

ANNUAL REPORT 2003

For the Year Ended February 28, 2003



COMPANY PHILOSOPHY

Our company philosophy is “Service Before Profit”, which means those who give priority to service over profit will prosper.

“Service Before Profit” represents devoted service rendered to society and customers, implying that the confidence of society and customers will bring benefits to the company. It is rephrased as “The Customer Is Always First” and “Social Contributions”.

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MESSAGE FROM CHAIRMAN

To the Shareholders:

We are pleased to inform you that we have settled the accounts and prepared the annual business report mainly on a consolidated basis for the year ended February 28, 2003.

Management Policy

1. Basic policy on management

The corporate philosophy of Daimaru Group (the "Group") is "Service Before Profit", which represents devoted service rendered to society and customers, implying that the confidence of society and customers will bring benefits to the Group. It is rephrased as "The Customer Is Always First" and "Social Contributions".

Under this philosophy, the Group works hard to achieve the following four goals through its efforts to improve the quality of merchandise and customer service as well as management efficiency and quality in its core department store business, supermarket business, and others:

- (1) Give genuine satisfaction to customers to win their loyal patronage and high support;
- (2) Meet shareholders' expectations by increasing profitability to enhance enterprise value;
- (3) Create rewarding work environment where the performance of employees is fairly estimated so that they can feel actually that they are displaying and improving their own abilities; and
- (4) Widely earn social confidence and contribute to society.

2. Basic policy on profit sharing

Passing on the profit to shareholders is one of the most important management policies of The Daimaru, Inc. (the "Company"). The Company ensures stable dividend in consideration of all the factors including the current and future operational environments, the prospect of business performance, and dividend payout.

3. Basic idea on corporate governance and implementation of its measures

The Company gives top priority to enhancement of corporate governance. In order to speed up its efforts to tackle the challenges, which will lead to early achievement of concrete results of the whole Group, the Company tried to clarify the role, responsibility, and authority of the organization by introducing the new structure of Group Headquarters comprising four principal bodies effective March 2003 in a bid to improve the quality of the management of the Group.

With a view to strengthening corporate governance and compliance as part of efforts to fulfill corporate social responsibilities and liability for shareholders as well as to ensuring achievement of the goal of this reorganization, the Company decided to introduce a corporate officer system to make a clear distinction between decision-makers and executors in the management. In addition, the remuneration system for directors and corporate officers will be reformed to be based on performance and contingent on success. And in deciding their remuneration, the Company will create the Personnel and Remuneration Committee to increase transparency and fairness.

4. Mid-and-long term management strategy and tasks

In the New Three-year Medium-term Management Plan for the period ending February 29, 2004, which was developed in 2001, the Group focuses on retail business, positioning department store operations as its core business and supermarket operations as its second core. The Group has selectively addressed the following four tasks to implement this plan:

- (1) Increase the growth potential and earning power of the main department store business;
- (2) Restructure the operations of the Group business and build a growth foundation;
- (3) Foster human resources and reform business culture; and
- (4) Proactively fulfill corporate social responsibilities.

In the year ending February 29, 2004, the Group will speedily tackle the following five important tasks, focusing specifically on:

- radical strengthening of marketing power to win in share competition; and
- strengthening of cost competitiveness to survive in the era of deflation.

(1) Increase the competitiveness and earning power of the main department store business.

The Group aims to enhance the power of planning, proposing, and marketing so as to meet the advanced expectations of individual customers by creating “something new” and “something different” in merchandise, sales floors, and services. As well, the Group will improve the precision of management by using the New MD Information System to have a timely assortment of merchandise and to prevent stockout. Daimaru Sapporo Store, newly opened in March 2003, will maximize customer satisfaction at low cost by establishing a rational operation system bringing together the results of all the past reforms of the Group and will contribute to revitalization of the local community as a store enjoying the favor of customers for its fresh assortment and hospitality.

(2) Increase the competitiveness and earning power of the Group business.

The Group will improve the ability to respond to the market and earning power through completely low-cost and high-efficiency management and will also promote restructuring of business operations. With regard to supermarket operations, the Group will build solid management base as its core business second only to department store operations by entrenching the past reforms and strengthening store operations.

(3) Thoroughly boost the Group's cost competitiveness.

The Group will streamline operations and manpower by introducing the shared service system aimed at low-cost management through standardization and integration of operations common to the companies of the Group toward productivity improvements and cost reduction of the whole Group.

(4) Strengthen human resources development and reform toward challenging and rewarding business culture.

The Group will continue to strengthen training of experts in various fields. The Group will more thoroughly manage personnel matters to fairly evaluate and reward the work attitude and performance of individual employees as well as to respect and strongly support highly-motivated and aggressive employees. Through these efforts, the Group will create market-oriented business culture full of spirit of challenge.

(5) Proactively fulfill corporate social responsibilities.

The Group took the first step in environmental protection activities by acquiring ISO 14001 certification, international standards on environmental management systems, and will intensify these efforts. In addition, the Group will promote management activities that can be trusted and admired by shareholders and investors and will facilitate further business activities that can gain the confidence of customers and suppliers.

5. Target management indicators

The business target figures of the Group for the final year ending February 29, 2004 of the New Three-year Medium-term Management Plan developed in 2001 were revised based on the actual performance for the year ended February 28, 2002 as follows:

	Millions of yen	
	Original plan	Revised plan
Consolidated sales	857,000	822,000
Consolidated operating income	23,500	21,000
Consolidated return on sales	2.7%	2.6%
Consolidated return on assets (ROA)	5.8%	5.5%
Consolidated interest-bearing debt	Not exceeding 145,000	135,000
Consolidated cash provided by operating activities	23,000	20,000

Operating results and financial condition

[] Operating results

1. General condition in the year ended February 28, 2003

In the year ended February 28, 2003, the Japanese economy became increasingly severe with worsening deflation and continuing decline in stock prices and slumping consumer spending due to employment uncertainty and reduced income.

Under these circumstances, reorganization of business groups and integration of stores caused keen competition in retail industry, which provided a clearer distinction between superior companies and inferior ones.

In spite of expansion of sales opportunities and active remodeling of stores, sales of department stores in Japan had fallen below the previous year's level for consecutive six years because of depressed consumer confidence out of anxiety about the future and decreased amount per purchase due to spiraling deflation.

