

# Financial Section

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# Consolidated Eleven-Year Summary

PARCO CO., LTD. and Consolidated Subsidiaries  
For the fiscal years ended February 28/29, 1999-2009

	Millions of yen											Thousands of U.S. dollars*1
	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2008
<b>Operating Results:</b>												
Net sales	¥275,689	¥264,849	¥307,482	¥310,624	¥297,614	¥281,478	¥257,625	¥262,408	¥266,645	¥286,788	¥282,509	\$2,882,745
Shopping complex business	—	—	248,891	250,318	246,810	244,348	238,410	¥244,884	248,725	266,263	264,595	2,699,949
Retail business	—	—	62,112	58,539	51,770	37,703	15,320	¥15,946	16,718	17,079	17,079	174,276
Space engineering and management business	—	—	33,344	34,307	26,949	23,577	25,729	¥21,985	22,754	26,365	22,437	228,949
Other business	—	—	3,633	3,555	3,484	3,025	2,510	¥2,586	2,449	2,330	2,218	22,633
Cost of sales	244,589	234,784	257,922	261,024	251,598	238,562	221,111	224,866	228,467	245,198	240,133	2,450,337
Other operating revenue	1,630	1,542	1,482	1,384	1,605	1,532	1,649	1,923	2,008	2,493	2,600	26,531
Selling, general and administrative expenses	26,503	25,247	43,456	42,659	39,273	35,553	29,722	30,380	30,429	33,992	35,614	363,408
Operating income	6,227	6,360	7,587	8,325	8,348	8,894	8,441	9,085	9,756	10,090	9,362	95,531
Net income (loss)	(2,935)	484	683	2,454	2,373	2,791	1,742	4,006	4,503	5,167	3,730	38,061
<b>Financial Position:</b>												
Total assets	241,836	239,439	248,268	230,561	222,541	203,688	187,993	182,381	182,553	189,989	191,681	1,955,929
Shareholders' equity	49,476	49,469	44,536	52,916	55,209	54,575	61,760	66,975	—	—	—	—
Net assets	—	—	—	—	—	—	—	—	70,777	73,981	75,617	771,602
Equity ratio (%)	—	—	17.9	23.0	24.8	26.8	32.9	36.7	38.7	38.9	39.4	—
Interest-bearing debt	92,827	97,594	100,480	79,829	80,150	67,341	48,732	38,883	34,863	33,065	40,777	416,092
Debt/equity ratio (times)	1.88	1.97	2.26	1.51	1.45	1.23	0.79	0.58	0.49	0.45	0.54	—
<b>Per Share Data:</b>												
Net income (loss), basic*2	(¥52.36)	¥8.63	¥12.18	¥34.38	¥30.94	¥36.97	¥21.87	¥49.26	¥54.83	¥62.73	¥45.29	\$0.46
Shareholders' equity	882.64	882.52	794.52	702.97	717.59	767.07	763.90	817.60	—	—	—	—
Net assets	—	—	—	—	—	—	—	—	856.74	897.19	917.61	9.363
Cash dividends	8.00	8.00	8.00	8.00	8.00	8.00	10.00	11.00	13.00	15.00	16.00	0.16
<b>Major Indicators:</b>												
Return on equity (ROE) (%)	—	1.0	1.5	5.0	4.4	5.1	3.0	6.2	6.5	7.2	5.0	—
Return on assets (ROA) (%)**3	—	—	2.5	3.0	3.2	3.7	4.1	4.8	5.3	5.4	4.8	—
Capital investment	—	—	5,008	7,085	5,100	4,213	7,369	8,688	7,474	10,163	14,306	145,980
Depreciation and amortization	4,010	3,868	4,546	4,333	4,267	4,102	4,140	3,944	3,883	4,585	5,591	57,051
EBITDA	—	—	12,133	12,658	12,615	12,996	12,581	13,029	13,639	14,676	14,953	152,582
Free cash flow	—	—	4,012	10,638	3,625	10,269	8,670	10,533	6,649	6,093	(11,434)	(116,673)

\*1 U.S. dollar amounts have been translated, for convenience only, at the rate of ¥98.0=US\$1. \*2 Adjusted by the weighted average number of shares  
\*3 ROA = Ordinary income / Average total assets. Ordinary income=Operating income+Non-operating income-Non-operating expenses

## Sales Data (Non-Consolidated)

	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
Amount spent per customer (yen)	¥ 3,626	¥ 3,632	¥ 3,789	¥ 3,915	¥ 3,889	¥3,741 (US\$ 38.17)
Stores	19	19	19	18	19	20
Sales floor area (m <sup>2</sup> )	372,100	372,500	397,600	388,000	425,600	447,500
Tenant companies	782	815	783	766	822	832
New tenant companies	76	106	51	55	140	94
Tenant stores	2,566	2,615	2,540	2,498	2,965	3,087
Zones renovated	448	606	381	511	465	390
Area renovated (m <sup>2</sup> )	42,000	59,000	39,000	52,000	49,000	34,000
Year-on-year comparison by zone (%)	119.3	116.7	135.7	122.2	117.1	117.8
New store openings in renovated zones	229	314	208	243	221	179

\* U.S. dollar amounts have been translated, for convenience only, at the rate of ¥98.0=US\$1.

## Year-on-Year Sales Comparison by Category (Non-Consolidated)

	FY2008 (%)					
	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
Clothing	99.8	100.5	103.3	102.3	106.6	97.1
				102.8	100.5	94.8
Personal goods	97.0	101.2	104.3	102.7	105.0	101.0
				103.1	99.4	96.9
General merchandise	99.9	103.3	99.8	99.6	106.4	98.6
				99.9	98.3	94.7
Foods	93.8	98.9	100.6	100.5	123.7	118.9
				100.5	97.6	105.0
Eating and drinking	90.8	93.0	100.3	100.7	113.7	107.3
				100.7	98.8	96.7
Other	97.5	82.2	106.5	104.6	106.8	110.0
				105.1	100.9	109.4

\* Year-on-year comparison excluding new stores

## Tenant Sales by Store Grouping

		Millions of yen						Thousands of U.S. dollars*1
		FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2008
Urban stores	Ikebukuro	¥31,423	¥30,851	¥31,989	¥34,031	¥34,788	¥33,970	\$346,633
	Shibuya	18,230	18,272	20,492	21,939	21,634	18,236	186,082
	Sapporo	16,343	15,004	15,571	14,776	13,177	12,941	132,051
	Chofu	17,480	17,670	17,512	17,496	17,465	17,319	176,724
	Nagoya	37,468	38,290	39,817	40,557	41,193	40,436	412,612
	Hiroshima	16,725	16,512	17,396	18,374	19,027	18,990	193,776
Kanto stores	Kichijoji	9,717	9,871	10,507	10,771	10,756	10,359	105,704
	Hibarigaoka	9,482	8,847	8,747	8,803	8,633	9,037	92,214
	Shin-Tokorozawa	8,085	8,386	9,225	9,333	9,355	8,875	90,561
	Chiba	11,605	10,692	9,852	9,444	9,583	8,830	90,102
	Tsudanuma	10,919	10,386	10,473	11,028	11,202	10,312	105,224
	Utsunomiya	9,758	9,498	9,063	8,487	8,083	7,521	76,745
Regional stores	Matsumoto	8,731	8,756	9,129	9,323	9,256	8,757	89,357
	Shinsaibashi	1,813	1,566	1,694	1,820	1,911	2,056	20,980
	Otsu	8,181	8,005	7,908	8,178	8,476	7,870	80,306
	Oita	5,649	5,180	4,911	4,846	4,514	4,394	44,837
	Kumamoto	7,424	6,793	6,230	6,146	5,910	5,606	57,204
	Atsugi	4,085	4,194	4,504	4,485	3,992	—	—
Other	Gifu	2,895	2,489	2,123	974	—	—	—
	Shizuoka	—	—	—	—	10,950	10,296	105,061
	Urawa	—	—	—	—	6,967	13,112	133,796
	Sendai	—	—	—	—	—	6,265	63,929
	<b>Total</b>	<b>236,023</b>	<b>231,270</b>	<b>237,131</b>	<b>240,820</b>	<b>256,883</b>	<b>255,194</b>	<b>2,604,020</b>

\*1 U.S. dollar amounts have been translated, for convenience only, at the rate of ¥98.0=US\$1.

# Selected Financial Data for PARCO Group Companies

For the fiscal years ended February 28/29, 2007–2009

		Millions of yen			Thousands of U.S. dollars	
		FY2006	FY2007	FY2008	FY2008	FY2008
<b>Shopping Complex Business</b>						
<b>PARCO CO., LTD.</b> (See page 28)	Sales	¥246,439	¥263,525	¥261,751	\$2,670,929	
	Operating income	8,755	9,087	8,885	90,663	
	Net income	3,633	4,841	4,004	40,857	
	Total assets	173,796	182,257	187,186	1,910,061	
	Net assets	70,662	73,652	76,000	775,510	
<b>PARCO (Singapore) Pte Ltd</b> Head Office Address: #09-05a International Building, 360 Orchard Road, Singapore 238869 Established: November 25, 1991 Paid-in Capital: S\$15,926 thousand	Sales	—	—	—	—	
	Operating income (loss)	2	263	(7)	(71)	
	Net income	41	307	8	82	
	Total assets	1,541	1,869	1,267	12,929	
	Net assets	1,459	1,788	1,204	12,286	
<b>Retail Business</b>						
<b>NEUVE A CO., LTD.</b> Head Office Address: 8-16 Shinsen-cho, Shibuya-ku, Tokyo 150-0045, Japan Established: June 1, 2001 Paid-in Capital: ¥490 million Number of Employees: 488 Number of Stores: 131	Sales	13,301	15,078	15,045	153,520	
	Operating income	452	486	304	3,102	
	Net income	210	231	98	1,000	
	Total assets	4,426	4,865	4,701	47,969	
	Net assets	1,148	1,379	1,478	15,082	
<b>PALM GARDEN CO., LTD.</b> Head Office Address: 8-16 Shinsen-cho, Shibuya-ku, Tokyo 150-0045, Japan Established: September 13, 1974 Paid-in Capital: ¥10 million Number of Employees: 21 Number of Stores: 3	Sales	3,416	2,018	2,033	20,745	
	Operating income (loss)	12	(33)	(46)	(469)	
	Net income (loss)	26	(33)	(38)	(388)	
	Total assets	383	327	358	3,653	
	Net assets	15	(17)	(55)	(561)	
<b>Space Engineering and Management Business</b>						
<b>PARCO SPACE SYSTEMS CO., LTD.</b> Head Office Address: 8-16 Shinsen-cho, Shibuya-ku, Tokyo 150-0045, Japan Established: April 1, 1969 Paid-in Capital: ¥490 million Number of Employees: 855 Number of Stores: 25	Sales	22,754	26,365	22,437	228,949	
	Operating income	538	700	387	3,949	
	Net income	344	434	275	2,806	
	Total assets	12,866	12,982	10,382	105,939	
	Net assets	3,204	3,557	3,642	37,163	
<b>Other Business</b>						
<b>PARCO-CITY CO., LTD.</b> Head Office Address: 8-16 Shinsen-cho, Shibuya-ku, Tokyo 150-0045, Japan Established: March 1, 2000 Paid-in Capital: ¥10 million Number of Stores: 43	Sales	582	531	579	5,908	
	Operating income (loss)	64	(85)	(54)	(551)	
	Net income (loss)	39	(90)	(123)	(1,255)	
	Total assets	300	203	166	1,694	
	Net assets	226	135	12	122	

# Fiscal 2008 Financial Review (Consolidated)

## PARCO Group Overview

The PARCO Group—PARCO CO., LTD., and eight subsidiaries—is developing its business in four areas: Shopping Complexes, Retail, Space Engineering and Management and Other. The Shopping Complex

Business accounts for more than 90% of consolidated net sales and is the Group's core business.

