We keep on innovating

PARCO

2008 Annual Report

for the year ended February 29, 2008

Retail market conditions in Japan are
sales are declining across the board.
But PARCO has bucked the trend and

How do we

By innovating

Contents

Cautionary Statement About Forecasts

The purpose of this annual report is to provide information about PARCO to investors. It was not created for the purpose of soliciting investors to buy PARCO shares, or to sell any PARCO products or services whatsoever. Descriptions related to future prospects in this report are based on our targets and forecasts and are not intended to provide any assurance or guarantee. Please use this report with the understanding that future earnings of PARCO may differ from our current forecasts. This report is provided on the basis that investors may use it for their own purposes upon their own judgment and responsibility.

still severe—

maintained steady sales expansion.

do it ?

all the time.

Consolidated Financial Highlights

PARCO CO., LTD. and Consolidated Subsidiaries
For the years ended 28th/29th February, 2004, 2005, 2006, 2007 and 2008

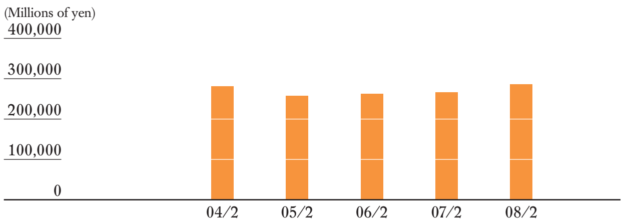
	Millions of yen					Percent change	Thousands of U.S. dollars*1
	2004	2005	2006	2007	2008	2008/2007	2008
Operating Results:							
Net sales	¥281,478	¥257,625	¥262,408	¥266,645	¥286,788	+7.6%	$2,731,314
Shopping Complex Business*2	244,348	238,410	244,884	248,725	266,263	+7.1%	2,535,838
Retail Business	37,703	15,320	15,946	16,718	17,097	+2.3%	162,829
Space Engineering and Management Business	23,577	25,729	21,985	22,754	26,365	+15.9%	251,095
Other Business	3,025	2,510	2,586	2,449	2,330	–4.9%	22,190
Elimination or corporate	(25,644)	(22,696)	(21,070)	(21,994)	(22,774)	+3.5%	(216,895)
Cost of sales	238,562	221,111	224,866	228,467	245,198	+7.3%	2,335,219
Other operating revenue	1,532	1,649	1,923	2,008	2,493	+24.2%	23,743
Selling, general and administrative expenses	35,553	29,722	30,380	30,429	33,992	+11.7%	323,733
Operating income	8,894	8,441	9,085	9,756	10,090	+3.4%	96,095
Net income	2,791	1,742	4,006	4,503	5,167	+14.8%	49,210
Financial Position:							
Total assets	203,688	187,993	182,381	182,553	189,989	+4.1%	1,809,419
Shareholders' equity	54,575	61,760	66,975	–	–	–	–
Net assets	–	–	–	70,777	73,981	+4.5%	704,581
Interest-bearing debt	67,341	48,732	38,883	34,863	33,065	–5.2%	314,905
Debt equity ratio*3 (Times)	1.23	0.79	0.58	0.49	0.45	–	

	Yen						U.S. dollars*1
Per Share Data:							
Net income, basic	¥ 36.97	¥ 21.87	¥ 49.26	¥ 54.83	¥ 62.73	+14.4%	$ 0.597
Shareholders' equity	767.07	763.90	817.60	–	–	–	–
Net assets	–	–	–	856.74	897.19	+4.7%	8.544
Cash dividends	8.00	10.00	11.00	13.00	15.00	+15.4%	0.142

	Millions of yen						Thousands of U.S. dollars*1
Major Indicators:							
Capital investment	¥ 4,213	¥ 7,369	¥ 8,688	¥ 7,474	¥ 10,163	+36.0%	$ 96,790
Depreciation and amortization	4,102	4,140	3,944	3,883	4,585	+18.1%	43,667
Free cash flow	10,269	8,670	10,533	6,649	6,093	–8.4%	58,029
Return on equity*4 (ROE) (%)	5.1	3.0	6.2	6.5	7.2	–	

*1 U.S. dollar amounts have been translated, for convenience only, at the rate of ¥105=US$1.
*2 In fiscal 2005, the 'Development Business' was renamed the 'Shopping Complex Business.'
*3 Debt Equity Ratio = Interest-bearing Debt/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.
*4 Return on Equity (ROE) = 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.

Net sales

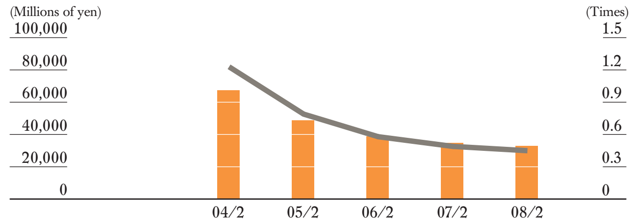


	04/2	05/2	06/2	07/2	08/2
Net sales (Millions of yen)	281,478	257,625	262,408	266,645	286,788

Reflecting progress with the Five-Year Medium-Term Management Plan, and expansion in the Shopping Complex Business, to which new stores have been added, the Retail Business and the Space Engineering and Management Business, consolidated net sales rose 7.6% year on year to ¥286,788 million.

Number of PARCO Group companies (including PARCO CO., LTD.)
FY2003: 20, FY2004: 15, FY2005: 10, FY2006: 9, FY2007: 9

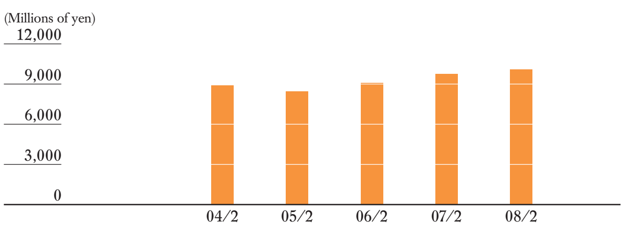
Interest-bearing debt and Debt equity ratio



	04/2	05/2	06/2	07/2	08/2
Interest-bearing debt (Millions of yen, left scale)	67,341	48,732	38,883	34,863	33,065
Debt equity ratio (Times, right scale)	1.23	0.79	0.58	0.49	0.45

Interest-bearing debt declined ¥1,798 million, or 5.2%, to ¥33,065 million. The debt equity ratio improved to 0.45 times, from 0.49 times in the previous fiscal year.

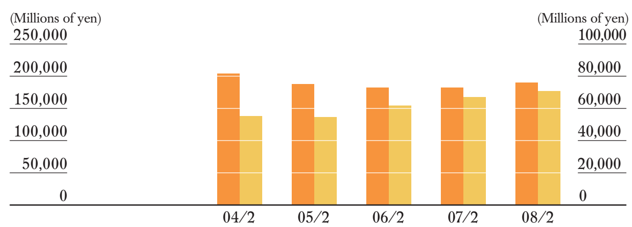
Operating income



	04/2	05/2	06/2	07/2	08/2
Operating income (Millions of yen)	8,894	8,441	9,085	9,756	10,090

In tandem with the increase in consolidated net sales, operating income advanced 3.4% to ¥10,090 million, a record high.

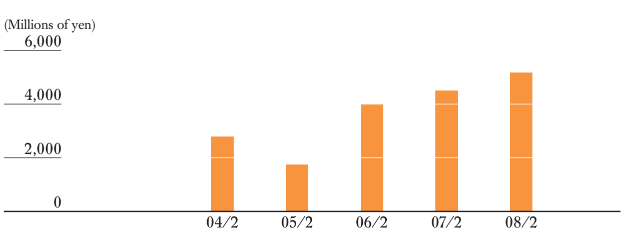
Total assets and Net assets/Shareholders' equity



	04/2	05/2	06/2	07/2	08/2
Total assets (Millions of yen, left scale)	203,688	187,993	182,381	182,553	189,989
Net assets/Shareholders' equity (Millions of yen, right scale)	54,575	61,760	66,975	70,777	73,981

Total assets increased ¥7,435 million, or 4.1%, year on year to ¥189,989 million. Net assets totaled ¥73,981 million, a ¥3,204 million rise from the previous fiscal year. This was mainly due to the increase in net income and a decline in the evaluation of shareholdings. As a result, the shareholders' equity ratio rose to 38.9% from 38.7% in the previous fiscal year.

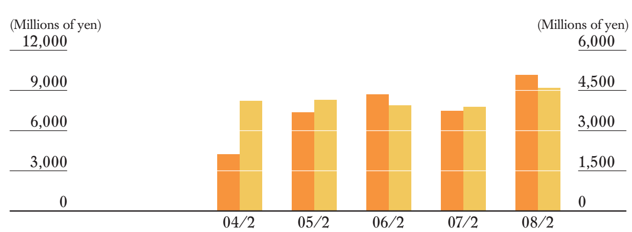
Net income



	04/2	05/2	06/2	07/2	08/2
Net income (Millions of yen)	2,791	1,742	4,006	4,503	5,167

Net income also posted a record high, climbing 14.8% to ¥5,167 million.

Capital investment and Depreciation and amortization



	04/2	05/2	06/2	07/2	08/2
Capital investment (Millions of yen, left scale)	4,213	7,369	8,688	7,474	10,163
Depreciation and amortization (Millions of yen, right scale)	4,102	4,140	3,944	3,883	4,585

As a result of aggressive investments made, capital investment increased ¥2,689 million, or 36.0%, to ¥10,163 million. Depreciation and amortization increased ¥702 million, or 18.1%, to ¥4,585 million.

New Leadership to Ensure Further Growth

On May 24, 2008, Isamu Ito, formerly President, Representative
Representative Executive Officer. Hidekazu Hirano, formerly
assumed the position of President & Representative Executive
the targets set out under the Five-Year Medium-Term Management

In the initial four-year period after taking up the post of President in the year 2000, I devoted my efforts to restructuring our business platform through Group reorganization and strengthening the Group's financial position. I have also pushed ahead with our Five-Year Medium-Term Management Plan, which we announced in 2004. Now in fiscal 2008 (ended February 28, 2009), as we enter the fourth year of our Five-Year Medium-Term Management Plan, our sights are set on achieving our final fiscal 2009 targets. However, thinking about the future profile of the PARCO Group, I believe that we will need to take on the challenge of launching new businesses with an even greater sense of urgency in order to achieve further growth, given the dramatic changes taking place in society and in the marketplace. With this in mind, we have made some structural changes focused on a younger executive profile and acceleration of our business processes. As Chairman, I intend to play a supportive role in ensuring that this new structure has the full confidence of both our staff and our external partners, and generates solid results.

In the future, companies will be unable to survive the intense competition simply on the basis of a top-down management structure. Instead, I believe that we will need to respect diversity and assimilate a wide range of views in order to adopt the best strategy proposals and arrive at appropriate management decisions.

I will make every effort towards further developing our human resources, enhancing corporate value and contributing to our stakeholders, so that we achieve our stated management philosophy.

June 2008

ISAMU ITO
Chairman and Representative Executive Officer

Executive Officer & CEO, assumed the position of Chairman and Executive Officer & Manager of the Corporate Planning Office, Officer. Based on this new structure, PARCO is committed to achieving Plan, while also building a platform for further growth.

I am pleased to introduce myself to you as the new President and Representative Executive Officer of PARCO CO., LTD.

Since joining the company in 1981, my main area of responsibility has been store operations. My focus has been on strengthening our operational capabilities through the major refurbishment of key stores, maximizing the production and marketing know-how I had gained previously in relation to commercial facilities. In 1997, I led the 30th anniversary refurbishment of Ikebukuro PARCO as the Manager of that complex, and I also implemented the 15th anniversary refurbishment of Nagoya PARCO during my tenure as Manager after 2001. Over the past three years, I have worked with the Corporate Planning Office on company-wide corporate planning business matters, public relations, IR and other areas. I have also been closely involved with the eight years of structural reforms led by Chairman Isamu Ito – during the first half with strengthening our marketing capability, and during the second half with promoting our Five-Year Medium-Term Management Plan, which has required close cooperation between our group companies. Therefore, as the new President I am not planning any abrupt or significant changes in policy. Fiscal 2008 marks the fourth year of our Five-Year Medium-Term Management Plan. First, I intend to keep our operations firmly on track in order to achieve our final fiscal 2009 targets. And looking beyond 2009 towards the future vision for PARCO, I intend to develop and implement a concrete strategy for further growth. These are my tasks.

I look forward to your continued support and understanding.

June 2008

H. Hirano

HIDEKAZU HIRANO
President and Representative Executive Officer

HIDEKAZU HIRANO
President and Representative Executive Officer

Q.

What are your views on the current era as you take on the position of President?

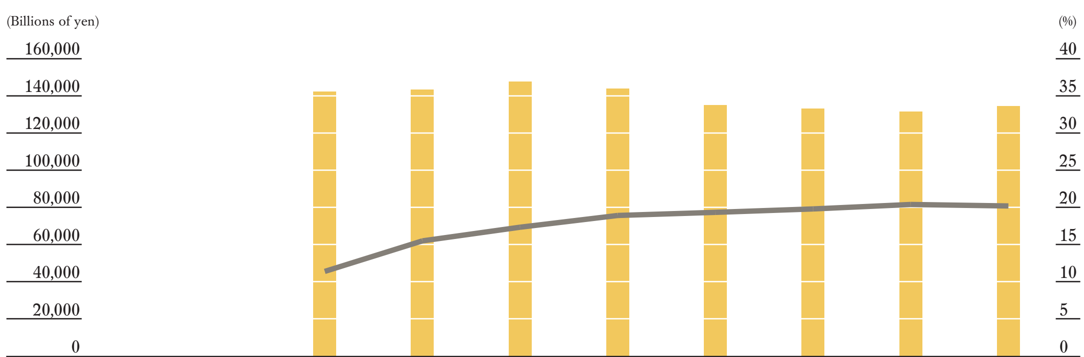
A.

I have been involved with store operations for some considerable time, and I feel that both consumers and the market have changed significantly, particularly over the past ten years. The retail sector has been affected by the maturation of society to a significant extent, and there has been a shift from an era in which the sellers set trends through the provision of information to an era of selective consumption in which the consumers themselves look to purchase ever better products that match their own needs and style. In this sense, I think that the main role of the retail distribution market in recent years has been for specialist shopping complexes to provide attractive business formats that suit consumer needs.

The number of these complexes has also risen with the entry of market participants from other sectors.

In these market conditions, I think we have a competitive advantage in three areas. First, the unique “concept work” associated with our network of more than 800 individual specialty stores and the way in which they are assembled within our buildings. Second, the fact that we also deliver enjoyment to our customers through our entertainment business and a range of sales promotions, rather than simply selling products. And third, the continuous efforts we are making to transform our sales floors into presentation spaces, to enhance the appeal of our stores and make them more comfortable. We target people with a positive outlook, regardless of age, who enjoy creating their own lifestyles, and on our sales floors we offer not just fashion, but also make lifestyle proposals to our customers. It is because we have consistently maintained this business model since our establishment that we are able to offer store spaces that stay extremely fresh.

Retail industry sales and share of shopping complex sales within overall retail industry sales



	1991	1994	1997	1999	2002	2004	2006	2007
Overall retail industry sales (Billions of yen, left scale)	142,291.1	143,325.0	147,754.1	143,832.6	135,109.3	133,285.1	131,574.0	134,571.7
Share of total shopping complex sales within overall retail industry sales (%, right scale)	11.38	15.49	17.33	18.91	19.33	19.79	20.39	20.19

Source: Shopping Center White Paper 2008, Japan Shopping Center Association and Commercial Statistics Survey, Ministry of Economy, Trade and Industry

Q.

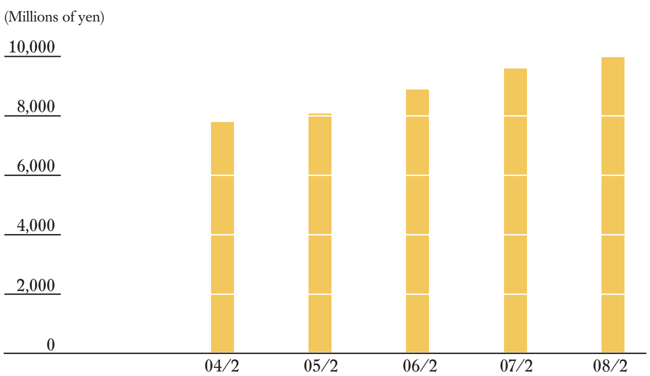
Please tell us about PARCO's financial results in the year to February 29, 2008 (fiscal 2007) and your forecasts for the year to February 28, 2009 (fiscal 2008).

A.

In fiscal 2007, the PARCO Group's consolidated net sales were ¥286,788 million (up 7.6% year on year), operating income was ¥10,090 million (up 3.4% year on year) and ordinary income was ¥9,973 million (up 3.9% year on year). We also posted record net income of ¥5,167 million (up 14.8% year on year), thanks to extraordinary profits including capital gains on joint stakes in commercial facilities where we provide contract-based property management services. This means we are firmly on track to meeting our Five-Year Medium-Term Management Plan targets.

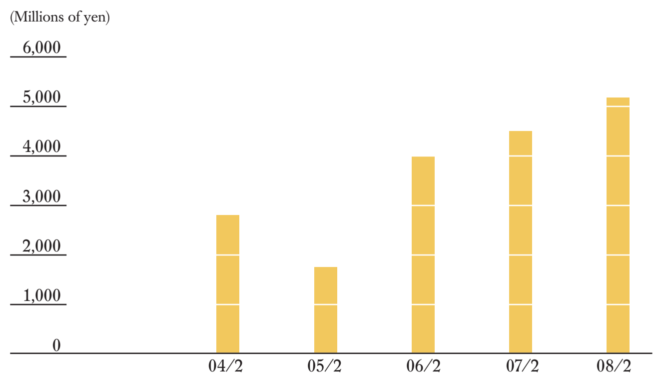
(For more detail, refer to Progress in the Five-Year Medium-Term Management Plan on pages 12-13).

Ordinary income



	04/2	05/2	06/2	07/2	08/2
Ordinary income (Millions of yen)	7,792	8,079	8,879	9,594	9,973

Net income



	04/2	05/2	06/2	07/2	08/2
Net income (Millions of yen)	2,791	1,742	4,006	4,503	5,167

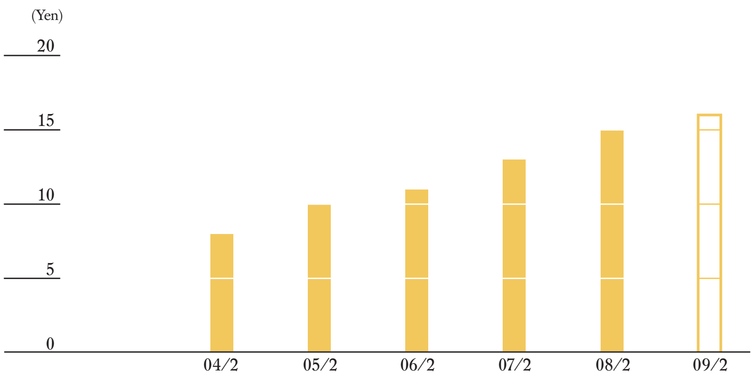
By segment, in the Shopping Complex Business there were strong sales at existing stores, with the launch of Shizuoka PARCO (in March 2007) and Urawa PARCO (in October 2007) contributing to sales growth. Going forward, we are aiming for both of these shopping complexes to better identify their regional characteristics in future and to become well-loved by customers in their respective regions. Urawa PARCO and Sendai PARCO (due to open in August 2008) will also contain public facilities and offices, and in this sense we are also taking on the challenge of managing new commercial facilities.

In our Retail Business, NEUVE A CO., LTD. has enjoyed steady earnings growth as a result of aggressive expansion of commercial facilities outside of PARCO, and in the Space Engineering and Management Business, PARCO SPACE SYSTEMS CO., LTD. has performed well thanks to the remodelling of new and existing stores, and an increase in external orders. In the Other Business segment, PARCO-CITY CO., LTD. opened a new online shopping mall.

For fiscal 2008, we forecast sales of ¥306.5 billion (up 6.9% year on year), with the full-year operation of Urawa PARCO and the launch of Sendai PARCO contributing to earnings. We are aiming for an increase in operating income to ¥10.3 billion (up 2.1% year on year) and an increase in ordinary income to ¥10.0 billion (up 0.3% year on year), although we anticipate net income of ¥5.0 billion (down 3.2% year on year), a smaller figure reflecting the absence of the extraordinary profit posted in fiscal 2007.

Our basic approach to shareholder return is to maintain a stable dividend policy, and we intend to issue dividends in the light of our results and dividend payout ratio. In fiscal 2007, we raised our annual dividend by ¥2 to ¥15 per share, and a further increase of ¥1 to ¥16 per share is planned for fiscal 2008, which would mark the fifth straight year of higher dividends.

Dividends per share



	04/2	05/2	06/2	07/2	08/2	09/2 (estimate)
Dividends per share (Yen)	8.00	10.00	11.00	13.00	15.00	16.00

Q.

With sluggish conditions affecting the retail sector as a whole, what are PARCO's strengths in maintaining growth?

A.

First, the know-how amassed from operating PARCO stores nationwide, and the ability to apply this effectively when needed. Not one of the 19 PARCO shopping complex buildings around the country is the same. Marketing is carried out taking into consideration the characteristics of the particular region, the scale of the building and other factors, and the stores are managed in a way that suits the market. We have consistently maintained a business style whereby we select outstanding tenants and organize our facilities as a whole based on a unique concept. Each year, we remodel or renew about 10-15% of our total store area, always keeping in mind what we want to provide, and to whom. We also endeavour to create spaces based on the overall store profile and floor concept, making the required "hard" adjustments including the floor layout, lighting and air conditioning. In this way, we keep our sales floors fresh from the perspective of the total commercial space. We manage our stores taking into account the regional characteristics of each store. Moreover, one of our strengths is the ability to combine techniques used in individual stores with the know-how accumulated at the nationwide PARCO level, for example by transferring successes in city center stores to regional stores.

Another key strength is the equal partnership we establish with our tenants. Our tenants are our partners, as by sharing our mutual values we both grow and develop. We build relationships of equality with our tenants based on an awareness of this process, an awareness that forms part of our stated management philosophy. For example, we discuss any changes to our floor layout policy thoroughly with our tenants, and we may also receive suggestions from our tenant companies. This awareness permeates the company from top management down to the field personnel, and the floor managers in each store aim to maintain close communication with tenants at all times. Of course it is essential to check the sales growth rates or floor area efficiency rates for each individual tenant, but what is important is for us to consider together how we can grow our businesses. Maintaining this partnership is a crucial element in PARCO's ability to retain a constant competitive edge.

Q.

Please tell us about your future strategic focus.

A.

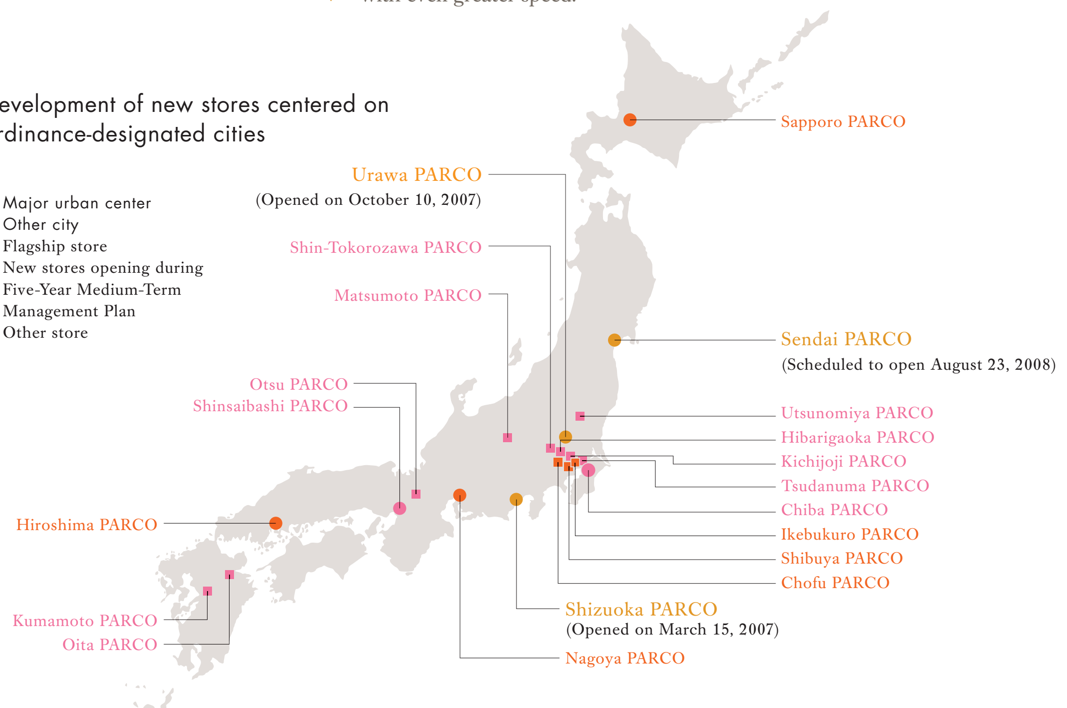
Our future strategic focus can be described in the following four points:

1. PARCO's innovation

First, PARCO's innovation. It is important for PARCO to implement ongoing reforms in order to respond to changes in our customers' values and fashions. It goes without saying that existing stores will be renewed through refurbishments and the like, and we will also consider opening additional new stores focused on major urban centers, following on from the launch of Shizuoka PARCO and Urawa PARCO in 2007, and the scheduled opening of Sendai PARCO in August, 2008. We have also amassed expertise on a variety of ways to open new stores, including conversion from existing commercial facilities and the acquisition of new buildings. Armed with this know-how, we intend to continue launching new stores with even greater speed.

Development of new stores centered on ordinance-designated cities

○ Major urban center
□ Other city
■ Flagship store
■ New stores opening during Five-Year Medium-Term Management Plan
■ Other store



2. Horizontal deployment of our core business

Our second strategy is the horizontal deployment of our business know-how, which integrates PARCO's commercial and real estate expertise. PARCO has developed its business in the form of Operational Real Estate, in other words as a business with retail management capability that adds value to real estate. We plan to apply our key strength – expertise in the management of commercial facilities that is matched to the unique features of each building – to the development and expansion of commercial facilities outside PARCO. We have already moved into the consulting and property management business, and we intend to create new opportunities for earnings expansion beyond contracted management services, including master leasing and asset management, through the efficient utilization of Group resources.

