you me town

IZUMI Co., Ltd.

2007

ANNUAL REPORT

SIX-YEAR FINANCIAL SUMMARY

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2004	2003	2002	2007
	Mar. 2006– Feb. 2007	Mar. 2005– Feb. 2006	Mar. 2004– Feb. 2005	Mar. 2003– Feb. 2004	Mar. 2002– Feb. 2003	Mar. 2001– Feb. 2002	–Mar. 2006– Feb. 2007
Revenues	¥446,821	¥436,825	¥426,437	¥407,648	¥383,098	¥363,714	$3,772,552
Operating income	24,144	22,706	19,771	18,079	15,994	14,784	203,850
Income before income taxes and minority interests	19,737	21,490	18,089	16,888	11,834	9,493	166,641
Net income	13,158	11,583	9,601	8,713	5,600	4,832	111,094
Net income/revenues	2.94%	2.65%	2.25%	2.14%	1.46%	1.33%	2.94%
Total net assets (Note 2)	105,005	88,542	85,519	84,354	76,892	74,132	886,567
Total assets	335,545	313,086	318,893	295,927	273,484	268,655	2,833,038
	Yen						U.S. dollars (Note 1)
Per share (Note 3):							
Net income—basic	¥ 251.80	¥ 216.60	¥ 166.88	¥ 148.07	¥ 95.23	¥ 81.46	$ 2.13
Net income—diluted	223.88	192.69	155.02	—	94.21	79.40	1.89
Cash dividends declared	32.00	26.00	24.00	23.00	23.00	21.00	0.27

Notes 1: Yen amounts are translated into U.S. dollars, solely for convenience, at the prevailing exchange rate on February 28, 2007, ¥118.44 = U.S. $1.
2: By application of the new accounting standard for presentation of net assets in the balance sheet, minority interests in consolidated subsidiaries and gain on deferred hedges are included in total net assets for the year ended February 28, 2007.
3: See Note 2 (21) of Notes to Consolidated Financial Statements.

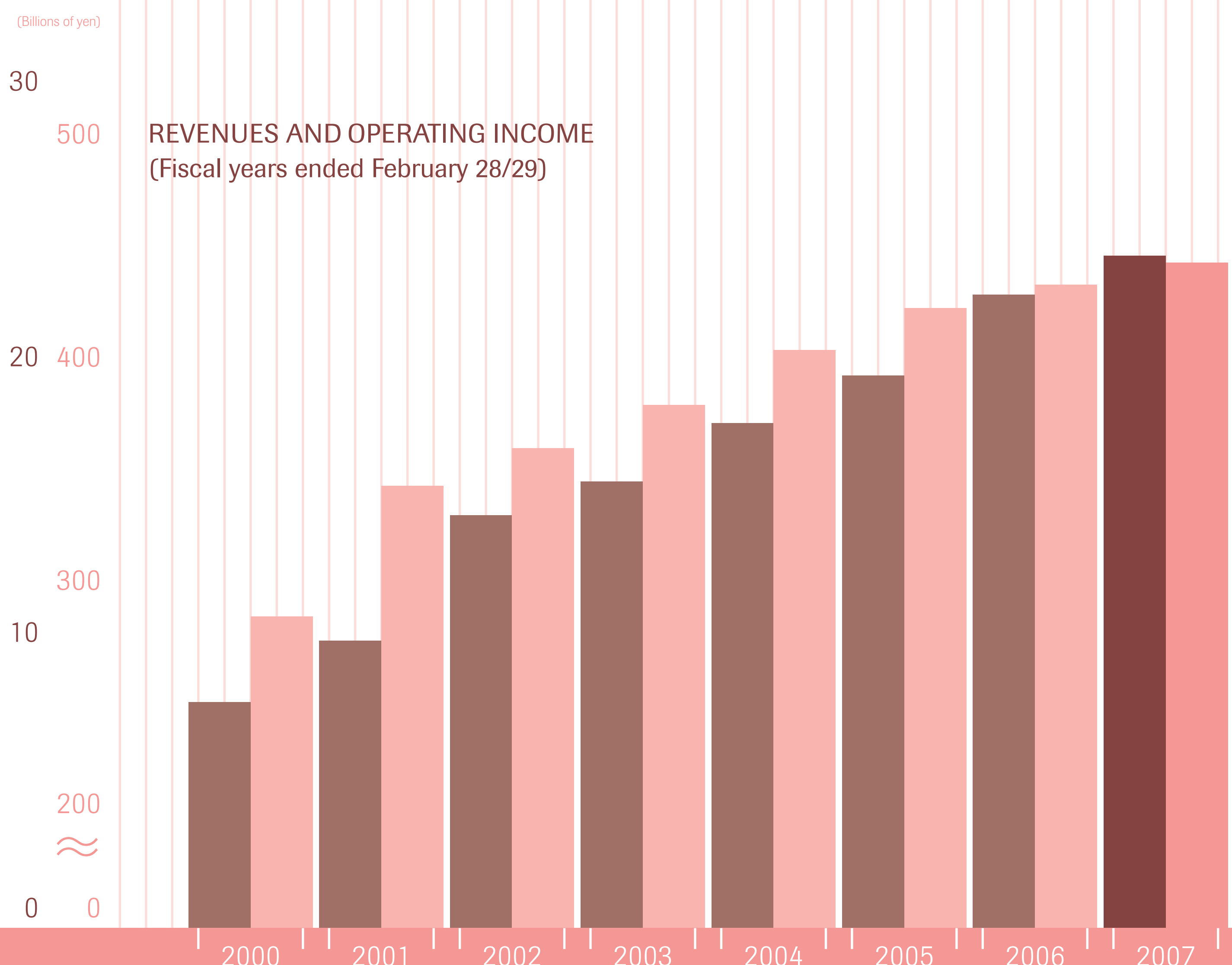
Izumi
Predominant Retail Chain with Regional Links

