six months from October 1, 2003, to March 31, 2004, because of the change of the year-end.

\*\*\*\*\* See Note 2 of the notes to consolidated financial statements.

# CONSOLIDATED BALANCE SHEETS

Marui Co., Ltd. and Consolidated Subsidiaries  
March 31, 2004, and September 30, 2003

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004/3	2003/9	2004/3
<b>Current assets:</b>			
Cash (Note 3).....	¥ 41,547	¥ 68,616	\$ 391,953
Receivables:			
– Merchandise sales.....	39,102	39,013	368,887
– Consumer loans .....	219,526	217,214	2,071,000
– Allowance for doubtful accounts .....	(10,000)	(8,900)	(94,340)
	248,628	247,327	2,345,547
Securities (Note 5) .....	–	10,000	–
Inventories (Note 4).....	50,115	52,041	472,783
Deferred income tax (Note 10) .....	6,470	9,490	61,038
Other current assets .....	38,331	26,172	361,613
Total current assets.....	385,091	413,646	3,632,934
<b>Property and equipment, at cost:</b>			
Land .....	94,213	94,213	888,802
Buildings and improvements .....	273,069	263,737	2,576,122
Store fixtures and equipment.....	41,093	39,832	387,670
Construction in progress.....	1,032	8,768	9,736
	409,407	406,550	3,862,330
Less accumulated depreciation .....	(191,357)	(190,630)	(1,805,255)
Net property and equipment.....	218,050	215,920	2,057,075
<b>Other assets:</b>			
Investments in securities (Note 5) .....	15,690	11,434	148,019
Prepaid rents and lease deposits – principally for stores (Note 6).....	65,403	64,096	617,009
Deferred income tax (Note 10) .....	1,960	5,800	18,491
Other assets.....	5,366	23,261	50,623
Total other assets.....	88,419	104,591	834,142
	¥ 691,560	¥ 734,157	\$ 6,524,151

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004/3	2003/9	2004/3
<b>Current liabilities:</b>			
Short-term loans and current maturities of long-term debt (Note 7) .....	¥ 59,301	¥ 57,790	\$ 559,443
Payables – principally trade .....	50,373	48,907	475,217
Income taxes payable .....	1,182	695	11,151
Other current liabilities.....	21,533	73,478	203,142
Total current liabilities .....	132,389	180,870	1,248,953
<b>Long-term liabilities:</b>			
Long-term debt, less current maturities (Note 7) .....	128,089	129,689	1,208,387
Deferred income tax (Note 10) .....	2,880	1,900	27,170
Severance and retirement benefits for employees (Note 9) .....	491	1,300	4,632
Severance and retirement benefits for directors and corporate statutory auditors.....	1,194	1,318	11,264
Other long-term liabilities.....	2,235	2,195	21,085
Total long-term liabilities .....	134,889	136,402	1,272,538
<b>Minority interests</b> .....	2,455	2,429	23,160
<b>Contingent liabilities</b> (Note 11)			
<b>Stockholders' equity:</b>			
Common stock:			
Authorized – 1,400,000 thousand shares			
Issued – 368,660 thousand shares.....	35,921	35,921	338,877
Capital surplus .....	91,274	91,274	861,076
Retained earnings.....	309,455	304,444	2,919,387
	436,650	431,639	4,119,340
Net unrealized holding gains on securities .....	3,053	689	28,802
Less treasury stock, at cost.....	(17,876)	(17,872)	(168,642)
Total stockholders' equity .....	421,827	414,456	3,979,500
	¥691,560	¥734,157	\$6,524,151

# CONSOLIDATED STATEMENTS OF INCOME

Marui Co., Ltd. and Consolidated Subsidiaries

Six months ended March 31, 2004, eight months ended September 30, 2003, and year ended January 31, 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004/3	2003/9	2003/1	2004/3
<b>Operating revenues:</b>				
Merchandise sales.....	¥232,446	¥273,608	¥443,933	\$2,192,887
Finance charges earned on installment sales .....	1,031	1,417	2,348	9,726
Interest income on consumer loans .....	28,009	36,558	53,500	264,236
Other revenues .....	29,445	41,825	59,086	277,783
Total operating revenues .....	290,931	353,408	558,867	2,744,632
<b>Operating expenses:</b>				
Cost of goods sold.....	186,864	226,966	356,558	1,762,868
Selling, general and administrative expenses.....	82,332	110,433	167,992	776,717
Total operating expenses .....	269,196	337,399	524,550	2,539,585
<b>Operating income</b> .....	21,735	16,009	34,317	205,047
<b>Other income (expenses):</b>				
Interest income .....	195	300	416	1,840
Interest expenses.....	(940)	(1,221)	(2,533)	(8,868)
Gain on sale of property and equipment.....	-	623	15	-
Gain on winding up of the non-contributory defined benefit pension plan (Notes 2 and 9) .....	-	28,564	-	-
Loss on disposal of property and equipment .....	(3,043)	(2,038)	(2,682)	(28,708)
Loss on devaluation of property and equipment .....	-	(14,024)	-	-
Loss on devaluation of investments in securities.....	-	(40)	(145)	-
Loss on devaluation of investment in an affiliated company.....	-	-	(100)	-
Loss on closing of stores .....	(1,661)	-	-	(15,670)
Loss on partial termination of lump-sum severance and retirement benefits for employees and privately held pension plan (Notes 2 and 9) .....	-	(396)	-	-
Special termination benefits paid to employees (Note 9) .....	-	(14,901)	-	-
Other, net .....	1,343	288	1,690	12,670
	(4,106)	(2,845)	(3,339)	(38,736)
<b>Income before income taxes and minority interests</b> .....	17,629	13,164	30,978	166,311
<b>Income taxes (Note 10):</b>				
Current.....	990	1,720	17,143	9,339
Deferred.....	6,213	4,833	(3,915)	58,613
Total income taxes.....	7,203	6,553	13,228	67,952
<b>Minority interests</b> .....	(85)	(457)	(130)	(802)
<b>Net income</b> .....	¥ 10,341	¥ 6,154	¥ 17,620	\$ 97,557
		Yen		U.S. dollars (Note 1)
<b>Net income per share (Note 12):</b>				
Basic .....	¥29	¥17	¥48	\$0.27
Diluted .....	28	17	45	0.26
<b>Cash dividends per share applicable to the period</b> .....	11	15	22	0.10

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Marui Co., Ltd. and Consolidated Subsidiaries

Six months ended March 31, 2004, eight months ended September 30, 2003, and year ended January 31, 2003