In the meantime, marking the second year of the New Three-year Medium-term Management Plan for the period ending February 29, 2004, the Company worked hard to enhance sales and marketing and to promote low-cost and high-efficiency management based on the achievement of management reforms of store sales, out-of-store sales, back-office functions, and human resources, and at the same time marking the first year for human resources development, the Company tried to improve the abilities of individual employees.

The Company prepared vigorously to create a store symbolizing Daimaru in the 21st century in Sapporo by bringing together the results of the past various reforms and celebrated its opening on March 6, 2003.

As part of reorganization of the Group business, the Company decided to merge Nagasaki Daimaru Co., Ltd. and Hakata Daimaru Co., Ltd. and to liquidate Daimaru Singapore Pte Ltd.

Consolidated sales in the year ended February 28, 2003 amounted to ¥792,300 million, down 2.1% from the previous year. Ordinary profit rose 5.5% from the previous year to ¥17,198 million and net profit amounted to ¥5,171 million as a result of reduction of selling, general, and administrative expenses and non-operating expenses.

On a non-consolidated basis, sales increased 1.5% from the previous year to ¥430,195 million due to successful management reform and the favorable effect of store remodeling as well as the acquisition of direct control over Suma and Ashiya Stores in November 2001. Though store remodeling entailed an increase in investment, ordinary profit grew 7.1% from the previous year to ¥11,779 million due to general cost reduction. The Company posted a record net income of ¥5,604 million in spite of extraordinary loss of ¥2,500-plus million generated by opening expenses for Sapporo Store.

The Company declared a term-end dividend of ¥3 per share and the annual total including an interim dividend whose payment was reinstated in the year ended February 28, 2003 was ¥6 per share, up ¥3.5 from the previous year. Your kind understanding and acceptance would be greatly appreciated.

The segment accounting is as follows. Sales figures of each segment include other operating revenue.

Department store

Aiming at strengthening sales and marketing, department stores introduced and used the New MD Information System to improve merchandising and tried to enhance the expertise of individual salespersons to strengthen store sales. They also increased regular customers by pursuing strong efforts to acquire new members of their house cards such as Daimaru Point Card.

Furthermore, they did remodeling to boost regional competitiveness. With regard to the stores under the direct management of the Company, Kyoto Store was fully refurbished and reopened in March 2002 in an effort to strengthen fashion departments and to create comfortable

and enjoyable shopping environment and Tokyo Store renovated mainly choice Japanese and Western confectionery departments by introducing many patissier brands as well as creating departments that give some demonstrations and are fun to look at with a view to arousing interest and pulling in more customers. Shinsaibashi Store added new freestanding shops in its vicinity.

Other department stores of the Group introduced various management reforms that had produced good results in the stores under the direct management of the Company toward low-cost and high-efficiency management. In addition, Hakata Daimaru Co., Ltd. refurbished sales floors and expanded the number of its operating days. Shimonoseki Daimaru Co., Ltd. also remodeled sales floors and Kochi Daimaru Co., Ltd. increased its operating hours. Nagasaki Daimaru Co., Ltd. developed freestanding shops in its vicinity and Imabari Daimaru Co., Ltd. reviewed the card strategy with the aim of encouraging customers to come to the store.

However, department store sales declined 2.2% from the previous year to ¥566,842 million due to the consumption depressed by worsened employment and income environment and the amount per purchase decreased by spiraling deflation. In the meantime, reduction of selling, general, and administrative expenses resulted in an increase of 7.1% from the previous year in operating profit, amounting to ¥18,405 million.

Supermarket

Daimaru Peacock Co., Ltd. opened three new supermarkets in Kanto district and two in Kansai district and closed four unprofitable stores. They worked hard on remodeling the existing stores, extending operating hours, and getting more regular customers to improve business performance. In addition, they pushed ahead with various reforms including the establishment of food processing centers for perishable and prepared foods in both Kanto and Kansai districts to ensure the stable supply of high quality and very fresh products. In spite of these efforts, slumping consumer spending, intensified competition with competitors, and decrease in sales due to temporary closure of stores for remodeling reduced sales in this segment 3.1% from the previous year to ¥108,457 million. They racked up ¥2,270 million in operating loss owing to piled up expenses for intensive implementation of various reforms.

Wholesale

Badly hit by stagnant consumption of livestock products due to mislabeling issues of general foodstuffs, depressed sales of clothing specialty stores, and intensified competition for obtaining orders for IT parts, Daimaru Kogyo, Ltd. suffered a decrease of sales in foodstuffs, textiles, and electronics and total sales fell 6.7% from the previous year to ¥83,225 million, whereas operating profit grew 9.8% from the previous year to ¥1,417 million due to reduction of selling, general, and administrative expenses.

Other

Owing to rise in revenues of Daimaru Design & Engineering Co., Ltd., which contracts for construction and interior finish work, and Dimples' Co., Ltd., which operates temporary staffing business, sales in this segment showed an increase of 8.1% from the previous year, amounting to ¥83,458 million, and operating profit jumped 56.8% from the previous year to ¥1,256 million due to low-cost management in each business line.

2. Outlook for next term

Environment surrounding the Group is expected to grow in severity because of intensifying competition beyond category and type of business and various concerns over the future including aggravating deflation and further decline in personal consumption.

Under such harsh circumstances, the Group will accelerate the performance of its tasks in the year ending February 29, 2004, the final year of the New Three-year Medium-term Management Plan, in a bid to achieve the business goal.

In the year ending February 29, 2004, consolidated sales and ordinary profit are projected to expand 3.7% and 10.5% to ¥822 billion and ¥19 billion respectively and net income is likely to

increase 41.2% to reach ¥7.3 billion.

On a non-consolidated basis, sales are expected to total ¥465 billion, up 8.1% in the year ending February 29, 2004, while ordinary profit is forecasted to rise 1.9% to ¥12 billion. The Company expects net income to increase 3.5% to amount to ¥5.8 billion.

[] Financial position

1. General condition in the year ended February 28, 2003

In the year ended February 28, 2003, on a consolidated basis, cash inflows from operating activities decreased ¥8,449 million from the previous year to ¥16,247 million, which was attributable to increase in severance payments due to favorable early retirement packages of the Company's subsidiaries and decline in reduction of working capital.