CONTENTS

Izumi Co., Ltd. ("Izumi" or the "Company") takes pride in being the predominant retail chain in the Chugoku, Shikoku and Kyushu regions of Japan. As of February 2007, Izumi's hypermarkets and food supermarkets extended to 70 locations. In 1990, Izumi opened its first You Me Town hypermarket. In the ensuing period, the Company has worked to become number one in these regions in terms of scale and product lineup, with You Me Town contributing significantly to the Company's continued growth. In providing one-stop service, featuring a broad shopping lineup as well as an array of restaurants, amusements, cultural and community offerings and other facilities, You Me Town outlets deliver everything customers want to buy or do, all under one roof. Through the You Me Town business model, Izumi is fully meeting the wishes of an increasing number of customers.

During the fiscal year under review, Izumi boosted its efforts to review and upgrade store layouts, displays and its product lineup, strengthened its existing stores and opened new stores with a particular focus on capturing top positions in its operating regions. As a result of these activities, Izumi enjoyed an increase in revenues and earnings, recording its eighth consecutive year of growth. Perceiving its stores as "organic and dynamic" assets, Izumi will continue to serve its customers by better responding to their needs and providing region-specific services.

REVENUES AND OPERATING INCOME
(Fiscal years ended February 28/29)



	2000	2001	2002	2003	2004	2005	2006	2007
Revenues	288.3	346.8	363.7	383.1	407.6	426.4	436.8	446.8
Operating Income	8.1	10.3	14.8	16.0	18.1	19.8	22.7	24.1

During the fiscal year ended February 28, 2007, Izumi continued its focus on maximizing customer satisfaction, refurbishing its existing stores and expanding its predominant chain of regional You Me Town outlets. These efforts resulted in Izumi achieving its eighth consecutive year of growth.

Yasuaki Yamanishi
President

Overview of the Year

With sluggish personal consumption resulting from a slowdown in earnings, there were still no discernible signs of a recovery in fiscal 2007, the fiscal year ended February 28, 2007. In addition, conditions in the retail industry continued to be unfavorable due to unseasonable weather and intensifying competition across all areas of the business. Against this backdrop, Izumi continued its focus on maximizing customer satisfaction and accelerated management and business operation reforms.

Improving Management and Operating Structure

Thanks to a robust sales performance, reduction in cost of sales and the implementation of cost structure reforms, the non-consolidated operating income ratio continued to show a year-on-year improvement, from 5.0% to 5.4%. Consolidated operating income ratio likewise edged up from 5.4% to 5.7%.

The Group has enhanced its mainstay retail operations, emphasizing the fresh, the exciting and the surprising in higher value creation for its stores, products and services. As a result of the increased value of goods in particular, the average price per sales increased by 1.1% year on year, thereby contributing to improved revenues.