	Thousands of shares of common stock	Millions of yen				
		Common stock	Capital surplus	Retained earnings	Net unrealized holding gains (losses) on securities	Less treasury stock, at cost
<b>Balance at January 31, 2002</b> .....	368,660	¥35,921	¥91,274	¥296,915	¥ 315	¥ (25)
Net income .....	-	-	-	17,620	-	-
Cash dividends paid (¥22 per share) .....	-	-	-	(8,110)	-	-
Directors' bonuses.....	-	-	-	(86)	-	-
Net unrealized holding losses on securities.....	-	-	-	-	(847)	-
Treasury stock acquired, net.....	-	-	-	-	-	(7,336)
<b>Balance at January 31, 2003</b> .....	368,660	35,921	91,274	306,339	(532)	(7,361)
Net income .....	-	-	-	6,154	-	-
Cash dividends paid (¥22 per share) .....	-	-	-	(7,963)	-	-
Directors' bonuses.....	-	-	-	(86)	-	-
Net unrealized holding gains on securities.....	-	-	-	-	1,221	-
Treasury stock acquired, net.....	-	-	-	-	-	(10,511)
<b>Balance at September 30, 2003</b> .....	368,660	35,921	91,274	304,444	689	(17,872)
Net income .....	-	-	-	10,341	-	-
Cash dividends paid (¥15 per share) .....	-	-	-	(5,272)	-	-
Directors' bonuses.....	-	-	-	(58)	-	-
Net unrealized holding gains on securities.....	-	-	-	-	2,364	-
Treasury stock acquired, net.....	-	-	-	-	-	(4)
<b>Balance at March 31, 2004</b> .....	<b>368,660</b>	<b>¥35,921</b>	<b>¥91,274</b>	<b>¥309,455</b>	<b>¥3,053</b>	<b>¥(17,876)</b>

	Thousands of shares of common stock	Thousands of U.S. dollars (Note 1)				
		Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Less treasury stock, at cost
<b>Balance at September 30, 2003</b> .....	368,660	\$338,877	\$861,076	\$2,872,113	\$ 6,500	\$(168,604)
Net income .....	-	-	-	97,557	-	-
Cash dividends paid (\$0.14 per share) .....	-	-	-	(49,736)	-	-
Directors' bonuses.....	-	-	-	(547)	-	-
Net unrealized holding gains on securities.....	-	-	-	-	22,302	-
Treasury stock acquired, net.....	-	-	-	-	-	(38)
<b>Balance at March 31, 2004</b> .....	<b>368,660</b>	<b>\$338,877</b>	<b>\$861,076</b>	<b>\$2,919,387</b>	<b>\$28,802</b>	<b>\$(168,642)</b>

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Marui Co., Ltd. and Consolidated Subsidiaries

Six months ended March 31, 2004, eight months ended September 30, 2003, and year ended January 31, 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004/3	2003/9	2003/1	2004/3
<b>Cash flows from operating activities:</b>				
Income before income taxes and minority interests .....	¥ 17,629	¥ 13,164	¥ 30,978	\$ 166,311
Adjustments to reconcile income before income taxes and minority interests to net cash provided by (used in) operating activities:				
Depreciation and amortization .....	9,556	12,242	18,780	90,151
(Decrease) increase in accrued bonuses .....	(2,190)	4,270	10	(20,660)
(Decrease) increase in severance and retirement benefits for employees and prepaid pension expense .....	(881)	(33,343)	4,898	(8,311)
Interest and dividends income .....	(214)	(389)	(533)	(2,019)
Interest expenses .....	1,062	1,221	2,533	10,019
Issuance costs of bonds .....	-	-	240	-
Gain on sale of property and equipment .....	-	(623)	(15)	-
Gain on winding up of the non-contributory defined benefit pension plan .....	-	(28,564)	-	-
Loss on disposal of property and equipment .....	2,893	1,463	2,173	27,292
Loss on sale of investments in securities .....	-	-	48	-
Loss on devaluation of investments in securities .....	-	40	145	-
Loss on devaluation of property and equipment .....	-	14,024	-	-
Loss on devaluation of investment in an affiliated company .....	-	-	100	-
(Increase) decrease in receivables, less allowance for doubtful accounts .....	(1,301)	596	(8,062)	(12,274)
Decrease (increase) in inventories .....	1,926	(474)	2,590	18,170
Decrease (increase) in tax refund receivable .....	7,220	(7,220)	-	68,113
Increase (decrease) in payables - principally trade .....	1,466	6,926	(2,686)	13,830
(Decrease) increase in payables of lump-sum severance payments and special severance indemnities .....	(49,862)	49,862	-	(470,396)
Bonuses paid to directors .....	(58)	(86)	(86)	(547)
Other, net .....	(704)	(6,299)	(3,150)	(6,641)
Sub-total .....	(13,458)	26,810	47,963	(126,962)
Interest and dividends income received in cash .....	233	413	523	2,198
Interest expenses paid in cash .....	(1,266)	(711)	(2,413)	(11,944)
Income taxes paid in cash .....	(503)	(10,634)	(17,649)	(4,745)
Net cash (used in) provided by operating activities .....	(14,994)	15,878	28,424	(141,453)
<b>Cash flows from investing activities:</b>				
Proceeds from redemption of securities .....	10,000	-	-	94,340
Net increase in short-term loans receivable .....	(3,300)	-	-	(31,132)
Payments for purchase of property and equipment .....	(11,263)	(11,493)	(22,797)	(106,255)
Proceeds from sale of property and equipment .....	-	1,070	181	-
Purchases of investments in securities .....	(322)	(22)	(156)	(3,038)
Proceeds from sale of investments in securities .....	10	-	147	94
Payments of leasehold deposits .....	(3,694)	(187)	(2,169)	(34,849)
Refunds of leasehold deposits .....	1,861	5,482	3,302	17,557
Other, net .....	5	(173)	32	47
Net cash used in investing activities .....	(6,703)	(5,323)	(21,460)	(63,236)
<b>Cash flows from financing activities:</b>				
Net (decrease) increase in short-term loans and long-term debt .....	(89)	11,690	5,450	(839)
Proceeds from issuance of bonds .....	-	-	39,760	-
Redemption of convertible bonds .....	-	-	(59,962)	-
Payments for purchase of treasury stock .....	(4)	(10,510)	(7,348)	(38)
Dividends paid .....	(5,272)	(7,963)	(8,110)	(49,736)
Other, net .....	(7)	(10)	(11)	(66)
Net cash used in financing activities .....	(5,372)	(6,793)	(30,221)	(50,679)
<b>Net (decrease) increase in cash and cash equivalents .....</b>	<b>(27,069)</b>	<b>3,762</b>	<b>(23,257)</b>	<b>(255,368)</b>
<b>Cash and cash equivalents at beginning of period/year .....</b>	<b>68,616</b>	<b>64,754</b>	<b>88,011</b>	<b>647,321</b>
<b>Increase in cash and cash equivalents due to inclusion of additional subsidiaries in the consolidation .....</b>	<b>-</b>	<b>100</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at end of period/year .....</b>	<b>¥ 41,547</b>	<b>¥ 68,616</b>	<b>¥ 64,754</b>	<b>\$ 391,953</b>

See accompanying notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Marui Co., Ltd. and Consolidated Subsidiaries  
March 31, 2004, and September 30 and January 31, 2003

## 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of stockholders' equity) from the consolidated financial statements of Marui Co., Ltd. (the "Company") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2004, which was ¥106 to U.S.\$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

The Company and consolidated subsidiaries (the "Companies") changed the year-end from January 31 to March 31 in accordance with the resolution of change in a part of the Company's articles at the annual general meeting of the stockholders held on April 25, 2003. The Company had adopted September 30, 2003, as the transitional year-end date before eventually adopting the year-end date of March 31 as of March 31, 2004. Therefore, the fiscal period ended September 30, 2003, and March 31, 2004, consist of eight months and six months, respectively.