3. Overseas expansion

Our third strategy is overseas expansion. People and goods have become increasingly mobile with the emergence of the global society, and PARCO has also experienced the growing importance of overseas expansion in this era in which businesses are incomplete if they only have a domestic operation. Building on the know-how, experience, human resources and information gained from our Singapore operations – management of PARCO Bugis Junction and our contract to manage the "CENTRAL" commercial complex – we are now establishing the direction of our overseas expansion. From the site visits and information gathering we are now undertaking in the major Asian cities, we have the impression that business opportunities exist in various forms.

4. Optimization of business portfolio

Lastly, we will be promoting the reorganization and enhancement of the PARCO Group's business portfolio. At present, the PARCO business makes up the bulk of earnings in the overall Group, and therefore our Five-Year Medium-Term Management Plan calls for aggressive expansion of external transactions so that affiliated companies are able to establish operations that are not dependent on PARCO.

These, then, are our four areas of strategic focus through which we aim to achieve growth across the Group as a whole. As the shakeout continues to affect department stores and others in the retail sector, in future we intend to implement a strategy of rapid response when opportunities arise to open stores through format changes, taking into account factors such as regional needs, the competitive situation and the scale of the building. We are confident in our ability to expand our business and secure growth through our unique store layout concept and business model, however the times change and whether or not the name of PARCO is first in the given area.

Q.
What is your financial strategy?

A.
We are steadily reducing interest-bearing debt, and equity capital is increasing. In future, we will continue making investments designed to stimulate activity among our existing stores and enhance their appeal, as well as growth investments aimed at opening new stores and securing new business opportunities. We will also look at ways of rewarding our future shareholders, while in principle assigning free cash flow to fuel further growth.

Q.
What is the driving force behind your strategy?

A.
Our employees are the driving force, or "engine" powering our strategy execution. PARCO's business is about having the perceptiveness and value judgment skills to identify tenants that can offer value. Our employees are full of character and determination. It is the role of management to draw out the determination and abilities of our employees to the full, and to maximize them in the operation of our business.

Once each year, we hold a meeting for all of our employees concerning topics that require a shared awareness throughout the company. Now that I have taken up the post of President, I intend to talk with our employees throughout the year, whenever there is an opportunity, about the topics that most require discussion. This is because I think we need to meet face-to-face with our employees "on the ground" in order to better assimilate their thoughts and ideas. Since fiscal 2005, the Parco Women's Network (PWN) project has been underway with the aim of expanding the opportunities for female employees to flourish. Given the nature of our business, we have many outstanding female employees, and we will encourage the promotion of female employees to managerial positions in order to better reflect their feelings and views in management. This project is engaged in activities aimed at creating an environment in which all female employees can realize their individual potential to the full, starting with the proposals that are required for women to further their careers. (For more detail about PWN activities, refer to page 37.)

We firmly believe that these initiatives ultimately strengthen the company and enhance our corporate value. Having now launched our new structure, we will advance the transformation of ourselves into a strong and agile PARCO as we formulate and implement a growth strategy looking ten years into the future.

A Step Toward Further Growth
Progress in the Five-Year Medium-Term Management Plan

Themes	Projects and Results to Date

Strengthening Operational and Development Capabilities for Shopping Complexes

Themes

1 Effective Store Grouping Strategy

- In addition to the strengthening and expansion of key stores through the "store-by-store" approach, PARCO will adopt a method of operation based on the Effective Store Grouping Strategy, enhancing tenant and "company-to-company" efforts.
- PARCO will expand its original product line, adopt new business format proposals, and exercise innovative zoning in response to market needs by grouping according to store theme and merchandise, promoting differentiation from the competition and growth in customer numbers.

2 Opening of Complexes Primarily in Major Urban Centers

- Focusing on opening complexes primarily in urban centers, we will actively expand our network, including the replacement of old complexes with new ones. We will utilize all possible methods to develop the network, including development formats that we own ourselves, the purchase of land sites, the acquisition of buildings complete with furnishings, M&As and master leases.

Projects and Results to Date

1 Effective Store Grouping Strategy

- In addition to renewal of sales floors through remodeling, priority has been placed on sharing information from fashion-sensitive urban stores with all stores, sales plans through collaboration with other companies in line with market needs, and strengthening of operating plans utilizing the *PARCO Card*

  Fiscal 2007 Remodeling Results
  Remodeling scale: 465 zones covering approximately 49,000 square meters (of which 221 zones are in new shops)
  Remodeling benefits: Same-zone sales up 17.1% over previous year

2 Opening of Complexes Primarily in Major Urban Centers

- Shizuoka PARCO opened on March 15, 2007 in a central district of Shizuoka City
- Urawa PARCO opened on October 10, 2007 in front of the east exit of Urawa Station in Saitama City
- Sendai PARCO scheduled to open in front of Sendai Station in August 2008

Fostering New Businesses and Taking on New Challenges

Themes

1 Expansion and Development of Property Management Business

- Against the backdrop of heightened demand for investments in commercial complexes, we will approach new projects from the perspective of both owners and operators, aiming to create new development schemes.

2 Taking on the Challenge of New Development Schemes

- As part of these new development schemes, PARCO will take on areas such as asset management operations, primarily of shopping complexes.

Projects and Results to Date

1 Promotion of Property Management Business

- In April 2007, Northport Mall opened and contract-based property management commenced

2 Taking on the Challenge of New Development Schemes

- Affiliated company JAPAN RETAIL ADVISORS CO., LTD. conducted contract-based asset management operations for Northport Mall

Deepening and Broadening Peripheral Businesses

Themes

1 Expansion of Businesses That Use Content

PARCO's Entertainment Department

- Theater Division
  PARCO will seek to expand theatrical productions at PARCO Theater and also at other theaters with regional and other performances. PARCO will also extend its secondary business of production and sale of DVDs of performances and publication of plays.
- Audio-Visual Division
  PARCO will not only operate individual movie theaters, but also will enter the movie rights business.

2 Strengthening of Building Management Business and Development of New Businesses

PARCO SPACE SYSTEMS CO., LTD.

- Continuing to strengthen its building management business, this company will develop new businesses such as call centers.

3 Expansion of Business Scope through Aggressive Store Openings

NEUVE A CO., LTD.

- Increasing its proportion of stores outside PARCO complexes, this company is planning aggressive business expansion, aiming to build itself toward becoming a 140-store organization.

Projects and Results to Date

1 Expansion of Businesses That Use Content

PARCO's Entertainment Department

- Commenced operation of Le Theatre GINZA by PARCO in March 2007
- Theatrical performances and movies in which PARCO invested received critical praise and won numerous awards

2 Strengthening of Building Management Business and Development of New Businesses

PARCO SPACE SYSTEMS CO., LTD.

- Construction orders increasing for interiors of existing/new PARCO stores as well as from tenant companies
- Interior/electrical work orders expanding from other commercial complexes and existing/new client companies

3 Expansion of Business Scope through Aggressive Store Openings

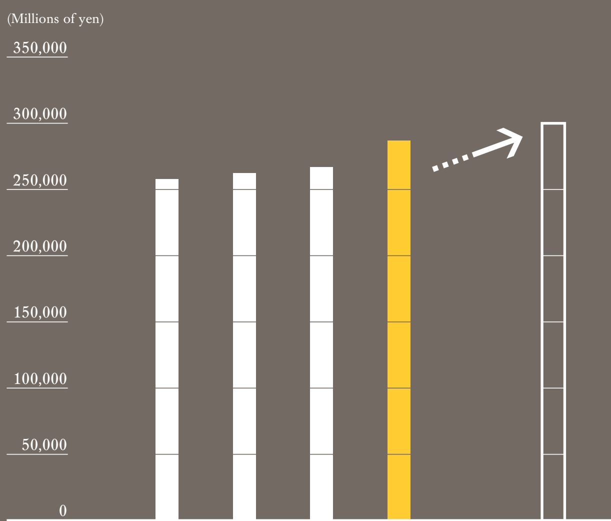
NEUVE A CO., LTD.

- Aggressive scrap-and-build policy and trials of new formats increased number of stores to 122 (as of February 29, 2008)

PARCO-CITY CO., LTD.

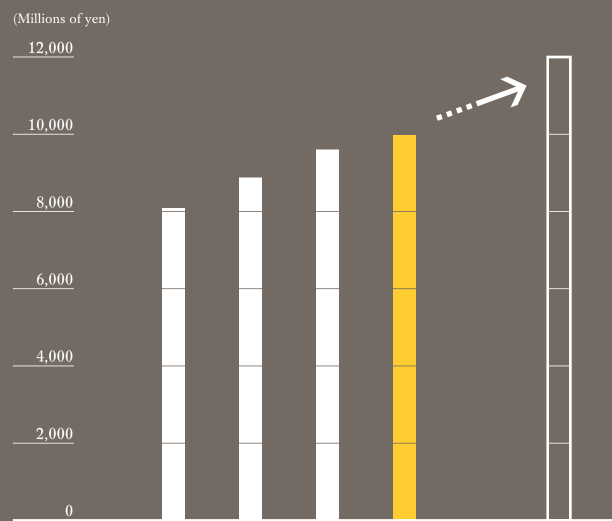
- PARCO-CITY, an online shopping mall, launched in April 2007

Net sales



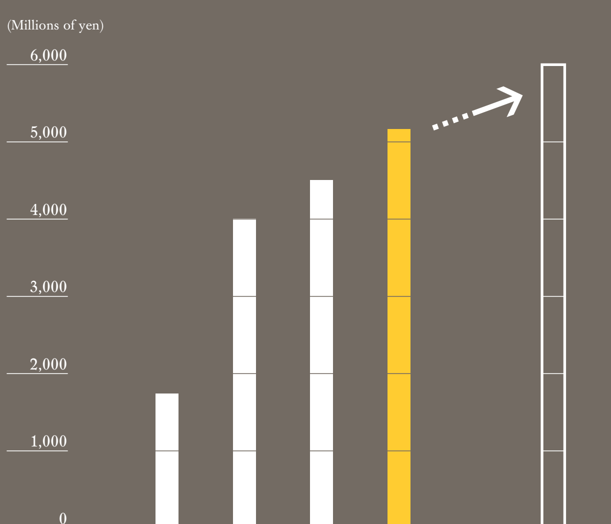
	04	05	06	07	09 (Fiscal) Target
Net sales (Millions of yen)	257,625	262,408	266,645	286,788	300,000

Ordinary income



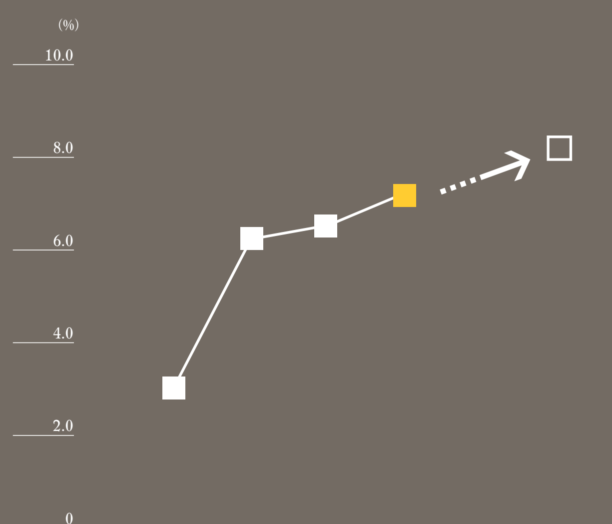
	04	05	06	07	09 (Fiscal) Target
Ordinary income (Millions of yen)	8,079	8,879	9,594	9,973	12,000

Net income



	04	05	06	07	09 (Fiscal) Target
Net income (Millions of yen)	1,742	4,006	4,503	5,167	6,000

Return on equity



	04	05	06	07	09 (Fiscal) Target
Return on equity (%)	3.0	6.2	6.5	7.2	8.2

Special Feature

Our Story of Innovation at Urawa PARCO

Grand Opening

PARCO's President (now Chairman) and the mayor of Saitama City conducted the tape-cutting ceremony at the grand opening on October 10, 2007. Urawa PARCO will contribute to the local region as the core tenant of a new landmark in Urawa, which is the seat of the prefectural government.

Time Consumption-type Tenants

Facilities designed for time consumption, such as the United Cinemas Urawa cinema complex and the Megalos Urawa PARCO fitness club, have been located on the 6F/7F.

Photos from left: Lobby (two photos), Slouc Café featuring books to enhance the movie experience, hallway to projection room

Opening Promotions

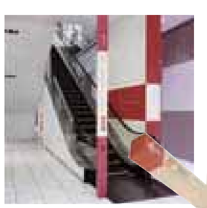
Recognition within the Urawa market region was raised ahead of the grand opening through *PARCO Card* campaigns and summer vacation events planned jointly with United Cinemas Urawa.

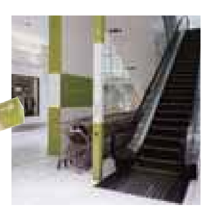
Photos: Poster announcing opening of Urawa PARCO

Lifestyle Proposal-type Tenants

Daimaru Food Market, a large specialty food store combining the gourmet sense of a department store basement food section and the daily convenience of a high-quality supermarket, is located on B1F. An exciting sales floor, including eat-in facilities and live culinary performances, will be presented.

Photo: Daimaru Food Market





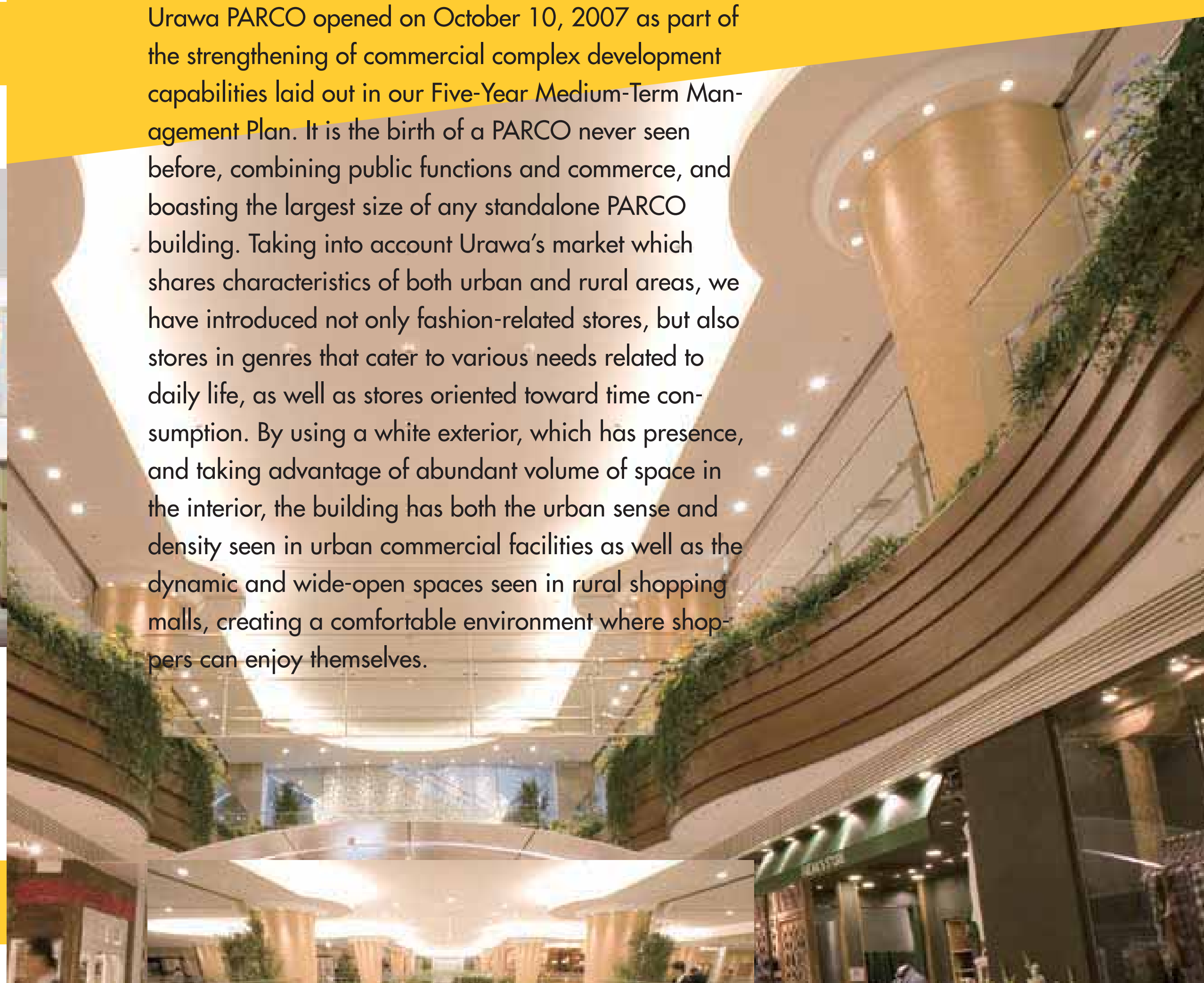
Color-coding of Areas

Wide-open floors will be color-coded and linked with signposts, thereby enabling visitors to make enjoyable walks.

Photos clockwise from lower left: South-side blue escalator, east-side red escalator, north-side green escalator, floor guide posts

Photo: When entering from the 1F main entrance facing Urawa Station, a large ring on the ceiling of the entrance area welcomes shoppers

Innovation



Urawa PARCO opened on October 10, 2007 as part of the strengthening of commercial complex development capabilities laid out in our Five-Year Medium-Term Management Plan. It is the birth of a PARCO never seen before, combining public functions and commerce, and boasting the largest size of any standalone PARCO building. Taking into account Urawa's market which shares characteristics of both urban and rural areas, we have introduced not only fashion-related stores, but also stores in genres that cater to various needs related to daily life, as well as stores oriented toward time consumption. By using a white exterior, which has presence, and taking advantage of abundant volume of space in the interior, the building has both the urban sense and density seen in urban commercial facilities as well as the dynamic and wide-open spaces seen in rural shopping malls, creating a comfortable environment where shoppers can enjoy themselves.

Photo: Open-air space spreading from 1F to 2F. Soft indirect lighting based on an environmental theme of a "Valley of Light"

Photo: Open-air section from 4F to 5F. A chic and calming environment is produced from curved wood-grain lines and plants, based on an environmental theme of a "Windy Forest."

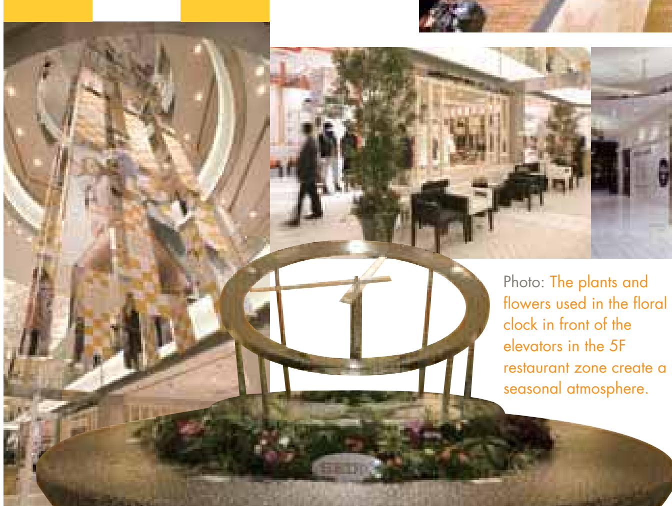
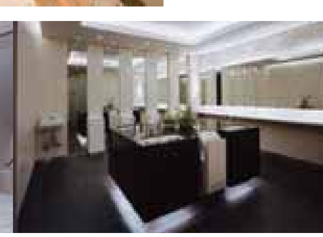


Photo: The plants and flowers used in the floral clock in front of the elevators in the 5F restaurant zone create a seasonal atmosphere.



Improving Customer Satisfaction

Rest spaces, AEDs and lockers for luggage are located on each floor, and a cloak room is located on the restaurant floor to provide high-quality services to a broad range of customers. Baby strollers and wheelchairs are also rented out, and the Daimaru Food Market also offers same-day delivery of purchases.

Photos from left: 1F rest space, 1F information desk, 2F powder room, 5F cloak room

Starting New Initiatives

Sendai PARCO Opening

Sendai PARCO, the third store opening contained in the Five-Year Medium-Term Management Plan, will open on August 23, 2008. Sendai PARCO will be a combined office and commercial complex linked directly to the west exit of JR Sendai Station, the center of the Tohoku region, by a pedestrian deck.

Sendai PARCO will be a "lifestyle building" where people passing by and people gathering will meet, create shared experiences, and energize the city. It will propose and offer not only clothing, but also personal items, daily sundries, and themes and services related to food as "fashion," and bring the winds of change to the city of Sendai as a building for truly coordinated consumption.

Noticeboard at JR Sendai Station

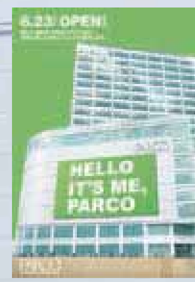
Full-page spread advertisement in the January 1, 2008 edition of the *Kahoku Shimpo* newspaper announcing the opening of Sendai PARCO

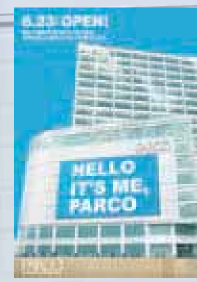
Teaser Campaign for Sendai PARCO

An opening campaign has been conducted from spring, ahead of the actual opening. The campaign was conducted to heighten market buzz, anticipation, and support, based on the keywords of being in the lead, high quality, and shared experiences/co-existence.

- Announcements of various plans and transmission of information mainly using the Internet
- Musician audition events through tie-ups with local FM stations, sponsorship of three major pro sports
- Holding of opening events and invitations to performances of PARCO-produced plays, movies, and music concerts
- Campaign visuals produced by Michihiko Yanai used in various media from June 28 such as posters, newspaper ads, and "taxi wrapping" advertising

Poster announcing the sponsored event "Welcome Sounds 2008"

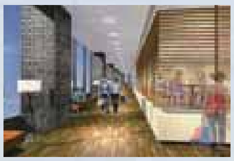




Sendai PARCO will be a "lifestyle building" where people passing by and people gathering

August 23, 2008

Production of Sendai PARCO Environment




9F (Left) Restaurant floor glass surface
(Right) Restaurant floor escalator area

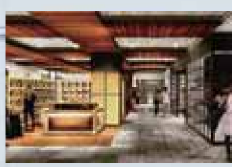
7F Shared thoroughfares

4F Standardized ceiling design

3F Standardized ceiling design

2F Main entrance

1F Shared thoroughfares



B1F Standardized design

Sendai PARCO's Vision

Sendai PARCO, which will open under the theme of co-existence with the city, will create opportunities for the people of the Tohoku region to mingle, and will continually propose new "things," and "events," as well as a sense of anticipation and excitement so that it becomes a stage where people's culture and values can begin to move vibrantly, resonating like a musical performance.

www.parco-sendai.com

will meet, create shared experiences, and energize the city.

Together with our tenants, PARCO creates commercial spaces that provide our customers with enjoyment and maximizes synergies within the group.

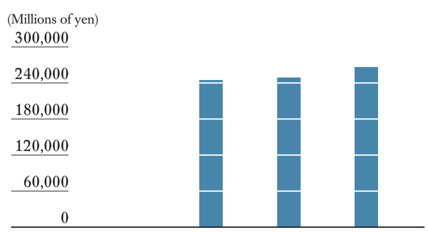
The PARCO Group is involved in four categories of business operations. Our primary Shopping Complex Business operates our PARCO commercial complexes. Our Retail Business operates select shops, which are fashionable stores brimming with individuality. Our Space Engineering and Management Business conducts interior design, decorating and electrical work, and manages buildings. Finally, our Other Business segment develops businesses that make full use of our accumulated expertise in IT, and also operates hotels. Utilizing our total producing capabilities developed through conducting these four businesses, PARCO maximizes synergies within the group and focuses on building and expanding a framework to exhibit our strengths in markets outside the group.

Shopping Complex Business

→P20

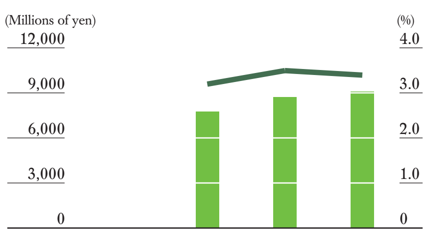
Development, management and operation of PARCO complexes

Net sales



	06/2	07/2	08/2
Net sales (Millions of yen)	244,884	248,725	266,263

Operating income/ Operating margin



	06/2	07/2	08/2
Operating income (Millions of yen, left scale)	7,749	8,698	9,085
Operating margin (%, right scale)	3.2	3.5	3.4

Business activities

The Shopping Complex Business, which is the PARCO Group's largest core business, is mainly handled by PARCO CO., LTD. Its strength is total producing capability based on a unique business model for commercial facilities, and 19 PARCO complexes have been developed and are being operated nationwide. We are strengthening each individual complex's competitiveness through pro-active remodeling suited to local characteristics and roll-out of large-scale marketing plans that aim to improve the ability to attract customers. At the same time, we are aggressively promoting the creation of profitable new businesses by applying the experience gained from developing and operating PARCO complexes over the years, including developing new properties primarily in major urban centers, developing new business formats through alliances and M&As and acquiring buildings complete with furnishings, promoting a property management business, and aggressive new business development with an eye to advancing overseas, mainly into Asia.

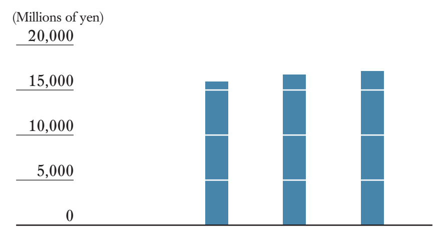
Group companies
PARCO CO., LTD.
PARCO (Singapore) Pte Ltd

Retail Business

→P29

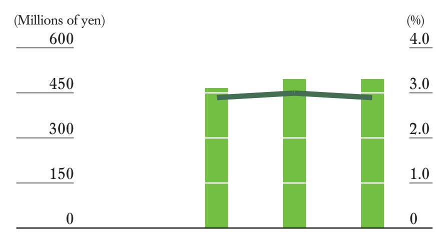
Opening of various select fashionable and food stores in commercial complexes

Net sales



	06/2	07/2	08/2
Net sales (Millions of yen)	15,946	16,718	17,097

Operating income/ Operating margin



	06/2	07/2	08/2
Operating income (Millions of yen, left scale)	466	495	496
Operating margin (%, right scale)	2.9	3.0	2.9

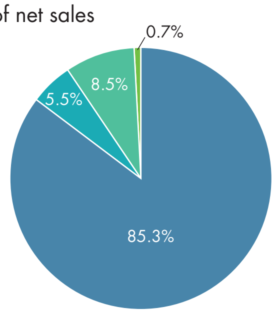
Business activities

The Retail Business comprises the two companies of NEUVE A CO., LTD., which operates five specialty store formats offering fashion components to support customer lifestyles, and PALM GARDEN CO., LTD., which operates specialty food stores. Management efficiency is being increased and business bases strengthened for this business overall. NEUVE A has been implementing a scrap-and-build program to increase the number of stores and remodel existing stores to heighten their attractiveness as specialty stores. This segment is aggressively developing a store network outside PARCO complexes and taking on the challenge of developing new business formats, with the aim of expanding earnings.