Cash flows from investing activities came to cash outflows of ¥22,246 million mainly due to increase in capital investment in opening Sapporo Store. Cash inflows from borrowings were almost equal to cash outflows from bonds and net cash used in financing activities totaled ¥2,366 million mainly due to dividend payment.

As a result, the year-end balance of cash and cash equivalents and interest-bearing debt stood at ¥21,285 million and ¥143,710 million respectively.

2. Outlook for next term

In the year ending February 29, 2004, cash inflows from operating activities are expected to grow ¥3.7 billion to ¥20 billion mainly due to increase in net income before income taxes.

Cash flows from investing activities are anticipated to post cash outflows of ¥12 billion due to capital investment and other payments. Cash flows from financing activities are projected to rack up cash outflows of ¥9.5 billion due to payments of loans.

As a result, the Company expects the year-end balance of cash and cash equivalents to amount to ¥20 billion and interest-bearing debt to decrease ¥8.7 billion to ¥135 billion.

May 2003

Tsutomu Okuda
Chairman and CEO

FINANCIAL SECTION

CONSOLIDATED BALANCE SHEET

February 28, 2003

	Millions of yen
ASSETS	392,578
Current Assets	126,891
Cash on hand and in banks	21,411
Notes receivable and accounts receivable-trade	54,087
Inventories	31,995
Deferred tax assets	4,905
Other current assets.....	15,679
Allowance for doubtful accounts.....	(1,188)
Fixed Assets	265,686
Tangible fixed assets	173,496
Buildings and structures.....	94,526
Machinery, equipment, and vehicles.....	199
Furniture and fixtures	1,462
Land.....	76,933
Construction in progress.....	373
Intangible fixed assets	6,785
Other intangible fixed assets	6,785
Investments and other assets	85,404
Investment securities	14,799
Long-term loans receivable	3,466
Long-term guarantee deposits	42,128
Deferred tax assets	24,413
Other investments and assets.....	3,430
Allowance for doubtful accounts.....	(2,834)
Total	392,578

LIABILITIES	330,746
Current Liabilities	227,257
Notes payable and accounts payable-trade	78,465
Current portion of convertible bonds	5,218
Short-term loans payable.....	74,156
Accrued corporation taxes.....	4,919
Advances received	31,251
Allowance for bonuses.....	6,111
Reserve for sales promotion	1,599
Other current liabilities.....	25,536
Fixed Liabilities	103,488
Bonds.....	15,500
Long-term loans payable.....	48,836
Deferred tax liabilities	1,313
Reserve for retirement benefits	35,652
Reserve for directors' retirement allowance.....	473
Consolidated adjustment account.....	433
Other fixed liabilities.....	1,278
MINORITY INTERESTS	1,003
Minority interests	1,003
SHAREHOLDERS' EQUITY	60,828
Capital	20,283
Capital surplus	23,184
Earned surplus	19,290
Unrealized holding loss on securities	(503)
Treasury stock	(1,426)
<hr/> Total	<hr/> 392,578

Note: Any fractional sum less than one million yen is omitted.

CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended February 28, 2003

	Millions of yen
Sales	792,300
Cost of sales	592,697
Gross profit	199,602
Other operating revenue	1,605
Selling, general, and administrative expenses	182,493
Operating profit	18,714
Non-operating income	3,062
Interest income	385
Dividend income	188
Equity in earnings of affiliates	190
Miscellaneous income	2,298
Non-operating expenses	4,578
Interest expense	2,695
Miscellaneous expenses	1,882
Ordinary profit	17,198
Extraordinary income	1,816
Gain on sales of fixed assets	1,204
Gain on sales of investment securities	405
Gain on transfer from allowance for doubtful accounts	207
Extraordinary loss	9,648
Opening expenses for new store	2,612
Expenses related to special retirement package	4,494
Loss on sales of fixed assets	319
Loss on retirement of fixed assets	1,022
Store remodeling expenses	544
Loss on disposal of subsidiaries and affiliates	212
Loss from valuation of investment securities	441
Net income before income taxes	9,367
Income, inhabitant, and enterprise taxes	5,901
Income tax adjustment	(1,745)
Minority interests in earnings of consolidated subsidiaries	40
Net income	5,171

Note: Any fractional sum less than one million yen is omitted.

CONSOLIDATED STATEMENT OF SURPLUS

For the year ended February 28, 2003

	Millions of yen
Capital surplus	
Balance of capital surplus at beginning of year	23,184
Balance of capital surplus at end of year	23,184
Earned surplus	
Balance of earned surplus at beginning of year	15,603
Increase in earned surplus	5,171
Net income	5,171
Decrease in earned surplus	1,484
Dividends.....	1,481
Bonuses to directors and corporate auditors.....	3
[Corporate auditors' share]	[0]
Balance of earned surplus at end of year	19,290

Note: Any fractional sum less than one million yen is omitted.

CONSOLIDATED SUBSIDIARIES

Department Store

Nagasaki Daimaru Co., Ltd. (Note 1)
 Kochi Daimaru Co., Ltd.
 Hakata Daimaru Co., Ltd.
 Imabari Daimaru Co., Ltd.
 Shimonoseki Daimaru Co., Ltd.

Supermarket

Daimaru Peacock Co., Ltd.

Wholesale

Daimaru Kogyo, Ltd.