## 2. Summary of Significant Accounting Policies

### (a) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its significant subsidiaries, which are all Japanese corporations. All companies in Japan are required to consolidate all significant investees which are controlled through substantial ownership of majority voting rights or through certain other means. All significant intercompany transactions and unrealized profits among the Companies have been eliminated in consolidation. Investments in 20%-50% owned affiliates are carried at cost, since the amounts are insignificant. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority stockholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries. The excess of investment cost over the net assets of a subsidiary acquired is amortized on a straight-line basis over a period of five years. However, the excess is charged (or credited) to income in the period of acquisition when the amounts are immaterial.

### (b) IMPAIRMENT OF FIXED ASSETS

In the year ended March 31, 2004, the Companies did not adopt early the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The Companies plan to adopt these standards effective on April 1, 2005.

The Companies do not believe that adoption of this new accounting standard will have a material impact on its financial statements.

### (c) CASH AND CASH EQUIVALENTS

In preparing the consolidated statements of cash flows, cash, readily-available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

### (d) UNEARNED FINANCE CHARGES

At the balance sheet date, unearned finance charges included in receivables of merchandise sales under installment sales and consumer loans are deferred.

### (e) INVESTMENTS IN SECURITIES

The intent of holding each security is examined and securities are classified as (a) securities held for trading purposes, (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies and (d) all other securities

that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Based on the examination of the intent of holding, the Companies classified their securities as held-to-maturity debt securities, equity securities issued by subsidiaries and affiliated companies and available-for-sale securities. Held-to-maturity debt securities maturing within one year from the balance sheet date are included in current assets. Other securities are included in investments in securities.

Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies that are not consolidated or accounted for using the equity method are stated at cost by the moving average method. Available-for-sale securities with available fair market values are stated at the market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of stockholders' equity. Realized gains and losses on sale of such securities are computed by the moving average method. Available-for-sale securities without available fair market value are stated at cost by the moving average method.

### (f) ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Companies provide for a sufficient allowance for doubtful accounts to cover probable losses on collection by estimating uncollectible amounts individually in addition to amounts for possible losses based on actual losses on collection in the past.

### (g) MERCHANDISE INVENTORIES

Merchandise inventories are principally determined on the retail inventory method and are stated at cost, which is lower than market.

### (h) PROPERTY AND EQUIPMENT

Property and equipment are carried at cost. Depreciation is computed over the estimated useful lives of the assets on the declining-balance method. Estimated useful lives of the assets are as follows:

	Number of years
Buildings.....	39-50
Improvements.....	3-15
Store fixtures and equipment .....	3-10

### (i) INTANGIBLE ASSETS

The Companies amortize intangible assets (except for software to be sold) based on the straight-line method in accordance with the Japanese Corporate Tax Law. The annual amortization of software to be sold is provided by the greater of the amount computed using the expected sales revenues or the amount computed using the straight-line method over the expected marketable period (within three years).

**(j) SEVERANCE AND RETIREMENT BENEFITS FOR EMPLOYEES**

Employees severing their connection with the Companies on retirement are generally entitled to annuity payments covered by two severance and retirement benefit pension plans—a lump-sum severance and retirement payment plan and a privately held pension plan—based on rates of pay, length of service and certain other factors.

In connection with enforcement of the Defined Benefit Enterprise Pension Law, the Company and some of its consolidated subsidiaries received approval from the Minister of Health, Labor and Welfare for winding up the non-contributory defined benefit pension plan supported by the government and exemption from payment of future benefits on March 18 and September 26, 2003, respectively.

Under this condition, the Company and some of its consolidated subsidiaries adopted the Accounting Standard Implementation Guidance No. 1, “Implementation Guidance on Accounting Standard for the Transitions Between the Retirement Benefit Plans”, issued by the Accounting Standards Board of Japan. In accordance with the standard, the Company and some of its consolidated subsidiaries recorded a gain which was the difference between the present value of the future obligations for retirement benefit plans and the pension plan assets, which were related to the dissolution, and unamortized actuarial losses corresponding to the dissolved portion of present value of the future obligations charged to income.

As a result of adopting the accounting standard, gain on winding up of the non-contributory defined benefit pension plan amounted to ¥28,564 million and it was recognized as income for the fiscal period ended September 30, 2003.

As a part of management reforms, many of the Company's employees transferred to the Company's subsidiaries on September 30, 2003, in accordance with the transition toward the new personnel system.

Also, the Company's consolidated subsidiaries demolished their privately held pension plan and lump-sum severance and retirement payment plan on September 30, 2003. As a result, the Company and its consolidated subsidiaries reversed the severance and retirement benefits for employees amounting to ¥34,814 million for the payment of lump-sum severance and retirement payment, and also recognized loss on partial termination of privately held pension plan and loss on partial termination of lump-sum severance and retirement payment plan amounting to ¥396 million, on September 30, 2003, in accordance with the Accounting Standard Implementation Guidance No. 1, “Implementation Guidance on Accounting Standard for the Transitions Between the Retirement Benefit Plans”, issued by the Accounting Standards Board of Japan.

Actuarial gains and losses and prior service cost are amortized using the straight-line method over the estimated average remaining service lives (nine years) of employees, commencing with the following period or year and with the current period or year, respectively.

Effective from the period ended March 31, 2004, the Company changed the length of amortization period for the actuarial gains and losses from 14 years to 9 years. The effect on this change is immaterial.

**(k) SEVERANCE AND RETIREMENT BENEFITS FOR DIRECTORS AND CORPORATE STATUTORY AUDITORS**

For directors and corporate statutory auditors, the Companies offer a lump-sum retirement benefit plan. The Companies have accrued 100% of amounts calculated based on the Companies' retirement rules under the assumption that all directors and corporate statutory auditors retired from the Companies on the balance sheet date in order to prepare future payments of

retirement benefits. Retirement benefits to be paid to directors and corporate statutory auditors are subject to an approval of the general meeting of stockholders in accordance with the Japanese Commercial Code (“the Code”).