## PARCO Group Overview

Business	Main business	Major Company name	Number of Company
Shopping Complex Business	Development, management, maintenance and operation of shopping centers	PARCO CO., LTD. PARCO (Singapore) Pte Ltd STRAITS PARCO RETAIL MANAGEMENT Pte Ltd	PARCO CO., LTD. 3 subsidiaries
Retail Business	Sales of clothing, sundries and foods	NEUVE A CO., LTD. PALM GARDEN CO., LTD.	2 subsidiaries
Space Engineering and Management Business	Designing and construction of building interiors, cleaning, security surveillance and maintenance of buildings	PARCO SPACE SYSTEMS CO., LTD.	1 subsidiary
Other Business	Internet-related business and hotel operation	PARCO-CITY CO., LTD. HOTEL NEW CRESTON CO., LTD.	2 subsidiaries

Note: On June 1, 2009, all shares in HOTEL NEW CRESTON CO., LTD., were transferred to the HMI Hotel Group.

## Operating Results

### Net Sales

Consolidated net sales in the fiscal 2008, ended February 28, 2009 were ¥282,509 million, down 1.5% compared with the previous fiscal year. During the year, we continued with the initiatives detailed in our Five-Year Medium-Term Management Plan; however, our efforts were hampered by the rapid economic recession that began late in 2008.

from the severe economic downturn in the second half. As of end of February, 2009, PARCO had 20 stores in Japan with a total sales floor space of 447,500m<sup>2</sup>.

Following the openings of (Shizuoka PARCO) and (Urawa PARCO) in 2007, (Sendai PARCO) was opened as planned and expanded our commercial facilities as detailed in the Management Plan. In addition, we continued sales floor renovations at our existing stores, mainly in large cities, such as (Sapporo PARCO), (Chofu PARCO), (Nagoya PARCO) (for a total of 390 zones or approximately 34,000m<sup>2</sup>). Net sales in these zones were favorable, trending up 17.8% year on year.

### Shopping Complex Business

The Shopping Complex Business posted sales of ¥264,595 million, down 0.6% year on year. Despite new store openings, strategic refurbishment and sales planning, this business encountered difficulties

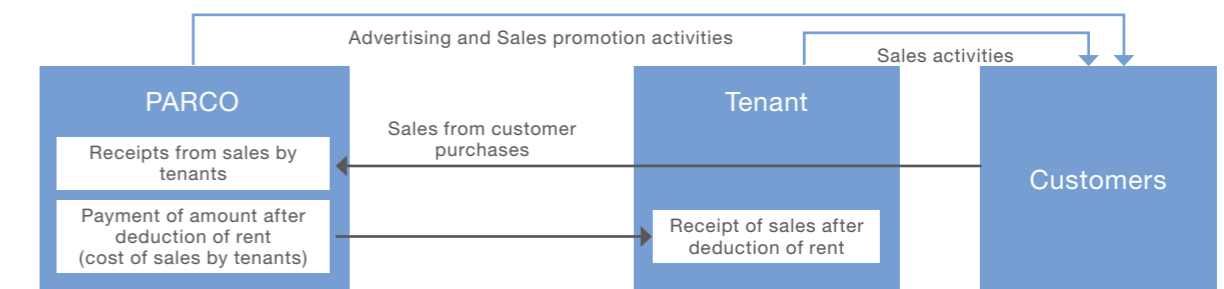
## Profit Structure for the Shopping Complex Business

Under store lease agreements, tenants conduct sales with the support of PARCO's advertising, sales promotion and other marketing activities. PARCO receives the revenue that these stores generate through sales to customers as its net sales.

After a certain period of time, PARCO pays stores a commission on these sales. This system has the advantages of eliminating the risks of carrying inventories and bad debt.

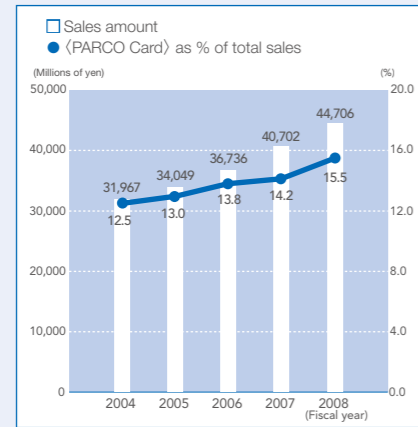
Commissions are based on a declining rate system, with

commissions fixed up to a certain amount of sales and a lower rate applying beyond a certain sales amount. The setting of a minimum rent amount hedges the risk of stagnant sales. The application of a diminishing rent rate to sales offers advantages to both the tenant and to PARCO. If tenant sales from customer purchases increase due to the tenant's sales efforts, the tenant's rent rate decreases. At the same time, PARCO's rent income increases in terms of absolute amount.



Aggressive use of 〈PARCO Card〉, an important customer tool, and our marketing efforts, such as the “4DAYS SALE” and double point campaign, boosted transaction volume up 9.8%, to ¥44,706 million. Our cardholders totaled almost 1.6 million, up 1.4% year on year. As a result of our 2006 name and design changes, transaction volume and cardholder increases are as planned, with the majority of cardholders being in their 30s (31.5%), of which 81.5% are women.

### 〈PARCO Card〉 Sales Amount



### Operating Income

Customer purchases received by PARCO on a daily basis are its sales. PARCO, in turn, pays the tenants of its stores after deducting rent. The cost of sales therefore approximates the tenants' cost of sales. The opening of 〈Urawa PARCO〉 in the previous fiscal year and the 〈Sendai PARCO〉 in the fiscal year under review contributed to gross profit, which rose 1.9% year on year, to ¥42,376 million. As a result, the gross profit margin improved by 0.5 percentage point to 15.0%.

Selling, general and administrative expenses increased 4.8% year on year, to ¥35,614 million, and the ratio of SG&A expenses to net sale was 12.6%. This increase was mainly due to higher rental expenses associated with the opening of new stores, income tax reforms and rising depreciation and amortization associated with the opening of new shopping complexes.

Operating income was ¥9,362 million, down 7.2% year on year. This decline mainly resulted from an increase in expenses associated with the opening of 〈Sendai PARCO〉 and lower net sales in the Space Engineering and Management Business. As a result, operating income margin net was 3.3%.

### Sales by Store

(Millions of yen)

	Store Name	Net Sales FY2007	Net Sales FY2008	Ratio (%) FY2007
Urban Stores	Ikebukuro PARCO	34,788	33,970	97.6
	Shibuya PARCO <sup>1</sup>	21,634	18,236	84.3
	Sapporo PARCO	13,177	12,941	98.2
	Chofu PARCO	17,465	17,319	99.2
	Nagoya PARCO	41,193	40,436	98.2
	Hiroshima PARCO	19,027	18,990	99.8
<b>Total of Urban Store Group</b>		<b>147,284</b>	<b>141,895</b>	<b>96.3</b>
Kanto Stores	Kichijoji PARCO	10,756	10,359	96.3
	Hibarigaoka PARCO	8,633	9,037	104.7
	Shin-Tokorozawa PARCO	9,355	8,875	94.9
	Chiba PARCO	9,583	8,830	92.1
	Tsudanuma PARCO	11,202	10,312	92.1
	Utsunomiya PARCO	8,083	7,521	93.1
<b>Total of Kanto Store Group</b>		<b>57,612</b>	<b>54,937</b>	<b>95.4</b>
Regional Stores	Matsumoto PARCO	9,256	8,757	94.6
	Shinsaibashi PARCO	1,911	2,056	107.6
	Otsu PARCO	8,476	7,870	92.8
	Oita PARCO	4,514	4,394	97.3
	Kumamoto PARCO	5,910	5,606	94.9
	<b>Total of Regional Store Group</b>		<b>30,067</b>	<b>28,686</b>
<b>Total of Existing Store<sup>2</sup> Group</b>		<b>234,963</b>	<b>225,518</b>	<b>96.0</b>
	Shizuoka PARCO	10,950	10,296	94.0
	Urawa PARCO	6,967	13,112	188.2
	Atsugi PARCO	3,992	—	—
	Sendai PARCO	—	6,265	—
	<b>Total</b>	<b>256,883</b>	<b>255,194</b>	<b>99.3</b>

Notes 1: Shibuya PARCO Part 2 temporarily suspended operations in January 2008 to allow for earthquake reinforcement. Also, sales activity concluded at the QUATTRO Building, effective May, 2008. These factors were instrumental in the 6.0% year-on-year decline in Shibuya PARCO's performance.

2: The existing store total excludes Shizuoka PARCO (opened in March 2007), Urawa PARCO (opened in October 2007), Sendai PARCO (opened in August 2008) and Atsugi PARCO (closed in February 2008).

### Other Income and Expenses

The net sum of other expenses increased ¥2,196 million during the year, to ¥3,113 million. Principal factors were bond issue expenses, a loss on write-down of investment securities and a loss on restructuring, related to the hotel business.

### Net Income

As a result, net income was ¥3,730 million, down 27.8% compared with the previous fiscal year. Net income per share was ¥45.29, and return on equity was 5.0%.

### Financial Position

#### Assets

Total assets were ¥191,681 million, increasing ¥1,692 million from the end of the previous fiscal year.

Current assets were ¥28,373 million, decreasing ¥3,044 million compared with the end of the previous fiscal year. This decrease was the result of a decline of ¥4,778 million in cash and time deposits and an increase of ¥2,602 million in notes and accounts receivable – trade and accounts receivable for completed contracts.

Investments and advances dropped ¥2,148 million, mainly due to lower investment securities. Property and equipment rose ¥6,581 million as a result of asset acquisitions related to the opening of 〈Sendai PARCO〉, the refurbishment of existing stores and facilities renovation. Total asset turnover was 1.48 times, and return on assets was 4.8%.

#### Liabilities

Total liabilities were ¥116,064 million, a year-on-year increase of ¥56 million.

Current liabilities were ¥38,747 million, a year-on-year decrease of ¥8,354 million, as a result of a decline in notes and accounts payable – trade and accrued income taxes.