Other

The Daimaru Home Shopping, Inc.
 Daimaru Design & Engineering Co., Ltd.
 Daimaru Mokko Co., Ltd. (Note 2)
 Daimaru Credit Service Co., Ltd.
 Restaurant Peacock Co., Ltd.

and other 12 subsidiaries, totaling 24

- Note: 1. Nagasaki Daimaru Co., Ltd. was taken over by Hakata Daimaru Co., Ltd and was dissolved effective March 1, 2003.
2. Daimaru Mokko Co., Ltd. will be liquidated after transferring its interior finishing business to Daimaru Design & Engineering Co., Ltd. and its furniture making business to the new Daimaru Mokko Co., Ltd. effective September 1, 2003.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended February 28, 2003

	Millions of yen
Cash flows from operating activities	
Net income before income taxes	9,367
Depreciation	7,870
Amortization of consolidated adjustment account.....	(51)
Decrease in reserve for retirement benefits.....	(4,936)
Decrease in allowance for doubtful accounts	(939)
Increase in reserve for sales promotion.....	132
Interest and dividend income.....	(573)
Interest expense.....	2,695
Equity in earnings of affiliates	(190)
Gain on sales of fixed assets.....	(1,204)
Loss from valuation of investment securities	441
Loss on disposal of subsidiaries and affiliates	212
Loss from valuation of inventories.....	882
Loss on retirement of fixed assets.....	1,022
Increase in fund for liquidation of receivables	5,000
Increase in notes and accounts receivable	(177)
Increase in inventories	(1,483)
Increase in notes and accounts payable	4,583
Other	(952)
Subtotal.....	21,699
Interest and dividends received.....	707
Interest paid	(2,707)
Income taxes paid.....	(3,452)
Net cash provided by operating activities	16,247
Cash flows from investing activities	
Payments for purchases of tangible fixed assets	(28,728)
Proceeds from sales of tangible fixed assets	2,342
Payments for purchases of investment securities.....	(399)
Proceeds from sales of investment securities	588
Payments for long-term advances	(119)
Proceeds from collection of long-term advances	581
Decrease in short-term advances.....	957
Other	2,531
Net cash used in investing activities	(22,246)
Cash flows from financing activities	
Decrease in short-term borrowings.....	(6,059)
Proceeds from issuance of long-term debt.....	16,430
Payments of long-term debt	(13,797)
Proceeds from issuance of bonds.....	13,500
Redemption of bonds	(10,000)
Proceeds from minority shareholders' payments	445
Dividends paid.....	(1,471)
Other	(1,412)
Net cash used in financial activities	(2,366)
Effect of exchange rate changes on cash and cash equivalents	(25)
Decrease in cash and cash equivalents	(8,390)
Cash and cash equivalents at beginning of year	29,676
Cash and cash equivalents at end of year	21,285

Note: Any fractional sum less than one million yen is omitted.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Basis of Presenting Consolidated Financial Statements

1. Scope of consolidation

(1) Consolidated subsidiaries

(Twenty-four companies including Nagasaki Daimaru Co., Ltd., Shimonoseki Daimaru Co., Ltd., Kochi Daimaru Co., Ltd., Hakata Daimaru Co., Ltd., Daimaru Peacock Co., Ltd., and Daimaru Kogyo, Ltd.)

Daimaru Australia (Retail) Pty Ltd and Daimaru Sports Co., Ltd. were liquidated and have been excluded from consolidation effective March 1, 2002.

(2) Non-consolidated subsidiaries

(Seventeen companies including Hakata Daimaru Tomo no Kai Co., Ltd., Hakata Daimaru Card Service Co., Ltd., and Nagasaki Daimaru Tomo no Kai Co., Ltd.)

Total assets, sales, net income and loss (equity value), and retained earnings (equity value) of non-consolidated subsidiaries have been eliminated from consolidation because of the immaterial effect on the consolidated financial statements.

2. Application of equity method

(1) Equity method has been applied to:

- Three affiliates including Hakuseisha Co., Ltd., Shinsaibashi Kyodo Center Building Co., Ltd., and Yaesu Shopping Mall Co., Ltd.

Daimaru Australia Pty Ltd was liquidated and has been eliminated from such application effective March 1, 2002.

(2) Equity method has not been applied to:

- Seventeen non-consolidated subsidiaries including Hakata Daimaru Tomo no Kai Co., Ltd., Hakata Daimaru Card Service Co., Ltd., and Nagasaki Daimaru Tomo no Kai Co., Ltd.; and
- Seven affiliates including Osaka Diamond Chikagai Co., Ltd. and BIG STEP CO., LTD.

The above-mentioned non-consolidated subsidiaries and affiliates are not accounted for by the equity method because they have slight effects on net income and earned surplus for the year ended February 28, 2003 and they are of no significance as a whole.

- (3) For the equity-method affiliates whose financial years do not end on the last day of February, the financial statements for the financial years of such affiliates are reported.

3. Fiscal year end of consolidated subsidiaries

The financial years of all consolidated subsidiaries end on the last day of February.

4. Accounting principles

(1) Appraisal of important assets

(a) Inventories: Principally by the reduction-to-retail cost method

(b) Securities

Other securities with available

fair market values:

By the market value method based on market value as of February 28, 2003 (Unrealized holding loss on securities is included directly in shareholders' equity and the cost of securities sold is determined by the moving average method.)

Other securities without available

fair market values:

By the moving average cost method

(c) Derivatives:

By the market value method

(2) Depreciation of important depreciable assets

(a) Tangible fixed assets: Buildings and structures are depreciated principally by the straight-line method and other tangible fixed assets are

(b) Intangible fixed assets: depreciated principally by the declining balance method.
By the straight-line method
Software for internal use is amortized by the straight-line method over the usable period of five years for in-house use.

(3) Accounting for deferred assets

- (a) Development cost: Expensed in full amount as incurred.
(Opening expenses for new store)
(b) Bond issue cost: Expensed in full amount as incurred.

(4) Significant allowance and reserve

(a) Allowance for doubtful accounts

The allowance for doubtful accounts is provided in estimated amount of uncollectible accounts. With respect to normal receivables, the actual loan loss ratio is used, and for certain doubtful receivables, the collectibility has been individually estimated.

(b) Accrued bonuses

The accrued bonuses are stated in estimated amount to be paid in the future.

(c) Reserve for sales promotion

With respect to unused vouchers issued on the promotional reward card system, the reserve for sales promotion is provided in projected amount of such unused vouchers to be used in the future, which has been estimated based on the past actual rate of collection.

(d) Reserve for retirement benefits

The reserve for employees' retirement benefits is provided in amount recognized as of February 28, 2003 based on the estimated amount of retirement benefit obligation and pension assets as of the same date.

Prior service cost is prorated as an expense by the straight-line method over a given period (10 to 12 years) within the employees' average estimated remaining length of service from the year in which they arise.

Actuarial gain or loss is recognized as an expense in equal amounts by the straight-line method over a given period (10 to 12 years) within the employees' average estimated remaining length of service from the subsequent period to the year in which they arise.

(e) Reserve for directors' retirement allowance

The reserve for directors' retirement allowance is provided in amount required by the Company's by-law if they retired on the relevant balance sheet date.