**(l) APPROPRIATION OF RETAINED EARNINGS**

Cash dividends and bonuses to directors and corporate statutory auditors are recorded in the fiscal period or year when the proposed appropriation of retained earnings is approved at the general meeting of stockholders.

**(m) STOCKHOLDERS' EQUITY**

Under the Code, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

Effective October 1, 2001, the Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the stockholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by resolution of the stockholders' meeting. Legal earnings reserve is included in retained earnings. The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Code.

**(n) TREASURY STOCK AND REDUCTION OF STATUTORY RESERVES**

The Companies have adopted Accounting Standard No. 1, “Accounting Standard for Treasury Stock and Reduction of Statutory Reserves”, issued by the Accounting Standards Board of Japan on February 21, 2002.

The effect on the accompanying consolidated financial statements is immaterial.

**(o) ACCOUNTING FOR LEASES**

Finance lease transactions, except those leases for which the ownership of the leased assets is considered to be transferred to the lessee, are accounted for in the same manner as operating leases.

**(p) INCOME TAXES**

The Companies provide for income taxes applicable to all items included in the consolidated statements of income regardless of when such taxes are currently payable. Income taxes based on temporary differences between tax and financial reporting purposes are reflected as deferred income taxes in the consolidated financial statements using the asset and liability method.

**(q) NET INCOME PER SHARE**

Basic net income per share is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

Effective February 1, 2003, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, “Accounting Standard for Earnings Per Share” and Financial Standards Implementation Guidance No. 4, “Implementation Guidance for Accounting Standard for Earnings Per Share”, issued by the Accounting Standards Board of Japan on September 25, 2002).

The new accounting standard requires calculating net income available to common stockholders by deducting of amounts not belonging to common stock (e.g. bonuses to directors appropriated from retained earnings which is to be resolved at the annual stockholders' meeting held after the period-end) from net income to figure out the basis for the net income per share. The effect on net income per share by the adoption of the new accounting standard is immaterial.

#### (r) RECLASSIFICATIONS

Certain amounts for the eight months ended September 30, 2003, and the year ended January 31, 2003, have been reclassified to conform to the presentation for the period ended March 31, 2004. These changes had no impact on previously reported results of operations or stockholders' equity.

### 3. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2004, and September 30, 2003, consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2004/3	2003/9	2004/3
Cash shown in the consolidated balance sheet .....	¥41,547	¥68,616	\$391,953
Cash equivalents.....	-	-	-
Cash and cash equivalents.....	¥41,547	¥68,616	\$391,953

### 4. Inventories

Inventories at March 31, 2004, and September 30, 2003, consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2004/3	2003/9	2004/3
Merchandise .....	¥49,519	¥50,911	\$467,160
Work in progress .....	320	804	3,019
Supplies .....	276	326	2,604
Total .....	¥50,115	¥52,041	\$472,783

### 5. Securities

(a) Acquisition costs, book value and fair value of securities with available fair value as of March 31, 2004, and September 30, 2003, are as follows:

#### (i) Held-to-maturity debt securities

	Millions of yen						Thousands of U.S. dollars		
	2004/3			2003/9			2004/3		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Securities with available fair value exceeding book value:									
Government bonds.....	¥-	¥-	¥-	¥-	¥-	¥-	\$-	\$-	\$-
Corporate bonds.....	-	-	-	10,000	10,017	17	-	-	-
Others.....	-	-	-	-	-	-	-	-	-
Total .....	¥-	¥-	¥-	¥10,000	¥10,017	¥17	\$-	\$-	\$-
Securities with available fair value not exceeding book value:									
Government bonds.....	¥-	¥-	¥-	¥-	¥-	¥-	\$-	\$-	\$-
Corporate bonds.....	-	-	-	-	-	-	-	-	-
Others.....	-	-	-	-	-	-	-	-	-
Total .....	¥-	¥-	¥-	¥-	¥-	¥-	\$-	\$-	\$-

#### (ii) Available-for-sale securities

	Millions of yen						Thousands of U.S. dollars		
	2004/3			2003/9			2004/3		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book value exceeding acquisition costs:									
Equity securities.....	¥2,550	¥8,064	¥5,514	¥2,176	¥5,937	¥3,761	\$24,057	\$76,076	\$52,019
Bonds.....	-	-	-	-	-	-	-	-	-
Others.....	-	-	-	-	-	-	-	-	-
Total .....	¥2,550	¥8,064	¥5,514	¥2,176	¥5,937	¥3,761	\$24,057	\$76,076	\$52,019
Securities with book value not exceeding acquisition costs:									
Equity securities.....	¥7,319	¥6,959	¥(360)	¥7,700	¥5,101	¥(2,599)	\$69,047	\$65,651	\$(3,396)
Bonds.....	-	-	-	-	-	-	-	-	-
Others.....	-	-	-	-	-	-	-	-	-
Total .....	¥7,319	¥6,959	¥(360)	¥7,700	¥5,101	¥(2,599)	\$69,047	\$65,651	\$(3,396)

(b) Book values of securities with no available fair value as of March 31, 2004, and September 30, 2003, are as follows:

Available-for-sale securities	Millions of yen		Thousands of U.S. dollars
	2004/3	2003/9	2004/3
	Book value		
Non-listed equity securities (over-the-counter securities are excluded) .....	<b>¥186</b>	<b>¥166</b>	<b>\$1,755</b>

(c) Book values of securities by contractual maturities for securities classified as held-to-maturity as of March 31, 2004, and September 30, 2003, are as follows:

Held-to-maturity debt securities	Millions of yen				Thousands of U.S. dollars	
	2004/3		2003/9		2004/3	
	Due within one year	Due after one year through five years	Due within one year	Due after one year through five years	Due within one year	Due after one year through five years
Government bonds .....	¥ -	¥ -	¥ -	¥ -	\$ -	\$ -
Corporate bonds .....	-	-	10,000	-	-	-
Others .....	-	-	-	-	-	-
Total .....	<b>¥ -</b>	<b>¥ -</b>	<b>¥10,000</b>	<b>¥ -</b>	<b>\$ -</b>	<b>\$ -</b>

(d) Total sales of available-for-sale securities amounted to ¥10 million (\$94 thousand) and the related gains amounted to ¥2 million (\$19 thousand) for the period ended March 31, 2004. For the period ended September 30, 2003, no available-for-sale securities were sold.

## 6. Prepaid Rents and Lease Deposits

The Company operates a number of stores under various lease arrangements. Typically the Company advances the costs of construction of a store to the lessor and, upon completion of construction, leases the property for an initial period of generally 20 years. Approximately 30% of the construction advance is considered a lease deposit, refundable at the end of the lease term. The remain-

ing portion of the advance is refundable in installments over the second half of the lease term together with nominal interest. The Company accounts for this remaining portion as prepaid rents in the accompanying consolidated financial statements. Rent payments under store leases are normally fixed amounts that are renegotiated every two or three years.