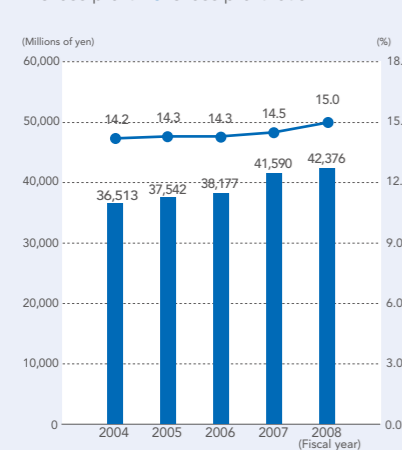
### Net Sales and Operating Income (Loss) by Segment

(Millions of yen)

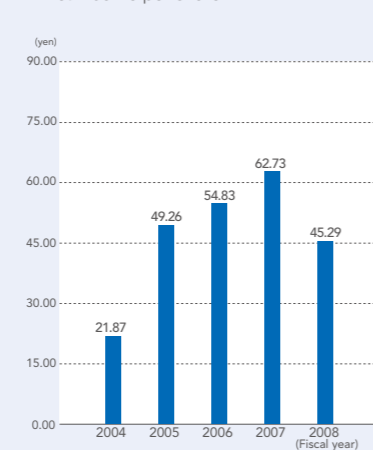
	Shopping Complex Business	Retail Business	Space Engineering and Management Business	Other Business	Total	Eliminations or corporate	Consolidated
Net Sales and Operating Income (Loss)							
Net Sales							
(1) External Sales to Customers	264,344	7,030	11,875	1,859	285,109	—	285,109
(2) Internal Sales between Segment or Transferred Amount	250	10,048	10,561	359	21,220	(21,220)	—
<b>Total</b>	<b>264,595</b>	<b>17,079</b>	<b>22,437</b>	<b>2,218</b>	<b>306,330</b>	<b>(21,220)</b>	<b>285,109</b>
Operating Expenses							
	255,769	16,802	22,053	2,343	296,969	(21,221)	275,747
<b>Operating Income (Loss)</b>	<b>8,826</b>	<b>276</b>	<b>383</b>	<b>(125)</b>	<b>9,361</b>	<b>0</b>	<b>9,362</b>

\* Net sales by segment include operating revenue.

### Gross profit



### Gross profit ratio



### Net income per share



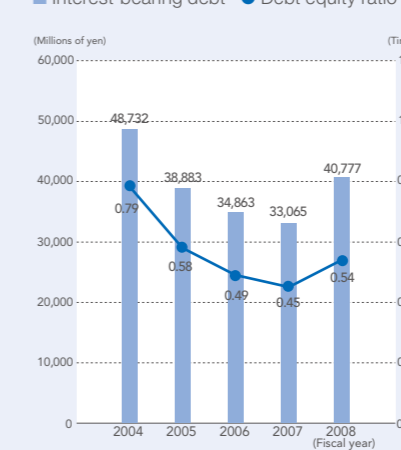
\* Return on Equity = Net Income / (Net Assets – Minority Interests) X 100  
An indicator used to determine management efficiency by examining the amount of income generated in a year against net assets excluding minority interests.

### Total asset



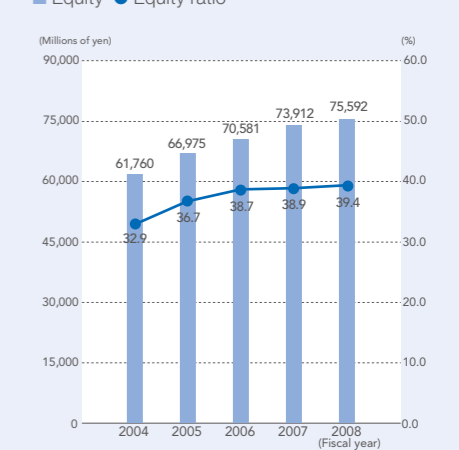
\* Total Asset Turnover = Net Sales / Total Assets (average of total assets at beginning and end of fiscal term)  
An indicator used to determine the efficiency with which a company is utilizing total assets during a single fiscal year.

### Total asset turnover



\* Debt Equity Ratio = Interest-Bearing Debt Outstanding / Net Assets – Minority Interests  
An indicator used to determine the financial stability of a company by examining the ratio of interest bearing debt to total net assets excluding minority interests.

### Interest-bearing debt



\* Equity = Net assets – Minority Interests  
\* Equity Ratio = Equity / Total Assets (Equity + Liabilities) X 100  
An indicator used to determine the soundness of management by examining the ratio of total shareholders' equity in total assets.

Fixed liabilities were ¥77,316 million, a year-on-year increase of ¥8,410 million, mainly due to a ¥9,933 million increase in long-term debt and a ¥1,557 million decrease in guarantee deposits received from tenants.

Interest-bearing debt was ¥40,777 million, a year-on-year increase of ¥7,711 million, and the debt-equity ratio rose a 0.54 percentage point. To reinforce its financial base, the Company began reducing interest-bearing debt in the fiscal year ended February 28, 2002. During the year under review, PARCO raised funds in preparation for the opening of (Sendai PARCO) and for the launch of (Fukuoka PARCO (provisional name)). The Company's future fund-raising policies remain unchanged.

### Net Assets

Net assets in the period under review rose to ¥75,617 million, a year-on-year increase of ¥1,636 million, mainly due to increased retained earnings and the decline in unrealized valuation losses on securities held. As a result, the equity ratio was 39.4%, and the net asset value per share was ¥917.61.

### Cash Flows

Net cash provided by operating activities was ¥2,713 million, a significant decrease from ¥12,705 million in the previous year due to temporary conditions including:

- 1) An increase in receivables as result of the last day of the fiscal year falling on a bank holiday,
- 2) A decrease in payables as a result of shorter payment terms,
- 3) Payment of income taxes in excess of the income tax due on income for the fiscal year under review.

After we made a ¥6,394 million correction for these temporary conditions, net cash provided by operating activities was ¥9,108 million.

As a result of the decrease in net cash provided by operating activities, the interest coverage ratio fell from 21.0 in the previous year to 4.2, a significant decline from previous levels; however, considering the effect of the temporary conditions on the net cash provided by operating

activities, the interest coverage ratio value is 14.1.

Net cash used in investing activities was ¥14,148 million, an increase from ¥6,611 million used in the previous fiscal year. This increase was mainly due to the acquisition of fixed assets for (Sendai PARCO).

As a result, free cash flow (cash flows from operating activities minus cash flows from investing activities) was a negative ¥11,434 million, down from ¥6,093 million in the previous fiscal year.

Net cash from financing activities was ¥6,270 million, an increase from the ¥3,084 million used in the previous fiscal year. This was mainly due to an increase in new bank loans and straight bond issues.

As a result, cash and cash equivalents at the end of the year decreased ¥5,478 million from the previous year, to ¥11,080 million in fiscal 2008.

### Capital Investment

Capital investment increased ¥4,143 million from the previous year, to ¥14,306 million, including investments in tangible fixed assets, intangible fixed assets, long-term prepaid expenses and fixed leasehold deposits. In the Shopping Complex Business, capital investment in buildings and property for Sendai PARCO, the refurbishment of existing shopping complexes and facility upgrades totaled ¥13,856 million. Capital investment in the Retail Business included the refurbishment of NEUVE A CO., LTD., and new store openings.

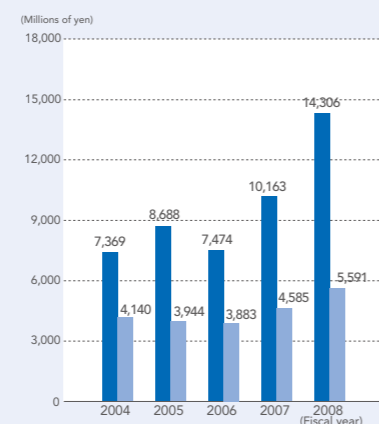
Depreciation and amortization increased ¥1,006 million from the previous year, to ¥5,591 million in the fiscal 2008.

Our capital investment plans focus on enhancing the profitability of our core businesses to increase corporate value, specifically by strengthening our marketing capabilities by augmenting existing facilities, opening new stores and developing new businesses. The estimated investment during the fiscal 2009 is approximately ¥8 billion, or ¥6.3 billion less than the investment during the fiscal year under review.

■ Cash flows from operating activities  
● Interest coverage ratio



■ Capital investment  
● Depreciation and amortization



\* Interest Coverage Ratio = Cash Flow From Operating Activities / Interest Expenses  
An indicator used to determine the company's ability to pay interest, arrived at by calculating the multiple of profit gained on business against financial expenses such as interest payments on loans.

### Progress on Five-Year Medium-Term Management Plan

In fiscal 2005, the PARCO Group started its Five-Year Medium-Term Management Plan (FY2005–FY2009). This plan targets business expansion and strengthened profitability for the Group's next leap forward under the themes of Strengthening Operational and Development Capabilities for Shopping Complexes, Fostering New Businesses and Taking on New Challenges and Deepening and Broadening Peripheral Businesses.

#### Strengthening Operational and Development Capabilities for Shopping Complexes

- Regrouping of shopping complexes
- Strengthening and expanding the flagship store and enhancing cooperation with tenants
- Opening complexes primarily in major urban centers

#### Fostering New Businesses and Taking on New Challenges

- Promote new business through Group expertise and resource allocation
- Foster and expand the Property Management and Commercial Facilities Consulting Businesses
- Launch asset management business as a new development scheme

#### Deepening and Broadening Peripheral Businesses

- Expansion of businesses that use content such as the Entertainment Business
- Expand business and improve profitability through numerous NEUVE A CO., LTD., store openings
- Strengthen building management business and develop new businesses within PARCO SPACE SYSTEMS CO., LTD.

In the previous fiscal year, all of these initiatives were ahead of schedule and, as a result, we proceeded with the reduction of interest-bearing debt and improved our equity ratio, creating a stable financial structure.

### Future Growth Strategy

In terms of the economic outlook, the economy will take some time to recover and will remain uncertain in the near term, with consumers being cautious about spending. Concerning its projected results for fiscal 2009, although the PARCO Group continues to improve corporate value, it may be difficult to achieve the net sales and income targets established for the final year of the Five-Year Medium-Term Management Plan.

The PARCO Group will observe the following medium-term policies, responding flexibly to the tasks at hand as it proceeds with business development that corresponds to the challenging economic environment.

#### Strengthening the Shopping Complex Business

While applying a group structure to shopping complexes, we will engage in the following initiatives:

- Expand market share based on a growth strategy that includes peripheral development
- Establish new business models through the creation of customizable selling spaces and collaboration with external companies
- Maintain sales floor novelty through ongoing refurbishment assuming an appropriate return on investment
- Make effective use of management resources through scrap and build

#### Constructing a New Growth Strategy

Making use of management resources, we will engage in the following initiatives:

- Restructure business that PARCO has begun by leveraging its core shopping center operations (property management, consulting and general building management)
- Develop overseas business through branch master leasing or cooperation with local companies
- Expand businesses that use entertainment content
- Approach on specialty shop business through cooperation with specialty shops that have fashion sense and originality
- Reform virtual businesses through the fusion of stores, e-commerce and external cooperation

### Progress on Five-Year Medium-Term Management Plan

(Millions of yen)

	FY2005 Result	FY2006 Result	FY2007 Result	FY2008 Result	FY2009 Goal
Net Sales	262,408	266,645	286,788	282,509	300,000
Shopping Complex Business	244,884	248,725	266,263	264,595	276,819
Retail Business	15,946	16,718	17,097	17,079	18,812
Space Engineering and Management Business	21,985	22,754	26,365	22,437	24,252
Other Business	2,586	2,449	2,330	2,218	2,614
Ordinary Income	8,879	9,594	9,973	9,171	12,000
Net Income	4,006	4,503	5,167	3,730	6,000
Total Asset	66,975	70,777	73,981	75,617	—
Shareholders' Equity Ratio (%)	36.7	38.7	38.9	39.4	—
Interest-Bearing Debt	38,883	34,863	33,055	40,777	—
ROE (%)	6.2	6.5	7.2	5.0	8.2

Note: Segment sales figures are before eliminations for consolidation.