(5) Foreign currency translation of significant assets and liabilities dominated in foreign currencies

Monetary assets and liabilities dominated in foreign currencies are translated into yen at the year-end spot exchange rates and the differences arising from translation adjustments are presented as gain or loss. Foreign monetary assets and liabilities covered by forward exchange contracts are translated into yen at the contracted forward exchange rates.

(6) Accounting for significant lease transactions

Except for leases stipulating the transfer of ownership of the leased assets to lessees, finance lease transactions are accounted for by the same method as the normal operating lease transactions.

(7) Significant hedge accounting

(a) Method of hedge accounting

Deferral hedge accounting is adopted. With respect to foreign monetary assets and liabilities covered by forward exchange contracts, appropriation accounting is adopted, and for interest rate swap and interest cap, exceptional accounting is adopted if they meet the requirements for such accounting.

(b) Means of hedging and hedged items

Means of hedging: Forward exchange contracts, interest rate swap agreements, and interest cap trading

Hedged items: Operating receivables and payables dominated in foreign currencies and interest paid for loans payable

(c) Hedging policies

The Group hedges against currency and interest rate risks based on its risk management policy.

(8) Accounting for consumption taxes

Consumption taxes are excluded.

5. Appraisal of assets and liabilities of consolidated subsidiaries

All the assets and liabilities of consolidated subsidiaries are estimated by the market value method.

6. Items of profit appropriation

The items of profit appropriation are provided based on the appropriations of earnings settled during the year ended February 28, 2003.

7. Amortization of consolidated adjustment account

With respect to consolidated adjustment account, an equal portion is amortized for each year over five years after it arises. However, if such account is slight, it is presented as gain or loss when it arises.

8. Scope of funds for the consolidated statement of cash flows

Cash and cash equivalents include cash on hand, readily available deposits, and short-term immediately realizable and highly liquid and safe investments with maturities not exceeding three months at the time of purchase.

Additional Information

Account receivable transfer

Effective March 1, 2002, the Company transferred its own issued credit card loan of ¥11,654 million to a special-purpose company. The transfer amount less the amount received, amounting to ¥6,654 million, is included in "other current liabilities".

Accounting for financial instruments

Effective March 1, 2002, the Group adopted the new accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999) to value the securities with available market values which are classified as other securities. The effect of this adoption was to state unrealized holding loss on securities of ¥503 million, to decrease investment securities ¥871 million, and to increase deferred tax assets included in fixed assets, deferred tax liabilities included in fixed liabilities, and minority interests ¥376 million, ¥10 million, and ¥12 million respectively.

Relinquishment of the entrusted government's portion of the retirement benefit obligations of employee pension fund

Daimaru Employee Pension Fund under the control of the Company (the "Fund") received approval from the Minister of Health, Labor, and Welfare on August 20, 2002 for exemption from future retirement benefit obligations with respect to the portion of the Fund that the Company operates on behalf of the Government. The Company determined prior service cost based on retirement benefit obligations in which exemption from future obligations at the date of approval from the Minister of Health, Labor, and Welfare was reflected and prior service cost of ¥781 million during the year ended February 28, 2003 is included in retirement benefit cost as specified in the paragraph 44-2 of the "Practical Guidelines of Accounting for Retirement Benefits (Accounting Committee Report No. 13 issued by the Japanese Institute of Certified Public Accountants)".

If the Company applies transitional measures at the date of approval as specified in the paragraph 47-2 of the aforesaid Practical Guidelines of Accounting for Retirement Benefits to report a gain on return of entrusted portion of employee pension fund, net income before income taxes will increase ¥11,103 million.

Presentation of the consolidated balance sheet and the consolidated statement of surplus

Effective March 1, 2002, "shareholders' equity" in the consolidated balance sheet has been itemized into capital, capital surplus, earned surplus, and other as specified in the Supplementary Provision 2 of the "Cabinet Office Ordinance to Amend Parts of the Regulations Concerning Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Cabinet Office Ordinance No. 11,

March 26, 2002)".

The consolidated statement of surplus has been classified into "capital surplus" and "earned surplus". The consolidated balance sheet and the consolidated statement of surplus as of February 28, 2002 have been reclassified to conform to this presentation.

Explanatory Notes relating to the Consolidated Balance Sheet

	Millions of yen
1. Accumulated depreciation for tangible fixed assets	109,157
2. Assets put up as security	
Buildings and structures	16,370
Land	13,077
Investment securities	3,421
Long-term deposits	32
3. Loan guarantees	1,297
In addition to the above, the Company guarantees the lessor all the debts incurred by Osaka Diamond Chikagai Co., Ltd. including rents and common service expenses for the premises of the underground shopping complex jointly with other two companies. The guarantee percentage by the Company is 40%.	
4. Loan commitments	
Unused portions of loan commitments	16,000
5. Treasury stock	3,022, 039 shares

Explanatory Notes relating to the Consolidated Statement of Cash Flows

Cash and cash equivalents at end of year in the consolidated statement of cash flows consist of the following items, which are stated in the consolidated statement of balance sheet:

	As of February 28, 2003
	Millions of yen
Cash and bank deposits at end of year	21,411
Time deposits with maturity of over three months	(126)
Cash and cash equivalents at end of year	21,285

NON-CONSOLIDATED BALANCE SHEET

February 28, 2003

	Millions of yen
ASSETS	256,711
Current Assets	67,222
Cash on hand and in banks	13,870
Notes receivable	244
Accounts receivable-trade	17,024
Merchandise.....	16,699
Supplies	571
Advance payments	11
Prepaid expenses	1,057
Short-term loans receivable.....	6,879
Accounts receivable-other	6,943
Deferred tax assets	2,899
Other current assets.....	2,768
Allowance for doubtful accounts.....	(1,748)
Fixed Assets	189,489
Tangible fixed assets	93,394
Buildings and structures.....	61,352
Vehicles and furniture/fixtures.....	557
Land.....	31,483
Construction in progress.....	1
Intangible fixed assets	4,583
Leasehold land.....	2,084
Software.....	2,073
Other intangible fixed assets	425
Investments and other assets	91,510
Investment securities	11,013
Investments in subsidiaries.....	12,585
Long-term loans receivable	26,027
Long-term guarantee deposits	25,615
Long-term prepaid expenses	1,002
Deferred tax assets	20,443
Other investments.....	572
Allowance for doubtful accounts.....	(5,750)
Total	256,711