HIGHLIGHTS

- Consolidated revenues rose 2.3% year on year to ¥446.8 billion ($3,772.6 million)
- Consolidated operating income increased 6.3% year on year to ¥24.1 billion ($203.9 million)
- Consolidated net income jumped 13.6% year on year to ¥13.1 billion ($111.1 million)
- Stabilized existing store sales, with non-consolidated existing store sales edging up 0.8% year on year
- Tapped growth in demand for high-value-added goods and reversed the trend to push up the average price per sales by 1.1% year on year
- Continued efforts to reduce the cost of sales and implement cost structure reforms:
  - Non-consolidated operating income ratio increased 0.4 percentage point to 5.4%.
  - Consolidated operating income ratio rose 0.3 percentage point to 5.7%.
- Consolidated ROE was 14.0%, up 0.7 percentage point from the previous fiscal year.

Status of Consolidated Subsidiaries

Although X-Sell Inc. suffered a loss as a result of a write-down of ¥550 million in its inventory value, the card-service business Youme Card Co., Ltd. continued to improve its operating revenues. The building maintenance company Ideo Co., Ltd. expanded orders outside the Group, which included maintenance operations for public facilities. Izumi Food Service Co., Ltd. achieved a strong performance in its in-store restaurant operations.

Accounting for these factors, consolidated revenues for the fiscal year ended February 28, 2007 increased 2.3% year on year to ¥446.8 billion. Consolidated operating income rose 6.3% to ¥24.1 billion, while consolidated net income jumped 13.6% to ¥13.2 billion. These figures represent our eighth consecutive year of increased revenues and profits.

Adding a year-end dividend of ¥16 to the interim dividend of ¥16 already distributed, the full-year dividend for fiscal 2007 is ¥6 higher than that in the previous fiscal year.

We will step up efforts to further strengthen our existing stores and develop new neighborhood shopping centers with the aim of doubling our dominance in the regions where we operate and achieving future growth.