Ordinary income = Operating income + Non-operating income - Non-operating expenses

## Organizational Change

We have made preparations for the creation of new businesses and the restructuring of existing businesses as part of our organizational changes in fiscal 2009. In addition to the introduction of a store group structure to enhance the marketing capability of existing stores, we have established a business strategy office for new business, and are targeting the realization of policies focused on increasing corporate value through new strategies, an enhanced marketing function and the strategic use of IT. We will concentrate the development function within the Development Business Department and unify the measures for the expansion of the Shopping Complex Business.

## Management Issue Awareness and Fiscal 2009 Initiatives

Given the challenging management environment, the PARCO Group is aware of the following management issues:

- Strengthened competitiveness and creation of an efficient management structure through innovation in existing stores
- New business design and realization aimed at increasing corporate value
- Business expansion using our expertise, including cooperation with a wide range of partners

The next fiscal term has been identified as a year for strengthening the foundation and enhancing existing businesses while developing future growth strategies. To these ends, we will enforce the following policies.

### Shopping Complex Business

#### Strengthening the Operational Capabilities of Existing Shopping Complexes

Efforts to strengthen competitiveness include formulating strategy to correspond to shopping complex characteristics through the introduction of a shopping complex group structure (classified as the Urban Store Group, the Kanto Store Group and the Regional Store Group. At the same time, we will create a unified management structure within the Shopping Complex Operations Department with respect to the establishment of strategic policies and materialization measures for existing shopping complexes. As a policy for the next term, through the promotion of continued ambitious refurbishment plans and strategic management projects, and given the challenging economic outlook, we will enhance the attractiveness of our buildings, differentiating ourselves from competitors and attempt to strengthen our ability to attract customers while targeting sales acquisitions. The refurbishment plan details are as follows.

- 〈Ikebukuro PARCO〉: To strengthen this store's fashion and assorted merchandise image, we will encourage tenant renewal (including the introduction of new businesses). These efforts should provide the market with new topics, which in turn should boost store visits at giant terminal sites linked to consumers' renewed eagerness to make purchases.
- 〈Nagoya PARCO〉: In addition to reorganizing ladies fashion in

the west building, we will encourage store visits through the ongoing introduction of tenants offering men's and ladies' fashions that can be enjoyed by couples, further promoting the links between all three buildings.

- 〈Shizuoka PARCO〉: Aim for the creation of synergy throughout the building by introducing new local supermarket business to increase customer visits to the first floor basement sales area and by promoting measures to encourage customers to visit all shopping areas of the complex.
- 〈Urawa PARCO〉: We will undertake refurbishments focused on a diverse tenant composition to meet the wide range of customer needs, target longer store visits and enhance our ability to attract customers and customer endorsements by increasing the opportunity to provide new products.

Fiscal 2009 marks 〈Ikebukuro PARCO〉's 40th anniversary, providing an opportunity not only to enhance the marketing capabilities of 〈Ikebukuro PARCO〉 but also to improve the image of PARCO as a corporation through promotion and the proactive use of the anniversary project to attract customers and improve sales. The year also marks the 25th anniversary of 〈Matsumoto PARCO〉, the 20th anniversary of 〈Chofu PARCO〉 and 〈Nagoya PARCO〉 and the 15th anniversary of 〈Hiroshima PARCO〉. With deep gratitude for our customers over the years, we will invigorate these shopping complexes by holding commemorative festivals.

#### New Properties and Overseas Expansion

We are stepping up the preparations for the spring 2010 opening of 〈Fukuoka PARCO (provisional name)〉 through tenant leasing, management plan materialization and plans for grand opening promotional activities. Regarding overseas operations, making use of the operational expertise gained through Bugis Junction and CENTRAL in Singapore, we plan on opening 〈PARCO@Millenia (provisional name)〉 in the spring of 2010 at Millenia Walk in the marina area.

#### Peripheral Operations

Proceeding with our e-commerce business initiatives, we launched a NEUVE A CO., LTD., website, promoted the introduction of original products designed to differentiate us from the competition and improve the gross profit ratio of existing stores and continued expanding business through the careful selection of properties for new store openings. We rearranged the management structure of the building maintenance and internal decorating operations within PARCO SPACE SYSTEMS CO., LTD., in response to an increase in external orders as part of our efforts to enhance our marketing capabilities based on our strength in providing a full-range of functionality from construction to maintenance.

As a result of these initiatives, the forecast for consolidated results for the fiscal year ending February 28, 2010, are net sales of ¥280 billion (down 0.9% year on year), operating income of ¥9.4 billion (up 0.4%), ordinary income of ¥9.2 billion (up 0.3%) and net income of ¥4.5 billion (up 20.6%).

## Risks Related to Our Business

With respect to information contained in the financial statements relating to business and accounting conditions, the following factors may significantly affect investment decisions. Recognizing these risks, the PARCO Group will strive to prevent their occurrence and to respond appropriately in the event they occur. Information pertaining to the future is based on the PARCO Group's knowledge as of June 1, 2009.

### 1. Risk of Fluctuations in Demand

The PARCO Group engages in the Shopping Complex Business, including the operation of shopping centers; the Retail Business; and the Space Engineering and Management Business. The Group's business performance and financial position may be significantly affected by decreased sales and orders caused by declining consumer confidence and a slowdown in corporate profitability due to deterioration in the economy and tax reforms such as higher consumption tax rates. Sluggish sales of seasonal products caused by unusual weather, such as cool summers and warm winters, could also dampen sales.

### 2. Risk of Natural Disasters and Accidents

The PARCO Group operates, or operates under contract, shopping complexes in major cities in Japan and abroad (Asian region), and has business bases in Japan and abroad as tenant shops within shopping complexes in various locations nationwide. These locations may experience difficulties in their sales activities in the event of disasters such as earthquakes, fire, acts of terrorism, or unrest. In particular, the PARCO Group has stores and locations in the Tokai and Kanto regions, where major earthquakes are predicted, and may therefore incur damages in these regions. A risk response system is being set up and enhanced to minimize damage from such incidents by implementing countermeasures such as ensuring antiseismic measures, formulating and disseminating the Manual on Major Earthquakes, and conducting disaster drills at the stores. However, depending on the specific circumstances, the PARCO Group's business performance and financial position may be significantly affected.

### 3. Risk of Regulatory Restraints

The PARCO Group operates its business under a regulated environment, shaped by legislation including the Large-Scale Retail Stores Location Law, the Central City Invigoration Law, the City Planning Law, the Building Law and the Building Standard Law. In planning new store openings and expanding floor space in the future, we may be subject to regulatory controls that may affect our new store plans and operational plans, and restrict our business activities. Under such circumstances, the PARCO Group's business performance and financial position may be significantly affected.

### 4. Risk of Fluctuations in the Industry and Markets

The PARCO Group conducts detailed marketing to develop shopping complexes and launch new outlets for specialty stores. However, an unpredictable intensification of competition and changes in market conditions may affect store sales and new store opening plans. To quickly respond to such changes in the business environment, the Group is rationalizing its store operating system and adopting a scrap-and-build approach. However, under certain circumstances, the Group's business performance and financial position may be significantly affected.

### 5. Risk of Corporate Reorganization

The PARCO Group undertakes its business as an integrated whole, comprising PARCO CO., LTD. and its affiliates in Japan and abroad, through an organic collaboration among the Group members. In the future, the scope or business domain of this corporate group may change due to mergers, transfers or acquisition of operations, and the sale or disposal of affiliated companies, in which case the Group's business performance and financial position may be significantly affected.

### 6. Risk Related to Business Associates

The PARCO Group provides fixed leasehold deposits to land and property owners in its Shopping Complex and Retail Businesses. It also has claims to sales receivables against its business associates in the Space Engineering and Management Business. While we conduct due diligence in credit management with respect to these business associates, land and property owners may experience financial difficulties, causing problems in the collection of fixed leasehold deposits. The business associates may also suffer deterioration in credit standing, giving rise to irrecoverable loans. Under these circumstances, the PARCO Group's business performance and financial position may be significantly affected.

### 7. Risk Related to the Supply of Products and Services

The PARCO Group handles clothing, sundries and foods, and provides services including the management of hotels and restaurants, interior design and construction work, and building management and operation. While the utmost care is exercised to control quality and ensure the hygienic aspects of products and services, should flaws or defects in products or services cause damage to customers, the Group may lose customers and the public's trust, with a resulting impact on business performance and financial position.

### 8. Risk Related to Fixed Assets in Possession

The PARCO Group possesses fixed assets for business purposes, including land intended for stores and buildings, as part of its business activities. In the event that profits from business and cash flows deteriorate, or should the application of impairment accounting result in a decline in land prices, the PARCO Group's business performance and financial position may be significantly affected.

### 9. Risk Related to the Protection of Personal Information

The PARCO Group possesses personal information of its customers for marketing activities. Recognizing the consequences of any leakage of personal information on corporate management and trust, the Group has established a system for managing personal information, including a manual of rules, employee education, and certification regarding the handling of personal information.

However, in the event a leak of personal information results in claims for damages and loss of the public's trust, the Group's business performance and financial position may be significantly affected.