## 7. Short-Term Loans and Long-Term Debt

(a) Short-term loans including bank overdrafts at March 31, 2004, and September 30, 2003, consist of the following:

Short-term loans .....	Millions of yen		Thousands of U.S. dollars
	2004/3	2003/9	2004/3
	<b>¥57,701</b>	<b>¥57,790</b>	<b>\$544,349</b>

The weighted-average interest rates applicable to the bank borrowings are 0.95% per annum in March 31, 2004, and September 30, 2003.

(b) Long-term debt at March 31, 2004, and September 30, 2003, consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2004/3	2003/9	2004/3
1.70% unsecured bonds due in 2012 .....	¥ 20,000	¥ 20,000	\$ 188,679
1.15% unsecured bonds due in 2009 .....	20,000	20,000	188,679
0.99% unsecured bonds due in 2008 .....	40,000	40,000	377,359
1.15% unsecured convertible bonds, convertible into common stock at ¥2,153.0 per share, due in 2012..	39,839	39,839	375,840
Unsecured loans from banks and an insurance company, 1.44% per annum .....	9,850	9,850	92,924
	<b>129,689</b>	<b>129,689</b>	<b>1,223,481</b>
Less current maturities .....	<b>(1,600)</b>	-	<b>(15,094)</b>
Long-term debt .....	<b>¥128,089</b>	<b>¥129,689</b>	<b>\$1,208,387</b>

The annual maturities of long-term debt as of March 31, 2004, are as follows:

	Millions of yen	Thousands of U.S. dollars
2004 .....	¥ 1,600	\$ 15,094
2005 .....	4,000	37,736
2006 .....	1,450	13,679
2007 .....	2,800	26,415
2008 .....	-	-
2009 and thereafter .....	119,839	1,130,557
Total .....	<b>¥129,689</b>	<b>\$1,223,481</b>

## 8. Leases

(a) Pro forma information relating to acquisition cost, accumulated depreciation and book values for property held under finance leases which do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the periods ended March 31, 2004, and September 30, 2003, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2004/3	2003/9	2004/3
Store fixtures and equipment			
Acquisition cost.....	¥ 4,098	¥ 4,528	\$ 38,660
Accumulated depreciation.....	(1,918)	(2,257)	(18,094)
Book value.....	¥ 2,180	¥ 2,271	\$ 20,566

(b) Future minimum lease payments under finance leases as of March 31, 2004, and September 30, 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004/3	2003/9	2004/3
Due within one year.....	¥ 895	¥ 903	\$ 8,443
Due after one year.....	1,285	1,368	12,123
Total.....	¥2,180	¥2,271	\$20,566

The pro forma information above does not exclude the imputed interest portion from the acquisition cost because the remaining finance lease obligations are not material compared with the book value of property and equipment.

(c) Total payments for finance lease transactions without ownership transfer to lessees for the periods ended March 31, 2004, and September 30, 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004/3	2003/9	2004/3
Lease payments.....	¥526	¥682	\$4,962
Depreciation expense.....	526	682	4,962

(d) The minimum rental commitments under noncancellable operating leases as of March 31, 2004, and September 30, 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004/3	2003/9	2004/3
(As lessee)			
Due within one year.....	¥ 4,811	¥ 3,991	\$ 45,387
Due after one year.....	26,407	21,110	249,122
Total.....	¥31,218	¥25,101	\$294,509
(As lessor)			
Due within one year.....	¥328	¥316	\$3,094
Due after one year.....	242	379	2,283
Total.....	¥570	¥695	\$5,377

## 9. Severance and Retirement Benefits for Employees

The Company and its consolidated subsidiaries had adopted a non-contributory defined pension plan supported by the government, a privately held pension plan and a lump-sum severance and retirement plan as defined benefit plans for employees.

In connection with enforcement of the Defined Benefit Enterprise Pension Law, the Company and some of its consolidated subsidiaries received approval from the Minister of Health, Labor and Welfare for winding up the non-contributory defined benefit pension plan supported by the government and exemption from payment of future benefits were obtained on March 18, 2003, for the Company and four subsidiaries and on September 26, 2003, for the subsidiary, respectively.

Also, the Company's consolidated subsidiaries demolished the privately held pension plan and the lump-sum severance and retirement payment plan, and many of the Company's employees transferred to the subsidiaries on September 30, 2003, in accordance with the transition toward the new personnel system as a part of management reforms.

As a result, the Company's privately held pension plan as defined benefit plans and lump-sum severance and retirement payment plan for a part of employees only exist on March 31, 2004.

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2004, and September 30, 2003, consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2004/3	2003/9	2004/3
(a) Present value of the future obligations .....	¥ (5,843)	¥ (6,320)	\$ (55,123)
(b) Pension plan assets.....	23,728	22,317	223,849
(c) Unfunded obligations of severance and retirement benefits ((a)+(b)) .....	17,885	15,997	168,726
(d) Unrecognized actuarial losses .....	2,224	1,560	20,981
(e) Unrecognized pension plan assets.....	(1,344)	-	(12,679)
(f) Unrecognized prior service costs .....	(327)	-	(3,085)
(g) Subtotal ((c)+(d)+(e)+(f)).....	18,438	17,557	173,943
(h) Prepaid pension expense.....	18,929	18,857	178,575
(i) Severance and retirement benefits for employees ((g)-(h)) .....	¥ (491)	¥ (1,300)	\$ (4,632)

Severance and retirement benefit costs included in the consolidated statements of income for the periods ended March 31, 2004, and September 30, 2003, are comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2004/3	2003/9	2004/3
Service costs .....	¥ 56	¥2,187	\$ 528
Interest costs.....	60	1,322	566
Expected return on plan assets.....	(223)	(573)	(2,104)
Amortization of actuarial gains and losses .....	105	1,201	991
Amortization of prior service costs .....	(19)	-	(179)
Severance and retirement benefit costs for employees.....	¥ (21)	¥4,137	\$ (198)
Gain on winding up of the non-contributory defined benefit pension plan.....	¥ -	¥(28,564)	\$ -
Loss on partial termination of privately held pension plan and loss on partial termination of lump-sum severance and retirement payment plan .....	-	396	-

In addition to the above, the Company and its consolidated subsidiaries recognized special termination benefits paid to employees, which consist of premium severance pay, etc., amounted to ¥14,901 million as losses for the period ended September 30, 2003.

The discount rate and the rate of expected return on plan assets used by the Companies are 2.0% and 2.0%, respectively.

The estimated amount of all severance and retirement benefits to be paid in the future is allocated equally to each service year using the estimated number of total service years.