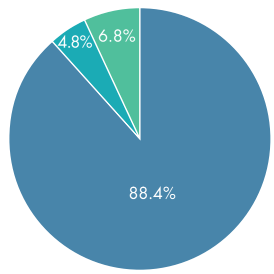
Group companies
NEUVE A CO., LTD.
PALM GARDEN CO., LTD.

*Net sales by segment include operating revenue. *Net sales and operating income by segment include transactions between business segments.

Share of net sales



Share of operating income*



- Shopping Complex Business
- Retail Business
- Space Engineering and Management Business
- Other Business

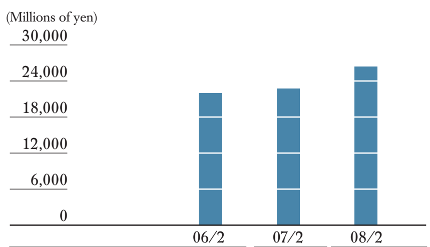
* Share of operating income is calculated excluding Other Business, which posted an operating loss.

Space Engineering and Management Business

→P30

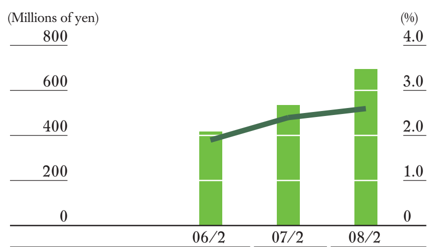
Development, interior design and building maintenance of commercial complexes

Net sales



	06/2	07/2	08/2
Net sales (Millions of yen)	21,985	22,754	26,365

Operating income/ Operating margin



	06/2	07/2	08/2
Operating income (Millions of yen, left scale)	417	535	695
Operating margin (%, right scale)	1.9	2.4	2.6

Business activities

The Space Engineering and Management Business is handled by PARCO SPACE SYSTEMS CO., LTD. (PSS). PSS is involved in a variety of businesses related to the development and operation of commercial complexes, centered on the Space Formation Department, which handles all aspects of commercial spaces, from planning and design to interior decorating and facility/electrical construction, as well as interior decorating supervision, and the Building Management Department, which provides maintenance, janitorial and security services for buildings to maintain comfortable building environments.

Taking advantage of the specialized and comprehensive expertise accumulated over the years from designing PARCO spaces and managing facilities, we are actively developing new commercial complexes outside the PARCO Group, and developing new businesses that accurately meet changing customer needs.

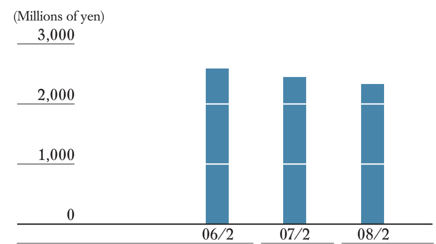
Group company PARCO SPACE SYSTEMS CO., LTD.

Other Business

→P31

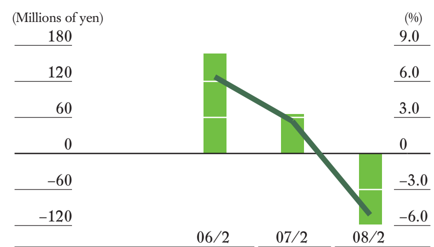
Development of Internet-based customer communication services and hotel management

Net sales



	06/2	07/2	08/2
Net sales (Millions of yen)	2,586	2,449	2,330

Operating income (loss)/Operating margin



	06/2	07/2	08/2
Operating income (loss) (Millions of yen, left scale)	166	65	–118
Operating margin (%, right scale)	6.4	2.7	–5.1

Business activities

The Other Business segment includes promotion and marketing activities utilizing the Internet provided by PARCO-CITY CO., LTD., and a hotel business operated by HOTEL NEW CRESTON CO., LTD. PARCO-CITY's services provide a fusion of the marketing expertise accumulated by PARCO with expertise in IT. Based on this combination, we are deepening our communication with customers within PARCO and expanding orders from companies outside the PARCO Group. We also operate an online shopping mall focused on leading companies that have opened stores in PARCO complexes.

Group companies PARCO-CITY CO., LTD.
HOTEL NEW CRESTON CO., LTD.

Shopping Complex Business

In the Shopping Complex Business, PARCO CO., LTD. plays a central role in the PARCO Group with responsibilities that include operating all PARCO stores nationwide, developing new stores and managing external commercial complexes.

Review of Operations

In fiscal 2007, existing PARCO stores fared well, with eight stores, including flagship stores Ikebukuro PARCO, Nagoya PARCO, and Hiroshima PARCO achieving sales growth through strengthening of operating capabilities, such as aggressive zone remodeling using new themes, large-scale marketing plans to heighten recognition of these zones and to put them into operation quickly, and strengthened customer service using the *PARCO Card*. Among Kanto and rural stores, Otsu PARCO, Shin-Tokorozawa PARCO and Tsudanuma PARCO, whose responses to market needs were strengthened through reforms of building proportions, performed strongly. In addition, Shizuoka PARCO and Urawa PARCO, which opened during the fiscal year, also contributed to increased sales.

In new business, support for pre-opening preparations and property management functions after opening were taken on for Northport Mall, which opened in April 2007, and the full range of the PARCO Group has been utilized in business transactions, with group companies handling interior work, opening specialty stores as tenants, and handling Internet website production. Efforts are being made in new business schemes as well, such as earnings capital gains allocations from sales of trust beneficiary rights. Overseas, PARCO (Singapore) Pte Ltd, a PARCO subsidiary, handled planning and tenant leasing for “CENTRAL,” a large-scale commercial complex combining offices and residences in Singapore, before its opening, and will also handle operational management after opening.

As a result, fiscal 2007 shopping complex business net sales were up 7.1% year on year to ¥266,263 million, and operating income was up 4.5% year on year to ¥9,085 million.

Organizational Changes

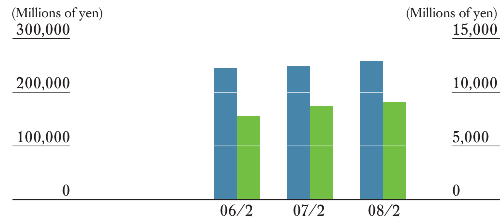
In order to further clarify functions and speed up proposals of plans and strategies, and execution of operations, toward attainment of the current Five-Year Medium-Term Management Plan and medium- and long-term growth in the future, the Store Operations Division, the Business Development Division, and the Administration Division were newly set up, enabling better communication among the General Managers of each division. The Store Administration Department, the Advertising and Promotion Department and the Facility Administration Department are located within the Store Operations Division, and handle all operations related to management of existing stores. The Business Development Division combines the Development Department and the Store Planning Department with the Property Management Group, reorganizing and strengthening property development and planning functions. The Administration Division includes the Finance Department, the Administration Department, and the Personnel Department, and offers flexible support to the Store Operations Division and the Business Development Division.

Future Initiatives

The development plan will be pushed forward by building up a store network in major regional cities and urban centers in Japan, with the addition of Sendai PARCO, scheduled to open in August 2008, and the Fukuoka Tenjin 2-chome Building (provisional name), for which a building leasing contract has been signed. Remodeling of existing stores will encompass 472 zones and about 46,000 square meters. New businesses and overseas expansion will also be strengthened, with studies made of new business development through horizontal expansion of expertise accumulated at PARCO stores, as well as development strategies for countries and regions where expertise built up through linkages with PARCO Singapore can be utilized.

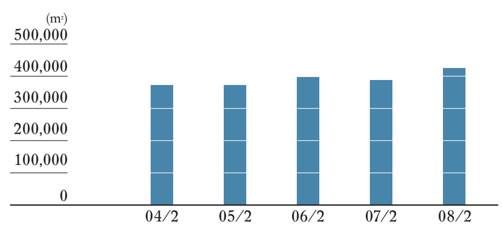
The Entertainment Business is also being expanded, with renewal work started at the Tokyo music venue CLUB QUATTRO in Shibuya for its 20th anniversary (scheduled to reopen in August) and performance of original productions are increasing 1.5-fold year on year at Le Theatre GINZA by PARCO to broaden the scope of content.

Segment net sales and Operating income



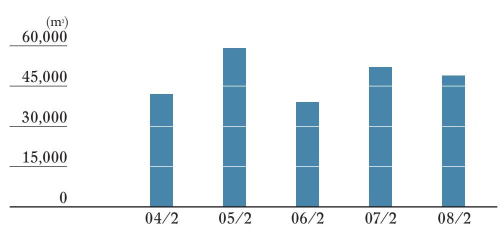
	06/2	07/2	08/2
Net sales (Millions of yen, left scale)	244,884	248,725	266,263
Operating income (Millions of yen, right scale)	7,749	8,698	9,085

Sales floor area



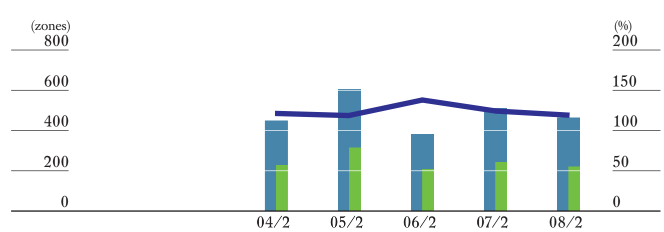
	04/2	05/2	06/2	07/2	08/2
Sales floor area (m²)	372,110	372,530	397,587	388,000	425,600

Remodeled area



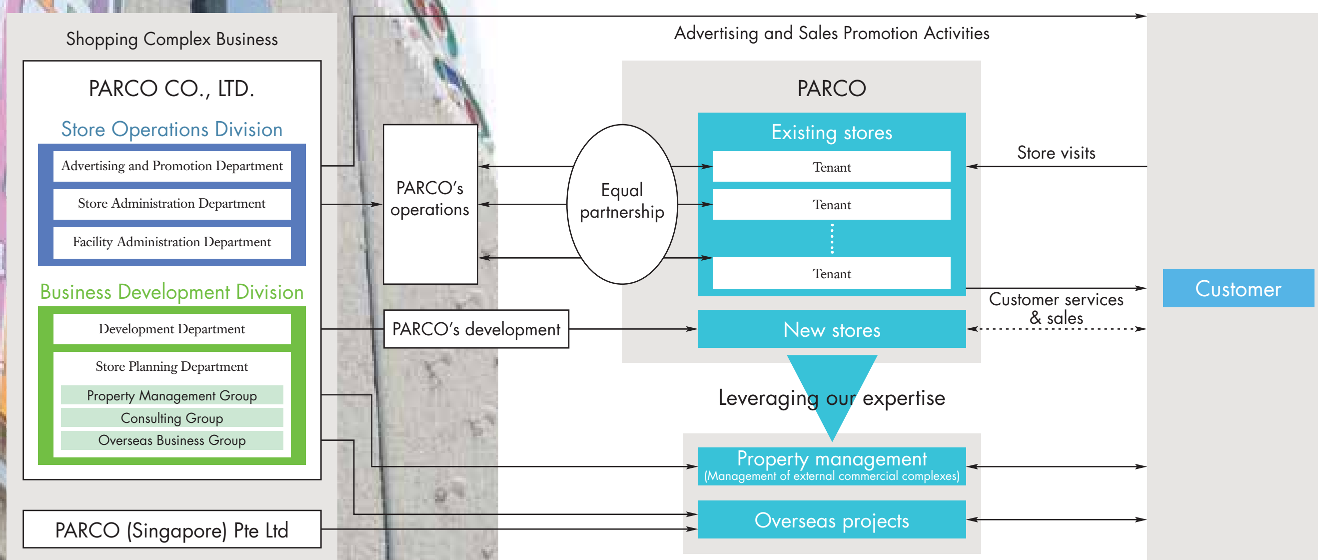
	04/2	05/2	06/2	07/2	08/2
Remodeled area (m²)	42,000	59,100	39,000	52,000	49,000

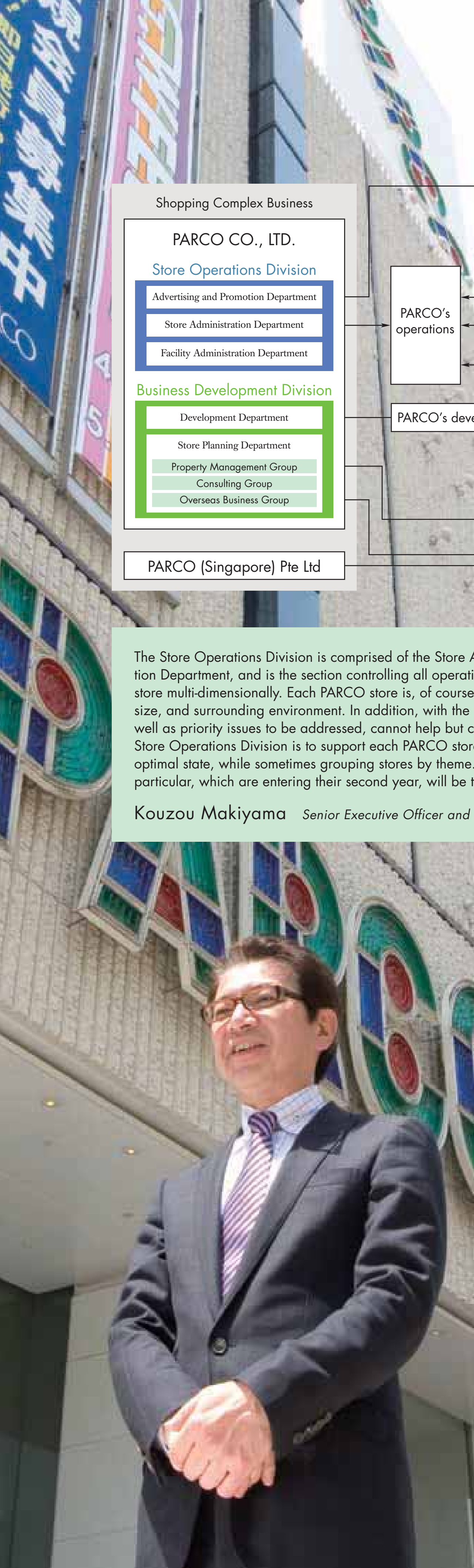
Number of remodeled zones/Year-on-year sales comparison by zone



	04/2	05/2	06/2	07/2	08/2
Number of remodeled zones (zones, left scale)	448	606	381	511	465
New openings included (zones, left scale)	229	314	208	243	221
Year-on-year sales comparison by zone (%, left scale)	119.3	116.7	135.7	122.2	117.1

Structure of Shopping Complex Business





The Store Operations Division is comprised of the Store Administration Department, the Advertising and Promotion Department, and the Facility Administration Department, and is the section controlling all operations related to operation of existing stores (19 as of end of February 2008) and backing up each store multi-dimensionally. Each PARCO store is, of course, different in terms of items and tenant composition depending on its role in that market, location, size, and surrounding environment. In addition, with the passing of time since the opening of each store, themes and products that should be proposed, as well as priority issues to be addressed, cannot help but change constantly due to changes in eras, markets, and the competitive environment. The role of the Store Operations Division is to support each PARCO store through measures to stimulate PARCO's stage in each market as they move together toward their optimal state, while sometimes grouping stores by theme. In fiscal 2008, stabilization and growth of operations at Shizuoka PARCO and Urawa PARCO, in particular, which are entering their second year, will be the first priority theme.

Kouzou Makiyama *Senior Executive Officer and General Manager, Store Operations Division*

Store Operations Division

Store Administration Department The Store Administration Department consists of the Store Strategy Group, which takes the lead in producing store concepts and marketing strategies for each PARCO store through analysis of surveys of consumption and industry trends, and information exchange and collection with tenants, and handles remodeling support for each store through leasing operations based on merchandising policies, development of new tenants, and proposing business tie-up policies to tenants, and the Store Operations Group, which manages the PARCO Session, comprised of about 810 tenants, and manages tenant contracts.

The common theme of the Store Administration Department is to deepen relationships with tenants through the abovementioned operations and work toward mutual growth. The department will also establish commercial facilities that are the most trusted and supported in each market, and support growth at all PARCO stores.

In fiscal 2007, the opening of new stores Shizuoka PARCO and Urawa PARCO was supported, and work on existing stores included the largest remodeling of Sapporo PARCO since it opened, remodeling around the Grand Floor for Kumamoto PARCO, and a complete renewal of Hibarigaoka PARCO's food floor. On the planning front, themes that were one step ahead of consumer trends were transmitted to stores, information was continuously sent to each market, and marketing plans through tie-ups with tenant companies and mass

The 2008 Annual Meeting of PARCO Session media were implemented more aggressively than usual. In addition, operations supporting the hiring of tenant staff were conducted, and commercial facility operational capabilities were strengthened on all fronts.

In fiscal 2008, support will be given to customer development, powering up of merchandising, and strengthening of marketing plans in order to promote growth at Shizuoka PARCO and Urawa PARCO, which will enter their second year of operations. Efforts will also remain focused on strengthening operational capabilities at existing stores, and the department will also support the opening of Sendai PARCO in August 2008, and be involved in opening stores in major cities nationwide. Relationships with tenants will be strengthened further (equal partner philosophy) and new tenants and new business formats will also be promoted, with the aim of establishing commercial facilities that are one step ahead of the times.

Store Introduction: Sapporo PARCO

Since opening in 1975, Sapporo PARCO has continually evolved as a center of fashion with a strong following in the market. Sapporo is a major urban center ranking fifth nationally in population, and commerce is concentrated in two areas of central Sapporo, the Odori district and the Sapporo Station district. PARCO offers the latest urban fashion and lifestyle ideas in the Odori district.

With the store entering its 33rd year since opening, remodeling was done under the concept of "attractive and fashionable" as a further evolution in view of market changes, and the store was re-opened on April 25, 2008.

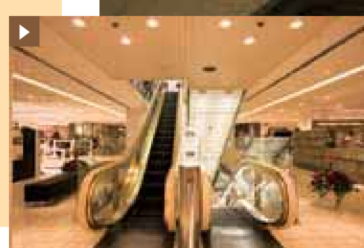
The latest remodeling sought to strengthen the building's power through store openings by new tenants, and to improve the zoning effect by remodeling floors and re-organizing existing tenants to increase the ability to attract customers and make shopping enjoyable, and re-energize the entire building.

Specifically, an environment where couples can come and shop together was strengthened through the introduction of unique tenants for discerning consumers, starting with Generra, as well as select shops and combined men's/ladies' shops such as United Arrows and United Arrows Beauty & Youth. In addition, the introduction of the Plaza variety store has led to strengthening in the ability to attract customers as well as expansion of the customer range and improved associative links between floors.

In terms of the physical environment, a sense of open space has been created by making the areas around escalators transparent and raising ceilings, renewing the building in the form of a busy street-level space and increasing ease of walking so that being in the store is enjoyable by itself.

In the future, strengthening of unique merchandising and new policies will be continued, and renewals will be continued in order differentiate Sapporo PARCO from other stores as the leader in fashion sense in the area.

At the same time, efforts will be made to improve the level of customer service and other forms of customer satisfaction, and Sapporo PARCO will aim to become a center of fashion with an even stronger market following.



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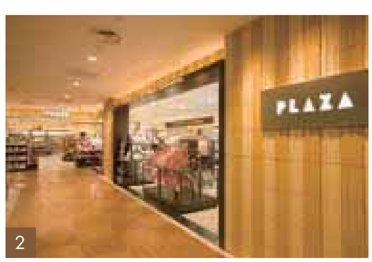

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1 Generra
2 Plaza
3 United Arrows
4 Beauty & Youth United Arrows
5 Hysteric Glamour
6 Ehyphenworld Gallery
7 Trans Continents
8 Jepun Bali

8

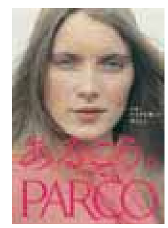
Advertising and Promotion Department The Advertising and Promotion Department is involved in a wide range of advertising and promotional activities as well as PR activities, such as TV commercial campaigns, proposal and execution of marketing plans, implementation of highly topical events, store presentation plans that react swiftly to signs of hit merchandise, and creating customers and fans through methods centered on the PARCO credit card, and contributes to attracting customers to stores and expanding sales. Both the Advertising Group, which handles advertising media and storefront presentation in accordance with advertising policies, the production of planned events, and dissemination of multifaceted information through tie-ups with other companies, and the Promotions Group, which handles marketing plan proposals and promotion support activities suited for each store, as well as customer relationship management (CRM) utilizing the *PARCO Card*, support store advertising and work closely with the Store Administration Department and the Entertainment Department in the rapid deployment of effective promotions.

In fiscal 2007, store opening promotions were conducted using various methods, leading to successful new store openings.

In fiscal 2008, efforts will be focused on opening advertising for Sendai PARCO, which will open in August.

The 2007 autumn campaign
"The Latest Feeling"

2007 Christmas campaign

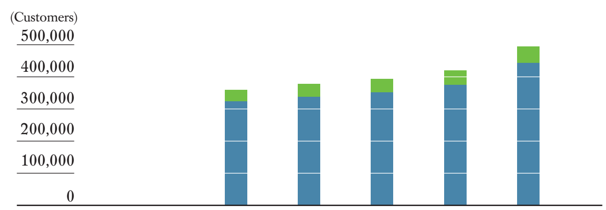


2008 spring campaign
"Let's Walk PARCO"

PARCO Card

PARCO CARD Class S

Number of customers using *PARCO Card*



	04/2	05/2	06/2	07/2	08/2
Normal members (Customers)	324,384	338,188	352,694	375,937	444,667
Class S members (Customers)	35,107	40,207	41,100	44,838	49,689
Total members (Customers)	359,491	378,395	393,794	420,775	494,356

Customers who spend over ¥200,000 at PARCO-CITY during a certain year may become a one-year *PARCO Card Class S* member in the following year, thereby becoming eligible for various preferential privileges.
Main privileges *PARCO CARD Class S*:

1. When a customer uses the *PARCO Card* to pay for shopping and meals at PARCO, 5% will be deducted from the card deductions during the one-year period.
2. As well as the 5% discount on shopping and meals, individual PARCO stores offer their own preferential privileges to *PARCO Card Class S* members to increase their enjoyment of using that particular PARCO store.

Facility Administration Department The Facility Administration Department, newly established in fiscal 2007, consists of the Financial Administration Group, which handles the proposal, management and execution of medium- and long-term plans related to Company assets, the discussions and relationship-building with landowners regarding leased property, and store asset inventory and related measures, and the Facility Group, which handles operational support for maintaining safety, reassurance and comfort at PARCO stores, and supports a comfortable commercial facility environment from both the physical and more intangible perspectives.

In fiscal 2007, the Store Administration Department worked on rapid responses to problems related to food hygiene management and elevator accidents, which became social issues, the introduction of combined tenant validation for parking as part of customer satisfaction (CS) efforts, and improvement of backyard environments and strengthened security toward improved employee satisfaction (ES), including tenant staff.

Initiatives for fiscal 2008 will include identifying the causes of customer dissatisfaction through analysis of complaints; making improvements, improving convenience and making better use of store facilities such as car parking lots and bicycle parking lots; measures to streamline capital expenditures and building operational costs; and proposing environmental management policies for each store.

The main function of the Business Development Division is to develop and expand PARCO-brand stores, and Sendai PARCO, which is our current project, is currently undertaking a pre-campaign toward its opening in August 2008. In addition, we are currently holding discussions with relevant parties regarding the Fukuoka Tenjin 2-chome Building (provisional name), for which the building leasing reservation contract was signed, aiming to open as soon as possible. Going forward, we will continue to promote store openings in urban areas, mainly government-designated major cities.

As for development of new businesses, we will utilize our expertise accumulated to date to develop master lease properties and consulting businesses, and expand into peripheral businesses such as real estate investment, including asset management and property management, all not using the PARCO brand. Overseas, our main theme will be the rapid development of a project to follow the consulting management contract in Singapore.

We believe that offering our strengths will surely lead to expansion of the PARCO business, precisely because commercial facilities are in a state of saturation.

Takeshi Yoshioka *Senior Executive Officer and General Manager, Business Development Division*

Business Development Division

Store Planning Department The Store Planning Department works together with the Development Department to develop new stores domestically and overseas, and also handles property management operations and commercial consulting, amidst diversification in real estate development schemes and players. The Property Management Group and Consulting Group conduct specific planning for new development projects that have been finalized, while the Overseas Business Group, working with PARCO (Singapore), builds overseas development strategies and conducts operations to realize them.

In fiscal 2007, there were successful openings of Shizuoka PARCO in March, Northport Mall in April, and Urawa PARCO in October, as well as leasing operations for Sendai PARCO.

In fiscal 2008, the Sendai Preparation Office will prepare for the opening of Sendai PARCO through opening promotions and building of operational management structures, while the Fukuoka Project Group will draw up marketing and building plans toward realization of opening plans. The Sendai Preparation Office was transferred to the Store Operations Division as the Sendai Branch on July 1, 2008.

Shizuoka PARCO

Development Department The Development Department builds development and opening strategies for new PARCO-type properties, proposes strategies and schemes for development of new commercial facilities other than PARCO-type properties as a horizontal extension of its main business, and proposes and analyzes facility plans and space formation for new domestic and overseas projects.

In fiscal 2007, a basic agreement was signed regarding opening a store in the Fukuoka Tenjin 2-chome Building (provisional name), property management and asset management operations were conducted, schemes for equity investment and development project securitization were drawn up, Shizuoka PARCO and Urawa PARCO were constructed, including interior work, and design consulting contracts were received from external clients.