山西泰明

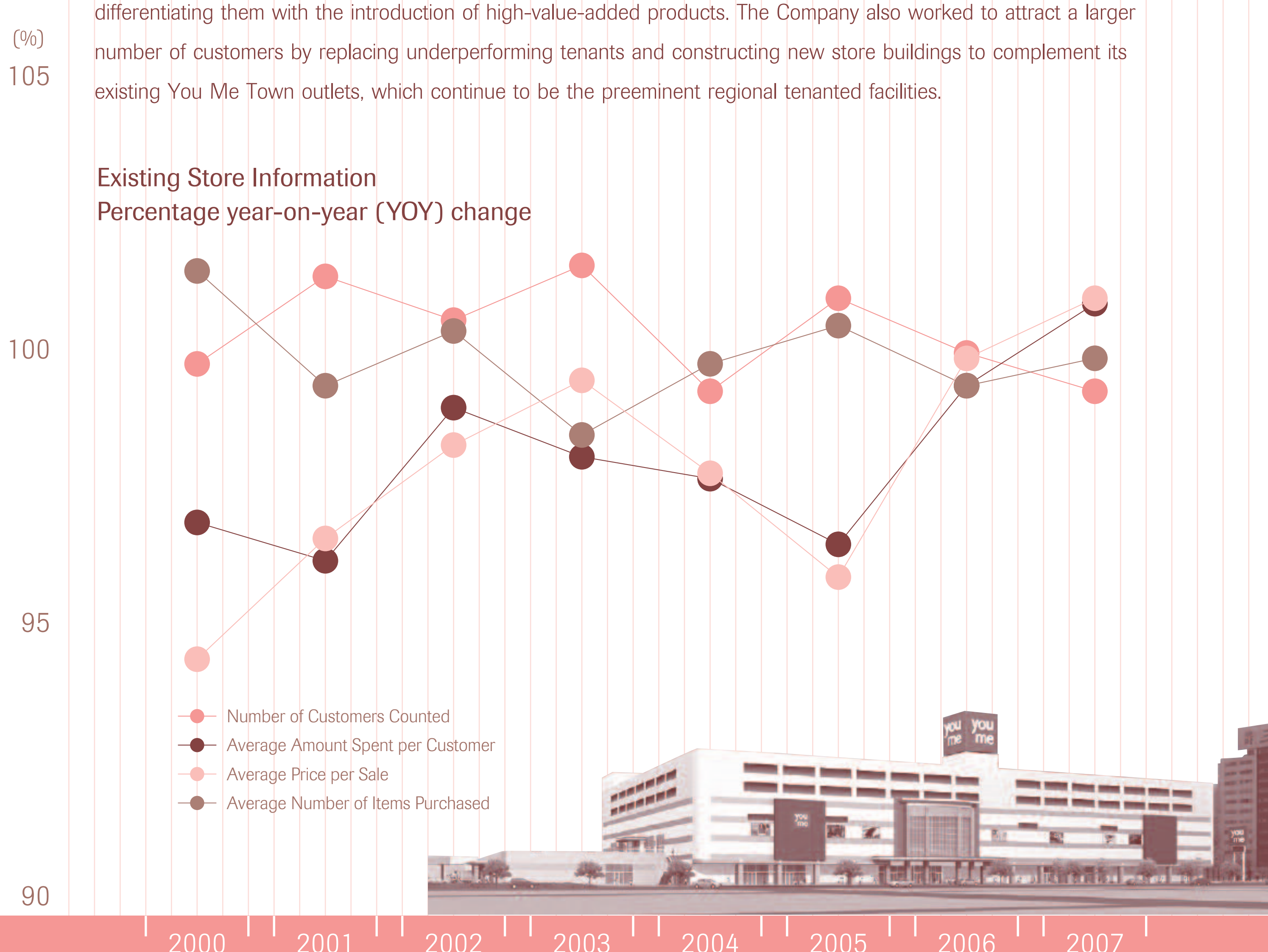
Yasuaki Yamanishi
President

Customer satisfaction is the source of Izumi's business profits, and we regard our strenuous efforts to maximize customer satisfaction as the shortest way to meet the expectations of our suppliers, shareholders and employees. In order to survive and prosper in a constantly changing environment, the Company has committed itself to improving the vigor of its stores on a daily basis.

Izumi Co., Ltd.

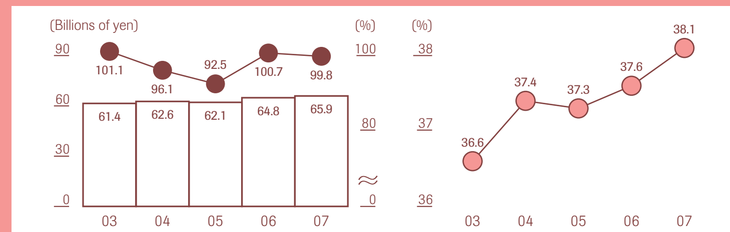
With an increasing number of closures and a lull in openings in the general merchandising store sector, competition in the Chugoku and Kyushu regions has eased somewhat. In these circumstances, Izumi introduced detailed merchandising for each shop floor and concentrated on strengthening existing stores by differentiating them with the introduction of high-value-added products. The Company also worked to attract a larger number of customers by replacing underperforming tenants and constructing new store buildings to complement its existing You Me Town outlets, which continue to be the preeminent regional tenanted facilities.

Existing Store Information
Percentage year-on-year (YOY) change



Clothing

Net sales / YOY existing store sales / Gross Profit Margin



In the clothing segment, we accelerated activities to establish more customer-centered sales areas in our stores. These activities included discovering new products and expanding purchase channels, creating more customer-friendly shopping areas in a relaxed atmosphere, boosting visual merchandising and enhancing service skills.

Contrary to the previous fiscal year's increase in sales due to the influence of a harsh winter, the unseasonable weather throughout the year under review dampened existing store sales to record 99.8% of the level of the previous fiscal year. The actual existing store sales figure, however, managed to stay above the industry average. The gross profit margin, however, improved 0.5 percentage point, to 38.1%.