## 10. Income Taxes

The Companies are subject to a number of income taxes, which, in the aggregate, indicate a statutory rate in Japan of approximately 42.1% for the periods ended March 31, 2004, and September 30, 2003, and the year ended January 31, 2003.

(a) Significant components of the Companies' deferred income tax assets and liabilities as of March 31, 2004, and September 30, 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004/3	2003/9	2004/3
Deferred income tax assets:			
Depreciation .....	¥ 5,214	¥ 4,470	\$ 49,188
Accrued bonuses.....	2,034	2,644	19,189
Unrealized profits for property and equipment transferred among the Companies .....	2,627	2,515	24,783
Tax loss carry forward .....	9,353	16,354	88,236
Allowance for doubtful accounts.....	1,470	1,399	13,868
Other .....	3,892	3,762	36,717
Total deferred income tax assets .....	24,590	31,144	231,981
Valuation allowance.....	(706)	(691)	(6,660)
Total deferred income tax assets, net of valuation allowance .....	23,884	30,453	225,321
Deferred income tax liabilities:			
Deferred gains on sales of property and equipment .....	(4,784)	(4,763)	(45,132)
Prepaid pension expense .....	(8,331)	(8,625)	(78,594)
Reserve for tax purpose provisions .....	(2,117)	(2,299)	(19,972)
Other .....	(3,102)	(1,376)	(29,264)
Total deferred income tax liabilities.....	(18,334)	(17,063)	(172,962)
Net deferred income tax assets .....	¥ 5,550	¥ 13,390	\$ 52,359

(b) Disclosure of the reconciliation between the statutory tax rate and the effective tax rate for the period ended March 31, 2004, is omitted since the difference is immaterial.

The reconciliation between the statutory tax rate in Japan and the Company's effective tax rate for the period ended September 30, 2003, is summarized as follows:

Statutory tax rate.....	42.1 %
Non-deductible expenses.....	0.5
Non-taxable dividend income.....	(0.5)
Unrealized taxable income of deficit subsidiary.....	2.7
Per capita inhabitants' tax.....	0.9
Adjustment on deferred tax assets due to change of income tax rate.....	0.9
Other.....	3.2
Effective tax rate.....	<u>49.8 %</u>

(c) Change in effective tax rates to be used in calculating deferred taxes due to the revised local tax law

The aggregate statutory income tax rate used for calculation of deferred income tax assets and liabilities was 42.1% for the year ended January 31, 2003. According to the Act for Partial Revision of Local Tax Law proclaimed March 31, 2003, the statutory effective tax rate, which is used for calculation of deferred tax assets and liabilities relating to temporary differences for the periods after April 1, 2004, is changed from 42.1% to 40.5%. The effect of this change is immaterial.

(d) Change in effective tax rates to be used in calculating deferred taxes due to the revised Tokyo Metropolitan Bylaw

According to the Partial Revision of Tokyo Metropolitan Bylaw proclaimed October 14, 2003, the statutory effective tax rate, which is used for calculation of deferred tax assets and liabilities relating to temporary differences for the periods after April 1, 2004, is changed from 40.5% to 40.7%. The effect of this change is immaterial.

## 11. Contingent Liabilities

The Companies were contingently liable at March 31, 2004, for the following:

	Millions of yen	Thousands of U.S. dollars
Loan guarantees made for employees.....	¥11	\$104

## 12. Net Income Per Share

Effective February 1, 2003, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for

Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002).

Reconciliation of the difference between basic and diluted net income per share ("EPS") for the period ended March 31, 2004, and September 30, 2003, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004/3	2003/9	2004/3
Basic net income per share calculation:			
Income (numerator):			
Net income.....	¥10,341	¥6,154	\$97,557
Amounts not belonging to common stock (Bonuses to directors from retained earnings).....	(43)	(58)	(406)
Net income available to common stockholders.....	10,298	6,096	97,151
Shares, thousands (denominator):			
Weighted average number of shares.....	351,459	353,810	
Basic EPS (yen and U.S. dollars).....	¥29	¥17	\$0.27
Diluted net income per share calculation:			
Income (numerator):			
Net income.....	¥10,341	¥6,154	\$97,557
Amounts not belonging to common stock (Bonuses to directors from retained earnings).....	(43)	(58)	(406)
Net income available to common stockholders.....	10,298	6,096	97,151
Effect of dilutive securities—Convertible bonds.....	136	179	1,283
Adjusted net income.....	10,434	6,275	98,434
Shares, thousands (denominator):			
Weighted average number of shares.....	351,459	353,810	
Assumed conversion of convertible bonds.....	18,504	18,504	
Adjusted weighted average number of shares.....	369,963	372,314	
Diluted EPS (yen and U.S. dollars).....	¥28	¥17	\$0.26

The information above was not required to be disclosed by the Ministry of Finance Ordinance for the years ended January 31, 2003.

### 13. Segment Information

The Companies operate principally in two business segments, Merchandising and Credit and Consumer Services.

Merchandising involves the sale of apparel, luxury and accessory goods, furniture and household appliances and foodstuffs. Credit and Consumer Services involve finance charges earned on installment sales, annual fees for the Marui Card and the Akai Card and consumer loans—principally cash dispensing services and general purpose loans—and referral and agency services for travel, driving schools, insurance and others. Credit and Consumer Services revenues consist of commissions and interest income on consumer loans.

Other segment revenues include interior design, construction and advertising services; information processing services and sales of computer software; and transportation services. Intersegment prices are determined by negotiations between the parties involved.

Operating income includes revenues less operating expenses but excluding general corporate expenses, interest expenses, unrealized foreign currency exchange gain (loss), other income and provision for income taxes. Identifiable assets are those assets used in the Companies' operations in each segment. Corporate assets consist principally of cash, deposits and short-term investments.

	Millions of yen					
	Period ended March 31, 2004					
	Merchandising	Credit and Consumer Services	Other	Total	Corporate or Elimination	Consolidated
Operating revenues:						
Outside customers.....	¥232,446	¥33,193	¥25,292	¥290,931	¥ -	¥290,931
Inter-segment .....	-	-	27,631	27,631	(27,631)	-
Total .....	232,446	33,193	52,923	318,562	(27,631)	290,931
Operating expenses .....	221,115	25,416	48,968	295,499	(26,303)	269,196
Operating income .....	¥ 11,331	¥ 7,777	¥ 3,955	¥ 23,063	¥ (1,328)	¥ 21,735
Identifiable assets .....	¥323,425	¥284,610	¥60,994	¥669,029	¥ 22,531	¥691,560
Depreciation and amortization.....	7,626	1,252	972	9,850	(294)	9,556
Capital expenditures, including lease advances .....	13,122	1,920	1,199	16,241	(1,284)	14,957