Urawa PARCO

In fiscal 2008, the Development Group, which surveys candidate properties, proposes plans, and formulates master plans encompassing the location and scheme for store openings, will study development of new properties in government-designated major cities without PARCO stores. The New Project Planning Group, which collects information on new properties, handles contractual and legal functions, and draws up a master plan for new commercial development strategy, will study diversification and consolidation of development methods and create new structures for business generation. The Architectural Planning Group, which formulates construction and facilities plans for new structures and proposes facilities that express PARCO's corporate image in their exterior design as well as give consideration to the environment, will supervise construction work toward opening of Sendai PARCO and propose environmental measures for existing PARCO stores. The Design Group, which formulates policies for creating unique and comfortable spaces, will manage costs and quality for space formation in new store openings as well as remodeling of existing stores.

Sendai PARCO

PARCO (Singapore) Pte Ltd PARCO (Singapore) Pte Ltd proactively develops overseas business in its Singapore location. PARCO Singapore offers the rapidly growing countries of Asia the shopping center development and operational expertise PARCO has acquired over many years of business in Japan and overseas, as well as serving as a bridge to foster interactions in numerous areas between Japan and the globalizing Asia region.

"CENTRAL"

In one specific business development, PARCO Singapore concluded a contract to manage operations of the commercial section of "CENTRAL," a large-scale commercial complex combining commercial space, offices and residences that opened in Singapore. Under the agreement, PARCO Singapore will handle tenant leasing, including those debuting from Japan, promotional activities, and tenant management.

Going forward, PARCO Singapore will work with the Overseas Business Group newly established in the Business Development Division to expand our shopping center development and operation business in the Asia region, where numerous development properties are being planned, by utilizing the power of the PARCO brand.

Administration Division

Administration Department In the Administration Department, the Administration and Legal Group support smooth and appropriate group business execution from the perspectives of risk management, stock-related operations, operational streamlining, and legal affairs, and is the driving force behind adherence to the Company's business philosophy and the achievement of the Five-Year Medium-Term Management Plan.

In fiscal 2007, efforts were focused on support operations associated with the opening of Shizuoka PARCO and Urawa PARCO, the introduction of a safety confirmation system, and the PARCO Group's First Disaster Prevention Campaign.

In fiscal 2008, activities will include support operations associated with the opening of Sendai PARCO, environmental initiatives, and efforts to raise awareness of compliance issues within the Company.

Personnel Department The Personnel Department's role is to enhance the Company's human resources, its most important asset, and heighten the value of intellectual assets and expertise, as well as to create an environment that brings out the full potential of each employee.

The Personnel Group handles personnel policy such as hiring, assignments, and promotions, as well as performance evaluations and revising and managing personnel systems, while the Education and Knowledge Group plans and executes training programs suited for every level, handles development and support for young employees through on-the-job-training, and supports self-education.

In fiscal 2007, systems were introduced to support the work-life balance for employees and diversify employment formats, and e-learning support for self-education and training programs for mid-level employees were strengthened.

In fiscal 2008, the Personnel Department will review workforce plans in response to business expansion, promote the study and operation of a personnel system that is responsive to diversity while working with the Parco Women's Network, and build up a structure for strengthening development through on-the-job-training.

Finance Department In the Finance Department, the Finance and IR Group conducts efficient fund procurement and management, information collection and analysis, and IR activities. The Accounting Group produces financial statements that accurately reflect accounting standards, and controls the Company's budget. The Administrative and Accounting Systems Group oversees accounting operations at individual stores and handles receipts and disbursements.

In fiscal 2007, interest-bearing debt was reduced and the financial balance was improved, while operations were standardized and streamlined through the startup of a new accounting system and the introduction of a new POS system.

In fiscal 2008, the Finance Department will work to improve communication with blue-chip investors through proactive IR activities, increase the number of individual shareholders, and improve accounting operations, such as building structures in response to the J-SOX law, and work together with the Business Reforms Office to strengthen instruction in key accounting operations at stores.

The Administration Division is comprised of the Administration Department, the Personnel Department and the Finance Department, and uses its consultant-like functions and administrative processing functions to support profit areas, as well as support smooth and appropriate business execution from the perspectives of operational streamlining, risk management, and governance. To that end, the following will be strictly followed:

1. Development of specialists through concentration of specialized knowledge and abilities
2. Review of daily operations and promotion of cost reductions through standardization and consolidation
3. Collection and analysis of a wide range of information and accurate transmission of this internally and externally

For the time being, the Administration Division will provide effective functions toward the fiscal 2008 budget and attainment of the Five-Year Medium-Term Management Plan that has fiscal 2009 as its final year.

Kazumi Kojima *Senior Executive Officer and General Manager, Administration Division*

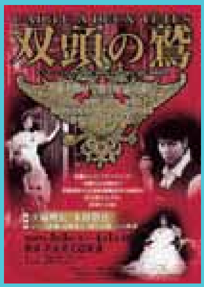
Entertainment Department The twin wheels of fashion and culture are a differentiation point between PARCO and other retailers, and are our core competence. The Entertainment Department, through multifaceted cultural activities and also by being indirectly involved in PARCO operations in a variety of forms mainly through interlocking new store promotions using our own original content, brings significant synergistic effects to the building of PARCO's brand and improving customer drawing power.

In fiscal 2007, we utilized our two-theater framework as a base to expand and deepen our content business, including aggressive expansion of external performances and combining the movie rights business with movie performances.

In fiscal 2008, we will work on movie production as well as investments in movies. We will also push forward with the renewal of the Tokyo music venue Shibuya CLUB QUATTRO, scheduled to reopen in August 2008. At Sendai PARCO, also scheduled to open in August 2008, we will generate a sense of anticipation by holding Sendai performances of the PARCO Theater ahead of opening, in addition to Sendai previews of movies shown at CINE QUINTO and concert events.

Through these activities, we aim to achieve added-value and sales promotion value that enhances PARCO's corporate brand and customer drawing power, in addition to being profitable businesses that help to create a stable business foundation.

THEATER



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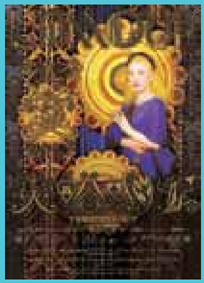

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Main Projects of Fiscal 2007

THEATER

PARCO Theater and Le Theatre GINZA by PARCO are being used to produce various content as part of a drive to extend and expand the theater business.

1 *Soto no Washi* (Double-headed Eagle)
Produced by and starring Akihiro Miwa, Jean Cocteau's masterpiece is being revived after eight years. It was performed from March to May at PARCO Theater and other venues, and will be performed in September 2008 at Le Theatre GINZA by PARCO.

2 Les Confidents
A new play written by Koki Mitani on the theme of friendships among artists. Performed from April to May at PARCO Theater and other venues. Received a total of seven awards, including the award for best play at the 15th Yomiuri Drama Award.

3 Cabaret
Version of the classic musical produced by Suzuki Matsuo. Starring Yasuko Matsuyuki, who received the Japanese Golden Arrow Award for *Hula Girl*, and others. Performed from October to November at Aoyama Theater and other venues.

4 Akihiro Miwa Concert, "L'amour 2007"
Regular concert event. Staged at Le Theatre GINZA by PARCO and other venues from August to November.

When I was at drama college, the plays that I went to see on my lecturer's recommendation were frankly not very interesting. I thought to myself, what is so funny about "Waiting for Godot"? The theater of the absurd wasn't to my taste. I realized that if this was "theater," then I probably wasn't suited to the world of theater. Then around this time I happened to come across a flier advertising the play "The Odd Couple" and I went to see it at the Seibu Theater. Written by Neil Simon, the play was directed by Yoichiro Fukuda, and the leading parts were taken by Naoki Sugiura and Tetsuo Ishidate. This play made a great impact on me and shaped my life. From then on I wanted to do comedies like this. If this was also "theater," then I really wanted to be part of this world. I even remember my seat number. Moreover, that Seibu Theater is now the "PARCO Theater."

KOKI MITANI

"The Odd Couple"
One of the best-known plays by Neil Simon, the "king of comedy."
Performance period: January 12,1979 (Friday) –February 3,1979 (Saturday)
Venue: PARCO Seibu Theater (now PARCO Theater)
Produced by: PARCO

MUSIC

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MUSIC

Live Performances at CLUB QUATTRO

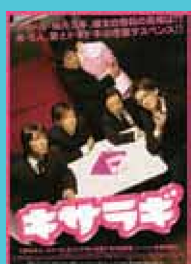
CLUB QUATTRO is a chain of live music performance venues with locations in Tokyo, Nagoya, Osaka, and Hiroshima. CLUB QUATTRO invites up-and-coming bands and cutting-edge artists from both Japan and overseas to perform at its locations.

5 Mariko Hamada
Female singer-songwriter living in Matsue City who drew rave reviews for her appearance in the documentary program *Jonetsu Tairiku* (Passionate Land). May 2007.

6 Wind and Rock Festival 2007
Event linked to launch of *Wind and Rock II Separate Volume* (published by PARCO), written by Michihiko Yanai, the maverick of the TV commercial industry. Held in July 2007. Photos: (a) Kaela Kimura performance; (b) Ginnan BOYZ performance.

7 Tete
Black singer-songwriter living in France who received the French Golden Disc award. September 2007.

FILM



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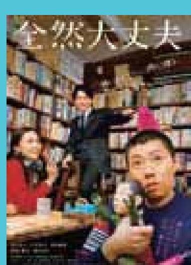

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FILM

CINE QUINTO consistently presents attractive films as an independent main-run cinema. It has achieved a unique position in the market by offering services distinctive from other cinema complexes, such as the ticket return system, offering a discounted admission fee of ¥1,000 on the next visit when customers present a ticket stub. Other activities include investing in movie production in cooperation with all PARCO stores.

8 *Kisaragi*
Suspense comedy that takes place in a closed room. Starring five talented and popular actors, including Shun Oguri and Teruyuki Kagawa. Shown from June to August. Received awards in four main categories at the 31st Japan Academy Awards, including best picture. PARCO invested in the film.

9 *Jigyaku no Uta*
Originally a melancholy four-frame manga comic. Starring Miki Nakatani, Hiroshi Abe and Toshiyuki Nishida. Shown from October to December. Received best actress award at 31st Japan Academy Awards. PARCO invested in the film.

10 *Fine, Totally Fine*
Heart-warming comedy rooted in everyday events is brought to life by the young individualistic cast that includes Yoshiyoshi Arakawa, Yoshino Kimura and Yoshinori Okada. Shown from January to April, 2008. Based on the novel of the same name, the film won the 4th Japanese Film Angel Award.

PUBLISHING

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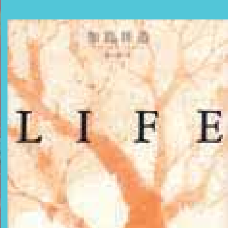

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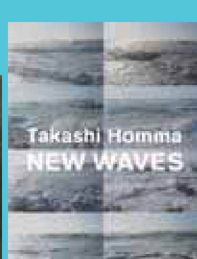

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PUBLISHING

PARCO's publishing business produces a wide range of material, from art books and novels to practical guides and original calendars.

11 *Gokyokun Calendar*
Gokyokun is the king of parody calendars. Featuring works chosen from nationwide entries sent by the general public, this calendar provides new fun and laughs every three days.

12 LIFE
Shozo Kajima, author
The preciousness of feeling the beauty of nature and living freely. A world full of life created by the words, images and text passages of Shozo Kajima.

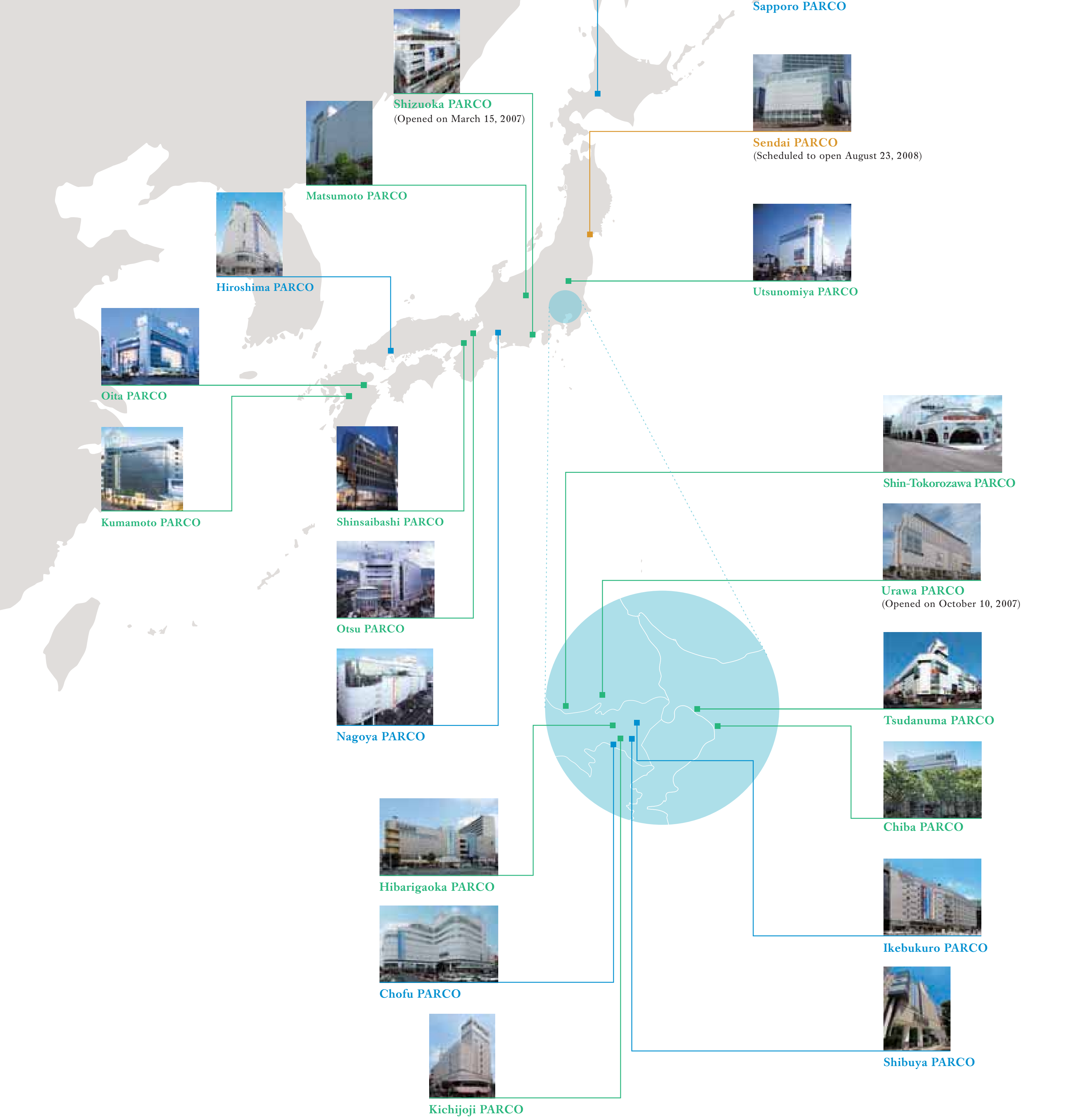
13 *Slow-fermenting Campagne*
Masako Takahashi, author
A collection of recipes for campagne bread made from just a little yeast compiled by the author, who teaches a popular bread-making class.

14 Takashi Homma Photo Collection — NEW WAVES
A dramatic large-size photo collection of about 100 images of waves on the North Shore of Hawaii, taken over many years.

PARCO Stores

List of PARCO Stores

■ Flagship store ■ New store ■ Other store



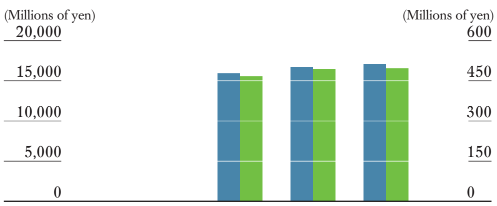
Retail Business

NEUVE A has five business divisions that develop and operate specialty shops handling watches, eyewear, men's items, cosmetics, and fashion accessories, following a basic concept of a specialty shop for fashion accessories. Shop brands are TiC TAC, which proposes new relationships between people and wristwatches; POKERFACE, a pioneer in specialty eyewear; COLLECTORS, which arranges men's gear from a unique standpoint; ROSEMARY, offering total support for women's beauty; and ANNABEILLE, which supports high-quality daily life for women. Going forward, NEUVE A will strive to "provide the enjoyment of finding" fashion accessories suited to customer senses and tastes as a highly responsive collection of specialty stores, and contribute to fulfilling customer lifestyles by continuing to work on new format development as well.

Daizaburo Suzuki

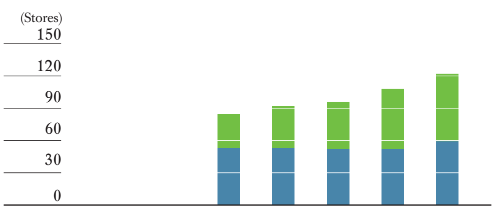
NEUVE A CO., LTD. Representative Director and President

Segment net sales and Operating income



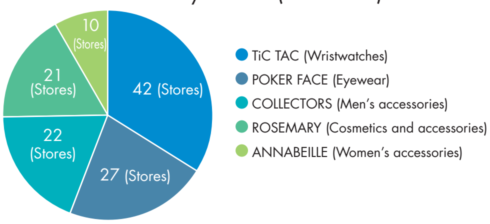
	06/2	07/2	08/2
Net sales (Millions of yen, left scale)	15,946	16,718	17,097
Operating income (Millions of yen, right scale)	466	495	496

Number of store openings within PARCO/outside PARCO (NEUVE A)



	04/2	05/2	06/2	07/2	08/2
Number of store openings within PARCO (Stores)	53	53	52	52	59
Number of store openings outside PARCO (Stores)	32	39	44	56	63

Number of stores by format (NEUVE A)



Review of Operations

At NEUVE A CO., LTD., the TiC TAC business, which sells wristwatches, performed strongly at both existing and new stores, with sales exceeding targets for 36 consecutive months. Based on its unique scrap-and-build policy, a total of 23 stores, including 14 outside PARCO, were opened in fiscal 2007 while 9 stores were closed in the pursuit of efficiency while pushing ahead with expansion. The business is also aggressively taking on the challenges of strengthening branding, increasing recognition and forming new business formats.

At PALM GARDEN CO., LTD., operations at the Hibarigaoka store were ended in fiscal 2007 as part of efforts to streamline the business.

As a result of these initiatives, in fiscal 2007 net sales in the Retail Business overall were up 2.3% year on year to ¥17,097 million, while operating income was up 0.2% year on year to ¥496 million.

Future Plans

NEUVE A will work to secure stable profitability at existing stores and aggressively expand through new store openings, including at outside commercial facilities, based on its policy of strengthened branding. Particular emphasis will be placed on the TiC TAC business, which has a superior position in the market and is sustaining strong performance, and the COLLECTORS business, which is taking on the challenge of a new format, in order to improve brand power. Eleven new store openings, including trials of new formats, are planned for fiscal 2008.

PALM GARDEN will work to further streamline its operations and strengthen its safety and sanitary management structure as a company that handles food.

NEUVE A NEUVE A, which operates specialty stores handling fashion accessories, possesses several distinctive formats in the domestic market, and is pursuing the deepening and broadening of peripheral businesses — one of the themes of PARCO's Five-Year Medium-Term Management Plan — by utilizing its product arrangement capabilities and expertise in visual merchandising (making products look attractive through displays, etc., and connecting to purchases).

Development of new formats was promoted in fiscal 2007, with the TiC TAC business opening SPINDLE in the Shin Marunouchi Building and opening TORQUE in Shinjuku Luminest, and the EYEWEAR business opening porte in Northport Mall. In fiscal 2008, the COLLECTORS business will open COMPLETE WORKS TOKYO in the Akasaka Biztower, and the TiC TAC business will take on the challenge of the suburban market.

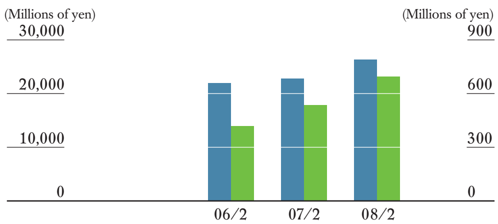
COMPLETE WORKS TOKYO
Akasaka Biz Tower store

TiC TAC Shizuoka PARCO store

PALM GARDEN The food marketing business of the Retail Business is provided through PALM GARDEN's community-based shops. The business operates three types of shops: Palm Garden, a high-quality supermarket; Food Market, a general food store for department store settings; and Vino Mercato, a specialty liquor shop that mainly handles wine.

Space Engineering and Management Business

Segment net sales and Operating income



	06/2	07/2	08/2
Net sales (Millions of yen, left scale)	21,985	22,754	26,365
Operating income (Millions of yen, right scale)	417	535	695

Review of Operations

PARCO SPACE SYSTEMS CO., LTD. (PSS) received orders for interior work and related work associated with the remodeling of Shizuoka PARCO and Urawa PARCO, which opened in fiscal 2007, and of existing PARCO stores, as well as orders for work from outside commercial facilities such as specialty stores and department stores, including Northport Mall and its tenant companies. In addition, orders expanded for interior and electrical work from existing and new general clients.

As a result, PSS's fiscal 2007 net sales rose 15.9% year on year to ¥26,365 million and operating income increased 29.8% year on year to ¥695 million.

Future Initiatives

By improving quality, PSS will of course contribute within the PARCO Group, but will also solidify its competitive base in the market outside the Group, building a profit structure that does not depend on the Group.

PARCO SPACE SYSTEMS (PSS) PSS, which handles the Space Engineering and Management business, is involved in the development and operation of PARCO Group commercial facilities through its two pillars of the Space Production Department, which handles planning and design of commercial spaces to interiors, fixtures and electrical work as well as supervision of interior decorating, and the Building Management Department, which provides safety and maintenance, janitorial and security services for maintaining a comfortable building environment. PSS is highly specialized and has a high degree of technical skills, and responds to client needs from space production, mainly of commercial facilities, to post-opening operation and management, sometimes with "parts" and other times with its "comprehensive capabilities." With an eye toward recent market trends such as monetization and realignment of commercial facilities, PSS's mission is to create new profit businesses through linkages with PARCO, and to contribute to earnings through electrical work done outside the PARCO Group and through the building maintenance business.

Continuing our work in environmental design and facility management of new PARCO stores that we conducted in 2007, we will build up systems for environmental design, project management, supervision of construction as well as construction work for the opening of Sendai PARCO in fiscal 2008, and also build up a building maintenance structure for pre- and post-opening to support the new store's success. In addition, new commercial facilities other than PARCO will be developed as new clients, utilizing our specialized and comprehensive know-how and knowledge to the full, and new businesses that accurately capture client needs, will be developed aggressively.


Saitama City Citizens Activities Support Center


2007 Christmas display at Shibuya PARCO

PARCO SPACE SYSTEMS (PSS) has supported PARCO in the field of planning and management/operation related to hardware construction and has eyed possibilities for commercial spaces over 40 years, based on its twin pillars of Space Production capabilities, which create commercial spaces, and Building Management capabilities, which maintain and manage safety and comfort in those spaces.

We will aggressively provide the expertise and technology ranging from space production to post-opening operation and management accumulated over the years to new clients for their space design.

Amidst change and realignment in all industries, including distribution, PSS will strive to catch up to various changes of our times, hone our overall capabilities as a comprehensive space management company, and provide and develop more specialized operations and services in each business. In addition, we will speed up execution of management reforms we have been working on since fiscal 2007 under the basic theme of shifting the way we see our mission from a "job" to a "business," with the aim of strengthening independence as a group company.

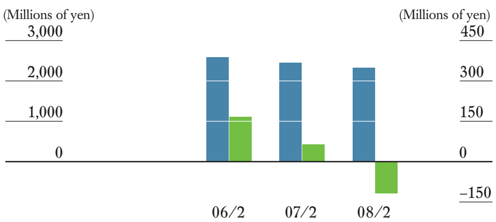
In this way, we would like to advance further toward becoming a company with even higher market competitiveness.

Mototeru Fujishima

PARCO SPACE SYSTEMS CO., LTD.
Representative Director and President

Other Business

Segment net sales and Operating income (loss)



	06/2	07/2	08/2
Net sales (Millions of yen, left scale)	2,586	2,449	2,330
Operating income (loss) (Millions of yen, right scale)	166	65	–118

Review of Operations

PARCO-CITY CO., LTD. started up the online shopping mall 'PARCO-CITY' as a new business in April 2007. This 'PARCO-CITY' website is expanding, mainly with companies with stores in PARCO complexes, and with fashion-sensitive stores. The website is being operated in a style similar to actual stores, with sales promotions, special offerings for cardholders and gift plans. The number of website hits has been rising in line with the increase in the number of stores available in the mall, and there are hopes for further growth in the future.

However, Other Business net sales decreased 4.9% year on year in fiscal 2007 to ¥2,330 million, while the operating loss was ¥118 million.

Future Initiatives

PARCO-CITY CO., LTD. will continue to strengthen its operations by increasing usage of its online shopping mall website, 'PARCO-CITY,' improving e-commerce functions, and expanding tie-ups with other companies.

HOTEL NEW CRESTON CO., LTD. will emphasize superior hotel hospitality and promote expansion, as well as retention, of its customer base.

PARCO-CITY PARCO-CITY CO., LTD. handles the PARCO Group's Internet-related functions, conducting Internet business such as Web-based promotions and e-commerce.

For end users, PARCO-CITY provides a fun, convenient, and safe fashion online shopping mall, and transmits content. For clients, PARCO-CITY provides effective solutions for websites and the Internet, as well as marketing proposals.

While generating maximum group synergies through planning, designing, creating and operating websites for PARCO Group companies and opening stores in PARCO tenant and NEUVE A online shopping malls, PARCO-CITY is also expanding sales of and orders from external clients based on know-how accumulated within the Group.

In fiscal 2007, the online shopping mall 'PARCO-CITY' was started up, which currently handles about 90 brands. In addition, operation of the street fashion marketing site 'ACROSS' and marketing business utilizing this expertise was transferred from PARCO.

In fiscal 2008, the 'PARCO-CITY' mobile site will also be started, with the continuing aim of strengthening the brand and operating an online shopping mall full of attractive content. Operation of movie websites will also be taken on as a new cross-media promotion, with PARCO-CITY working together with the Entertainment Department to handle promotions.

Online shopping mall 'PARCO-CITY'

Street fashion marketing site 'ACROSS'

HOTEL NEW CRESTON HOTEL NEW CRESTON CO., LTD. operates three hotels, two on the upper floors of Nagoya PARCO and Chofu PARCO and one in Shibuya. Of the three hotels, the NAGOYA CRESTON HOTEL and the CHOFU CRESTON HOTEL add a hotel component to shopping complexes, thereby offering a highly convenient and unique experience within PARCO complexes. The SHIBUYA CRESTON HOTEL offers high-end business customers a quiet environment for their stay.