# Consolidated Balance Sheets

PARCO CO., LTD. and Consolidated Subsidiaries  
28th February, 2007, 29th February, 2008 and 28th February, 2009

			Millions of yen	Thousands of U.S. dollars (Note 5)
	2007	2008	2009	2009
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and time deposits (Note 6)	¥13,519	¥15,858	¥11,080	\$113,061
Short-term investments (Note 10)	—	1,000	—	—
Notes and accounts receivable:				
Trade	8,078	7,912	10,480	106,939
Other	947	1,920	2,350	23,980
Less: Allowance for doubtful accounts	(13)	(26)	(22)	(224)
	9,012	9,807	12,808	130,694
Inventories	3,112	2,807	2,618	26,714
Prepaid expenses and other current assets	857	992	908	9,265
Deferred tax assets (Note 15)	753	951	957	9,765
<b>Total current assets</b>	<b>27,254</b>	<b>31,417</b>	<b>28,373</b>	<b>289,520</b>
<b>Investments and advances:</b>				
Investment securities (Note 10)	8,001	6,477	4,335	44,235
Investments in and advances to an affiliate / a subsidiary	4	18	20	204
Other investments	404	390	382	3,898
	8,410	6,886	4,737	48,337
<b>Property and equipment (Note 12):</b>				
Store facilities, at cost	161,118	169,034	177,877	1,815,071
Less: Accumulated depreciation	(63,911)	(66,973)	(69,471)	(708,888)
Less: Accumulated impairment losses (Note 8)	(1,517)	(1,529)	(1,291)	(13,173)
	95,689	100,531	107,113	1,092,990
Leasehold deposits and loans to lessors (Note 11)	47,724	47,039	47,098	480,592
Deferred tax assets (Note 15)	1,934	2,302	2,804	28,612
Other assets	1,539	1,811	1,554	15,857
<b>Total assets</b>	<b>¥182,553</b>	<b>¥189,989</b>	<b>¥191,681</b>	<b>\$1,955,929</b>

			Millions of yen	Thousands of U.S. dollars (Note 5)
	2007	2008	2009	2009
<b>LIABILITIES</b>				
<b>Current liabilities:</b>				
Short-term bank loans (Note 12)	¥4,690	¥5,010	¥4,630	\$47,245
Current portion of long-term debt (Note 12)	16,418	6,063	4,222	43,082
Notes and accounts payable:				
Trade	23,066	23,203	19,455	198,520
Other	2,125	3,350	3,360	34,286
	25,191	26,554	22,815	232,806
Accrued income taxes (Note 15)	935	3,438	871	8,888
Accrued expenses	2,508	2,748	2,923	29,827
Other current liabilities	3,193	3,287	3,286	33,531
<b>Total current liabilities</b>	<b>52,937</b>	<b>47,102</b>	<b>38,747</b>	<b>395,378</b>
<b>Long-term debt (Note 12)</b>				
Guarantee deposits received from tenants (Note 16)	13,755	21,992	31,925	325,765
Reserve for retirement benefits (Note 14)	41,597	43,377	41,820	426,735
Accrued retirement benefits for directors and corporate auditors	998	1,116	1,303	13,296
Allowance for loss on store closing	7	9	11	112
Other long-term liabilities	2,179	2,179	1,809	18,459
	300	230	445	4,541
<b>Total liabilities</b>	<b>111,776</b>	<b>116,008</b>	<b>116,064</b>	<b>1,184,327</b>
<b>NET ASSETS:</b>				
<b>Common stock</b>				
Authorized:				
320,000,000 shares at 28th February, 2007, 29th February, 2008 and 28th February, 2009 (Note 19)				
Issued:				
82,475,677 shares at 28th February, 2007, 29th February, 2008 and 28th February, 2009 (Notes 19 and 21)	26,867	26,867	26,867	274,153
Capital surplus	27,527	27,527	27,528	280,898
Retained earnings	15,100	19,114	21,527	219,663
Treasury stock, at cost (Note 20)	(54)	(57)	(60)	(612)
Unrealized gains/losses on securities, net of taxes	1,022	315	(104)	(1,061)
Foreign currency translation adjustments	117	144	(165)	(1,684)
Minority interests	195	69	24	245
<b>Total net assets</b>	<b>70,777</b>	<b>73,981</b>	<b>75,617</b>	<b>771,602</b>
<b>Total liabilities and net assets</b>	<b>¥182,553</b>	<b>¥189,989</b>	<b>¥191,681</b>	<b>\$1,955,929</b>

The accompanying notes are an integral part of these balance sheets.



# Consolidated Statements of Cash Flows

PARCO CO., LTD. and Consolidated Subsidiaries  
For the years ended 28th February, 2007, 29th February, 2008 and 28th February, 2009

	Millions of yen		Thousands of U.S. dollars (Note 5)	
	2007	2008	2009	2009
<b>Cash flows from operating activities:</b>				
Income before income taxes and minority interests	¥ 6,725	¥ 9,173	¥ 6,248	¥ 63,755
Adjustments for:				
Depreciation and amortization	3,893	4,594	5,602	57,163
Loss on impairment of fixed assets	653	13	110	1,122
Increase/(Decrease) in allowance for doubtful accounts	99	7	(6)	(61)
Increase/(Decrease) in accrued bonuses to employees	15	52	(21)	(214)
Increase/(Decrease) in allowance for sales returns	3	(1)	4	41
Increase/(Decrease) in allowance for books unsold	(2)	4	32	327
Increase/(Decrease) in reserve for sales promotion	48	(38)	20	204
Increase in reserve for retirement benefits	101	118	186	1,898
Increase/(Decrease) in accrued retirement benefits for directors and corporate auditors	(1)	1	1	10
Interest income and dividend income	(171)	(187)	(144)	(1,469)
Interest expenses	634	603	639	6,520
Bonds issue expenses	—	—	90	918
Loss on sales/disposal of property and equipment	22	450	343	3,500
(Gain)/Loss on sales of marketable securities and investment securities	(55)	40	(168)	(1,714)
Loss on write-down of marketable securities and investment securities	434	286	1,332	13,592
Loss on store closing	2,308	258	—	—
Reversal of allowance for loss on store closing	(666)	—	—	—
Dividends from an anonymous association's assets	—	(784)	—	—
Loss on restructuring	—	—	894	9,122
Amortization of leasehold	—	—	325	3,316
(Increase)/Decrease in receivables	(546)	96	(2,602)	(26,551)
(Increase)/Decrease in inventories	(861)	304	189	1,929
Increase/(Decrease) in payables	951	137	(3,748)	(38,245)
Increase/(Decrease) in other assets and liabilities, net	(306)	(291)	(312)	(3,184)
Other	67	28	25	255
Subtotal	13,347	14,869	9,041	92,255
Interest and dividends received	170	184	146	1,490
Interest paid	(624)	(604)	(646)	(6,592)
Payment resulting from store closing	(151)	(33)	(532)	(5,429)
Income taxes paid	(2,419)	(1,711)	(5,295)	(54,031)
<b>Net cash provided by operating activities</b>	<b>10,322</b>	<b>12,705</b>	<b>2,713</b>	<b>27,684</b>
<b>Cash flows from investing activities:</b>				
Acquisition of marketable securities	(700)	(300)	(300)	(3,061)
Proceeds from sales of marketable securities	700	—	600	6,122
Acquisition of tangible fixed assets	(6,211)	(9,325)	(13,298)	(135,694)
Proceeds from sales of tangible fixed assets	523	0	34	347
Acquisition of investment securities	(592)	(446)	(7)	(71)
Proceeds from sales of investment securities	1,509	429	274	2,796
Payments for fixed leasehold deposits	(944)	(251)	(627)	(6,398)
Collection of fixed leasehold deposits	3,355	847	920	9,388
Increase/(Decrease) in guarantee deposits received from tenants	(1,083)	2,247	(1,433)	(14,622)
Proceeds from an anonymous association's assets	—	784	—	—
Other	(230)	(597)	(311)	(3,173)
<b>Net cash used in investing activities</b>	<b>(3,673)</b>	<b>(6,611)</b>	<b>(14,148)</b>	<b>(144,367)</b>
<b>Cash flows from financing activities:</b>				
Increase/(Decrease) in short-term bank loans, net	60	320	(380)	(3,878)
Borrowing of long-term debt	8,000	14,300	9,950	101,531
Repayment of long-term debt	(12,080)	(4,418)	(4,858)	(49,571)
Proceeds from issue of bonds	—	—	4,909	50,092
Payments for redemption of straight bonds	—	(12,000)	(2,000)	(20,408)
Sales/(Acquisition) of treasury stock	124	(3)	(2)	(20)
Cash dividends paid	(984)	(1,153)	(1,318)	(13,449)
Cash dividends paid to minority shareholders	(32)	(129)	(30)	(306)
Other	0	—	—	—
<b>Net cash provided by (used in) financing activities</b>	<b>(4,911)</b>	<b>(3,084)</b>	<b>6,270</b>	<b>63,980</b>
Effect of exchange rate changes on cash and cash equivalents	125	29	(314)	(3,204)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,862</b>	<b>3,039</b>	<b>(5,478)</b>	<b>(55,898)</b>
Cash and cash equivalents at beginning of year	11,656	13,519	16,558	168,959
<b>Cash and cash equivalents at end of year (Note 6)</b>	<b>¥ 13,519</b>	<b>¥ 16,558</b>	<b>¥ 11,080</b>	<b>\$ 113,061</b>

The accompanying notes are an integral part of these statements.

# Notes to Consolidated Financial Statements

PARCO CO., LTD. and Consolidated Subsidiaries

## 1. Basis of Presenting The Consolidated Financial Statements

The accompanying consolidated financial statements are prepared from accounts and records maintained by PARCO CO., LTD. (the "Company") and its subsidiaries (together, the "Companies") in accordance with the provisions set forth in the Corporate Law and the Japanese Financial Instruments and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

Certain items presented in the consolidated financial statements submitted to the Director of Kanto Finance Bureau in Japan are reclassified in these accounts for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Relevant notes are added, and certain reclassifications of account balances as disclosed in the consolidated financial statements in Japan are made so as to present them in a form which is more familiar to readers outside Japan.

## 2. Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective from the year ended 28th February, 2007, the Companies adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No.5 issued by the Accounting Standards Board of Japan on 9th December, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No.8 issued by the Accounting Standards Board of Japan on 9th December, 2005), (collectively, the "New Accounting Standards").

Under the New Accounting Standards, the balance sheet comprises three sections, which are the assets, liabilities and net assets sections. Previously, the balance sheet comprised the assets, liabilities, minority interests, as applicable, and the shareholders' equity sections.

Under the New Accounting Standards, "minority interests" is required to be included in the net assets section. On the other hand, companies were required to present "minority interests" between the non-current liabilities and shareholders' equity section under the previous presentation rules.

The adoption of the New Accounting Standards had no impact on the consolidated statements of income for the year ended 28th February, 2007.

## 3. Accounting Standard for Statement of Changes in Net Assets

Effective from the year ended 28th February, 2007, the Companies adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No.6 issued by the Accounting Standards Board of Japan on 27th December, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No.9 issued by the Accounting Standards Board of Japan on 27th December, 2005), (collectively, the Additional New Accounting Standards").

Accordingly, the Company prepared the consolidated statements of changes in net assets for the year ended 28th February, 2007 in accordance with the Additional New Accounting Standards.

## 4. Summary of Significant Accounting Policies

### (1) Scope of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 7 subsidiaries as of 28th February, 2007, 29th February, 2008 and 28th February, 2009.

The major consolidated subsidiaries for the year ended 28th February, 2009 are listed below:

	Capital Stock	
	Thousands of Singapore dollars	Percentage of shares
PARCO (Singapore) Pte Ltd	S\$ 15,926	100.0%
Straits Parco Retail Management Pte Ltd	S\$ 1,000	67.0%

	Capital Stock	
	Millions of yen	Percentage of shares
NEUVE A CO., LTD.	490	100.0%
PARCO SPACE SYSTEMS CO., LTD.	490	100.0%
HOTEL NEW CRESTON CO., LTD.	50	100.0%
PARCO-CITY CO., LTD.	10	100.0%

The reporting dates of the following consolidated subsidiaries are listed below:

PARCO (Singapore) Pte Ltd	31st December (*1)
Straits Parco Retail Management Pte Ltd	31st December (*1)

(\*1) These subsidiaries' financial statements used in the consolidation are drawn up at their respective reporting dates. Adjustments are made for the effects of significant transactions or other events that occur between these dates and the date of the Company's financial statements.