	Millions of yen					
	Period ended September 30, 2003					
	Merchandising	Credit and Consumer Services	Other	Total	Corporate or Elimination	Consolidated
Operating revenues:						
Outside customers.....	¥273,713	¥43,927	¥35,768	¥353,408	¥ -	¥353,408
Inter-segment .....	-	-	29,534	29,534	(29,534)	-
Total .....	273,713	43,927	65,302	382,942	(29,534)	353,408
Operating expenses .....	268,303	35,075	61,321	364,699	(27,300)	337,399
Operating income .....	¥ 5,410	¥ 8,852	¥ 3,981	¥ 18,243	¥ (2,234)	¥ 16,009
Identifiable assets .....	¥309,534	¥290,056	¥65,617	¥665,207	¥68,950	¥734,157
Depreciation and amortization.....	9,697	1,741	1,371	12,809	(567)	12,242
Capital expenditures, including lease advances .....	9,875	1,534	940	12,349	(669)	11,680

	Thousands of U.S. dollars					
	Period ended March 31, 2004					
	Merchandising	Credit and Consumer Services	Other	Total	Corporate or Elimination	Consolidated
Operating revenues:						
Outside customers.....	\$2,192,887	\$313,142	\$238,603	\$2,744,632	\$ -	\$2,744,632
Inter-segment .....	-	-	260,670	260,670	(260,670)	-
Total .....	2,192,887	313,142	499,273	3,005,302	(260,670)	2,744,632
Operating expenses .....	2,085,991	239,774	461,962	2,787,727	(248,142)	2,539,585
Operating income .....	\$ 106,896	\$ 73,368	\$ 37,311	\$ 217,575	\$ (12,528)	\$ 205,047
Identifiable assets .....	\$3,051,179	\$2,685,000	\$575,415	\$6,311,594	\$212,557	\$6,524,151
Depreciation and amortization.....	71,944	11,811	9,170	92,925	(2,774)	90,151
Capital expenditures, including lease advances .....	123,793	18,113	11,311	153,217	(12,113)	141,104

### 14. Subsequent Event

The following appropriations of retained earnings were approved at the annual general meeting of the stockholders held on June 29, 2004:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥11=\$0.10 per share) .....	¥3,866	\$36,472
Bonuses to directors.....	43	406

# INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors of  
Marui Co., Ltd.

We have audited the accompanying consolidated balance sheets of Marui Co., Ltd. (a Japanese corporation) and consolidated subsidiaries as of March 31, 2004, and September 30, 2003, and the related consolidated statements of income, stockholders' equity and cash flows for the periods ended March 31, 2004, and September 30, 2003, and the year ended January 31, 2003, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Marui Co., Ltd. and subsidiaries as of March 31, 2004, and September 30, 2003, and the consolidated results of their operations and their cash flows for the periods ended March 31, 2004, and September 30, 2003, and the year ended January 31, 2003, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the period ended March 31, 2004, are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan  
June 29, 2004

# STORE INFORMATION

(As of March 31, 2004)

## Store Locations



## Newly Opened Store



Kobe Marui  
 (Open in October 2003)

## New Stores Scheduled for opening



Kitasenju Marui  
 (Open in February 2004)



Nanba Store  
 (Scheduled to open in autumn 2006)



New Shinjuku store complex  
 (Scheduled to open in 2007)



Yurakucho Store  
 (Scheduled to open in spring 2007)

## Major Stores

1 SHINJUKU STORE



City Shinjuku



Men Shinjuku



Young Shinjuku



in The Room



Field

2 CITY YOKOHAMA



3 OMIYA STORE



4 FAMILY MIZONOKUCHI



5 CITY UENO



6 FAMILY KOKUBUNJI



7 SHIBUYA STORE



City Shibuya



Young Shibuya

8 KINSHICHO STORE



9 MACHIDA STORE



be Machida



mini Machida

10 KASHIWA STORE



VAT



Marui Kashiwa

11 IKEBUKURO STORE



City Ikebukuro



in The Room

12 FAMILY EBINA



13 KAWASAKI STORE



14 MITO STORE



15 SHIZUOKA STORE



Marui Shizuoka



Keyaki Plaza Shizuoka

16 TOTSUKA STORE



# MARUI GROUP COMPANIES

(As of March 31, 2004)

\* Consolidated Subsidiary

## Transportation

**MOVING CO., LTD.\***

This company, a 93.2%-owned subsidiary of Marui Co., Ltd., provides delivery of merchandise for Marui and other companies as well as general transportation services, such as parcel delivery and moving.

**Head Office:**  
1-28-11, Shinjuku, Shinjuku-ku,  
Tokyo 160-0022, Japan  
**Incorporated:** October 1960  
**Capitalization:** ¥1,450 million  
**Number of Employees:** 1,160



## Cashing and Credit-Card-Related Services

**ZERO FIRST CO., LTD.\***

This company, a wholly owned subsidiary of Marui Co., Ltd., operates roadside branches that provide cashing and other credit-card-related services.

**Head Office:**  
5-49-4, Chuo, Nakano-ku,  
Tokyo 164-8606, Japan  
**Incorporated:** February 1991  
**Capitalization:** ¥300 million  
**Number of Employees:** 720



## Advertising and Display

**AIM CREATE CO., LTD.\***

This company, a wholly owned subsidiary of Marui Co., Ltd., handles advertising, design, display and operation of commercial facilities, and public relations for Marui and other companies.

**Head Office:**  
3-31-1, Nakano, Nakano-ku,  
Tokyo 164-0001, Japan  
**Incorporated:** August 1959  
**Capitalization:** ¥100 million  
**Number of Employees:** 294



## Building Security and Maintenance

**CSC CO., LTD.\***

This company, a 78.6%-owned subsidiary of Marui Co., Ltd., handles building security and maintenance for Marui and other companies.

**Head Office:**  
4-60-3, Chuo, Nakano-ku,  
Tokyo 164-0011, Japan  
**Incorporated:** July 1987  
**Capitalization:** ¥490 million  
**Number of Employees:** 584



## Information Processing Services

**M&C SYSTEMS CO., LTD.\***

This company, a wholly owned subsidiary of Marui Co., Ltd., provides information processing services and sells computer software that it develops for use in credit and marketing management.

**Head Office:**  
5-16-8, Shinjuku, Shinjuku-ku,  
Tokyo 160-0022, Japan  
**Incorporated:** September 1984  
**Capitalization:** ¥100 million  
**Number of Employees:** 187



## Administrative Services

**MARUI SMART SUPPORT CO., LTD.\***

This company, a wholly owned subsidiary of Marui Co., Ltd., provides administrative services for Marui Group companies and Marui stores.

**Head Office:**  
4-3-2, Nakano, Nakano-ku,  
Tokyo 164-8701, Japan  
**Incorporated:** January 2003  
**Capitalization:** ¥100 million  
**Number of Employees:** 416



## Sales and Merchandising

### MARUI M'S MODE CO., LTD.\*

This company, a wholly owned subsidiary of Marui Co., Ltd., handles procurement and sales for Marui's men's fashion and sports private brand shops, including *Visaruno* and *On Board*, and directly managed sales floor space, as well as provides instruction for sales staff.