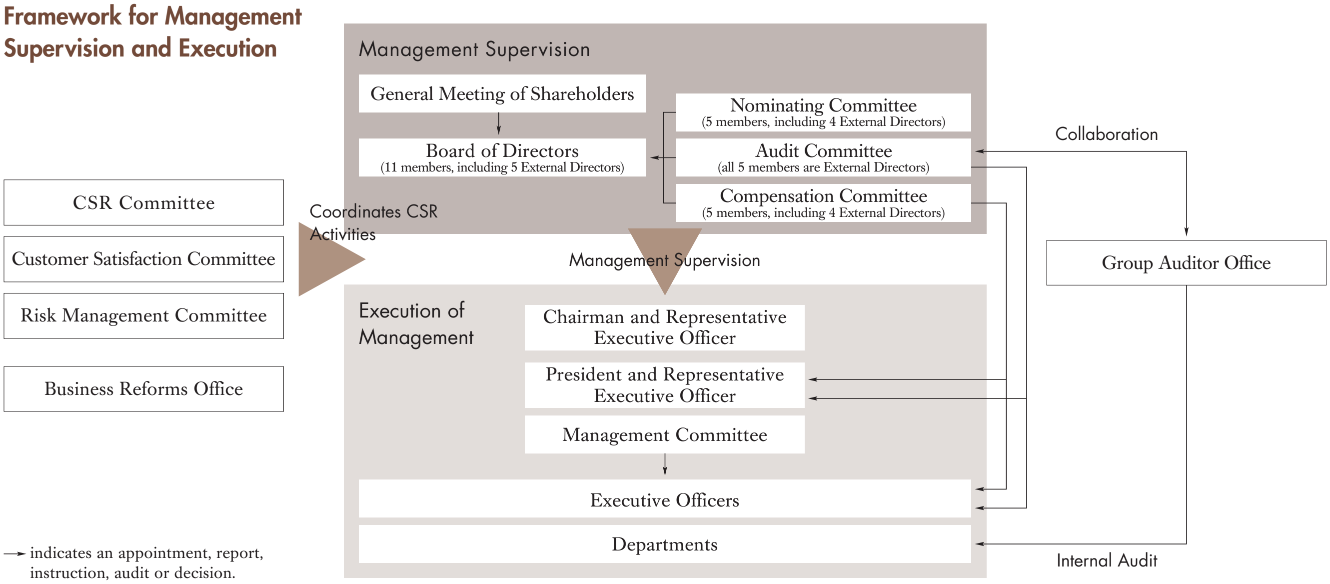
Based on HOTEL NEW CRESTON's management philosophy of hotel hospitality that is healthy, safe and clean, together with delicious cuisine, all employees share a high level of the spirit of hospitality in providing an environment that can be used with a sense of security, a healthy and comfortable space, sophisticated and delicious cuisine, and high-quality service.

The NAGOYA CRESTON HOTEL

Fundamental Policy

PARCO constantly works to strengthen its corporate governance, recognizing that to enhance its corporate value it is essential for it to protect the rights and earnings of shareholders, build smooth relationships with stakeholders other than shareholders, preserve transparency in management and establish an effective management oversight structure. PARCO has adopted the “Company with Committees” system in order to make a clear distinction between supervision and execution in management, build a highly transparent corporate governance structure, and establish a means of quick decision-making and business execution.

Framework for Management Supervision and Execution



Roles and Performance of Board of Directors and Each Committee

Board of Directors — Fourteen meetings held in fiscal 2007

The Board of Directors is responsible for deciding fundamental policies regarding management, and for the supervision of directors and executive officers. It convenes once a month, with additional irregular meetings held flexibly as necessary.

Committees

Each committee acts in its capacity to conduct management supervision and reports to the Board of Directors. A Committees Secretariat has been established to support the activities of each committee by providing dedicated staff.

• Nominating Committee — Seven meetings held in fiscal 2007

The Nominating Committee determines the content of proposals to be submitted at the General Meeting of Shareholders regarding the appointment or dismissal of directors, as well as nominates candidates for representative director for the Board of Directors and executive officers, and recommends their removal.

•Audit Committee — Twelve meetings held in fiscal 2007

The Audit Committee monitors the execution of business by directors and executive officers, and determines the content of proposals to be submitted at the General Meeting of Shareholders regarding the selection or dismissal of the financial auditor.

• Compensation Committee — Five meetings held in fiscal 2007

The Compensation Committee determines the compensation of individual directors and executive officers.

Executive Officers and the Management Committee

Executive officers execute specific operations based on the fundamental policies decided by the Board of Directors.

The Management Committee is a deliberative organ designed to facilitate decision making by a president and representative director in the execution of concrete business operations. The Management Committee is entirely made up of executive officers and directors. It is chaired by the head of the Audit Committee, and meets weekly.

Group Auditor Office

The Group Auditor Office serves under a full-time executive officer as the company’s internal auditing department. It audits the status of legal compliance, operational streamlining and risk management of all business aspects of PARCO and the PARCO Group, based on the auditing plan. It also exchanges information with the Audit Committee and auditors of group subsidiaries as necessary, and conducts effective audits.

Committees Secretariat

The Committees Secretariat has been established as a unified structure independent of the business execution departments to support the operations and ensure the effectiveness of the Nominating, Audit and Compensation committees. It handles operations related to the overall conduct of each committee, including operations related to the formulation and conduct of the annual plans for each committee, operations related to the convening of meetings, including determination and establishment of proposals, invitations, and recording of minutes, as well as any work requested by committee members. The Committees Secretariat also provides committee members (mainly external directors) with advance overviews and distribution of meeting materials in order to deepen understanding of proposals, and improve the effectiveness and ensure the efficient operations of each committee.

Executive and Auditor Compensation

Executive Compensation	(Millions of yen)
Compensation paid to internal directors	31
Compensation paid to external directors	46
Compensation paid to executive officers	496
Total	573

Auditor Compensation	(Millions of yen)
Compensation paid based on the provisions of Article 2-1 of the Certified Public Accountants Law	45
Other compensation	2
Total	48

Internal Controls

Fundamental Policy

PARCO retains a structure to maintain the appropriateness of the operations of PARCO and the PARCO Group in terms of the effectiveness and efficiency of operations, the credibility of financial statements, compliance with laws and regulations related to business activities, and the protection of assets and other areas. At the same time, PARCO works to further improve corporate value.

Compliance Structure

As part of its measures for the compliance structure, PARCO has implemented an internal awareness program that includes formulation of the Basic Principles of Compliance, and a Code of Conduct, which all employees are expected to adhere to and follow, and distribution of the PARCO Employee Handbook incorporating management principles, ten action guidelines designed to ensure application of these principles, as well as compliance guidelines. Also, in consideration of compliancy and risk management, we have set up an internal reporting system to protect the persons providing information from any negative consequences that might arise from disclosure.

Risk Management Structure

PARCO has established a Risk Management Committee chaired by the Administration Division general manager, to provide cross-organizational monitoring of various risks, company-wide response, and general control. We have also established a CSR Committee, chaired by the president and representative director, which coordinates activity with the Risk Management Committee as necessary, to control and efficiently implement risk management and other CSR activities, increasing the speed and effectiveness of conduct.

Other Initiatives

Corporate Planning Office

The Corporate Planning Office seeks to increase the corporate value of the entire group, works to develop and foster businesses that provide new sources of earnings, and promotes strengthening of corporate governance. This Office comprises the Corporate Planning Group, the Information Planning Group and the Affiliated Companies Group. Their roles are to oversee implementation of the Five-Year Medium-Term Management Plan at each of PARCO's group companies, to coordinate public relations based on the management plan, and to increase the corporate value of the entire group as a management supervision audit organ. The Corporate Planning Office also provides administrative functions for the CSR Committee, and works to build a CSR structure in cooperation with affiliated departments.

Business Reforms Office

The Business Reforms Office was established in 2007 in response to the demands of the Japanese version of the Sarbanes-Oxley Act (J-SOX) which reinforces internal controls on financial reporting in accordance with the Financial Instruments and Exchange Law. The Business Reforms Office is comprised of the J-SOX Group and the IT System Group. The J-SOX Group builds and organizes the internal controls and advances business reforms, while the IT System Group builds and manages the information system.

The J-SOX Group is building and organizing our internal controls in accordance with the Financial Instruments and Exchange Law in preparation for PARCO's first year of compliance with the new law in fiscal 2009. In this context, the J-SOX Group is also carrying reform and improvement of business processes. The IT System Group is planning and carrying out the building of the entire information system, as well as examining using the system to implement business reforms and improvements.

Policy Regarding Large-scale Share Purchase Offers

• Basic View

PARCO believes that the decision whether or not to accept or decline a large-scale offer to purchase shares from a particular party should be left to the judgment of shareholders. However, we also feel that appropriate and sufficient disclosure from both the party making the offer and PARCO's Board of Directors is essential to make a proper decision, and accordingly, have established rules for advance disclosure of information and other requirements. This policy was adopted upon approval by the General Meeting of Shareholders held on May 24, 2008. In principle, this policy will remain in effect until the conclusion of the General Meeting of Shareholders scheduled for May 2011.

• Establishment of Special Committee

PARCO will establish a special committee separate and independent from the Board of Directors in order to protect the objectivity and rationality of procedures taken in line with its rules governing large-scale share purchase offers. PARCO's external directors will become members of this special committee.

If the special committee recommends the activation of defensive measures to the Board of Directors in order to protect the interests of all shareholders, PARCO's directors will ultimately determine whether or not defensive measures are required, giving maximum respect to the special committee's recommendations.

Comments From External Directors

ATUSHI TOKI

External Director and Chairman of Nominating Committee

PARCO employs the Company with Committees system, and has shifted a considerable portion of operational execution as well as the decision-making thereof to executive officers headed by the President and CEO, aiming to streamline management through speedy decision-making. To support this, a number of external directors have been appointed to further strengthen monitoring and supervisory functions of the Board of Directors and various committees. In particular, the appointment of experienced managers from other companies and specialists in management/accounting/law as external directors has resulted in an active exchange of opinions that delve into the specific contents of management at the Board of Directors and various committees. I believe that a major role of the external director is to monitor such areas as: 1) whether a company's logic is in line with society's logic, 2) whether laws and regulations are merely being followed but societal needs are being ignored, 3) whether changes in management are being conducted appropriately, and 4) whether evaluation of executive officers and directors is being conducted fairly. Naturally, these roles must also be adequately addressed in various committees. The Nominating Committee that I chair is comprised of four external directors and one director who is also a representative executive officer, and in determining candidates for directors presented to the General Meeting of Shareholders and candidates for executive officers and representative executive officers presented to the Board of Directors, we make an effort to take our time in discussing each candidate individually based on each committee member's objective evaluation, and recommend the most suitable candidate. In addition, we are constantly reviewing each evaluation standard.

TOMOHIRO NIIZATO

External Director and Chairman of Audit Committee

For PARCO, which creates a world of fashion and culture, the occurrence of a scandal represents its greatest risk. As society's viewpoint becomes stricter, just one illegal act or mistake made by just one employee can damage brand value significantly.

This is the importance of corporate governance, and the Company with Committees system was chosen as the optimal organization to this end, with the Audit Committee playing its role.

The five members of the Audit Committee are all external directors that have no affiliation whatsoever with the company, and can be re-elected for five years in principle.

Audit Committee members participate in important management decision-making by attending Board of Directors meetings, hold Audit Committee meetings regularly (once a month in principle), and monitor/analyze the status of internal control systems and monitor the execution of business by directors and executive officers from the standpoint of management efficiency and legality by requesting reports from executive officers, financial auditors, and subsidiary auditors. In addition, a chairman (full-time) selected from the Audit Committee attends important meetings of management, the Customer Satisfaction Committee and the Risk Management Committee, etc., inspects each store and receives regular reports (several times a month) from the Group Auditor Office to secure the appropriateness of the PARCO Group's financial reports.

YUKAKO UCHINAGA

External Director and Chairwoman of Compensation Committee

PARCO switched to the Company with Committees system in 2003 to strengthen corporate governance, separating executive officers, who conducted the execution of operations, and directors, and also set up three committees within the Board of Directors. The Compensation Committee that I chair is comprised of five members, four of whom are external directors, and determines compensation for management, such as directors and executive officers. Listed companies are required to submit the total amount of executive compensation from the perspective of information disclosure, and a major characteristic of PARCO is that compensation, into which unclear factors tend to creep in, is determined in a very open and fair manner. The respective roles of directors and executive officers are clear, and fiscal-year goals and numerical targets are set for the five areas of operations, finance, strategy, personnel, and CS, in line with the Five-Year Medium-Term Management Plan. A system has been built whereby self-analysis of the degree of attainment of these targets, as well as mutual confirmation, is conducted at Board of Directors meetings once a quarter. As a result, compensation is paid very transparently and fairly in accordance with the degree of attainment of standards set in advance for each role. I firmly believe that this type of advanced governance will further increase management transparency and speed up the execution of operations, and contribute to the enhancement of corporate value.

Board of Directors

(as of May 30, 2008)

Members of the Board

Kouzou Makiyama
Member of the Board, Senior Executive Officer, Store Operations Division, Store Administration Department

Takeshi Yoshioka
Member of the Board, Senior Executive Officer, Business Development Division, Store Planning Department

Isamu Ito
Member of the Board, Representative Executive Officer

Hidekazu Hirano
Member of the Board, President, Representative Executive Officer

Kazumi Kojima
Member of the Board, Senior Executive Officer, Administration Division, Finance Department

Mototeru Fujishima
Member of the Board, President of PARCO SPACE SYSTEMS CO., LTD.

Atushi Toki
Member of the Board (External Director) (Attorney, Daiichi Tokyo Attorneys Association)

Yukako Uchinaga
Member of the Board (External Director) (Director, Corporate Executive Vice President, Benesse Corporation)

Tomohiro Niizato
Member of the Board (External Director) (formerly of Ernst & Young ShinNihon)

Keiji Aritomi
Member of the Board (External Director) (Director, Chairman, Yamato Holdings Co., Ltd.)

Yasuhito Hanado
Member of the Board (External Director) (Professor, Waseda Business School, Waseda University)

Executive Officers

Shuji Kainaga
Executive Officer, Group Auditor Office

Kourou Hiraide
Executive Officer, Business Reforms Office

Koichi Yamazaki
Executive Officer, Entertainment Department

Masaaki Abe
Executive Officer, Personnel Department

Makoto Murata
Executive Officer, Development Department

Tatsumi Imaeda
Executive Officer, Facility Administration Department

Tomonori Hayami
Executive Officer, Administration Department

Yuji Hirai
Executive Officer, Corporate Planning Office

Takashi Sensui
Executive Officer, General Manager of Urawa PARCO

Hirotsugu Shibata
Executive Officer, Advertising and Promotion Department

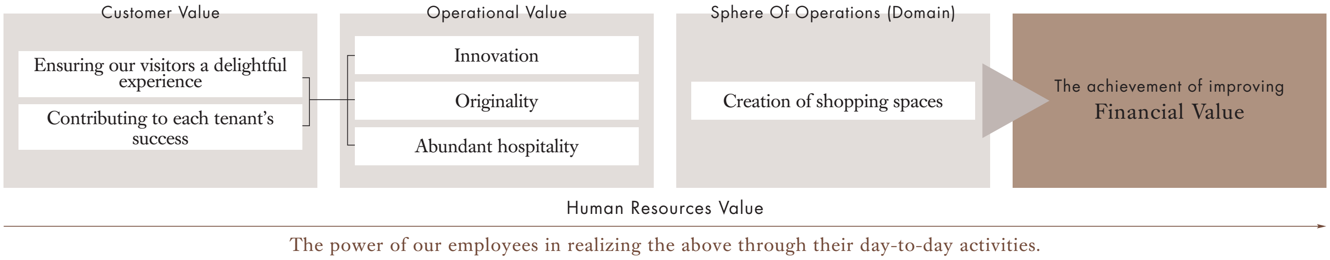
Takashi Kashimoto
Executive Officer, General Manager of Nagoya PARCO

Fundamental Policy

PARCO formulated its Corporate Mission, "Creating futuristic, innovative spaces that brim with hospitality, providing an enjoyable experience for customers visiting our stores, and helping our tenants prosper," in 1999. This idea was then organized into a mission structure and circulated throughout the company. PARCO's CSR program, based on this philosophy, is the embodiment of its Corporate Mission.

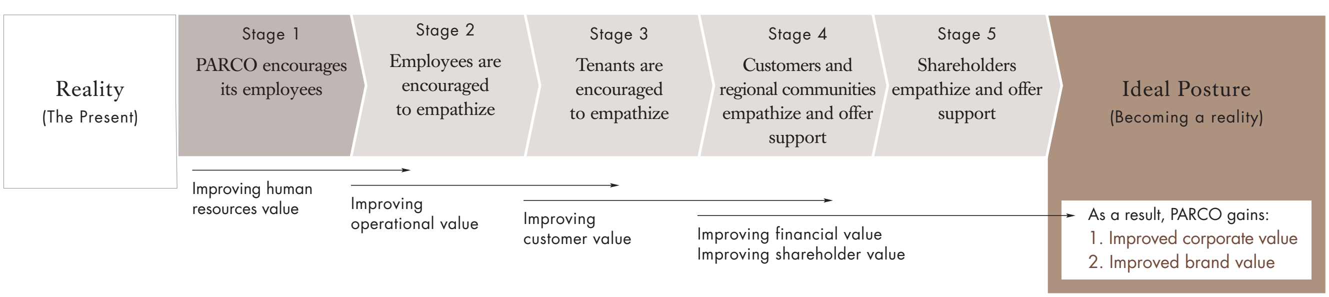
PARCO considers its CSR initiatives to be "measures taken in the course of business to gain the trust and satisfaction of stakeholders, and enhance corporate value." We believe that such measures, taken by all employees in all departments in the course of their duties, will lead to the sustained growth of PARCO. PARCO defines a stakeholder in an original way. Stakeholders are not only the "customers" and " tenants" described in our Corporate Mission, but also anyone in any of the following seven categories: employees; shareholders and investors; members of the local community and society; trading partners; landowners and leaseholders; contract business partners; and affiliated companies.

Structure of Corporate Mission



Process for Enhancing PARCO'S Corporate Value

PARCO defines CSR measures as activities conducted in the course of our business activities. We employ the unique process outlined below to enhance corporate value by gaining empathy and support from stakeholders.



CSR Management Structure

• CSR Committee

The CSR Committee, chaired by the president and representative director, plans and implements the CSR activities of the entire PARCO Group, and in cooperation with the Customer Satisfaction Committee and Risk Management Committee coordinates CSR activities across PARCO's business departments.

• Customer Satisfaction Committee

The Head Office Customer Satisfaction Committee and store customer satisfaction committees, chaired by store general managers, cooperate to ensure that PARCO customers are able to shop with ease and convenience, to create an environment in which tenant staff are able to work comfortably, and to improve service by incorporating feedback from customers and tenants.

• Risk Management Committee

In accordance with risk management policies, the committee, chaired by the Administration Division general manager, works to eliminate risks incurred in the course of corporate activities, assesses risks and develops countermeasures, and conducts internal awareness programs. It is also working to put in place an internal, cross-sectional control structure able to quickly respond to actual risks as they occur, including establishing a response headquarters for times of emergency, and conducting information management.

Future Measures

PARCO will instill the idea of raising corporate value throughout the company. We will use company-wide CSR measures to enlist all employees to work toward achieving CSR goals. In this way, we will develop a mechanism to raise the level of CSR activity, through the conduct of business and the achievement of our goals. We will also utilize Mission Cascade*, introduced in 2002, to build a structure to encourage the PDCA (plan-do-check-action) cycle in the course of the conduct of business. Through these activities we will clarify the vision of the position we wish to achieve in the final year of the Five-Year Medium-Term Management Plan, and make the central theme of future CSR activities the achievement of the targets and the realization of this vision.

* Mission Cascade: A system in which the president establishes a company-wide mission, and executive officers and managers make mission commitments for their respective areas of responsibility. The Board of Directors reviews the progress of each mission on a quarterly basis.

CSR Activities in Fiscal 2007

• Company-wide Meeting

PARCO holds a meeting of all members of management and employees once a year on topics that all employees should have a common understanding of. In fiscal 2007, the Personnel Department took the lead in setting up opportunities for meetings with all employees with the theme of "management that utilizes employees' capabilities." Problems in the current personnel system were shared, and opinions were exchanged actively regarding the future direction of personnel policies, etc. Furthermore, we strengthened the child care/nursing system and other support systems, and familiarized employees with these systems at meetings in order to achieve a good work/life balance. In August 2007, our strengthened systems and operational structure were recognized externally, and PARCO was designated as a company that is working on measures to support the development of the next generation, based on the Law for Promoting Measures to Support the Development of the Next Generation.

Meeting of all employees

Kurumin Certification Mark
A certification mark from the Ministry of Health, Labor and Welfare that certifies a company has formulated and implemented an action plan to support employees' childrearing, and the results meet certain standards.

• Parco Women's Network (PWN)

The Parco Women's Network (PWN) project was established in November 2005 to provide a platform for activities to enhance the motivation of female employees and help them work on the front lines. The project incorporates a range of viewpoints, considering measures to raise the consciousness of all employees, regardless of gender or title, as well as recommendations relating to key issues for career advancement of female employees. Utilizing and developing women means to utilize and develop diverse human resources (the concept of diversity), and the fact that the very promotion of diversity is the key for companies to overcome an ever-changing environment and grow is commonly understood in society today. The PWN is working to play a role in creating a workplace environment and raising consciousness toward promotion of diversity from a standpoint that is different from that of the Personnel Department or labor unions. In fiscal 2007, there were regular meetings every month as well as one general meeting geared toward all female employees in September. The PWN is vigorously solving issues through exchanging opinions with executives and making activity reports to representatives.

PWN Regular Meeting

PWN General Meeting

• Creating A Comfortable Work Environment

PARCO has established the Head Office Customer Satisfaction (CS) Committee and each store's CS committee to create comfortable commercial spaces. As well as improving the environment and services for customers, we are creating an environment which is comfortable to work in for tenants and our employees. Improvements were actively made to employee relaxation areas, the powder rooms and elsewhere, based on the thinking that making these employee-only areas comfortable is not only important of itself but will also improve interaction with customers.

Urawa PARCO Employee Relaxation Area

• Environmental Measures

The PARCO Group is working aggressively on environmental measures in cooperation with its tenants and all its partners, through the formulation of environmental policies, the assessment of environmental impact, information gathering, and the subsequent implementation of the corresponding practical measures. PARCO is currently carrying out the activities described below, and will continue to implement environmental preservation initiatives that make full use of the features of our shopping center business.

CO_2 reduction Energy conservation	• Based on the Kyoto Protocol, about ¥600 million will be invested each year to promote environmental measures for air conditioning, lighting, and facilities/equipment • Each store sets targets and implements CO_2 reduction measures in accordance with local government environmental regulations • Other actions include the use of heat reflective glass, cooling with outside air, thermal storage systems, cogeneration systems, rooftop greenery, water recycling systems, light timer switches, water-saving valves, and high-intensity guide lights
Environmental protection Waste disposal Recycling	• Thorough and appropriate disposal of industrial waste, including interior waste materials • Recycling of interior waste materials, excluding concrete fragments • Waste reduction by thorough separation of waste into different categories and weighing • Recycling of cardboard, composite paper, plastic hangers, Styrofoam and waste oil

• Tours of the Premises

Each PARCO store accepts study tours of middle and high school students that give a behind-the-scenes look at our commercial complexes, including stores, backyards and disaster prevention centers. We explain the overall processes and other aspects of shopping center operations while the students actually observe the different areas inside a store.