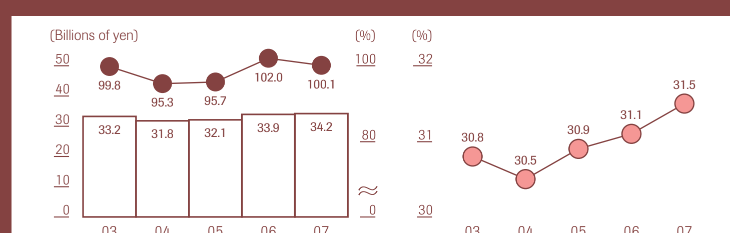
Achieving these results in such difficult circumstances is attributed to the strategies of:

1. Achieving store differentiation through provision of high-value-added, high-end merchandise
2. Utilizing display and layout changes to bring more excitement to the shopping experience, with products and brands renewed on a weekly basis
3. Focusing on visual merchandising such as utilizing fixtures and lighting to enhance product appeal and improving store presentation and customer services

Contributing to the favorable financial results, these endeavors led to an improvement in the ratio of loss due to merchandise price discounts by 0.6 percentage point over the previous fiscal year.

Household Goods

Net sales / YOY existing store sales / Gross Profit Margin



We have expanded our range of value-added products in the household goods segment that are not susceptible to the vagaries of the weather and have also carved out a niche by featuring specialist stores that offer distinctive, differentiated merchandise.

While competitors suffered from the harsh business conditions, Izumi recorded existing store sales of 100.1% of the level of the previous fiscal year. The gross profit margin also improved by 0.4 percentage point to reach 31.5%.

Izumi has restricted its field of operations in household goods to those items where it can secure competitive advantage. Products outside these fields—including books, toys, furniture and sporting goods—have been left to specialist stores with superior know-how.

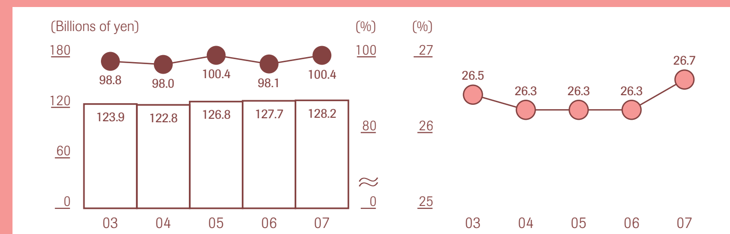
Three features distinguished Izumi's activities in the fiscal year under review:

1. Withstanding adverse effects from climate instability by developing merchandise unaffected by the vagaries of weather
2. Differentiating store offerings by providing high-value-added products that are manufactured based on anticipated customer needs
3. Reflecting changes in market needs by the swift introduction of high-demand products in the bedding, stationery, giftware and kitchen-related product categories

These measures had a pronounced effect on revenues, improving the operating income ratio.

Foods

Net sales / YOY existing store sales / Gross Profit Margin



While improving the variety, quality and freshness of local produce in our stores, we have made steady progress in establishing flexible sales areas through weekly product lineup reviews.

These activities enabled us to make year-on-year improvements in existing store sales by 0.4 percentage point and to edge up gross profit margin by 0.4 percentage point to 26.7%.

Izumi continues to delegate responsibility for product procurement and lineup strategies to individual store managers in order to meet the needs of their local customers. The specific initiatives are:

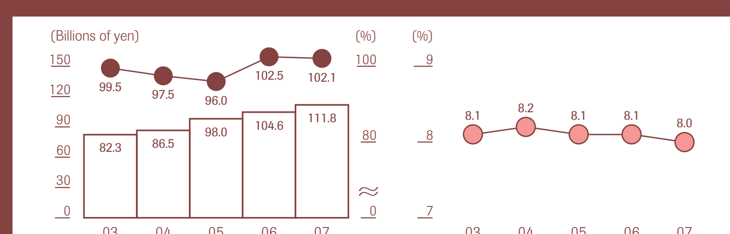
1. Allowing for flexible weekly strategies throughout the year to facilitate effective sales area reviews
2. Expanding the sales of high-value-added products such as cut fruits, sashimi (thin-sliced raw fish), ready-made hamburger patties and health foods
3. Improving food product quality and freshness

In conjunction with these measures, we expanded our policy of local production for local consumption and differentiated our stores by their higher proportion of local produce. Increasing the volume of local produce handled had a positive impact on segment performance, raising sales by approximately 20%.

Over the long term, the foods segment has grown into the most stable and profitable business, contributing greatly to Izumi's revenue growth.

Tenants

Net sales / YOY existing store sales / Gross Profit Margin



In retail tenant operations, we have endeavored to enhance the value of our premises by minimizing the number of underperforming tenants, while at the same time seeking out promising replacements with whom to build relationships of trust.