LIABILITIES	201,171
Current Liabilities	140,247
Notes payable	2,443
Accounts payable-trade	33,518
Short-term loans payable.....	37,551
Current portion of convertible bonds	5,218
Accounts payable-not trade.....	3,787
Accrued corporation taxes	3,102
Accrued expenses	1,765
Advances received	15,328
Deposits received.....	33,250
Allowance for bonuses.....	3,755
Reserve for sales promotion	386
Other current liabilities.....	141
Fixed Liabilities	60,924
Bonds.....	13,500
Long-term loans payable	22,256
Reserve for retirement benefits	24,455
Reserve for directors' retirement allowance.....	247
Other fixed liabilities.....	465
SHAREHOLDERS' EQUITY	55,540
Capital	20,283
Capital surplus	23,184
Capital reserve	23,184
Earned surplus	14,069
Earned surplus reserve.....	4,657
Reserve for advanced depreciation deduction of fixed assets	2,070
Reserve for special depreciation	318
Unappropriated retained earnings	7,023
[Net income].....	[5,604]
Unrealized holding loss on securities	(570)
Treasury stock	(1,426)
<hr/> Total	<hr/> 256,711

- Note:
1. Any fractional sum less than one million yen is omitted.
 2. Important financial policies and explanatory notes relating to the non-consolidated balance sheet are provided separately.

NON-CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended February 28, 2003

Millions of yen

Ordinary Income and Expenses	
Operating income and expenses	
Operating income	432,245
Sales.....	430,195
Other income	2,049
[Gross profit]	[117,482]
[Gross profit ratio]	[27.31%]
Operating expenses	419,898
Cost of sales	312,713
Selling, general, and administrative expenses.....	107,185
Operating profit	12,347
Non-operating income and expenses	
Non-operating income	2,577
Interest income	966
Dividend income	281
Miscellaneous income.....	1,330
Non-operating expenses	3,145
Interest expense	1,819
Miscellaneous expenses.....	1,325
Ordinary profit	11,779
Extraordinary Items	
Extraordinary income	1,545
Gain on sales of fixed assets.....	502
Gain on sales of investment securities	127
Gain on transfer from allowance for doubtful accounts.....	916
Extraordinary loss	3,530
Opening expenses for new store.....	2,562
Loss on sales of fixed assets	256
Loss on retirement of fixed assets	342
Loss from valuation of investment securities.....	290
Provision for allowance for doubtful accounts of subsidiaries and affiliates.....	78
Income before income taxes	9,794
Income, inhabitant, and enterprise taxes	3,470
Income tax adjustment.....	720
Net income	5,604
Retained earnings brought forward.....	2,223
Interim dividends	804
Unappropriated retained earnings	7,023

- Note:
1. Any fractional sum less than one million yen is omitted.
 2. Important financial policies and explanatory notes relating to the non-consolidated statement of operations are provided separately.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Important Financial Policies

Important financial policies adopted in preparing the non-consolidated balance sheet and the non-consolidated statement of operations are as follows:

- 1. Appraisal of securities**
 - (1) Investments in subsidiaries and affiliates: By the moving average cost method
 - (2) Other securities
 - Other securities with available fair market values: By the market value method based on market value as of February 28, 2003 (Unrealized holding loss on securities is included directly in shareholders' equity and the cost of securities sold is determined by the moving average method.)
 - Other securities without available fair market values: By the moving average cost method
- 2. Appraisal of inventories**
 - Merchandise: By the reduction-to-retail cost method; Imported goods not yet delivered are carried by the individual cost method of book inventory.
 - Supplies: By the first-in first-out cost method
- 3. Fixed assets depreciation**
 - Tangible fixed assets
 - Buildings and structures: By the straight-line method
 - Vehicles and furniture/fixtures: By the declining balance method
 - Intangible fixed assets: By the straight-line method
Software for internal use is amortized by the straight-line method over the usable period of five years for in-house use.
- 4. Accounting for deferred assets**
 - (1) Development cost: Expensed in full amount as incurred.
(Opening expenses for new store)
 - (2) Bond issue cost: Expensed in full amount as incurred.
- 5. Accounting standard for allowance and reserve**
 - (1) Allowance for doubtful accounts**

The allowance for doubtful accounts is provided in estimated amount of uncollectible accounts. With respect to normal receivables, the actual loan loss ratio is used, and for certain doubtful receivables, the collectibility has been individually estimated.
 - (2) Accrued bonuses**

The accrued bonuses are stated in estimated amount to be paid in the future.
 - (3) Reserve for sales promotion**

With respect to unused vouchers issued on the promotional reward card system, the reserve for sales promotion is provided in projected amount of such unused vouchers to be used in the future, which has been estimated based on the actual rate of collection.
 - (4) Reserve for retirement benefits**

The reserve for employees' retirement benefits is provided in amount recognized as of February 28, 2003 based on the estimated amount of retirement benefit obligation and pension assets as of the same date. Prior service cost is prorated as an expense by the straight-line method over a given period (12 years) within the employees' average estimated remaining length of service from the year in which they arise. Actuarial gain or loss is recognized as an expense in equal amounts by the straight-line method over a given period (12 years) within the employees' average estimated remaining length of service from the subsequent period to the year in which they arise.
 - (5) Reserve for directors' retirement allowance**

The reserve for directors' retirement allowance is provided in amount required by the Company's by-law if they retired on the relevant balance sheet date.
- 6. Accounting for lease transactions**

Except for leases stipulating the transfer of ownership of the leased assets to lessees, finance lease

transactions are accounted for by the same method as the normal operating lease transactions.

7. Hedge accounting

(1) Method of hedge accounting

Deferral hedge accounting is adopted. With respect to interest rate swap, exceptional accounting is adopted if they meet the requirements for such accounting.

(2) Means of hedging and hedged items

Means of hedging: Interest rate swap agreements
Hedged items: Interest on long-term loans payable

(3) Hedging policies

The Company hedges against certain interest on loans carrying a high risk based on its risk management policy.

8. Accounting for consumption taxes

Consumption taxes are excluded.