Shibuya PARCO guided tour

Consolidated Eleven-Year Summary

PARCO CO., LTD. and Consolidated Subsidiaries
For the years ended 28th/29th February, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007 and 2008

	1998	1999	2000	2001
Operating Results:				
Net sales	¥285,096	¥275,689	¥264,849	¥307,482
Cost of sales	252,760	244,589	234,784	257,922
Other operating revenue	1,789	1,630	1,542	1,482
Selling, general and administrative expenses	27,857	26,503	25,247	43,456
Operating income	6,268	6,227	6,360	7,587
Net income (loss)	826	(2,935)	484	683
Financial Position:				
Total assets	223,303	241,836	239,439	248,268
Shareholders' equity	51,919	49,476	49,469	44,536
Net assets	–	–	–	–
Interest-bearing debt	71,622	92,827	97,594	100,480
Debt equity ratio (times)	1.38	1.88	1.97	2.26

Per Share Data:				
Net income (loss), basic*2	¥ 14.75	¥ (52.36)	¥ 8.63	¥ 12.18
Shareholders' equity	926.22	882.64	882.52	794.52
Net assets	–	–	–	–
Cash dividends	8.00	8.00	8.00	8.00

Major Indicators:				
Capital investment	¥ –	¥ –	¥ –	¥ 5,008
Depreciation and amortization	4,977	4,010	3,868	4,546
Free cash flow	–	–	–	4,012
Return on equity (ROE) (%)	1.6	–	1.0	1.5

*1 U.S. dollar amounts have been translated, for convenience only, at the rate of ¥105=US$1
*2 Adjusted by the weighted average number of shares

Sales Data (Non-Consolidated)

	2004	2005	2006	2007	2008
Amount spent per customer (yen)	3,626	3,632	3,789	3,915	3,889
Sales floor area (m^2)	372,110	372,530	397,587	388,000	425,600
Number of remodeled zones	448	606	381	511	465
Remodeled area (approx. m^2)	42,000	59,100	39,000	52,000	49,000
Year-on-year sales of remodeled zones (%)	119.3	116.7	135.7	122.2	117.1

Sales By Item (Non-Consolidated)

Millions of yen

	2004	2005	2006	2007	2008
Clothing	105,848	106,386	125,429	128,646	137,162
Personal goods	31,129	31,502	38,409	39,381	41,427
General merchandise	42,520	43,919	44,801	44,196	47,056
Foods	10,085	9,973	9,634	9,704	10,365
Eating and drinking	12,287	11,430	11,893	12,025	13,948
Other	34,152	28,061	14,716	14,771	16,303

						Millions of yen	Thousands of U.S. dollars*1
2002	2003	2004	2005	2006	2007	2008	2008
¥310,624	¥297,614	¥281,478	¥257,625	¥262,408	¥266,645	¥286,788	$2,731,314
261,024	251,598	238,562	221,111	224,866	228,467	245,198	2,335,219
1,384	1,605	1,532	1,649	1,923	2,008	2,493	23,743
42,659	39,273	35,553	29,722	30,380	30,429	33,992	323,733
8,325	8,348	8,894	8,441	9,085	9,756	10,090	96,095
2,454	2,373	2,791	1,742	4,006	4,503	5,167	49,210
230,561	222,541	203,688	187,993	182,381	182,553	189,989	1,809,419
52,916	55,209	54,575	61,760	66,975	–	–	–
–	–	–	–	–	70,777	73,981	704,581
79,829	80,150	67,341	48,732	38,883	34,863	33,065	314,905
1.51	1.45	1.23	0.79	0.58	0.49	0.45	

						Yen	U.S. dollars*1
¥ 34.38	¥ 30.94	¥ 36.97	¥ 21.87	¥ 49.26	¥ 54.83	¥ 62.73	$ 0.597
702.97	717.59	767.07	763.9	817.6	–	–	–
–	–	–	–	–	856.74	897.19	8.544
8.00	8.00	8.00	10.00	11.00	13.00	15.00	0.142

						Millions of yen	Thousands of U.S. dollars*1
¥ 7,085	¥ 5,100	¥ 4,213	¥ 7,369	¥ 8,688	¥ 7,474	¥ 10,163	$ 96,790
4,333	4,267	4,102	4,140	3,944	3,883	4,585	43,667
10,638	3,625	10,269	8,670	10,533	6,649	6,093	58,029
5.0	4.4	5.1	3.0	6.2	6.5	7.2	

Sales By Store (Non-Consolidated)

					Millions of yen
	2004	2005	2006	2007	2008
Sapporo	16,343	15,004	15,571	14,776	13,177
Utsunomiya	9,758	9,498	9,063	8,487	8,083
Urawa	–	–	–	–	6,967
Shin-Tokorozawa	8,085	8,386	9,225	9,333	9,355
Chiba	11,605	10,692	9,852	9,444	9,583
Tsudanuma	10,919	10,386	10,473	11,028	11,202
Ikebukuro	31,423	30,851	31,989	34,031	34,788
Shibuya	18,230	18,272	20,492	21,939	21,634
Kichijoji	9,717	9,871	10,507	10,771	10,756
Chofu	17,480	17,670	17,512	17,496	17,465
Hibarigaoka	9,482	8,847	8,747	8,803	8,633
Atsugi*1	4,085	4,194	4,504	4,485	3,992
Shizuoka	–	–	–	–	10,950
Matsumoto	8,731	8,756	9,129	9,323	9,256
Gifu*2	2,895	2,489	2,103	974	–
Nagoya	37,468	38,290	39,817	40,557	41,193
Otsu	8,181	8,005	7,908	8,178	8,476
Shinsaibashi	1,813	1,566	1,694	1,820	1,911
Hiroshima	16,725	16,512	17,396	18,374	19,027
Oita	5,649	5,180	4,911	4,846	4,514
Kumamoto	7,424	6,793	6,230	6,146	5,910

*1 Atsugi PARCO ceased operations on February 24, 2008.

*2 Gifu PARCO ceased operations on August 20, 2006.

Selected Financial Data for Principal Companies of PARCO Group

		Fiscal 2005	Fiscal 2006	Millions of yen Fiscal 2007	Thousands of U.S. dollars* Fiscal 2007
Shopping Complex Business					
PARCO CO., LTD. Corporate data appears on page 64.	Sales	242,562	246,439	263,525	2,509,762
	Operating income	7,657	8,755	9,087	86,543
	Net income	3,005	3,633	4,841	46,105
	Total assets	180,492	173,796	182,257	1,735,781
	Net assets	68,014	70,662	73,652	701,448
PARCO (Singapore) Pte Ltd **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	39	2	263	2,505
	Net income	442	41	307	2,924
	Total assets	1,364	1,541	1,869	17,800
	Net assets	1,229	1,459	1,788	17,029
Retail Business					
NEUVE A CO., LTD. **Head Office Address:** 8-16 Shinsen-cho, Shibuya-ku, Tokyo **Established:** June 1, 2001 **Paid-in Capital:** ¥490 million (as of February 29, 2008) **Number of Employees:** 458 (as of February 29, 2008) **Number of Stores:** 122 (as of February 29, 2008)	Sales	11,871	13,301	15,078	143,600
	Operating income	382	452	486	4,629
	Net income	164	210	231	2,200
	Total assets	3,732	4,426	4,865	46,333
	Net assets	938	1,148	1,379	13,133
PALM GARDEN CO., LTD. **Head Office Address:** 8-16 Shinsen-cho, Shibuya-ku, Tokyo **Established:** September 13, 1974 **Paid-in Capital:** ¥10 million (as of February 29, 2008) **Number of Employees:** 24 (as of February 29, 2008) **Number of Stores:** 3 (as of February 29, 2008)	Sales	3,486	3,416	2,018	19,219
	Operating income (loss)	40	12	(33)	(314)
	Net income (loss)	36	26	(33)	(314)
	Total assets	447	383	327	3,114
	Net assets	(10)	15	(17)	(162)

Space Engineering and Management Business

PARCO SPACE SYSTEMS CO., LTD.

Head Office Address: 8-16 Shinsen-cho, Shibuya-ku, Tokyo
Established: April 1, 1969
Paid-in Capital: ¥490 million (as of February 29, 2008)
Number of Employees: 782 (as of February 29, 2008)
Number of offices: 25 (as of February 29, 2008)

	Fiscal 2005	Fiscal 2006	Fiscal 2007 (Millions of yen)	Fiscal 2007 (Thousands of U.S. dollars*)
Sales	21,985	22,754	26,365	251,095
Operating income	468	538	700	6,667
Net income	269	344	434	4,133
Total assets	16,539	12,866	12,982	123,638
Net assets	7,790	3,204	3,557	33,876

Other Business

PARCO-CITY CO., LTD.

Head Office Address: 8-16 Shinsen-cho, Shibuya-ku, Tokyo
Established: March 1, 2000
Paid-in Capital: ¥10 million (as of February 29, 2008)
Number of Employees: 38 (as of February 29, 2008)

	Fiscal 2005	Fiscal 2006	Fiscal 2007 (Millions of yen)	Fiscal 2007 (Thousands of U.S. dollars*)
Sales	689	582	531	5,057
Operating income (loss)	103	64	(85)	(810)
Net income (loss)	61	39	(90)	(857)
Total assets	294	300	203	1,933
Net assets	186	226	135	1,286

HOTEL NEW CRESTON CO., LTD.

Head Office Address: 8-16 Shinsen-cho, Shibuya-ku, Tokyo
Established: April 30, 2003
Paid-in Capital: ¥50 million (as of February 29, 2008)
Number of Employees: 82 (as of February 29, 2008)
Number of Facilities: 4 (as of February 29, 2008)

	Fiscal 2005	Fiscal 2006	Fiscal 2007 (Millions of yen)	Fiscal 2007 (Thousands of U.S. dollars*)
Sales	1,889	1,859	1,795	17,095
Operating income (loss)	63	1	(33)	(314)
Net income (loss)	36	19	(58)	(552)
Total assets	438	402	330	3,143
Net assets	141	160	102	971

*U.S. dollar amounts have been translated, for convenience only, at the rate of ¥105=US$1.

Overview

In the first half of fiscal 2007 (March 2007-February 2008), the Japanese economy showed growth in corporate earnings, growth in capital investment, and an improvement in employment conditions, resulting in a recovery in consumer spending. This trend gradually weakened however, as customers have grown more cautious due to uncertainties about the future as a result of trends in the financial markets and the rising price of raw materials, particularly crude oil. These trends have resulted in a severe operating environment for the retail industry.

Amid this challenging environment, the PARCO Group is moving forward in line with the three themes of our Five-Year Medium-Term Management Plan, extending from fiscal 2005 to fiscal 2009: 1) strengthening operational and development capabilities of shopping complexes, 2) fostering new businesses and taking on new challenges, and 3) deepening and broadening peripheral businesses.

In fiscal 2007, in the area of strengthening operational and development capabilities of shopping complexes, PARCO shored up existing stores with renovations, opened new stores and closed underperforming ones. In the area of fostering new businesses and taking on new challenges, we are expanding and developing our property management and asset management businesses. As regards deepening and broadening peripheral businesses, in our Retail Business we expanded launches of stores located outside our own shopping complexes and opened a new online shopping mall.

Outline of the PARCO Group

Main business	Company name
Shopping Complex Business Development, management, maintenance and operation of shopping centers	PARCO CO., LTD. Subsidiaries: PARCO (Singapore) Pte Ltd Affiliate: JAPAN RETAIL ADVISORS CO., LTD.
Retail Business Sales of clothing and sundries	Subsidiaries: NEUVE A CO., LTD. PALM GARDEN CO., LTD.
Space Engineering and Management Business Designing and construction of building interiors, cleaning, security surveillance and maintenance of buildings	Subsidiary: PARCO SPACE SYSTEMS CO., LTD.
Other Business Internet-related business and hotel operation	Subsidiaries: PARCO-CITY CO., LTD. HOTEL NEW CRESTON CO., LTD.

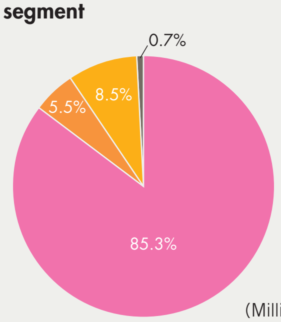
* In addition to the above, Mori Trust Holdings Inc. and Mori Trust Co., Ltd. are also affiliates.

Summary of the PARCO Group

The PARCO Group is made up of seven subsidiaries and one affiliated company. The seven subsidiaries are consolidated subsidiaries and the one affiliated company is an equity-method affiliate. The fiscal years of PARCO (Singapore) Pte Ltd and one other consolidated subsidiary end on December 31. The financial statements in this report utilize those companies' fiscal year-end figures and include transactions significant to the consolidated report that occurred between December 31, 2007, and the PARCO Group's consolidated fiscal year-end on February 29, 2008. This report also utilizes the figures reported in the financial statements of affiliated company JAPAN RETAIL ADVISORS CO., LTD., which are also based on a December 31 fiscal year-end.

Performance by Segment

Net sales* and Ratio to total sales for each segment



(Millions of yen)

• Shopping Complex Business	¥266,263
• Retail Business	¥17,097
• Space Engineering and Management Business	¥26,365
• Other Business	¥2,330

Net Sales and Operating Income 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	266,005	6,959	14,323	1,993	289,281	—	289,281
(2) Internal Sales between Segments or Transferred Amount	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 (Loss)	9,085	496	695	(118)	10,158	(67)	10,090

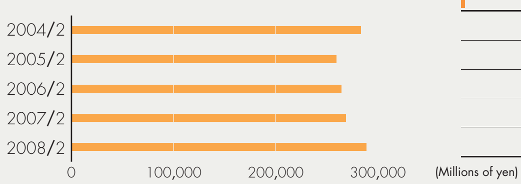
* Net sales by segment include operating revenue.

Operating Results

Net Sales

The PARCO Group's fiscal 2007 consolidated net sales rose ¥20,143 million, or 7.6%, year on year, to ¥286,788 million due to strong performance by the Shopping Complex Business and growth in the Retail Business and the Space Engineering and Management Business.

Net sales



Net sales (Millions of yen)
281,478
257,625
262,408
266,645
286,788

*Number of PARCO Group companies (including PARCO CO., LTD.)
FY2003: 20, FY2004: 15, FY2005: 10, FY2006: 9, FY2007: 9

• Shopping Complex Business

Existing store performance in the Shopping Complex Business was strong in fiscal 2007 thanks to measures such as aggressive renovations of shopping zones, the carrying out of large-scale marketing plans, and strengthening of customer service through development of the house credit card *PARCO Card*. In addition, PARCO opened new stores for the first time in a decade, first Shizuoka PARCO and then Urawa PARCO. We successfully increased year-on-year sales in the Shopping Complex Business by offering our tenants detailed styling consulting services and remodeling to improve customer traffic flow in mainstay apparel areas.

As a result of the above, segment net sales rose ¥17,537 million, or 7.1%, year on year, to ¥266,263 million.

Progress on Five-Year Medium-Term Management Plan

Strengthening Operational Capabilities of Shopping Complexes

In fiscal 2007, we increased the scale of our marketing plans by using data on product trends in urban stores to make improvements at all our stores and collaborating with tenants, mass media companies and other corporations to make the most of market trends. We also focused on using information on customers obtained through *PARCO Card* to enhance marketing planning. In addition, in fiscal 2007 we remodeled 465 zones (approximately 49,000m^2), updating the image of our stores in line with changing times and market trends and maximizing the overall impact of our buildings with a focus on increasing customer traffic and improving shopping flow.

Overview of Major Refurbishments

— Ikebukuro PARCO —

We renovated all of P'PARCO's fashion zones to clarify and emphasize the Ikebukuro PARCO building's function as a fashion incubator (39 zones, approximately 2,500m^2).

— Nagoya PARCO —

As part of the plan to clarify the functions of each of the three buildings of Nagoya PARCO, we focused renovations on the lower and middle floors of the East Building, which houses the casual men's department (66 zones, approximately 5,500m^2).

— Hibarigaoka PARCO —

We renovated the food and fashion areas of the Hibarigaoka PARCO, targeting young married women as a means to increase customer traffic and improve shopping flow (19 zones, approximately 4,100m^2).

— Shin-Tokorozawa PARCO —

We renovated the Shin-Tokorozawa PARCO based on knowledge gained from our renovation of the Hibarigaoka PARCO with the aim of improving shopping flow in the young married women's department and increasing the number of family shoppers (31 zones, approximately 3,800m^2).

— Tsudanuma PARCO —

We renovated the Tsudanuma PARCO, expanding the men's zones based on knowledge gained from our renovation of PARCO stores in Nagoya, Hiroshima, Matsumoto, and Shibuya (35 zones, approximately 4,100m^2).

Sales by Store

(Millions of yen)

	2007/2	2008/2	Change (%)
Sapporo	14,776	13,177	(10.8)
Utsunomiya	8,487	8,083	(4.8)
Urawa	—	6,967	—
Shin-Tokorozawa	9,333	9,355	0.2
Chiba	9,444	9,583	1.5
Tsudanuma	11,028	11,202	1.6
Ikebukuro	34,031	34,788	2.2
Shibuya	21,939	21,634	(1.4)
Kichijoji	10,771	10,756	(0.1)
Chofu	17,496	17,465	(0.2)
Hibarigaoka	8,803	8,633	(1.9)
Atsugi	4,485	3,992	(11.0)
Shizuoka	—	10,950	—
Matsumoto	9,323	9,256	(0.7)
Gifu	974	—	—
Nagoya	40,557	41,193	1.6
Otsu	8,178	8,476	3.6
Shinsaibashi	1,820	1,911	5.0
Hiroshima	18,374	19,027	3.6
Oita	4,846	4,514	(6.9)
Kumamoto	6,146	5,910	(3.8)
Total	240,820	256,883	6.7

■ **Flagship store**

Strengthening Development Capabilities of Shopping Complexes

In line with our strategy of opening stores in urban areas, particularly in government-designated major cities, PARCO has opened stores by renovating buildings formerly occupied by department stores that have been closed. In March 2007, Shizuoka PARCO (floor space of approximately 30,000m^2) was opened, followed by Urawa PARCO (floor space of approximately 65,000m^2), the largest single-building store in our portfolio, in October 2007. The Company is also preparing for the August 2008 opening of Sendai PARCO (approximately 24,000m^2).

Overview of New Stores

— Shizuoka PARCO —

Shizuoka PARCO, located in the downtown shopping district of Shizuoka City, was opened on March 15, 2007. Based on a thorough study of the commercial environment and consumers of Shizuoka, PARCO invited many tenants that had never before launched stores in the city. The store was converted to the PARCO format and opened in a relatively short period of time, using an environment-conscious design to update the image of the old building through interior and exterior renovation. The company raised awareness of the new store in the area through an aggressive advertising campaign even before the new store was opened, resulting in steady after the opening.

— Urawa PARCO —

Urawa PARCO, located at the east exit of the JR Urawa train station in Saitama City, was opened on October 10, 2007. The building also houses city public facilities on the upper floors and has the second-largest floor space of any PARCO store after Nagoya PARCO. With tenants including fashion shops, daily sundries stores, food shops, a fitness center, and a cinema complex all located in a large, relaxing space, the store draws customers shopping for daily necessities as well as those wishing to spend considerable time there.

Fostering New Businesses and Taking on New Challenges

The PARCO Group was contracted to conduct pre-opening support activities for the Northport Mall in Tsuzuki Ward, Yokohama, in advance of the April 21, 2007 opening. After the opening, in addition to handling property management, we maintenance full use of the entire PARCO Group's business capabilities to participate in a range of operations related to Northport Mall, conducting interior decoration work and interior decoration management, launching a shop in the mall and designing the facility's web page. PARCO also pursued new types of business activities, investing in an anonymous partnership holding trust beneficiary rights to Northport Mall and posting a capital gain from the sale of these rights in fiscal 2007.

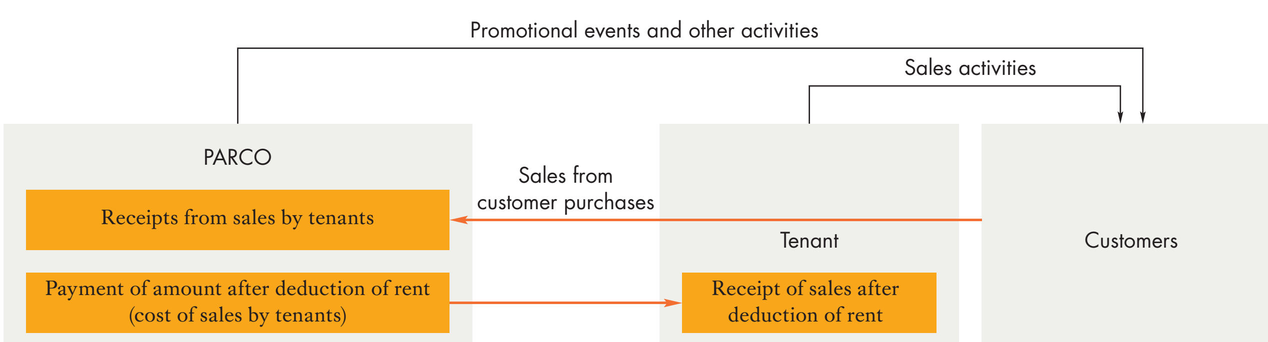
Overseas, subsidiary PARCO (Singapore) Pte Ltd carried out planning and leasing management for commercial facilities in "CENTRAL," an integrated complex located in the city of Singapore and after the opening was contracted to carry out operational management of the facility.

Profit Structure for the Shopping Complex Business

PARCO seeks and selects tenants and signs tenant agreements under which the tenants open their shops (specialty shops) within PARCO stores. PARCO undertakes marketing and sales promotional activities such as promotional events to encourage customer turn out while the tenant conducts sales activities to encourage customer purchases. The amount of customer purchases is received by PARCO on a daily basis as sales, and after a set period of time, PARCO in turn pays the tenant on a semi-monthly basis after deducting rent. This system has the advantage of not having the risk of carrying inventory or the risk of credit losses on trade receivables.

In a typical tenant agreement, the amount of rent is calculated by multiplying monthly sales by a basic rent rate, and a minimum amount is guaranteed, while a diminishing rent rate is applied for sales that exceed a given level.

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.



Deepening and Broadening of Peripheral Businesses

In the entertainment business, the Theater Division now manages two unique theatres, Le Theatre GINZA by PARCO, launched in March 2007, and PARCO Theater. These theaters often bring in outside performers to stage shows. PARCO's Publishing Division publishes new hit book titles, and republishes old favorites in series form. The Audiovisual Division has expanded its activities to include investment in promising works, also taking steps to get such films screened at CINE QUINTO. Sales in these two divisions have surpassed our targets.

• Retail Business

The TiC TAC business operated by NEUVE A CO., LTD. comprises specialty watch shops and has posted strong results at both new and existing stores, beating our sales estimates for the 36th consecutive month. In line with the company's scrap-and-build strategy, NEUVE A opened 23 stores in fiscal 2007, including 14 stores outside of PARCO-owned facilities, and closed 9 stores, bringing the total number of NEUVE A stores to 122. The Company also continued to aggressively launch stores with new formats.

As a result of these measures, Retail Business sales grew by ¥379 million, or 2.3%, year on year in fiscal 2007, to ¥17,097 million.

• Space Engineering and Management Business

PARCO SPACE SYSTEMS CO., LTD. (PSS) handled the opening of new PARCO stores and renovation of existing PARCO stores as well as gaining increased orders for construction of department stores and retail outlets such as Northport Mall and for interior decorating, fixtures, and electrical work for new and existing external clients.

Space Engineering and Management Business net sales grew by ¥3,610 million, or 15.9%, year on year in fiscal 2007, to ¥26,365 million.

• Other Business

PARCO-CITY CO., LTD. launched online shopping mall PARCO-CITY in April 2007 as a new business. PARCO-CITY is based on the concept of establishing another PARCO on the Internet and therefore adopts many of the strategies used by PARCO such as holding special sales called PARCO Grand Bazars and offering the same courtesy programs available to PARCO card cardholders. PARCO-CITY posted an operating loss related to the launch due to expenses such as depreciation expenses of investment in systems and advertising costs, but the number of online tenants is growing centered on many powerful shops that are PARCO tenants also selling through PARCO-CITY, and customer traffic (page views) is also on the rise.

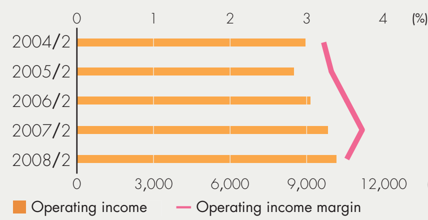
Other Business sales declined by ¥119 million, or 4.9%, year on year in fiscal 2007, to ¥2,330 million.

Gross Profit on Sales, SG&A Expenses and Operating Income

In fiscal 2007, PARCO's gross profit on sales grew ¥3,412 million, or 8.9%, year on year, to ¥41,590 million and the gross profit margin on sales improved by 0.2 percentage points, to 14.5% from 14.3%. Other operating revenue rose ¥484 million, or 24.1%, to ¥2,493 million, gross operating profit rose ¥3,897 million, or 9.7%, to ¥44,083 million, and the ratio of gross operating profit margin to sales improved 0.3 percentage points, to 15.4% from 15.1%. Selling, general and administrative (SG&A) expenses rose ¥3,563 million, or 11.7%, to ¥33,992 million due to increased rental and advertising expenses associated with new store openings. The ratio of SG&A expenses to net sales rose by 0.5 percentage points, to 11.9% from 11.4%.

As a result, operating income rose ¥334 million, or 3.4%, to a historical high of ¥10,090 million and the ratio of operating income to net sales (operating income margin) declined by 0.2 percentage points, to 3.5% from 3.7%.

Operating income and Operating income margin



	Operating income (Millions of yen)	Operating income margin (%)
2004/2	8,894	3.2
2005/2	8,441	3.3
2006/2	9,085	3.5
2007/2	9,756	3.7
2008/2	10,090	3.5

Overview by Segment

• Shopping Complex Business

Operating income from the Shopping Complex Business increased ¥387 million, or 4.5%, year on year, to ¥9,085 million. This increase was mainly due to higher operating income resulting from sales growth at PARCO and the entertainment business.

• Retail Business

Retail Business operating income rose ¥1 million, or 0.2%, year on year to ¥496 million. The main factors behind this increase were strong performance from existing shops, the launch of 23 new stores (including 14 stores outside of PARCO-owned facilities), and the closing of 9 stores by NEUVE A, which increased the efficiency of the Retail Business.

• Space Engineering and Management Business

Space Engineering and Management Business operating income rose ¥159 million, or 29.8%, year on year to ¥695 million. The main factors behind this increase were projects such as the opening of Shizuoka PARCO and Urawa PARCO, and the renovation of existing PARCO stores as well as increased orders for construction work from commercial facilities outside the PARCO Group.

• Other Business

Other Business posted an operating loss of ¥118 million. The main factors behind this loss were depreciation expenses of investment in systems and advertising costs related to the newly opened PARCO-CITY online shopping mall by PARCO-CITY CO., LTD.

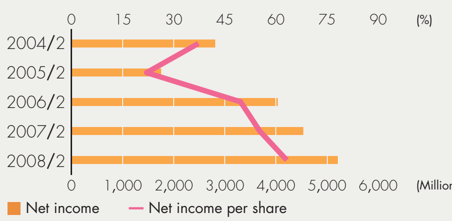
Other Income and Expenses

The net sum of other expenses declined ¥2,113 million, to ¥917 million. This was because the Company posted capital gains of ¥784 million from a joint investment in commercial facilities with consigned property management, and also because of lower losses associated with store closings.

Net Income

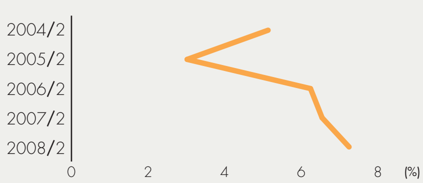
As a result of the above developments, net income increased by ¥664 million, or 14.8%, to reach a record high of ¥5,167 million. Net income per share increased from ¥54.83 in the previous year to ¥62.73 in the year under review. ROE improved from 6.5% to 7.2%.

Net income and Net income per share



	Net income (Millions of yen)	Net income per share (%)
2004/2	2,791	36.97
2005/2	1,742	21.87
2006/2	4,006	49.26
2007/2	4,503	54.83
2008/2	5,167	62.73

ROE



	ROE (%)
2004/2	5.1
2005/2	3.0
2006/2	6.2
2007/2	6.5
2008/2	7.2

* 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.

Dividends

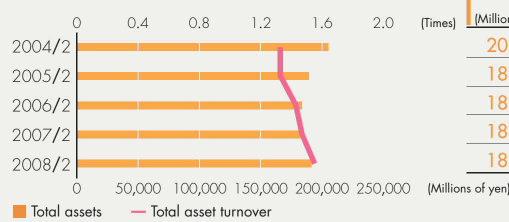
PARCO regards returning profit to shareholders as one of its most fundamentally important policies. The Company distributes profit primarily by paying a stable dividend to shareholders carried out with due consideration to financial results and the payout ratio. PARCO will also work to shore up its management foundation by enhancing its financial position through internal reserves in order to provide for future business development. Based on these medium- to long-term policies, in fiscal 2007, PARCO increased its total dividend by ¥2, to ¥15 per share, a level which allows the Company to continue strengthening its management foundation for the future while rewarding shareholders for their support. In fiscal 2008, the Company intends increased its total dividend by ¥1, to ¥16 per share.