### (2) Elimination of Intercompany Accounts and Transactions

All significant intercompany accounts and transactions including unrealized intercompany profits are eliminated in preparing the accompanying consolidated financial statements. The portion attributable to minority shareholders are recognized as minority interests.

### (3) Investments in Nonconsolidated Subsidiary

The Company acquires additional shares in JAPAN RETAIL ADVISORS CO., LTD., for the year ended 28th February, 2009. JAPAN RETAIL ADVISORS CO., LTD., becomes a subsidiary from an affiliate for the year ended 28th February, 2009.

The subsidiary is not consolidated but accounted for by the equity method since total assets, net sales, net income and retained earnings of the subsidiary are not material compared to consolidated financial statements.

### (4) Cash and Cash Equivalents

Cash and cash equivalents in the accompanying consolidated statements of cash flows are composed of cash on hand, demand deposits, and other short-term highly liquid investments with original maturities of three months or less.

### (5) Securities

Securities are classified as (a) securities held for trading purposes ("trading securities"), (b) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (c) equity securities issued by an affiliate or a subsidiary, or (d) all other securities that are not classified

in any of the above categories (“available-for-sale securities”). The Companies have no trading securities or held-to-maturity debt securities.

Available-for-sale securities with available fair market value are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of “Net assets”. The cost of securities sold is determined by the moving-average method.

Available-for-sale securities with no available fair market value are stated at cost by the moving-average cost.

#### (6) Inventories

Inventories are stated at cost as determined mainly by the specific identification method.

#### (7) Property and Equipment

Buildings (excluding leasehold improvements and attached facilities) are depreciated mainly on a straight-line basis. Declining-balance method is mainly used for the other assets.

Effective from the year ended 29th February, 2008, the Companies change the depreciation method for the tangible fixed assets that the Companies acquired on and after 1st April, 2007 in accordance with the revision of the Corporation Tax Law, the Law for Partial Revision of the Income Tax Law (30th March, 2007, Law No.6) and the Cabinet Order for Partial Revision of the Corporation Tax Law (30th March, 2007, Cabinet Order No.83).

The impact of this change on profit and loss is immaterial.

Effective from the year ended 28th February, 2009, the tangible fixed assets acquired before 1st April, 2007, are depreciated evenly over five years from the following fiscal year when it would be depreciated up to allowable limit for depreciation, in accordance with the revision of the Corporation Tax Law, the Law for Partial Revision of the Income Tax Law (30th March, 2007, Law No.6) and the Cabinet Order for Partial Revision of the Corporation Tax Law (30th March, 2007, Cabinet Order No.83).

The impact of this change on profit and loss is immaterial.

#### (8) Intangible Assets, Long-term Prepaid Expenses and Bonds Issue Expenses

Intangible assets and long-term prepaid expenses included in “Other assets” are amortized on a straight-line basis.

Costs of software for internal use are amortized on a straight-line basis over their expected useful lives (5 years).

Bonds issue expenses are accounted for as expenses in a lump when they are paid.

#### (9) Allowances and Accruals

The Companies use the accrual basis of accounting for all income and expenses.

##### i) Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided for possible losses on bad debts. For general receivables, the amount is determined based on the actual bad debt ratio. For doubtful receivables, estimated uncollectible amounts for each receivable are used.

##### ii) Accrued Bonuses to Employees

The estimated bonuses payable in the future as of the balance sheet date are accrued.

##### iii) Reserve for Retirement Benefits

The Companies have contributory funded defined benefit pension plans which provide employees lump-sum payments or pension payments for life after the age of 60. Employees with service years of 20 years or

more can choose between the two. Employees with service years of more than 5 years but less than 20 years are entitled to a lump-sum payment only.

Reserve for retirement benefits are computed based on the estimated amount of projected benefit obligation and the fair value of the plan assets at the end of the year.

The unrecognized transition amount arising from adopting the new standard is amortized on a straight-line basis over the period of 15 years.

Unrecognized prior service costs and unrecognized actuarial differences are amortized on a straight-line basis within the employee’s average remaining service years of the time they occur (mainly 11 years). The amortization of unrecognized actuarial differences starts from the subsequent year.

Because the employee’s average remaining service period falls below 12 years, the Company changes this period from 12 years to 11 years for the year ended 28th February, 2009.

The impact of this change on profit and loss is immaterial.

##### iv) Accrued Retirement Benefits for Directors and Corporate Auditors

The Companies accrue retirement benefits to directors and corporate auditors based on the respective internal rules at the amount which would be required to be paid if all directors and corporate auditors retired or left at the respective balance sheet date.

##### v) Allowance for Loss on Store Closing

Allowance for loss on store closing is recorded based on the reasonable estimated loss on store closing for a store the Company decided to close.

##### vi) Reserve for Sales Promotion

Reserve for sales promotion is recorded for the projected amounts of unused vouchers issued on the promotional reward card system to be used in the future based on the past actual rate of usage.

##### vii) Other Allowances

Japanese income tax laws set limits to the amounts of certain accrued expenses, which are essentially the estimates of the future, deductible from the tax base. The allowance for sales returns and the allowance for books unsold are recorded in accordance with the income tax laws.

#### (10) Leases

In accordance with accounting principles generally accepted in Japan, leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases, while those leases which do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases.

#### (11) Net Income and Dividends per Share

Basic net income per share is computed based on the weighted average number of shares outstanding for respective years.

Cash dividends per share are computed based on dividends declared for each year.

#### (12) Consumption Tax

Consumption tax is an indirect tax levied on domestic consumption goods and services at the flat rate of 5 percent. Subject transactions are recorded at the amounts net of consumption taxes which are withheld as assets/liabilities until tax filing.

#### (13) Appropriation of Retained Earnings

Appropriation of retained earnings is recorded when it is actually approved by the board of directors.

#### (14) Loss on collecting amortized coupons

Previously, the Company reversed the amount of non-collecting coupons to other income after a set period of time in consideration of the possibility of the fulfillment obligation.

The Company changed to record the amount of coupons to be used in the future to other liabilities based on the past results from the year ended 29th February, 2008, in accordance with the “Auditing Treatment concerning Reserve under the Special Taxation Measures Laws, Reserve under Special Laws and Reserve for Retirement Benefits to Directors and Corporate Auditors” (The Japanese Institute of Certified Public Accountants, Auditing and Assurance Practice Committee Report No.42, revised on 13th April, 2007).

As a result, income before income taxes and minority interests decreased by 47 million yen for the year ended 29th February, 2008.

## 5. Japanese Yen Amounts and U.S. Dollar Amounts

The consolidated financial statements presented herein are expressed in Japanese yen, which are stated in millions of yen by discarding fractional amounts less than one million yen. Therefore, their total or subtotal amounts do not necessarily agree with the aggregate sum of such account balances.

Solely for the convenience of readers, Japanese yen amounts shown in the consolidated financial statements are translated into U.S. dollar amounts at the exchange rate of ¥98.0 prevailing at 28th February, 2009. The translations should not be construed as representation that Japanese yen amounts have been, could have been, can be or could in the future be converted into U.S. dollars at that rate or any other rate.

## 6. Consolidated Statements of Cash Flows

Cash and cash equivalents in the consolidated statements of cash flows for the years ended 28th February, 2007, 29th February, 2008 and 28th February, 2009 consists of the following:

	Millions of yen		Thousands of U.S. dollars	
	2007	2008	2009	2009
Cash and time deposits	¥13,519	¥15,858	¥11,080	\$113,061
Cash in trust	—	700	—	—
Cash and cash equivalents	¥13,519	¥16,558	¥11,080	\$113,061

## 7. Loss on Store Closing

Major items in loss on store closing for the years ended 28th February, 2007, 29th February, 2008 and 28th February, 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2007	2008	2009	2009
Loss on store closing	¥ —	¥233	¥—	\$ —
Provision for allowance for loss on store closing	2,179	—	—	—
Impairment loss	129	24	—	—
Total	¥2,308	¥258	¥—	\$ —

## 8. Impairment of Fixed Assets

The Companies recorded impairment losses on the following asset groups for the years ended 28th February, 2007, 29th February, 2008 and 28th February, 2009.

For the year ended 28th February, 2007			Millions of yen
Location	Use	Classification	2007
PARCO CO., LTD Atsugi PARCO [Atsugi City, Kanagawa]	Store	Building, etc	¥129
PARCO CO., LTD Daisenya [Izunokuni City, Shizuoka]	Hotel	Building, etc Land	¥540
Other	Store Idle land	Building, etc Land	¥113

The Companies group their fixed assets based on managerial accounting segment.

The Company scheduled to close Atsugi PARCO on 28th February, 2008 in view of the overall deterioration in market environment. Loss on store closing of 2,308 million yen is recorded including 129 million yen of impairment loss for “Building, etc”. The book value of “Building, etc” is written off to zero (See Note 7).

The book value of Daisenya and other assets are written off to their recoverable amounts because of the unforeseeable decline in its values. Impairment loss of 540 million yen is written off and recorded for Daisenya, and 113 million yen for other assets. Major items in the impairment loss for Daisenya are 294 million yen for “Building, etc.” and 245 million yen for “Land”. Also, major items in the impairment loss of other assets are 77 million yen for “Building, etc.” and 35 million yen for “Land”.

The recoverable amounts for these asset groups are computed based on the selling price and value in use. The selling price is mainly based on appraisal value, and the value in use is computed based on the present value of estimated future cash flows.

For the year ended 29th February, 2008			Millions of yen
Location	Use	Classification	2008
PARCO SPACE SYSTEMS CO., LTD Idle real estate [Nasu Country, Tochigi]	Idle land	Land	¥13
Other	Store	Building, etc	¥24

The Companies group their fixed assets based on managerial accounting segment.

The book value of idle real estate is written off to their recoverable amounts because of the unforeseeable decline in its values. Impairment loss of 13 million yen for “Land” is written off and recorded.

The book value of other assets is written off to their recoverable amounts because of the unforeseeable decline in its values. Impairment loss of 24 million yen for “Building, etc” is written off and recorded. Because the Company scheduled to close the store, the book value of “Building, etc” is written off to zero (See Note 7).

The recoverable amounts for these asset groups are computed based on the selling price and value in use. The selling price is mainly based on appraisal value, and the value in use is computed based on the present value of estimated future cash flows.

For the year ended 28th February, 2009				
Location	Use	Classification	Millions of yen	Thousands of U.S. dollars
PARCO CO., LTD Daisenya [Izunokuni City, Shizuoka]	Hotel	Building, etc Land	¥315	\$3,214
PARCO CO., LTD Kamiyama-cho Building [Shibuya-ku, Tokyo]	Hotel	Building, etc	¥ 69	\$ 704
NEUVE A CO., LTD Other [Shibuya-ku, Tokyo]	Store	Building, etc	¥ 41	\$ 418
Other	Hotel Store	Building, etc Software, etc	¥157	\$1,602

The Companies group their fixed assets based on managerial accounting segment.