Sales in the fiscal year under review improved by 2.1 percentage points year on year on an existing store basis.

Tenants play an important role in enhancing the value of our existing stores and attracting customers. Thus, our focus is on the introduction of Japan's leading specialty stores boasting considerable brand power in a variety of fields. This policy empowers You Me Town outlets to deliver to customers the most comprehensive lineup of merchandise in each region.

Our retail tenant-related activities in the fiscal year under review have been geared toward:

1. Promoting tenant replacement to better satisfy customer needs in each region
2. Increasing commercial accumulation of tenanted outlets by constructing separate buildings that complement existing outlet buildings

The result, assisted by the economic recovery, was that sales at fashion-related tenants remained steady over the fiscal year and this exerted a beneficial effect on Izumi's directly managed stores.

With the construction and management of new stores, Izumi strives to introduce new brands and large-scale tenants to each region. This in turn contributes to the continued competitive advantage of the You Me Town brand. Looking ahead, the tenants segment will likely support Izumi's earnings growth.

Subsidiaries

Operating revenues at X-Sell Inc. fell due to the closure of 10 stores. The subsidiary also wrote-down ¥550 million in inventory depreciation during the first half, producing a loss for the fiscal year under review. However, X-Sell is now converting its mass import brand stores into select designer boutiques, pursuing more originality in its product lineup and offering a more pleasurable selection and shopping experience.

Although regional competition subsided, You Me Town Kumamoto Co., Ltd. was very innovative in introducing powerful specialty stores and in further upgrading food court services, resulting in improved revenues during the second half. We are continuing with our efforts to buttress the outlet's sales floors as we aim to maintain and expand our leading position in the region.

The card-service business, Youme Card Co., Ltd., realized improvements in operating income and net income compared to the previous fiscal year. Izumi Food Service Co., Ltd. had reported a decline in operating income as a result of its "scrap and build" policy but succeeded in narrowing net loss during the fiscal year under review. Ideo Co., Ltd. suffered a slight decline in net income despite increased operating income from its tenants business.

Topics

X-Sell Inc.

The sense of space and tranquility incorporated into the design of the X-Sell store in Saga, which opened in 2006, resulted in a sales floor with a more sophisticated ambience.

Ideo Co., Ltd.

Having gone to great lengths to develop start-up businesses, Ideo was selected as designated management provider for four public facilities.

Youme Card Co., Ltd.

The Youme Card international card, which also serves as a credit card, was redesigned and a new points system launched.

Izumi Food Service Co., Ltd.

Izumi Food Service holds the nation's leading Baskin Robbins 31 Ice Cream franchise, with 21 stores in operation, and has also obtained registered trademarks for three more directly managed food outlets.

Outlook for Continued Growth

As Izumi seeks internal growth through strengthening existing stores and enhancing their profitability, we will also continue our successful strategy of vigorous openings of You Me Town shopping centers. You Me Town will bolster its position as the dominant retail chain in the Chugoku, Shikoku and Kyushu regions. Through its directly managed stores and its collaboration with leading tenants, Izumi responds to the needs of a wide customer base from the youthful to the mature, with a focus on housewives. Izumi develops stores that cater for demand that changes depending on the day of the week and time of day.

Flurry of You Me Town Store Openings

New building plans already in place for large-scale You Me Town developments will increase the brand's overriding competitiveness in the areas in which it predominates. Major store openings include You Me Town Beppu and You Me Town Hiroshima, which are scheduled to open in winter 2007 and spring 2008, respectively. Plans call for You Me Town Izumo to open its doors in the summer of 2008, with You Me Town Mitoyo and You Me Town Marugame following in the fall of the same year.

Store Name	Planned Opening	Site Area (approx.)	Store Area (approx.)	No. of Parking Spaces (approx.)
You Me Town Beppu	Winter 2007	21,400 m^2	21,000 m^2	1,300
You Me Town Hiroshima	Spring 2008	50,000 m^2	38,750 m^2	2,600
You Me Town Izumo	Summer 2008	106,000 m^2	33,500 m^2	3,100
You Me Town Mitoyo	Fall 2008	67,900 m^2	22,000 m^2	2,000
You Me Town Marugame	Fall 2008	43,000 m^2	32,000 m^2	2,000

Izumi Group's Flagship Store: You Me Town Hiroshima

Located where Izumi's business began, You Me Town Hiroshima is scheduled to open in the heart of Hiroshima City—which encompasses a market of 1.3 million people—in spring 2008. With a perfectly balanced layout to cater for everyday essentials during the week and entertainment on weekends, You Me Town Hiroshima will offer new discoveries and pizzazz that far outstrip department stores in terms of the levels of excitement and enjoyment.