Financial Position

Assets

Investments and advances declined ¥1,524 million, or 18.1% year on year, to ¥6,886 million, primarily due to a ¥1,524 million decrease in investment securities. Property and equipment rose by ¥4,842 million, or 5.1%, to ¥100,531 million, as a result of store facilities, at cost increasing ¥7,916 million due to new investments. Leasehold deposits and loans to lessors declined ¥685 million, or 1.4%, to ¥47,039 million.

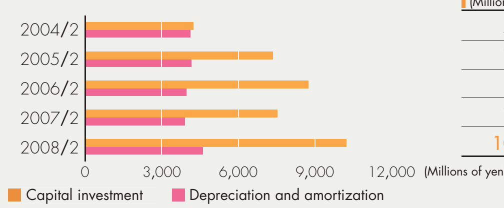
Total assets and Total asset turnover



	Total assets (Millions of yen)	Total asset turnover (Times)
2004/2	203,688	1.32
2005/2	187,993	1.32
2006/2	182,381	1.42
2007/2	182,553	1.46
2008/2	189,989	1.54

* 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.

Capital investment and Depreciation and amortization



	Capital investment (Millions of yen)	Depreciation and amortization (Millions of yen)
2004/2	4,213	4,102
2005/2	7,369	4,140
2006/2	8,688	3,944
2007/2	7,474	3,883
2008/2	10,163	4,585

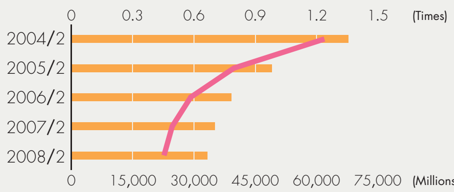
Liabilities

Total liabilities increased ¥4,231 million, or 3.8%, year on year, to ¥116,008 million. Interest-bearing debt declined ¥1,798 million, or 5.2%, to ¥33,065 million as long-term debt increased ¥8,237 million, but current portion of long-term debt declined by ¥10,355 million.

Current liabilities declined by ¥5,834 million, or 11.0%, to ¥47,102 million. This is because accrued income taxes increased by ¥2,503 million, current portion of long-term debt declined by ¥10,355 million. Fixed liabilities increased ¥10,066 billion, or 17.1%, to ¥68,903 million. This increase was mainly due to a ¥8,237 million, or 59.9%, increase in long-term debt.

As a result of the above, the interest coverage ratio rose to 21.0 times from 16.5 times in fiscal 2006, while the debt equity ratio improved from 0.49 times to 0.45 times.

Interest-bearing debt and Debt equity ratio

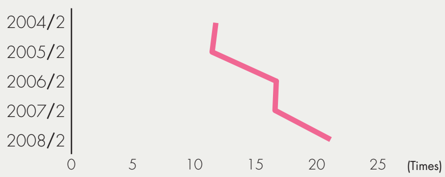


	Interest-bearing debt (Millions of yen)	Debt equity ratio (Times)
2004/2	67,341	1.23
2005/2	48,732	0.79
2006/2	38,883	0.58
2007/2	34,863	0.49
2008/2	33,065	0.45

■ Interest-bearing debt — Debt equity ratio

* 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 coverage ratio



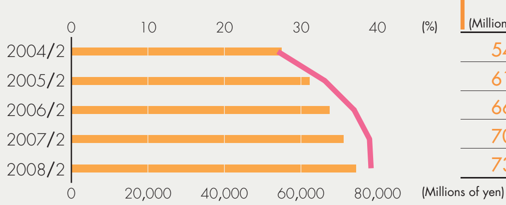
	Interest coverage ratio (Times)
2004/2	11.7
2005/2	11.4
2006/2	16.6
2007/2	16.5
2008/2	21.0

* 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.

Net Assets

Net assets amounted to ¥73,981 million in fiscal 2007, a ¥3,204 million, or 4.5%, increase from fiscal 2006. This increase in net assets was largely the result of the rise in net income and the decline in unrealized valuation losses on securities held. As a result, the equity ratio rose from 38.7% in fiscal 2006 to 38.9% in fiscal 2007.

Equity and Equity ratio



	Equity (Millions of yen)	Equity ratio (%)
2004/2	54,575	26.8
2005/2	61,760	32.9
2006/2	66,975	36.7
2007/2	70,581	38.7
2008/2	73,912	38.9

■ Equity — Equity ratio

* 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.

Cash Flows

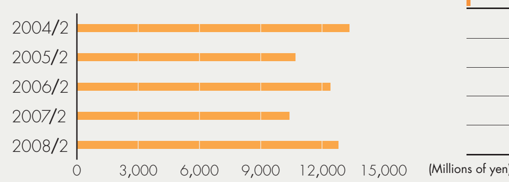
Fund Procurement and Liquidity Management

The PARCO Group, in principle, covers capital investment and dividend payments with cash provided by operating activities. Free cash flows for fiscal 2007 declined ¥555 million, or 8.3%, compared to the previous year, to ¥6,093 million.

Cash Flows from Operating Activities

Net cash provided by operating activities increased ¥2,382 million from the previous year to ¥12,705 million, primarily due to an increase in net income before income taxes and minority interests.

Cash flows from operating activities

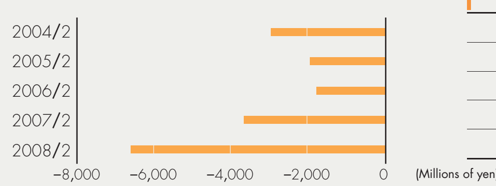


	Cash flows from operating activities (Millions of yen)
2004/2	13,242
2005/2	10,635
2006/2	12,331
2007/2	10,322
2008/2	12,705

Cash Flows from Investing Activities

Net cash used in investing activities decreased ¥2,937 million from the previous year to ¥6,611 million. This decrease was mainly due to an increase in outlays to procure tangible fixed assets and a decline in income from reimbursement of guarantee money and security deposits.

Cash flows from investing activities

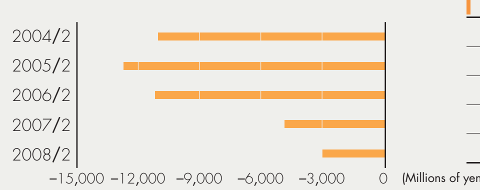


	Cash flows from investing activities (Millions of yen)
2004/2	−2,972
2005/2	−1,965
2006/2	−1,798
2007/2	−3,673
2008/2	−6,611

Cash Flows from Financing Activities

Net cash used in financing activities increased ¥1,827 million from the previous year to ¥3,084 million. This was mainly due to an increase in cash used to repay bonds.

Cash flows from financing activities



	Cash flows from financing activities (Millions of yen)
2004/2	−11,048
2005/2	−12,731
2006/2	−11,187
2007/2	−4,911
2008/2	−3,084

Cash and Cash Equivalents

As a result of the above, cash and cash equivalents increased ¥3,039 million from the previous year, to ¥16,558 million in fiscal 2007.

Outlook

Fiscal 2008, the fourth year of PARCO's Five-Year Medium-Term Management Plan, is an important year in terms of working toward the final year of the plan. Amid uncertainties regarding the domestic economy and consumer trends, we expect a challenging operating environment, but we will continue our efforts to reach these goals.

Following the achievement of the goals set out in the Five-Year Medium-Term Management Plan, PARCO will adopt a strategy of pursuing even further growth. The Company is therefore planning to undertake reorganization in fiscal 2008 to prepare for this next step. We plan to revitalize our execution systems and, under our new President, speed up the development of Group businesses through centralized supervision.

Strengthening Operational Capabilities of Shopping Complexes

Among the reorganization we plan to undertake in fiscal 2008, is the strengthening of management functions by the Store Management Division (including the Store Administration Department, the Advertising and Promotion Department, and the Facilities Management Department) at existing PARCO stores. Under this new structure, we plan to work with tenants and the mass media to implement creative marketing plans such as original PARCO advertising campaigns, targeting continued growth driven by contribution from new stores and strengthening of existing stores.

Major Renovation Plans

— Chofu PARCO —

In line with our theme in recent years of remodeling main shopping floors, the Chofu PARCO is being remodeled to enhance its overall appeal by making young married women and family segments core strategic targets. In addition, we completely remodeled the seventh floor restaurant area.

— Sapporo PARCO —

The Sapporo PARCO held its grand opening in April 2008 following a renovation that included roughly half of the floor space of the main building. The renovation encompassed roughly 70 zones, including full remodeling of the B1, second and third floors, and the front section of the first floor of the main building, the face of Sapporo PARCO. The aim of this renovation was to make the Sapporo PARCO into the type of urban fashion center that the local market has come to expect of PARCO.

— Nagoya PARCO —

As part of the plan to clarify the functions of each of the three buildings of Nagoya PARCO, in fiscal 2008 we will further enhance the already strong ladies fashion zones. In addition, as a test case upon which we intend to base future renovations, we will renovate the second and third floors of both the West Building and the South Building as a means to diversify our customer base in the sizeable Nagoya market.

Strengthening Development Capabilities of Shopping Complexes, and Fostering New Businesses and Taking on New Challenges

The reorganization planned in fiscal 2008 in the Business Development Division (Store Planning Department and Development Department) includes gathering information on new proposals, flexibly considering new formats and methods, and selecting the most appropriate new business plans. The Business Development Division will also conduct development of overseas businesses.

In fiscal 2008, following the opening of the new Shizuoka PARCO and Urawa PARCO stores, the Company is currently preparing for the opening of the Sendai PARCO, scheduled for August 2008. In addition, the Company is considering concrete plans for new shop launches in the Fukuoka Tenjin 2-chome Building (tentative name), located in the Tenjin district of Fukuoka City. Overseas, PARCO is moving ahead with current projects undertaken on behalf of clients, even as it moves forward with the realization of the next round of projects.

Deepening and Broadening Peripheral Businesses

In the entertainment business, the company has two theaters and outside performers are often brought in to stage shows. PARCO is also expanding its content business by combining investing in film rights with screening films, and moving forward with renovation plans at live house CLUB QUATTRO in Shibuya, scheduled to reopen in August 2008.

In line with plans to strengthen branding, NEUVE A CO., LTD. is aggressively expanding operations by targeting stable profitability at existing stores as it launches new shops, including those located outside PARCO facilities.

PARCO SPACE SYSTEMS CO., LTD. aims to contribute to Group value through enhancing the quality of its products, while strengthening its competitive base by entering marketplaces not yet penetrated by other Group companies.

PARCO-CITY CO., LTD. will strengthen operations at its online shopping mall PARCO-CITY, launched in April 2007 as a new business, by increasing customer traffic (page views), improving e-commerce functions and expanding the number of online tenants.

Based on the above plans, the PARCO Group forecasts fiscal 2008 net sales of ¥306,500 million (up 6.9% from fiscal 2007), operating income of ¥10,300 million (up 2.1%) and ordinary income of ¥10,000 million (up 0.3%). However, net income is projected to be ¥5,000 million (down 3.2%) due to a reactive decline from the posting of an extraordinary gain in fiscal 2007.

Risks Related to Our Business

With respect to information contained in this report, 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 the publication date of this report.

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, 2006, 2007 and 29th February, 2008

	Millions of yen			Thousands of U.S. dollars (Note 5)
Assets	2006	2007	2008	2008
Current assets:				
Cash and time deposits (Note 6)	¥ 11,656	¥ 13,519	¥ 15,858	$ 151,029
Short-term investments (Note 9)	–	–	1,000	9,524
Notes and accounts receivable:				
Trade	7,634	8,078	7,912	75,352
Other	839	947	1,920	18,286
Less: Allowance for doubtful accounts	(15)	(13)	(26)	(248)
	8,459	9,012	9,807	93,400
Inventories	2,251	3,112	2,807	26,733
Prepaid expenses and other current assets	773	857	992	9,448
Deferred tax assets (Note 14)	852	753	951	9,057
Total current assets	23,993	27,254	31,417	299,210
Investments and advances:				
Investment securities (Note 9)	10,155	8,001	6,477	61,686
Investments in and advances to affiliates	4	4	18	171
Other investments	384	404	390	3,714
	10,544	8,410	6,886	65,581
Property and equipment (Note 11)**:**				
Store facilities, at cost	159,186	161,118	169,034	1,609,848
Less: Accumulated depreciation	(63,193)	(63,911)	(66,973)	(637,838)
Less: Accumulated impairment losses (Note 8)	(1,428)	(1,517)	(1,529)	(14,562)
	94,564	95,689	100,531	957,438
Leasehold deposits and loans to lessors (Note 10)	50,397	47,724	47,039	447,990
Deferred tax assets (Note 14)	1,341	1,934	2,302	21,924
Other assets	1,540	1,539	1,811	17,248
Total assets	¥182,381	¥182,553	¥189,989	$1,809,419

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

Liabilities	2006	2007	Millions of yen 2008	Thousands of U.S. dollars (Note 5) 2008
Current liabilities:				
Short-term bank loans (Note 11)	¥ 4,630	¥ 4,690	¥ 5,010	$ 47,714
Current portion of long-term debt (Note 11)	12,080	16,418	6,063	57,743
Notes and accounts payable:				
Trade	22,114	23,066	23,203	220,981
Other	2,553	2,125	3,350	31,905
	24,667	25,191	26,554	252,895
Accrued income taxes (Note 14)	1,555	935	3,438	32,743
Accrued expenses	2,368	2,508	2,748	26,171
Other current liabilities	3,822	3,193	3,287	31,305
Total current liabilities	49,124	52,937	47,102	448,590
Long-term debt (Note 11)	22,173	13,755	21,992	209,448
Guarantee deposits received from tenants (Note 15)	41,631	41,597	43,377	413,114
Reserve for retirement benefits (Note 13)	897	998	1,116	10,629
Accrued retirement benefits for directors and corporate auditors	60	7	9	86
Allowance for loss on store closing	824	2,179	2,179	20,752
Other long-term liabilities	293	300	230	2,190
Total liabilities	115,004	111,776	116,008	1,104,838
Minority Interests:	401	–	–	–
Shareholders' Equity:				
Common stock				
Authorized:				
320,000,000 shares at 28th February, 2006 (Note 18)				
Issued:				
82,210,781 shares at 28th February, 2006	26,867	–	–	–
Capital surplus	27,184	–	–	–
Retained earnings	11,581	–	–	–
Unrealized gains/losses on securities, net of taxes	1,516	–	–	–
Foreign currency translation adjustments	(7)	–	–	–
Treasury stock, at cost	(166)	–	–	–
Total shareholders' equity	66,975	–	–	–
Total liabilities, minority interests and shareholders' equity	¥182,381	¥ –	¥ –	$ –
Net Assets:				
Common stock				
Authorized:				
320,000,000 shares at 28th February, 2007 and 29th February, 2008 (Note 18)				
Issued:				
82,475,677 shares at 28th February, 2007 and 29th February, 2008 (Notes 18 and 20)	–	26,867	26,867	255,876
Capital surplus	–	27,527	27,527	262,162
Retained earnings	–	15,100	19,114	182,038
Treasury stock, at cost (Note 19)	–	(54)	(57)	(543)
Unrealized gains/losses on securities, net of taxes	–	1,022	315	3,000
Foreign currency translation adjustments	–	117	144	1,371
Minority interests	–	195	69	657
Total net assets	–	70,777	73,981	704,581
Total liabilities and net assets	¥ –	¥182,553	¥189,989	$1,809,419

Consolidated Statements of Income

PARCO CO., LTD. and Consolidated Subsidiaries
For the years ended 28th February, 2006, 2007 and 29th February, 2008

	Millions of yen			Thousands of U.S. dollars (Note 5)
	2006	2007	2008	2008
Net sales	¥262,408	¥266,645	¥286,788	$2,731,314
Cost of sales	224,866	228,467	245,198	2,335,219
Gross profit	37,542	38,177	41,590	396,095
Other operating revenue	1,923	2,008	2,493	23,743
Gross operating profit	39,465	40,185	44,083	419,838
Selling, general and administrative expenses	30,380	30,429	33,992	323,733
Operating income	9,085	9,756	10,090	96,095
Other income (expenses):				
Interest income	163	109	120	1,143
Interest expenses	(709)	(634)	(603)	(5,743)
Loss on disposal/sales of property and equipment	(1,213)	(783)	(1,025)	(9,762)
Loss on sales of investment securities	–	–	(53)	(505)
Loss on impairment of fixed assets (Note 8)	–	(653)	(13)	(124)
Loss on write-down of investment securities	(39)	(434)	(286)	(2,724)
Gain on sales of subsidiaries' stocks	325	–	–	–
Foreign exchange gain on capital reduction of a subsidiary	80	–	–	–
Gain on prior period adjustment of rent expense	43	–	–	–
Provision for allowance for doubtful accounts	–	(115)	–	–
Special allowance for retirement	(58)	(49)	(3)	(29)
Loss on store closing (Notes 7 and 8)	(944)	(2,308)	(258)	(2,457)
Loss on collecting amortized coupons	–	–	(47)	(448)
Dividends from an anonymous association's assets	–	–	784	7,467
Reversal of allowance for loss on store closing	–	666	–	–
Loss on discontinued operations	(117)	–	–	–
Compensation for termination of advisory services agreement	–	508	–	–
Other, net	186	665	471	4,486
	(2,283)	(3,030)	(917)	(8,733)
Income before income taxes and minority interests	6,801	6,725	9,173	87,362
Provision for income taxes:				
Current (Note 14)	2,220	2,187	4,085	38,905
Deferred (Note 14)	532	(150)	(80)	(762)
Total	2,752	2,037	4,004	38,133
Minority interests	41	184	0	0
Net income	¥ 4,006	¥ 4,503	¥ 5,167	$ 49,210

	Yen			U.S. dollars (Note 5)
Per share:				
Net income, basic	¥49.26	¥54.83	¥62.73	$0.60
Net income, diluted	49.21	–	–	–
Cash dividends applicable to the year	¥11.00	¥13.00	¥15.00	$0.14

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

PARCO CO., LTD. and Consolidated Subsidiaries
For the year ended 28th February, 2006

	Number of shares issued (thousands)	Common stock	Capital surplus	Retained earnings
		Millions of yen		
Balance at 28th February, 2005	82,210	¥26,867	¥27,107	¥ 8,385
Net income for the year ended 28th February, 2006	–	–	–	4,006
Gain on sales of treasury stock	–	–	76	–
Cash dividends	–	–	–	(811)
Balance at 28th February, 2006	82,210	¥26,867	¥27,184	¥11,581

The accompanying notes are an integral part of this statement.

Consolidated Statements of Changes in Net Assets

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

	Number of shares issued (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains (losses) on securities, net of taxes	Foreign currency translation adjustments	Minority interests	Total
		Millions of yen							
Balance at 28th February, 2006	82,210	¥26,867	¥27,184	¥11,581	¥(166)	¥1,516	¥ (7)	¥ 401	¥67,376
Net income for the year ended 28th February, 2007	–	–	–	4,503	–	–	–	–	4,503
Cash dividends paid	–	–	–	(984)	–	–	–	–	(984)
Changes in foreign currency translation adjustments	–	–	–	–	–	–	125	–	125
Changes in unrealized gains (losses) on securities, net of taxes	–	–	–	–	–	(494)	–	–	(494)
Changes in minority interests	–	–	–	–	–	–	–	(205)	(205)
Acquisition of treasury stock (Note 19)	–	–	–	–	(4)	–	–	–	(4)
Sale of treasury stock (Note 19)	–	–	11	–	116	–	–	–	128
Issuance of new shares (Note 20)	264	–	331	–	–	–	–	–	331
Balance at 28th February, 2007	82,475	¥26,867	¥27,527	¥15,100	¥ (54)	¥1,022	¥117	¥ 195	¥70,777
Net income for the year ended 29th February, 2008	–	–	–	5,167	–	–	–	–	5,167
Cash dividends paid	–	–	–	(1,153)	–	–	–	–	(1,153)
Changes in foreign currency translation adjustments	–	–	–	–	–	–	26	–	26
Changes in unrealized gains (losses) on securities, net of taxes	–	–	–	–	–	(706)	–	–	(706)
Changes in minority interests	–	–	–	–	–	–	–	(126)	(126)
Acquisition of treasury stock (Note 19)	–	–	–	–	(3)	–	–	–	(3)
Sale of treasury stock (Note 19)	–	–	0	–	0	–	–	–	0
Balance at 29th February, 2008	82,475	¥26,867	¥27,527	¥19,114	¥ (57)	¥ 315	¥144	¥ 69	¥73,981

	Number of shares issued (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains (losses) on securities, net of taxes	Foreign currency translation adjustments	Minority interests	Total
		Thousands of U.S. dollars (Note 5)							
Balance at 28th February, 2007	82,475	$255,876	$262,162	$143,810	$(514)	$9,733	$1,114	$1,857	$674,067
Net income for the year ended 29th February, 2008	–	–	–	49,210	–	–	–	–	49,210
Cash dividends paid	–	–	–	(10,981)	–	–	–	–	(10,981)
Changes in foreign currency translation adjustments	–	–	–	–	–	–	248	–	248
Changes in unrealized gains (losses) on securities, net of taxes	–	–	–	–	–	(6,724)	–	–	(6,724)
Changes in minority interests	–	–	–	–	–	–	–	(1,200)	(1,200)
Acquisition of treasury stock (Note 19)	–	–	–	–	(29)	–	–	–	(29)
Sale of treasury stock (Note 19)	–	–	0	–	0	–	–	–	0
Balance at 29th February, 2008	82,475	$255,876	$262,162	$182,038	$(543)	$3,000	$1,371	$ 657	$704,581

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

PARCO CO., LTD. and Consolidated Subsidiaries
For the years ended 28th February, 2006, 2007 and 29th February, 2008

	Millions of yen			Thousands of U.S. dollars (Note 5)
	2006	2007	2008	2008
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 6,801	¥ 6,725	¥ 9,173	$ 87,362
Adjustments for:				
Depreciation and amortization	3,963	3,893	4,594	43,752
Loss on impairment of fixed assets	–	653	13	124
Amortization of consolidation adjustments account	51	–	–	–
Increase/(Decrease) in allowance for doubtful accounts	(1,746)	99	7	67
Increase in accrued bonuses to employees	1	15	52	495
Increase/(Decrease) in allowance for sales returns	2	3	(1)	(10)
Increase/(Decrease) in allowance for books unsold	8	(2)	4	38
Increase/(Decrease) in reserve for sales promotion	67	48	(38)	(362)
Increase in reserve for retirement benefits	101	101	118	1,124
Increase/(Decrease) in accrued retirement benefits for directors and corporate auditors	7	(1)	1	10
Interest income and dividend income	(219)	(171)	(187)	(1,781)
Interest expenses	709	634	603	5,743
Loss on sales/disposal of property and equipment	372	22	450	4,286
(Gain)/Loss on sales of marketable securities and investment securities	(52)	(55)	40	381
Loss on write-down of marketable securities and investment securities	39	434	286	2,724
Loss on store closing	944	2,308	258	2,457
Reversal of allowance for loss on store closing	–	(666)	–	–
Dividends from an anonymous association's assets	–	–	(784)	(7,467)
Loss on discontinued operations	117	–	–	–
(Increase)/Decrease in receivables	1,281	(546)	96	914
(Increase)/Decrease in inventories	326	(861)	304	2,895
Increase in payables	278	951	137	1,305
Increase/(Decrease) in other assets and liabilities, net	2,933	(306)	(291)	(2,771)
Other	(298)	67	28	267
Subtotal	15,690	13,347	14,869	141,610
Interest and dividends received	219	170	184	1,752
Interest paid	(742)	(624)	(604)	(5,752)
Payment resulting from store closing	–	(151)	(33)	(314)
Income taxes paid	(2,835)	(2,419)	(1,711)	(16,295)
Net cash provided by operating activities	12,331	10,322	12,705	121,000
Cash flows from investing activities:				
Acquisition of marketable securities	–	(700)	(300)	(2,857)
Proceeds from sales of marketable securities	–	700	–	–
Acquisition of tangible fixed assets	(6,742)	(6,211)	(9,325)	(88,810)
Proceeds from sales of tangible fixed assets	144	523	0	0
Acquisition of investment securities	(15)	(592)	(446)	(4,248)
Proceeds from sales of investment securities	68	1,509	429	4,086
Proceeds from sales of investments in a subsidiary accompanying changes of scope of consolidation	5,949	–	–	–
Payments for fixed leasehold deposits	(1,836)	(944)	(251)	(2,390)
Collection of fixed leasehold deposits	586	3,355	847	8,067
Increase/(Decrease) in guarantee deposits received from tenants	125	(1,083)	2,247	21,400
Proceeds from an anonymous association's assets	–	–	784	7,467
Other	(77)	(230)	(597)	(5,686)
Net cash used in investing activities	(1,798)	(3,673)	(6,611)	(62,962)
Cash flows from financing activities:				
Increase in short-term bank loans, net	2,730	60	320	3,048
Borrowing of long-term debt	300	8,000	14,300	136,190
Repayment of long-term debt	(13,955)	(12,080)	(4,418)	(42,076)
Payments for redemption of straight bonds	–	–	(12,000)	(114,286)
Sales/(Acquisition) of treasury stock	660	124	(3)	(29)
Cash dividends paid	(811)	(984)	(1,153)	(10,981)
Cash dividends paid to minority shareholders	(24)	(32)	(129)	(1,229)
Other	(85)	0	–	–
Net cash used in financing activities	(11,187)	(4,911)	(3,084)	(29,371)
Effect of exchange rate changes on cash and cash equivalents	325	125	29	276
Net increase (decrease) in cash and cash equivalents	(328)	1,862	3,039	28,943
Cash and cash equivalents at beginning of year	11,984	11,656	13,519	128,752
Cash and cash equivalents at end of year (Note 6)	¥ 11,656	¥ 13,519	¥ 16,558	$ 157,695

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.

There were no effects on total assets or total liabilities from applying the New Accounting Standards to the consolidated balance sheets as of 28th February, 2006.

The adoption of the New Accounting Standards had no impact on the consolidated statements of income for the years ended 28th February, 2006 and 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 29th February, 2008 (7 and 8 as of 28th February, 2007 and 2006, respectively).

The major consolidated subsidiaries for the year ended 29th February, 2008 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 attributes to minority shareholders are recognized as minority interests.

(3) Investments in Affiliate Company

The Company has one affiliate as of 29th February, 2008. The affiliate is accounted for by the equity method.

The affiliate's accounts are drawn up at its reporting date, which is 31st December.

(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

Investment securities (non-current) 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.

Other 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.

(8) Intangible Assets and Long-term Prepaid 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).