**Head Office:**  
4-3-2, Nakano, Nakano-ku,  
Tokyo 164-8701, Japan  
**Incorporated:** February 2001  
**Capitalization:** ¥100 million  
**Number of Employees:** 1,381



### MARUI ACCESS CO., LTD.\*

This company, a wholly owned subsidiary of Marui Co., Ltd., handles procurement and sales for Marui's watch, eyeglass, accessory, and interior goods specialty shops, as well as provides instruction for sales staff.

**Head Office:**  
4-3-2, Nakano, Nakano-ku,  
Tokyo 164-8701, Japan  
**Incorporated:** December 1971  
**Capitalization:** ¥100 million  
**Number of Employees:** 1,004



### MARUI PALETTE CO., LTD.\*

This company, a wholly owned subsidiary of Marui Co., Ltd., handles procurement and sales for Marui's women's shoe, bag, and accessory shops, as well as provides instruction for sales staff.

**Head Office:**  
4-3-2, Nakano, Nakano-ku,  
Tokyo 164-8701, Japan  
**Incorporated:** March 2004  
**Capitalization:** ¥100 million  
**Number of Employees:** 1,097  
(As of April 1, 2004)



### MARUI FASHION NAVI. CO., LTD.\*

This company, a wholly owned subsidiary of Marui Co., Ltd., handles procurement and sales for Marui's women's and children's fashion private brand shops, including *ru* and *tasse tasse*, and directly managed sales floor space, as well as provides instruction for sales staff.

**Head Office:**  
4-3-2, Nakano, Nakano-ku,  
Tokyo 164-8701, Japan  
**Incorporated:** March 2004  
**Capitalization:** ¥100 million  
**Number of Employees:** 1,016  
(As of April 1, 2004)



### MARUI SEASONING CO., LTD.\*

This company, a wholly owned subsidiary of Marui Co., Ltd., operates Marui's sales floor of foodstuffs and restaurants.

**Head Office:**  
4-3-2, Nakano, Nakano-ku,  
Tokyo 164-8701, Japan  
**Incorporated:** May 2003  
**Capitalization:** ¥100 million  
**Number of Employees:** 161



### VIRGIN MEGASTORES JAPAN LTD.

This company, a wholly owned subsidiary of Marui Co., Ltd., is an exciting and innovative retailer of entertainment software products and was established as a joint venture with the Virgin Group, of the U.K.

**Head Office:**  
2nd floor, Kishino Building,  
3-30-13, Nishi-Ikebukuro,  
Toshima-ku, Tokyo 171-0021, Japan  
**Incorporated:** June 1990  
**Capitalization:** ¥100 million  
**Number of Employees:** 201



## Logistic Support

### MARUI KIT CENTER CO., LTD.

This company, a wholly owned subsidiary of Marui Co., Ltd., sorts certain product inventories and store supplies.

**Head Office:**  
2nd Building, Toda Shohin Center,  
2-5-1, Bijyogi Higashi, Toda-shi,  
Saitama 335-0032, Japan  
**Incorporated:** October 2003  
**Capitalization:** ¥10 million  
**Number of Employees:** 27



# BOARD OF DIRECTORS

(As of June 29, 2004)



Tadao Aoi  
*President*

## PRESIDENT

Tadao Aoi

## EXECUTIVE VICE PRESIDENT

Hiroshi Aoi

## SENIOR MANAGING DIRECTOR

Yoneaki Sakai

## MANAGING DIRECTORS

Shigeru Omori

Kyojiro Kitade

Yuji Kawashita

## DIRECTORS

Tsuneo Tamaki

Minoru Kumakura

Hiroshi Yokoyama

Akira Ino

## CORPORATE AUDITORS

Shozo Uchino

Yukihisa Inamura

Sumio Yoshizawa

Tadashi Oe



Hiroshi Aoi  
*Executive Vice President*



Yoneaki Sakai  
*Senior Managing Director*



Shigeru Omori  
*Managing Director*



Kyojiro Kitade  
*Managing Director*



Yuji Kawashita  
*Managing Director*



Tsuneo Tamaki  
*Director*



Minoru Kumakura  
*Director*



Hiroshi Yokoyama  
*Director*



Akira Ino  
*Director*

## CORPORATE DATA

(As of March 31, 2004)

### HEAD OFFICE

4-3-2, Nakano, Nakano-ku,  
Tokyo 164-8701, Japan  
Tel: (03) 3384-0101  
Fax: (03) 5343-6640  
URL: <http://www.0101.co.jp>

### DATE OF FOUNDATION

February 17, 1931

### DATE OF ESTABLISHMENT

March 30, 1937

### CONSOLIDATED STOCKHOLDERS' EQUITY

¥421,827 million

### COMMON STOCK

Authorized: 1,400,000 thousand shares  
Issued: 368,660 thousand shares

### NUMBER OF EMPLOYEES (CONSOLIDATED)

9,245

### SALES FLOOR SPACE

499,017 m<sup>2</sup>



Marui's Head Office

## INVESTOR INFORMATION

(As of March 31, 2004)

### STOCK LISTING

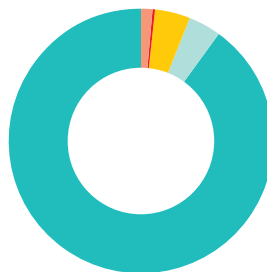
Tokyo Stock Exchange

### TRANSFER AGENT

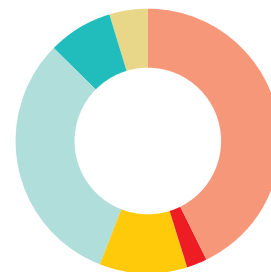
UFJ Trust Bank Limited  
1-4-3, Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan

### COMPOSITION OF STOCKHOLDERS

By number of stockholders



By number of stocks held



● Financial Institutions      ● Foreign Investors  
● Security Companies      ● Individuals and Other  
● Other Companies and Institutions      ● Treasury Stock

### MAJOR STOCKHOLDERS (TOP 5)

Japan Trustee Services Bank, Ltd.  
The Master Trust Bank of Japan, Ltd.  
The Chase Manhattan Bank, N.A. London  
Nippon Life Insurance Company  
The Bank of Tokyo-Mitsubishi, Ltd.

Photographs of board of directors by Sanae Numata  
Other major photographs by Nobuyuki Suzuki



**MARUI CO., LTD.**

Head Office: 4-3-2, Nakano, Nakano-ku, Tokyo 164-8701, Japan

Tel: (03) 3384-0101 Fax: (03) 5343-6640 URL: <http://www.0101.co.jp>