The book value of Hotel is written off to their recoverable amounts because of the unforeseeable decline in its values as restructuring of hotel business. Impairment loss of 472 million yen (4,816 thousand of U.S. dollars) is written off and recorded. Major items in the impairment loss of Hotel are 272 million yen (2,776 thousand of U.S. dollars) for "Building, etc." and 200 million yen (2,041 thousand of U.S. dollars) for "Land" (See Note 9). The recoverable amounts for Hotel are computed based on the selling price. The selling price is mainly based on sales contracts.

The book value of Store which incurred continuous operating losses is written off to their recoverable amounts. Impairment loss of 111 million yen (1,133 thousand of U.S. dollars) is written off and recorded. Major items in the impairment loss of Store are 43 million yen (439 thousand of U.S. dollars) for "Building, etc." and 68 million yen (694 thousand of U.S. dollars) for "Software, etc.". The recoverable amounts for Store are computed based on value in use. The value in use is computed based on the present value of estimated future cash flows. Because the Company does not foresee future cash flows due to decreasing profitability of Store, the book value of "Building, etc" is written off to zero.

## 9. Loss on Restructuring

Loss on restructuring for the year ended 28th February, 2009 consists of loss on restructuring of 420 million yen (4,286 thousand of U.S. dollars) and impairment loss of 474 million yen (4,837 thousand of U.S. dollars).

## 10. Securities

### Available-for-sale securities

Acquisition costs and book values of available-for-sale securities with available fair market values are as follows:

As of 28th February, 2007			
	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Equity shares	¥2,167	¥4,012	¥1,845
Book value not exceeding acquisition cost:			
Equity shares	908	787	(121)
Total	¥3,076	¥4,800	¥1,724

As of 29th February, 2008			
	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Equity shares	¥2,528	¥3,141	¥613
Book value not exceeding acquisition cost:			
Equity shares	240	156	(83)
Total	¥2,768	¥3,298	¥529

As of 28th February, 2009			
	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Equity shares	¥212	¥288	¥76
Book value not exceeding acquisition cost:			
Equity shares	1,238	984	(253)
Total	¥1,450	¥1,273	¥(177)

As of 28th February, 2009			
	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Equity shares	\$2,163	\$2,939	\$776
Book value not exceeding acquisition cost:			
Equity shares	12,633	10,041	(2,582)
Total	\$14,796	\$12,990	\$(1,806)

Available-for-sale securities sold are as follows:

	Millions of yen	Thousands of U.S. dollars
	2007	2008
Total sold	¥1,509	¥429
Total gain on sales	55	12
Total loss on sales	—	53

Major items and book values of securities with no market values are as follows:

	Millions of yen	Thousands of U.S. dollars
	2007	2008
Available-for-sale securities:		
Non-listed securities	¥3,175	¥3,189
Other	26	1,008

Repayment schedules of available-for-sale securities with maturities are as follows:

	Millions of yen	Thousands of U.S. dollars
	2007	2008
Due within 1 year	¥26	¥1,008

## 11. Leasehold Deposits and Loans to Lessors

Leasehold deposits are those deposits furnished by the Companies in accordance with customary business practices in Japan. In connection with the leasing of store buildings, lessees are required to furnish lessors with deposits in an amount deemed sufficient to secure the lease contracts and the annual lease rental payments.

The leasehold deposits are normally non-interest-bearing and are refundable only when the lease contracts are terminated.

## 12. Short-Term Bank Loans and Long-Term Debt

The weighted average interest rates for short-term bank loans are 1.14%, 1.31% and 1.19% for the years ended 28th February, 2007, 29th February 2008 and 28th February, 2009, respectively.

Breakdown of long-term debt is as follows:

	Millions of yen	Thousands of U.S. dollars
	2007	2008
Long-term loans from banks including current portion	¥16,173	¥26,055
Weighted average interest rates of the above long-term loans	1.99%	1.90%
Straight bonds payable:		
1.11% bonds due 2007	¥3,500	¥—
1.39% bonds due 2007	3,500	—
1.10% bonds due 2007	2,000	—
0.95% bonds due 2007	1,000	—
1.44% bonds due 2007	2,000	—
1.35% bonds due 2008	2,000	2,000
1.20% bonds due 2014	—	—
	30,173	28,055
Less: Portion due within 1 year	(16,418)	(6,063)
	¥13,755	¥21,992

The Companies' assets pledged as collateral for short-term and long-term loans from banks as of 28th February, 2009 are as follows:

	Millions of yen	Thousands of U.S. dollars
Net book value of assets pledged as collateral:		
Buildings	¥3,640	\$37,143
Land	4,445	45,357
	¥8,085	\$82,500

Secured liabilities as of 28th February, 2009 are as follow:

	Millions of yen	Thousands of U.S. dollars
Short-term loans	¥ 252	\$2,571
Long-term loans	820	8,367
	¥1,072	\$10,939

The aggregate annual maturities of long-term debt as of 28th February, 2009 are as follows:

Year ending 28th/29th February,	Millions of yen	Thousands of U.S. dollars
2010	¥4,222	\$43,082
2011	4,222	43,082
2012	12,222	124,714
2013	13,022	132,878
2014 and thereafter	2,459	25,092
	¥36,147	\$368,847

## 13. Leases

### (1) Finance Leases

Pro forma information on leased property, such as acquisition costs, accumulated depreciation, net book value and future minimum lease payments under finance leases that do not transfer the ownership of the leased assets to lessees is as follows (See Note 4(10)):

As of 28th February, 2007			
	Acquisition Costs	Accumulated Depreciation	Net book Value
Machinery and equipment	¥1,931	¥1,254	¥679
Other	478	182	296
Total	¥2,409	¥1,436	¥973

As of 29th February, 2008			
	Acquisition Costs	Accumulated Depreciation	Net book Value
Machinery and equipment	¥1,894	¥1,077	¥817
Other	481	261	219
Total	¥2,376	¥1,339	¥1,036

As of 28th February, 2009			
	Acquisition Costs	Accumulated Depreciation	Net book Value
Machinery and equipment	¥1,423	¥541	¥882
Other	409	257	152
Total	¥1,833	¥799	¥1,034

As of 28th February, 2009

	Thousands of U.S. dollars		
	Acquisition Costs	Accumulated Depreciation	Net book Value
Machinery and equipment	\$14,520	\$5,520	\$9,000
Other	4,173	2,622	1,551
<b>Total</b>	<b>\$18,704</b>	<b>\$8,153</b>	<b>\$10,551</b>

	Thousands of U.S. dollars			
	Millions of yen			
	2007	2008	2009	2009
Future minimum lease payments:				
Due within 1 year	¥429	¥404	¥341	\$3,480
Due after 1 year	554	645	713	7,276
<b>Total</b>	<b>¥984</b>	<b>¥1,050</b>	<b>¥1,054</b>	<b>\$10,755</b>

Lease expenses, depreciation equivalents and interest expense equivalents are as follows:

	Thousands of U.S. dollars			
	Millions of yen			
	2007	2008	2009	2009
Lease expenses	¥504	¥495	¥468	\$4,776
Depreciation equivalents	490	484	452	4,612
Interest expense equivalents	¥9	¥12	¥19	\$194

Depreciation equivalents are calculated on a straight-line basis over the lease terms without residual value.

Interest expense equivalents are computed using the interest method based on the differences between the lease payments and acquisition costs of each asset which are considered to be interest-bearing.

### (2) Future minimum Lease Payments under Operating Leases

	Thousands of U.S. dollars			
	Millions of yen			
	2007	2008	2009	2009
Future minimum lease payments:				
Due within 1 year	¥2	¥2	¥0	\$0
Due after 1 year	1	3	2	20
Lease rental expenses	¥3	¥5	¥3	\$31

### (3) Impairment Loss

No impairment loss was allocated to leased assets for the years ended 28th February, 2007, 29th February, 2008 and 28th February, 2009.

## 14. Retirement Benefit Plan

Breakdown of reserve for retirement benefits presented in the accompanying balance sheets is as follows:

	Thousands of U.S. dollars			
	Millions of yen			
	2007	2008	2009	2009
Retirement benefit obligation	¥(5,176)	¥(5,083)	¥(5,143)	\$(5,480)
Fair value of pension assets	3,139	2,826	2,175	22,194
Unrecognized prior service costs	(1,212)	(1,039)	(839)	(8,561)
Unrecognized actuarial differences	1,307	1,342	1,773	18,092
Unrecognized transition amount arising from adopting the new standard	943	836	729	7,439
<b>Reserve for retirement benefits</b>	<b>¥ (998)</b>	<b>¥(1,116)</b>	<b>¥(1,303)</b>	<b>\$(13,296)</b>

Breakdown of retirement benefit expenses included in the accompanying statements of income is as follows:

	Thousands of U.S. dollars			
	Millions of yen			
	2007	2008	2009	2009
Service costs	¥ 242	¥ 270	¥ 298	\$ 3,041
Interest costs	93	96	95	969
Expected return on plan assets	(54)	(59)	(53)	(541)
Amortization of unrecognized prior service costs	(173)	(173)	(199)	(2,031)
Amortization of unrecognized actuarial differences	275	266	333	3,398
Amortization of unrecognized transition amount arising from adopting the new standard	107	107	107	1,092
Premium severance pay	49	3	—	—
Prepaid retirement benefit	112	113	111	1,133
<b>Retirement benefit expenses</b>	<b>¥ 652</b>	<b>¥ 625</b>	<b>¥ 692</b>	<b>\$ 7,061</b>

Discount rate and rate of expected return on plan assets used are mainly 2.0% for 2007, 2008 and 2009. Prior service costs and actuarial differences are amortized on a straight-line basis mainly over 12 years for 2007 and 2008. Prior service costs and actuarial differences are amortized on a straight-line basis mainly over 11 years for 2009. Unrecognized transition amount arising from adopting the new standard is amortized on a straight-line basis over a period of 15 years (See Note 4(9)).

## 15. Income Taxes

Japanese income taxes applicable to the Companies consist of corporate tax, inhabitant tax and corporate enterprise tax, which in the aggregate resulted in statutory tax rate of approximately 40.7% for 2007, 2008 and 2009.