(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 12 years). The amortization of unrecognized actuarial differences starts from the subsequent year.

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.

Diluted net income per share is computed to reflect the dilutive effect on net income assuming potential issues of new shares of common stock upon conversion of convertible debt securities and exercise of warrants outstanding, with applicable adjustment for related interest expenses.

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) Presentation of Dual Corporate Taxation Portion of the Corporate Enterprise Taxes in the Consolidated Statements of Income

The "Law for the Partial Revision of Local Tax, etc. (No.9, 2003)" was announced on 31st March, 2003, and the dual corporate taxation system was introduced effective from the fiscal year starting on and after 1st April, 2004. The tax bases under the system comprised of "amount of income," "amount of added value" and "amount of capital."

As from fiscal year 2006, added value portion and capital portion of corporate enterprise tax are included in "Selling, general and administrative expenses" in accordance with the "Practical Treatment of the Disclosure of Dual Corporate Taxation Portion of the Corporate Enterprise Tax in the Income Statement (13th February, 2004, Accounting Standards Board of Japan, Business Related Report No.12)."

As a result, "Selling, general and administrative expenses" increased by 245 million yen, while operating income and income before income taxes and minority interests decreased by 245 million yen for the year ended 28th February, 2006.

(14) Appropriation of Retained Earnings

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

(15) 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 changes 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 (448 thousand of U.S. dollars) 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 ¥105.0 prevailing at 29th February, 2008. 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, 2006, 2007 and 29th February 2008 consists of following:

	Millions of yen			Thousands of U.S. dollars
	2006	2007	2008	2008
Cash and time deposits	¥11,656	¥13,519	¥15,858	$151,029
Cash in trust	–	–	700	6,667
Cash and cash equivalents	11,656	13,519	16,558	157,695

7. Loss on Store Closing

Major items in loss on store closing for the years ended 28th February, 2006, 2007 and 29th February, 2008 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2007	2008	2008
Loss on store closing	¥ –	¥ –	¥233	$2,219
Provision for allowance for loss on store closing	824	2,179	–	–
Impairment loss	120	129	24	229
Total	944	2,308	258	2,457

8. Impairment of Fixed Assets

The Companies recorded impairment losses on the following asset groups for the years ended 28th February, 2006, 2007 and 29th February 2008.

For the year ended 28th February, 2006 — Millions of yen

Location	Use	Classification	2006
PARCO CO., LTD Gifu PARCO [Gifu City, Gifu]	Store	Building, etc.	¥120

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

The Company decided to close Gifu PARCO on 31st August, 2006 due to deterioration in the market environment and aging facilities. Loss on store closing of 944 million yen is recorded including 120 million yen of impairment loss for "Building, etc." The book value of "Building, etc." is written off to zero (See Note 7).

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

Location	Use	Classification	Millions of yen 2008	Thousands of U.S. dollars 2008
PARCO SPACE SYSTEMS CO., LTD Idle real estate [Nasu Country, Tochigi]	Idle land	Land	¥13	$124
Other	Store	Building, etc	¥24	$229

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 (124 thousand of U.S. dollars) 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 (229 thousand of U.S. dollars) 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.

9. Securities

Other securities

Acquisition costs and book values of other securities with available fair market values are as follows:

Millions of yen

As of 28th February, 2006	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Equity shares	¥2,148	¥4,885	¥2,736
Bonds	–	–	–
Other	–	–	–
Subtotal	2,148	4,885	2,736
Book value not exceeding acquisition cost:			
Equity shares	788	616	(171)
Bonds	–	–	–
Other	–	–	–
Subtotal	788	616	(171)
Total	¥2,936	¥5,501	¥2,564

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

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

As of 29th February, 2008	Acquisition Cost	Book value	Difference
			Thousands of U.S. dollars
Book value exceeding acquisition cost:			
Equity shares	$24,076	$29,914	$5,838
Bonds	–	–	–
Other	–	–	–
Subtotal	24,076	29,914	5,838
Book value not exceeding acquisition cost:			
Equity shares	2,286	1,486	(790)
Bonds	–	–	–
Other	–	–	–
Subtotal	2,286	1,486	(790)
Total	$26,362	$31,410	$5,038

Other securities sold are as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2007	2008	2008
Total sold	¥68	¥1,509	¥429	$4,086
Total gain on sales	52	55	12	114
Total loss on sales	–	–	53	505

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

	Millions of yen			Thousands of U.S. dollars
	2006	2007	2008	2008
Other securities:				
Non-listed securities	¥4,615	¥3,175	¥3,189	$30,371
Other	43	26	1,008	9,600

Repayment schedules of other securities with bonds held to maturity are as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2007	2008	2008
Due within 1 year	¥ –	¥26	¥1,008	$9,600
Due after 1 year within 5 years	43	–	–	–

10. 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.

11. Short-Term Bank Loans and Long-Term Debt

The weighted average interest rates for short-term bank loans are 0.94%, 1.14% and 1.31% for the years ended 28th February, 2006, 2007 and 29th February, 2008, respectively.

Breakdown of long-term debt is as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2007	2008	2008
Long-term loans from banks including current portion	¥ 20,253	¥ 16,173	¥26,055	$248,143
Weighted average interest rates of the above long-term loans	1.72%	1.99%	1.90%	–
Straight bonds payable:				
1.11% bonds due 2007	¥ 3,500	¥ 3,500	¥ –	$ –
1.39% bonds due 2007	3,500	3,500	–	–
1.10% bonds due 2007	2,000	2,000	–	–
0.95% bonds due 2007	1,000	1,000	–	–
1.44% bonds due 2007	2,000	2,000	–	–
1.35% bonds due 2008	2,000	2,000	2,000	19,048
	34,253	30,173	28,055	267,190
Less: Portion due within 1 year	(12,080)	(16,418)	(6,063)	(57,743)
	¥ 22,173	¥ 13,755	¥21,992	$209,448

The Companies' assets pledged as collateral for short-term and long-term loans from banks as of 29th February, 2008 are as follows:

	Millions of yen	Thousands of U.S. dollars
Net book value of assets pledged as collateral:		
Buildings	¥3,811	$36,295
Land	4,445	42,333
	¥8,256	$78,629

Secured liabilities as of 29th February, 2008 are as follow:

	Millions of yen	Thousands of U.S. dollars
Short-term loans	¥ 332	$ 3,162
Long-term loans	1,072	10,210
	¥1,404	$13,371

The aggregate annual maturities of long-term debt as of 29th February, 2008 are as follows:

Year ending 28th/29th February,	Millions of yen	Thousands of U.S. dollars
2009	¥ 6,063	$ 57,743
2010	1,632	15,543
2011	1,632	15,543
2012	9,632	91,733
2013 and thereafter	9,096	86,629
	¥28,055	$267,190

12. 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 (Note 4(10)):

	Millions of yen		
As of 28th February, 2006	Acquisition Costs	Accumulated Depreciation	Net book Value
Machinery and equipment	¥2,210	¥1,341	¥ 869
Other	460	224	235
Total	¥2,671	¥1,566	¥1,105

	Millions of yen		
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

	Millions of yen		
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

	Thousands of U.S. dollars		
As of 29th February, 2008	Acquisition Costs	Accumulated Depreciation	Net book Value
Machinery and equipment	$18,038	$10,257	$7,781
Other	4,581	2,486	2,086
Total	$22,629	$12,752	$9,867

	Millions of yen			Thousands of U.S. dollars
	2006	2007	2008	2008
Future minimum lease payments:				
Due within 1 year	¥ 440	¥429	¥ 404	$ 3,848
Due after 1 year	671	554	645	6,143
Total	¥1,111	¥984	¥1,050	$10,000

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

	Millions of yen			Thousands of U.S. dollars
	2006	2007	2008	2008
Lease expenses	¥542	¥504	¥495	$4,714
Depreciation equivalents	523	490	484	4,610
Interest expense equivalents	¥ 10	¥ 9	¥ 12	$ 114

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

	Millions of yen			Thousands of U.S. dollars
	2006	2007	2008	2008
Future minimum lease payments:				
Due within 1 year	¥4	¥2	¥2	$19
Due after 1 year	3	1	3	29
Lease rental expenses	¥7	¥3	¥5	$48

(3) Impairment Loss

No impairment loss was allocated to leased assets for the years ended 28th February, 2006, 2007 and 29th February, 2008.

13. Retirement Benefit Plan

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

	Millions of yen			Thousands of U.S. dollars
	2006	2007	2008	2008
Retirement benefit obligation	¥(5,129)	¥(5,176)	¥(5,083)	$(48,410)
Fair value of pension assets	2,911	3,139	2,826	26,914
Unrecognized prior service costs	(1,386)	(1,212)	(1,039)	(9,895)
Unrecognized actuarial differences	1,655	1,307	1,342	12,781
Unrecognized transition amount arising from adopting the new standard	1,051	943	836	7,962
Reserve for retirement benefits	¥ (897)	¥ (998)	¥(1,116)	$(10,629)

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

	Millions of yen			Thousands of U.S. dollars
	2006	2007	2008	2008
Service costs	¥ 228	¥ 242	¥ 270	$ 2,571
Interest costs	94	93	96	914
Expected return on plan assets	(46)	(54)	(59)	(562)
Amortization of unrecognized prior service costs	(173)	(173)	(173)	(1,648)
Amortization of unrecognized actuarial differences	300	275	266	2,533
Amortization of unrecognized transition amount arising from adopting the new standard	107	107	107	1,019
Premium severance pay	58	49	3	29
Prepaid retirement benefit	112	112	113	1,076
Retirement benefit expenses	¥ 681	¥ 652	¥ 625	$ 5,952

Discount rate and rate of expected return on plan assets used are mainly 2.0% for 2006, 2007 and 2008. Prior service costs and actuarial differences are amortized on a straight-line basis mainly over 12 years. Unrecognized transition amount arising from adopting the new standard is amortized on a straight-line basis over a period of 15 years.

14. 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 rates of approximately 40.7% for 2006, 2007 and 2008.

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

	Millions of yen			Thousands of U.S. dollars
	2006	2007	2008	2008
Deferred tax assets:				
Adjustments for unrealized gains	¥ 967	¥ 966	¥ 852	$ 8,114
Retirement benefits to directors and corporate auditors	141	118	118	1,124
Accrued bonuses to employees	364	371	397	3,781
Reserve for sales promotion	71	90	75	714
Accrued corporate enterprise tax	159	134	284	2,705
Allowance for doubtful accounts	66	100	103	981
Reserve for retirement benefits	368	415	503	4,790
Loss on impairment of fixed assets	941	687	636	6,057
Allowance for loss on store closing	335	887	887	8,448
Others	273	142	321	3,057
Gross deferred tax assets	3,690	3,914	4,179	39,800
Less: Valuation allowance	(452)	(262)	(446)	(4,248)
Total deferred tax assets	¥3,237	¥3,652	¥3,732	$35,543
Deferred tax liabilities:				
Unrealized gains on securities	1,043	701	216	2,057
Investment in a subsidiary	–	262	262	2,495
Total deferred tax liabilities	¥1,043	¥ 963	¥ 478	$ 4,552
Net deferred tax assets	¥2,194	¥2,688	¥3,254	$30,990

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
Effective income tax rates	30.3%	43.7%

The difference between the statutory income tax rate and the effective income tax rate for 2006 is not disclosed as the difference is less than 5%.

Aforementioned new legislation (Note 4 (13)) changes the aggregate statutory tax rate from 42.1% to 40.7% effective from fiscal years beginning after 1st March, 2005.

Impact of these changes is minor to the deferred tax assets and liabilities.

15. 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.

16. 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.

17. Segment Information

(1) Business Segment Information

Millions of yen

For the year ended 28th February, 2006:	Shopping complex	Retail	Space engineering and management	Others	Total	Elimination or corporate	Consolidated
Sales:							
External customers	¥244,317	¥ 5,209	¥12,511	¥2,294	¥264,331	¥ –	¥264,331
Intersegment	566	10,737	9,473	291	21,070	(21,070)	–
Total	244,884	15,946	21,985	2,586	285,402	(21,070)	264,331
Operating expenses	237,134	15,480	21,567	2,419	276,602	(21,355)	255,246
Operating income	¥ 7,749	¥ 466	¥ 417	¥ 166	¥ 8,800	¥ 285	¥ 9,085
Assets	¥180,334	¥ 4,021	¥16,869	¥ 733	¥201,958	¥(19,576)	¥182,381
Depreciation and Amortization	4,117	245	34	24	4,422	(459)	3,963
Loss on impairment of fixed assets	120	–	–	–	120	–	120
Capital expenditures	6,712	428	41	19	7,201	(349)	6,852

Millions of yen

For the year ended 28th February, 2007:	Shopping complex	Retail	Space engineering and management	Others	Total	Elimination or corporate	Consolidated
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

For the year ended 29th February, 2008:	Shopping complex	Retail	Space engineering and management	Others	Total	Elimination or corporate	Consolidated
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

Thousands of U.S. dollars

For the year ended 29th February, 2008:	Shopping complex	Retail	Space engineering and management	Others	Total	Elimination or corporate	Consolidated
Sales:							
External customers	$2,533,381	$ 66,276	$136,410	$18,981	$2,755,057	$ –	$2,755,057
Intersegment	2,448	96,552	114,686	3,200	216,895	(216,895)	–
Total	2,535,838	162,829	251,095	22,190	2,971,962	(216,895)	2,755,057
Operating expenses	2,449,305	158,105	244,476	23,314	2,875,219	(216,248)	2,658,962
Operating income	$ 86,524	$ 4,724	$ 6,619	$ (1,124)	$ 96,743	$ (638)	$ 96,095
Assets	$1,738,181	$ 49,410	$126,248	$ 5,076	$1,918,933	$(109,505)	$1,809,419
Depreciation and amortization	40,648	3,333	333	257	44,581	(819)	43,752
Loss on impairment of fixed assets	248	–	124	–	371	(10)	362
Capital expenditures	85,190	5,552	162	562	91,476	2,914	94,400

Notes:

1. Business divisions are determined according to lines of businesses within the Companies.
2. Description of principal businesses in each business segment:
   (1) Shopping complex:
   Development, management and operation of shopping centers
   (2) Retail:
   Sales of apparel, accessories and other goods
   (3) Space engineering and management:
   Design and construction of building interiors
   Providing cleaning, security and maintenance services for buildings
   (4) Others:
   Internet business
   Management of Hotels

3. Other operating revenue is included in "Sales."
4. Long-term prepaid expenses and its amortization are included in "Capital expenditures" and "Depreciation and amortization."
5. 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 Impact of this change on profit and loss is immaterial (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, 2006, 2007 and 29th February, 2008.

(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, 2006, 2007 and 29th February, 2008.

18. 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 20).

19. Treasury Stock

Breakdown of treasury stock (common stock) for the years ended 28th February, 2007 and 29th February, 2008 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

20. 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.

21. Subsequent event

At the ordinary general meeting of shareholders held on 24th May, 2008, the proposal to reduce Company's additional paid-in capital based on the resolution of the Board of Directors held on 10th April, 2008 was approved. The detail is as follows.

(1) Objective of reduction of additional paid-in capital

The Company intends to reduce its additional paid-in capital in accordance with Article 448-1 of the Corporate Law for a flexible and strategic capital policy in the future. All of reduced additional paid-in capital will be transferred to its other capital surplus.

(2) Amount of reduction of additional paid-in capital

The Company intends to reduce its additional paid-in capital of 26,623 million yen (253,552 thousand of U.S. dollars) as of 29th February, 2008 by 20,523 million yen (195,457 thousand of U.S. dollars) to be transferred to its other capital surplus.

As a result, the amount of its additional paid-in capital will be 6,100 million yen (58,095 thousand of U.S. dollars), and the amount of its other capital surplus will be 21,427 million yen (204,067 thousand of U.S. dollars).

(3) Schedule of reduction of additional paid-in capital

i) Resolution of the Board of Directors: 10th April, 2008
ii) Resolution of the ordinary general meeting of shareholders: 24th May, 2008
iii) Public announcement of acceptance period for filing of objections by creditors: 26th May, 2008
iv) Final date for filing of objections by creditors: 26th June, 2008 (planned)
v) Effective date of reduction: 27th June, 2008 (planned)

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 29, 2008 and February 28, 2007, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended, 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.

The consolidated financial statements of PARCO CO., Ltd. and consolidated subsidiaries as of February 28, 2006, were audited by other auditors whose audits were made in accordance with auditing standards generally accepted in Japan and their report dated June 23, 2006, expressed an unqualified opinion on those statements, and included an explanatory paragraph with respect to new accounting standards for impairment of fixed assets and resolution to open a new store, tentatively named Shizuoka PARCO.

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 29, 2008 and February 28, 2007, and the consolidated results of their operations and their cash flows for the years then ended 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 29, 2008 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 24, 2008

Corporate Data

Company Name	PARCO CO., LTD.
Headquarters	1-28-2 Minami-Ikebukuro, Toshima-ku, Tokyo
Head Office	Shibuya First Place Bldg. 8-16 Shinsen-cho, Shibuya-ku, Tokyo Tel: +81-3-3477-5710 (Public Relations)
Founded	February 13, 1953
Paid-in Capital	¥26,867 million (as of February 29, 2008)
Employees	521 (male 310; female 211) Consolidated employees: 1,909 (as of February 29, 2008)
Sales	¥286.7 billion (fiscal 2007)
Sales Floor Area	425,600m^2 (as of February 29, 2008)
Tenants	2,965 (as of February 29, 2008)

Corporate History

1953	Feb.	Established Ikebukuro Station Building Co., Ltd.
1954	Oct.	With the capital participation of Marubutsu Co., Ltd., the Company shifted operations from the management of the Ikebukuro Station Building to the operation of department stores
1957	May	Changed company name to Tokyo Marubutsu Co., Ltd.
	Dec.	Started operation of department store under the name Tokyo Marubutsu
1963	Jul.	Tokyo Marubutsu Co., Ltd. became registered stock with the Osaka Securities Dealers Association
1969	Jun.	Tokyo Marubutsu closed; commenced preparations for the establishment of the PARCO store
	Nov.	Opened Ikebukuro PARCO
1970	Apr.	Changed company name to PARCO CO., LTD.
1973	Jun.	Shibuya PARCO opened by Tokyo PARCO Co., Ltd. (established in Sept. 1972), Seibu Theater (later renamed PARCO Theater) opened
1974	Mar.	Absorbed Tokyo PARCO Co., Ltd., and took over Shibuya PARCO
1975	Aug.	Opened Sapporo PARCO
	Dec.	Opened Shibuya PARCO PART2
1976	Dec.	Opened Chiba PARCO
1977	Apr.	Opened Oita PARCO
	Jul.	Opened Tsudanuma PARCO
1980	Sept.	Opened Kichijoji PARCO
1981	Sept.	Opened Shibuya PARCO PART3
1983	Jun.	Opened Shin-Tokorozawa PARCO
1984	Aug.	Opened Matsumoto PARCO
1986	May	Opened Kumamoto PARCO
1987	Jan.	Stock listed on the Second Section of the Tokyo Stock Exchange
1988	Jun.	Opened Shibuya QUATTRO by PARCO (later renamed PARCO QUATTRO)
	Aug.	Stock listed on the First Section of the Tokyo Stock Exchange
	Sept.	Established PARCO PROMOTIONS CO., LTD.
1989	Apr.	Launched PEC Card
	May	Opened Chofu PARCO
	Jun.	Opened Nagoya PARCO
1990	Sept.	Opened NOS VOS by PARCO in Oizumi Gakuen, Tokyo
1991	May	Opened Shinsaibashi PARCO
	Sept.	Acquired stake in SEIDENKO CO., LTD.
	Nov.	Established PARCO (Singapore) Pte Ltd
1992	Sept.	Opened Shinsaibashi PARCO-2 (DUE)
1993	Oct.	Opened Hibarigaoka PARCO
1994	Mar.	Opened Ikebukuro P'PARCO
		Opened Atsugi PARCO
	Apr.	Opened Hiroshima PARCO
1995	Sept.	Grand Opening of PARCO Bugis Junction in Singapore
1996	Apr.	Expanded floor space of Matsumoto PARCO
	Nov.	Opened Otsu PARCO
1997	Mar.	Opened Utsunomiya PARCO
1998	Nov.	Opened Nagoya PARCO South Building
2000	Mar.	Established PARCO-CITY CO., LTD.
	Sept.	Merged SEIDENKO CO., LTD. and PARCO PROMOTIONS CO., LTD.; adopted new corporate name of PARCO SPACE SYSTEMS CO., LTD.
2001	Jun.	NEUVE A CO., LTD. started operations
	Sept.	Opened Hiroshima PARCO Annex
2002	Apr.	Opened Shibuya ZERO GATE
2003	Apr.	Established HOTEL NEW CRESTON CO., LTD.
	May	Adopted "Company with Committees System" under the revised Japanese Commercial Code
2005	Feb.	Opened Pedi Shiodome
	Mar.	Opened Sapporo PARCO Annex
	Jun.	Established JAPAN RETAIL ADVISORS CO., LTD.
2006	Mar.	Credit card PEC Card renamed as *PARCO Card*
2007	Mar.	"Le Theatre GINZA by PARCO" theater started operations
		Opened Shizuoka PARCO
	Oct.	Opened Urawa PARCO
2008	Feb.	Closed Atsugi PARCO

Stock Information

(as of February 29, 2008)

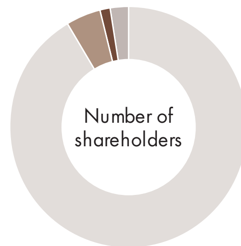
Number of Shares Authorized	320,000,000
Number of Shares Issued and Outstanding	82,475,677
Number of Shareholders	5,732

Principal Shareholders

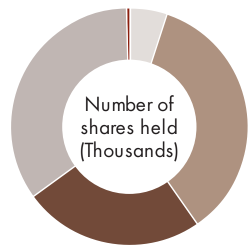
Name	Number of shares held (Thousands)	Shareholding (%)
Mori Trust Co., Ltd.	20,923	25.40
Credit Saison Co., Ltd.	6,836	8.30
GOLDMAN SACHS & CO., REG	6,052	7.35
The Master Trust Bank of Japan, Ltd. (Trust account)	5,623	6.83
CBNY-THIRD AVENUE SMALL-CAP VALUE-FUND	4,517	5.48
CBNY-THIRD AVE TR-THIRD AVE REAL ESTATE VALUE FUND SERIES	3,959	4.81
Japan Trustee Services Bank, Ltd. (Trust account)	3,216	3.90
STATE STREET BANK AND TRUST COMPANY	2,079	2.52
JUNIPER	1,904	2.31
BNP PARIBAS SEC SER LONDON/JAS/ABERDEEN ASSET MANAGEMENT PLC/AGENCY LENDING	1,833	2.23

Notes:
1. The above table lists the ten principal shareholders, including one shareholder who owns more than 10% of the number of shares issued and outstanding.
2. The voting share ratio was calculated after subtraction of treasury stock (93,843 shares).

Breakdown of Shares by Type of Shareholder

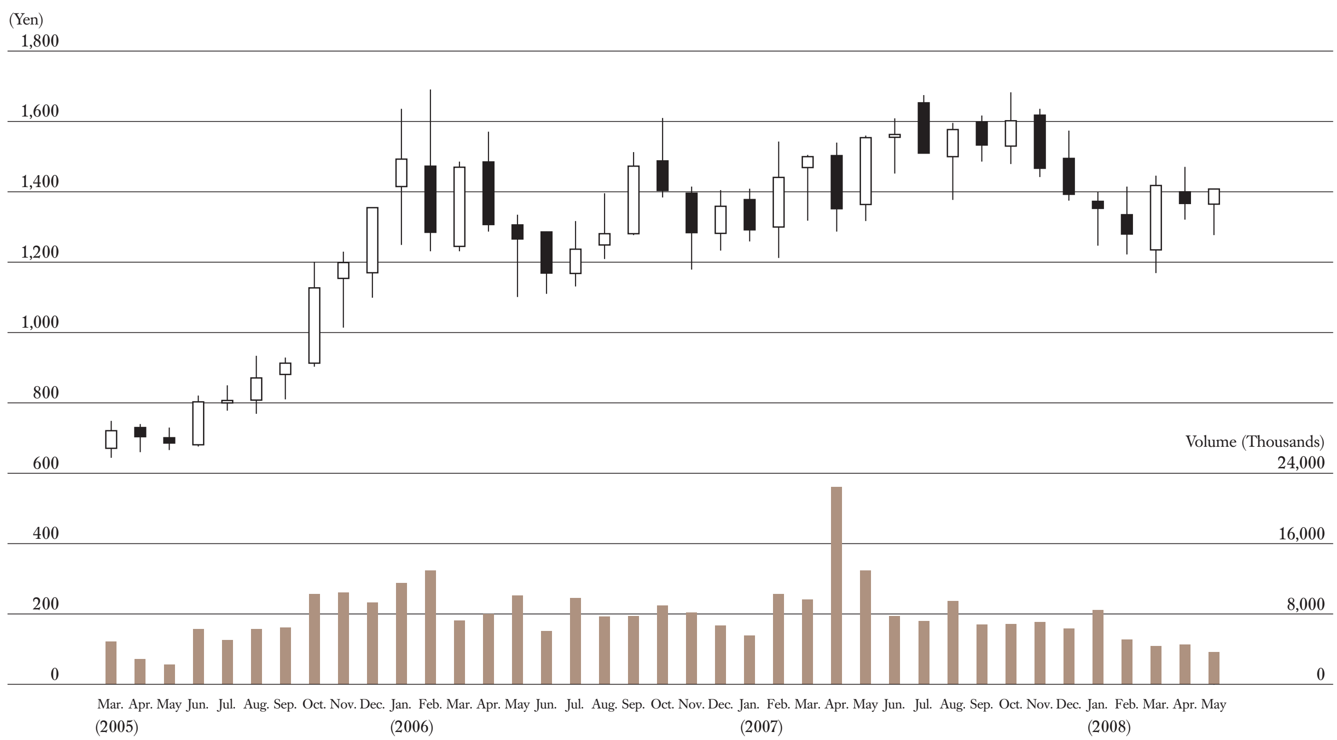


Japanese individuals	5,251	91.62%
Other Japanese companies	262	4.57%
Japanese financial institutions and Japanese securities companies	85	1.48%
Foreign investors	133	2.32%



Japanese individuals	4,184	5.07%
Other Japanese companies	29,164	35.38%
Japanese financial institutions and Japanese securities companies	20,280	24.59%
Foreign investors	28,752	34.86%
Treasury stock	93	0.11%

Stock Performance



PARCO

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