Accounting changes

Effective February 28, 2003, "accounts receivable-other" (¥169 million as of February 28, 2002), which had been included in "other current assets" previously, has been separately reported.

Additional Information

Account receivable transfer

Effective March 1, 2002, the Company transferred its own issued credit card loan of ¥11,654 million to a special-purpose company. The transfer amount less the amount received, amounting to ¥6,654 million, is included in "accounts receivable-other".

Accounting for financial instruments

Effective March 1, 2002, the Company adopted the new accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999) to value the securities with available market values which are classified as other securities. The effect of this adoption was to state unrealized holding loss on securities of ¥570 million, to decrease investment securities ¥983 million, and to increase deferred tax assets included in fixed assets ¥413 million.

Relinquishment of the entrusted government's portion of the retirement benefit obligations of employee pension fund

Daimaru Employee Pension Fund under the control of the Company (the "Fund") received approval from the Minister of Health, Labor, and Welfare on August 20, 2002 for exemption from future retirement benefit obligations with respect to the portion of the Fund that the Company operates on behalf of the Government. The Company determined prior service cost based on retirement benefit obligations in which exemption from future obligations at the date of approval from the Minister of Health, Labor, and Welfare was reflected and prior service cost of ¥781 million during the year ended February 28, 2003 is included in retirement benefit cost as specified in the paragraph 44-2 of the "Practical Guidelines of Accounting for Retirement Benefits (Accounting Committee Report No. 13 issued by the Japanese Institute of Certified Public Accountants)". If the Company applies transitional measures at the date of approval as specified in the paragraph 47-2 of the aforesaid Practical Guidelines of Accounting for Retirement Benefits to report a gain on return of entrusted portion of employee pension fund, income before income taxes will increase ¥11,103 million.

Presentation of the non-consolidated balance sheet

Effective March 1, 2002, "shareholders' equity" in the balance sheet has been itemized into capital, capital surplus, earned surplus, and other as specified in the Supplementary Provision 2 of the "Cabinet Office Ordinance to Amend Parts of the Regulations Concerning Terminology, Forms, and Preparation Methods of Financial Statements (Cabinet Office Ordinance No. 9, March 26, 2002)". The non-consolidated balance sheet as of February 28, 2002 has been reclassified to conform to this presentation.

Explanatory Notes relating to the Non-consolidated Balance Sheet

	Millions of yen
1. Short-term money credit receivable from subsidiaries	6,906
Long-term money credit receivable from subsidiaries	24,549
Short-term debt payable to subsidiaries	28,442
Long-term debt payable to subsidiaries	221
2. Accumulated depreciation for tangible fixed assets	69,234
3. Assets put up as security	
Buildings and structures	11,711
Land	1,330
Investment securities	3,424
4. In addition to the fixed assets stated in the non-consolidated balance sheet, some vehicles and furniture/fixtures are provided by lease.	
5. Loan guarantees	18,242
Commitments to guarantee	1,700
Total	19,942
In addition to the above, the Company guarantees the lessor all the debts incurred by Osaka Diamond Chikagai Co., Ltd. including rents and common service expenses for the premises of the underground shopping complex jointly with other two companies. The guarantee percentage by the Company is 40%.	
6. Unused portions of loan commitments	15,000
7. Net income per share	¥20.89

Explanatory Notes relating to the Non-consolidated Statement of Operations

	Millions of yen
1. Amount of sales to subsidiaries	46
2. Amount of purchase from subsidiaries	11,484
3. Amount of transactions other than the normal operation with subsidiaries	8,100

NON-CONSOLIDATED STATEMENT OF APPROPRIATIONS

	Yen
Unappropriated retained earnings.....	7,023,676,881
Reversal of reserve for advanced depreciation deduction of fixed assets.....	45,517,469
Reversal of reserve for special depreciation.....	106,140,000
Total	7,175,334,350
Appropriations:	
Dividends (¥3 per share).....	803,424,951
Bonuses to directors and corporate auditors	50,000,000
[Corporate auditors' share].....	[9,000,000]
Other reserve.....	3,000,000,000
Retained earnings carried forward to the following term	3,321,909,399

Note: The Company paid interim dividends totaling ¥804 million (¥3 per share) on November 25, 2002.

CORPORATE DATA

Board of Directors and Corporate Auditors (As of May 1, 2003)

President

Tsutomu Okuda

Senior Managing Director

Takashi Masuda

Managing Director

Naoshi Hirata

Directors

Hisaya Nara

Hiroshi Kitano

Tadao Matsumoto

Koichi Saito

Keiichiro Matsuda

Shigehiko Tamaru

Yasuo Araya

Hiroto Tsukada

Kiyozo Kojima

Corporate Auditors

Masafumi Onishi

Yusuke Yoshinaga

Syuichi Tani (Full-time)

Hiroshi Iida (Full-time)

Outline of the Company (As of February 28, 2003)

Company Name:	The Daimaru, Inc.
Founded:	1717
Incorporated:	April 16, 1920
Capital:	¥20,283,044,920
Number of Shares Issued:	270,830,356
Location of Main Store:	7-1, Shinsaibashisuji 1-chome, Chuo-ku, Osaka 542-8501

Network of Daimaru Group

Department Stores under the Direct Management of The Daimaru, Inc.

Osaka Shinsaibashi Store

7-1, Shinsaibashisuji 1-chome, Chuo-ku, Osaka 542-8501

Tel: 06-6271-1231

Osaka Umeda Store

1-1, Umeda 3-chome, Kita-ku, Osaka 530-0001

Tel: 06-6343-1231

Tokyo Store

9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005

Tel: 03-3212-8011

Kyoto Store

79, Shijo Takakura, Shimogyo-ku, Kyoto 600-8511

Tel: 075-211-8111

Yamashina Store

91, Takehana Takenokaido-cho, Yamashina-ku, Kyoto 607-8080

Tel: 075-255-7365

Kobe Store

40, Akashi-cho, Chuo-ku, Kobe 650-0037

Tel: 078-331-8121

Shinnagata Store

5-1, Wakamatsu-cho 5-chome, Nagata-ku, Kobe 653-0038

Tel: 078-643-2951

Suma Store

2-4, Nakaochiai 2-chome, Suma-ku, Kobe 654-0154

Tel: 078-791-3111

Ashiya Store

1-31, Funato-cho, Ashiya 659-0093

Tel: 0797-34-2111

Sapporo Store

7, Nishi 4-chome, Kita 5-jo, Chuo-ku, Sapporo 060-0005

Tel: 011-828-1111

Affiliated Department Stores

Kochi Daimaru Co., Ltd.
Hakata Daimaru Co., Ltd.
Imabari Daimaru Co., Ltd.
Shimonoseki Daimaru Co., Ltd.
Tottori Daimaru Co., Ltd.