Major items in deferred tax assets and liabilities are as follows:

	Thousands of U.S. dollars			
	Millions of yen			
	2007	2008	2009	2009
Deferred tax assets:				
Adjustments for unrealized gains	¥ 966	¥ 852	¥ 845	\$ 8,622
Retirement benefits to directors and corporate auditors	118	118	94	959
Accrued bonuses to employees	371	397	388	3,959
Reserve for sales promotion	90	75	83	847
Accrued corporate enterprise tax	134	284	95	969
Allowance for doubtful accounts	100	103	102	1,041
Reserve for retirement benefits	415	503	578	5,898
Loss on impairment of fixed assets	687	636	608	6,204
Allowance for loss on store closing	887	887	736	7,510
Loss on restructuring	—	—	254	2,592
Unrealized losses on securities	—	—	72	735
Others	142	321	397	4,051
<b>Gross deferred tax assets</b>	<b>3,914</b>	<b>4,179</b>	<b>4,258</b>	<b>43,449</b>
Less: Valuation allowance	(262)	(446)	(406)	(4,143)
<b>Total deferred tax assets</b>	<b>¥3,652</b>	<b>¥3,732</b>	<b>¥3,851</b>	<b>\$39,296</b>
Deferred tax liabilities:				
Unrealized gains on securities	701	216	—	—
Investment in a subsidiary	262	262	70	714
Others	—	—	18	184
<b>Total deferred tax liabilities</b>	<b>¥ 963</b>	<b>¥ 478</b>	<b>¥ 89</b>	<b>\$ 908</b>
<b>Net deferred tax assets</b>	<b>¥2,688</b>	<b>¥3,254</b>	<b>¥3,761</b>	<b>\$38,378</b>

Reconciliations between the statutory tax rates and the effective tax rates are as follows:

	Percentage	
	2007	2008
Statutory tax rates	40.7%	40.7%
Adjustments:		
Permanent non-deductible differences including entertainment expenses	3.1	0.9
Permanent non-taxable differences including dividend income	(9.0)	(0.3)
Difference between effective tax rates for domestic companies and those for overseas companies	(1.7)	(0.8)
Inhabitant tax – per capita levy	0.6	0.5
Valuation allowance	(2.7)	1.4
Others	(0.7)	1.3
<b>Effective income tax rates</b>	<b>30.3%</b>	<b>43.7%</b>

The difference between the statutory income tax rate and the effective income tax rate for 2009 is not disclosed as the difference is less than 5%.

## 16. Guarantee Deposits Received from Tenants

The Company receives guarantee deposits from tenants of floor space according to Tenant Agreements for specialty stores and shops. These deposits do not bear interest and are refundable when the agreements are terminated.

## 17. Derivative Information

The Companies enter into interest rate swap agreements in order to minimize the risk of fluctuation in interest rates on borrowings. The Companies do not enter into these agreements for trading or speculative purposes.

The Companies establish a risk management system reporting and monitoring transactions involving derivative financial instruments.

The Companies are exposed to the risk of credit loss in the event of breach of contracts by the counterparties to the interest. However, the Companies do not anticipate breach of contracts by any of these counterparties, all of whom are financial institutions with high credit ratings.

Derivatives that are designated as “hedging instruments” are not disclosed in the accompanying financial statements.

## 18. Segment Information

### (1) Business Segment Information

Millions of yen							
	Shopping complex	Retail	Space engineering and management	Others	Total	Elimination or corporate	Consolidated
For the year ended 28th February, 2007:							
Sales:							
External Customers	¥248,239	¥ 5,686	¥12,595	¥2,131	¥268,653	¥ —	¥268,653
Intersegment	485	11,031	10,158	317	21,994	(21,994)	—
Total	248,725	16,718	22,754	2,449	290,648	(21,994)	268,653
Operating expenses	240,027	16,223	22,219	2,383	280,853	(21,956)	258,897
Operating income	¥ 8,698	¥ 495	¥ 535	¥65	¥ 9,794	¥ (38)	¥ 9,756
Assets	¥174,244	¥ 4,805	¥13,143	¥703	¥192,897	¥(10,343)	¥182,553
Depreciation and Amortization	3,652	279	25	20	3,976	(83)	3,893
Loss on impairment of fixed assets	737	11	35	—	785	(2)	782
Capital expenditures	6,115	535	71	24	6,746	(216)	6,530

Millions of yen							
	Shopping complex	Retail	Space engineering and management	Others	Total	Elimination or corporate	Consolidated
For the year ended 29th February, 2008:							
Sales:							
External Customers	¥266,005	¥ 6,959	¥14,323	¥1,993	¥289,281	¥ —	¥289,281
Intersegment	257	10,138	12,042	336	22,774	(22,774)	—
Total	266,263	17,097	26,365	2,330	312,056	(22,774)	289,281
Operating expenses	257,177	16,601	25,670	2,448	301,898	(22,706)	279,191
Operating income	¥ 9,085	¥ 496	¥ 695	¥ (118)	¥ 10,158	¥ (67)	¥ 10,090
Assets	¥182,509	¥ 5,188	¥13,256	¥ 533	¥201,488	¥(11,498)	¥189,989
Depreciation and Amortization	4,268	350	35	27	4,681	(86)	4,594
Loss on impairment of fixed assets	26	—	13	—	39	(1)	38
Capital expenditures	8,945	583	17	59	9,605	306	9,912

Millions of yen							
	Shopping complex	Retail	Space engineering and management	Others	Total	Elimination or corporate	Consolidated
For the year ended 28th February, 2009:							
Sales:							
External Customers	¥264,344	¥ 7,030	¥11,875	¥1,859	¥285,109	¥ —	¥285,109
Intersegment	250	10,048	10,561	359	21,220	(21,220)	—
Total	264,595	17,079	22,437	2,218	306,330	(21,220)	285,109
Operating expenses	255,769	16,802	22,053	2,343	296,969	(21,221)	275,747
Operating income	¥ 8,826	¥ 276	¥ 383	¥ (125)	¥ 9,361	¥ 0	¥ 9,362
Assets	¥186,691	¥ 5,055	¥10,655	¥ 412	¥202,814	¥(11,133)	¥191,681
Depreciation and Amortization	5,278	352	33	33	5,697	(94)	5,602
Loss on impairment of fixed assets	387	42	—	156	586	(2)	584
Capital expenditures	13,913	332	11	59	14,316	(637)	13,679

Thousands of U.S. dollars

	Shopping complex	Retail	Space engineering and management	Others	Total	Elimination or corporate	Consolidated
For the year ended 28th February, 2009:							
Sales:							
External Customers	\$2,697,388	\$ 71,735	\$121,173	\$18,969	\$2,909,276	\$ —	\$2,909,276
Intersegment	2,551	102,531	107,765	3,663	216,531	(216,531)	—
Total	2,699,949	174,276	228,949	22,633	3,125,816	(216,531)	2,909,276
Operating expenses	2,609,888	171,449	225,031	23,908	3,030,296	(216,541)	2,813,745
Operating income	\$ 90,061	\$ 2,816	\$ 3,908	\$ (1,276)	\$ 95,520	\$ 0	\$ 95,531
Assets	\$1,905,010	\$ 51,582	\$108,724	\$ 4,204	\$2,069,531	\$(113,602)	\$1,955,929
Depreciation and Amortization	53,857	3,592	337	337	58,133	(959)	57,163
Loss on impairment of fixed assets	3,949	429	—	1,592	5,980	(20)	5,959
Capital expenditures	141,969	3,388	112	602	146,082	(6,500)	139,582

#### Notes:

- Business divisions are determined according to lines of businesses within the Companies.
- Description of principal businesses in each business segment:
  - Shopping complex: Development, management and operation of shopping centers
  - Retail: Sales of apparel, accessories and other goods
  - Space engineering and management: Design and construction of building interiors  
Providing cleaning, security and maintenance services for buildings
  - Others: Internet business  
Management of Hotels
- Other operating revenue is included in "Sales".
- Long-term prepaid expenses and its amortization are included in "Capital expenditures" and "Depreciation and amortization".
- Effective from the year ended 28th February, 2009, the tangible fixed assets acquired before 1st April, 2007 are depreciated evenly over five years from the following fiscal year when it would be depreciated up to allowable limit for depreciation (See Note 4(7)).

#### (2) Geographic Segment Information

Geographic segment information is not prepared nor disclosed since the aggregate sales and assets of the Company and its domestic subsidiaries are more than 90% of the consolidated net sales and assets for the years ended 28th February, 2007, 29th February, 2008 and 28th February, 2009.

#### (3) Export Sales Information

Export sales information is not prepared nor disclosed since the sales to oversea customers are less than 10% of the consolidated net sales for the years ended 28th February, 2007, 29th February, 2008 and 28th February, 2009.

## 19. Net Assets

Effective from 28th May, 2005, the total authorized common stock of the Company increased from one hundred thirty one million shares to three hundred twenty million shares as approved at the ordinary general meeting of shareholders held on the same date.

Two hundred sixty four thousand new shares were issued during the year ended 28th February, 2007 due to share exchange agreement between the Company and PARCO SPACE SYSTEMS CO., LTD, one of its subsidiaries. The latter became a wholly-owned subsidiary of the Company effective from 21st December, 2006 (See Note 21).

## 20. Treasury Stock

Breakdown of treasury stock (common stock) for the years ended 28th February, 2007, 29th February 2008 and 28th February, 2009 is as follows:

	Number of shares outstanding (thousands)
Balance at 28th February, 2006	293
Purchase of fractional shares from stockholders	3
Exercise of stock option	(205)
Sales of fractional shares to stockholders	(0)
Balance at 28th February, 2007	91
Purchase of fractional shares from stockholders	2
Sales of fractional shares to stockholders	(0)
Balance at 29th February, 2008	93
Purchase of fractional shares from stockholders	2
Sales of fractional shares to stockholders	(0)
Balance at 28th February, 2009	95

## 21. Business Combinations

The Company and PARCO SPACE SYSTEMS CO., LTD ("PSS"), one of its subsidiaries, entered into a share exchange agreement which was effective from 21st December, 2006, in order to make PSS a wholly-owned subsidiary of the Company.

### (1) Purpose of Making PSS a Wholly-Owned Subsidiary of the Company

PSS handles building maintenance, interior decorating, fixtures and electrical work, security management and other works for all store facilities of the Company. The Company decided to make PSS its wholly-owned subsidiary to implement effective group management policy and ensure speedy decision-making.

### (2) Terms and Conditions of Share Exchange

#### i) Breakdown of Acquisition Cost of PSS Stocks

	Millions of yen
Cost of the Company's new shares issued	¥331
Overhead expenses	3
Total acquisition cost of PSS stocks	¥335

#### ii) Share Exchange Ratio

	The Company	PSS
Share exchange ratio	1	0.32

#### iii) Basis of Computation

The Company had the share exchange ratio computed by Mitsubishi UFJ Securities Co., Ltd., and PSS by MISUZU Consulting, Inc. Taking the results of these computations into consideration, the Company and PSS determined and agreed upon the share exchange ratio shown above.

Mitsubishi UFJ Securities Co., Ltd. computed the share exchange ratio according to the assumed value of the shareholders' equity of each company computed comprehensively by the average market value approach, the discounted cash flow (DCF) approach, the comparable company approach, and the present value approach, while MISUZU Consulting, Inc. used the average market value approach, the adjusted book value approach, the comparable company approach, and DCF approach.

#### iv) Number of New Shares Issued

	Number of new shares	Millions of yen
	264,896	¥331

#### v) Negative Goodwill

Present value of shareholders' equity over its acquisition cost, which is 12 million yen, is recognized as negative goodwill and amortized on a straight-line basis over a period of 5 years.



### Independent Auditors' Report

To the Shareholders and Board of Directors of  
PARCO Co., Ltd.:

We have audited the accompanying consolidated balance sheets of PARCO Co., Ltd. and consolidated subsidiaries as of February 28, 2009, February 29, 2008 and February 28, 2007, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended February 28, 2009, 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 PARCO Co., Ltd. and consolidated subsidiaries as of February 28, 2009, February 29, 2008 and February 28, 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended February 28, 2009 in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended February 28, 2009 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 5 to the consolidated financial statements.

*KPMG AZSA & Co.*

Tokyo, Japan  
May 30, 2009