Supermarkets

Daimaru Peacock Co., Ltd.

Kanto District (37 locations):

Aoyama, Sodegaura, Takanawa, Mejiro, Jiyugaoka, Asagaya, Shimokitazawa, Nakano, Fujisawa, Misato, Ebisu, Tama, Kunitachi, Tsurumi, Rokkakubashi, Yokohamabashi, Kugayama, Takadanobaba, Azabu, Inagi, Kyodo, Shinurayasu, Toritsukasei, Sakurashinmachi, Takanodai, Tamachi, Higashikoganei, Kamiikedai, Honkomagome, Mita, Tamagawajosui, Ishikawadai, Hanakoganei, Seijo, Nishifunabashi, Kokubunji Nishimachi, and Fujisawa Honmachi

Kansai District (28 locations)

Kori, Tsukumodai, Kitasenri, Meimai, Senri Daimaru Plaza, Nakamiya, Chayamadai, Harumidai, Takakuradai, Matsugaoka, Osaka Hospital, Myodani, Karibadai, Tsukahara, Hoshida, Senri Minamimachi Plaza, Ashiya Nangu, Koshien, Kotoen, Senri Yamada, Mukonosu, Senriyama, Mino Sakuragaoka, Konan, Ashiya Kawanishi, Kitayamato Mayumi, Takarazuka Nakayama, and Mino Gein

Direct Marketing

The Daimaru Home Shopping, Inc.

Manufacturing

Mode Atelier Co., Ltd.

Restaurants

Restaurant Peacock Co., Ltd.

Complex Commercial Business

COM Planning and Development Co., Ltd.

Credit Cards and Customer Circle

Daimaru Credit Service Co., Ltd.
Daimaru Tomo no Kai Co., Ltd.

Construction and Interior Finishing

Daimaru Design & Engineering Co., Ltd.
Daimaru Mokko Co., Ltd.

Lease and Real Estate

Chuo Kogyo Co., Ltd.

Foreign Trade and Wholesale

Daimaru Kogyo, Ltd.

Logistics

Asocia Co., Ltd.

Information and Supporting Business

Consumer Product End-Use Research Institute Co., Ltd.
Dimples' Co., Ltd.
Daimaru Information Center Co., Ltd.

SHAREHOLDER INFORMATION

Year End: Last day of February of each year

Record Dates

Term-end Dividend: Last day of February of each year

Interim Dividend: August 31 of each year

Annual General Meeting of Shareholders: May of each year

Stock Transfer Agent: Osaka Branch of UFJ Trust Bank Limited
6-3, Fushimi-cho 3-chome, Chuo-ku, Osaka 541-8502
Tel: 06-6229-3011

Stock Transfer Agent Branches: Head Offices and Branches of UFJ Trust Bank Limited and The Nomura Securities Co., Ltd.

UFJ Trust Bank Limited will accept your request for the application forms for stock transfer by toll-free call at 0120-24-4479 (Head Office) or 0120-68-4479 (Osaka Branch) or on the Internet at <http://www.ufjtrustbank.co.jp/> 24 hours a day.

Public Notices Appear in: The Nihon Keizai Shimbun

URL: <http://www.daimaru.co.jp/>
Daimaru's annual reports are available on its website at the above-mentioned URL.

Hospitality Programs for Shareholders

Shareholders' Courtesy Cards

The rate of discount will be increased to 10 % on and after June 1, 2003.

- (1) Daimaru Shareholders' Courtesy Cards are issued to the holders of 1,000 shares or more as of the last day of February and the new holders of 1,000 shares or more as of August 31 and a **ten percent** discount off the prices marked is allowed for cash purchases within the following limit of purchase at the stores under the direct management of The Daimaru, Inc. (Osaka Shinsaibashi, Osaka Umeda, Tokyo, Kyoto, Yamashina, Kobe, Shinnagata, Suma, Ashiya, and Sapporo).

At Daimaru stores in Hakata (Fukuoka Tenjin and Nagasaki), Shimonoseki, Kochi, Tottori, and Imabari, a five percent discount is given.

For the shareholders as of the last day of February, the annual limit of purchase for such discount is fixed according to the number of shareholdings as follows. The cards are issued in May and valid until May 31 of the following year.

No. of shareholdings as of the last day of Feb.	Annual limit of purchase
1,000 – 1,999	500,000 yen
2,000 – 9,999	500,000 yen for every 1,000 shares
10,000 and above	5,000,000 yen (maximum limit)

For the new shareholders as of August 31, the annual limit of purchase is placed at a half of the above-mentioned amount according to the number of shareholdings. The cards are issued in November and valid until May 31 of the following year.

- (2) The card grants free admission to cultural events held at Daimaru Osaka Shinsaibashi, Osaka Umeda, Tokyo, Kyoto, Kobe, and Sapporo Stores to two persons including its holder.

Notes

- (1) The card is valid for purchases with Daimaru Gift Certificates, the membership card of Daimaru Tomo no Kai, Shopping Coupons for Department Stores issued by the member department stores of Japan Department Stores Association, gift certificates issued by credit card companies, and certain exchange tickets as well as for cash purchases. Please note that it is not valid for purchases with other certificates, vouchers, and debit cards.
- (2) The card is not valid for purchases or payments on charge accounts and by credit cards, direct marketing, and COD.
- (3) The card does not allow a discount on the purchases of the following articles:
Perishables (marine products, meat, vegetables, and fruits), books, CDs, cigarettes, stamps, all kinds of certificates and coupons, bullion, coins, shipping and handling, casing, repairs, eating and drinking, beauty treatment, travels, and other specified articles including Tiffany, Bulgari, Cartier, Hermes, and Gucci.
- (4) The card is not valid with any other offer.