CONSOLIDATED STATEMENTS OF INCOME

Izumi Co., Ltd. and its subsidiaries
For the years ended February 28, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
REVENUES:			
Net sales	¥426,830	¥418,086	$3,603,766
Other operating revenues	19,991	18,739	168,786
	446,821	436,825	3,772,552
COST OF SALES	330,456	321,663	2,790,071
Gross profit	116,365	115,162	982,481
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12)	92,221	92,456	778,631
Operating income	24,144	22,706	203,850
OTHER INCOME (EXPENSES):			
Interest and dividend income	305	243	2,575
Interest expense	(1,424)	(1,538)	(12,023)
Purchase discounts	442	435	3,732
Gain on sale of investments in securities	1	116	8
Gain on sale of property and equipment	5	85	42
Loss on sale or disposal of property and equipment	(326)	(1,166)	(2,752)
Foreign exchange gains	169	98	1,427
Impairment loss (Note 5)	(4,011)	—	(33,865)
Other, net	432	511	3,647
	(4,407)	(1,216)	(37,209)
Income before income taxes and minority interests	19,737	21,490	166,641
INCOME TAXES (Note 12):			
Current	9,501	9,553	80,217
Deferred	(3,043)	(662)	(25,692)
	6,458	8,891	54,525
Income before minority interests	13,279	12,599	112,116
MINORITY INTERESTS	121	1,016	1,022
Net income	¥ 13,158	¥ 11,583	$ 111,094

	Yen		U.S. dollars (Note 3)
PER SHARE:			
Net income (Note 2 (21)):			
Basic	¥251.80	¥216.60	$2.13
Diluted	223.88	192.69	1.89
Cash dividends declared	32.00	26.00	0.27

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

Izumi Co., Ltd. and its subsidiaries
As of February 28, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
ASSETS			
CURRENT ASSETS:			
Cash and bank deposits	¥ 11,614	¥ 12,251	$ 98,058
Short-term loans receivable	12,889	12,222	108,823
Notes and accounts receivable:			
Trade	10,814	8,814	91,303
Other	2,705	1,767	22,839
	13,519	10,581	114,142
Less-allowance for doubtful accounts	(1,685)	(883)	(14,226)
	11,834	9,698	99,916
Inventories	24,872	23,665	209,996
Deferred income taxes (Note 13)	2,757	2,357	23,278
Other current assets	3,190	2,535	26,933
Total current assets	67,156	62,728	567,004
INVESTMENTS AND ADVANCES:			
Investments in non-consolidated subsidiaries and affiliates	1,696	1,093	14,320
Investments in securities (Notes 4 and 7)	8,182	7,428	69,081
Other investments and advances	1,647	1,596	13,906
	11,525	10,117	97,307
PROPERTY AND EQUIPMENT (Notes 5, 6 and 7):			
Buildings and structures	223,842	207,880	1,889,919
Machinery, equipment, vehicles and other	37,044	35,741	312,766
	260,886	243,621	2,202,685
Less-accumulated depreciation	(132,738)	(122,535)	(1,120,719)
	128,148	121,086	1,081,966
Land	99,707	90,853	841,835
Construction in progress	2,604	3,285	21,986
	230,459	215,224	1,945,787
OTHER ASSETS:			
Fixed leasehold deposits	13,314	14,704	112,411
Deferred income taxes (Note 13)	4,159	1,648	35,115
Other	8,932	8,665	75,414
	¥ 335,545	¥ 313,086	$ 2,833,038

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Short-term borrowings (Note 7)	¥43,585	¥33,504	$367,992
Current portion of long-term debt (Note 7)	24,060	18,848	203,141
Notes and accounts payable:			
Trade	16,865	15,925	142,393
Other	11,260	8,793	95,069
	28,125	24,718	237,462
Income taxes payable	5,136	5,812	43,364
Accrued bonuses to employees	1,452	1,421	12,260
Accrued bonuses to directors and corporate auditors	39	—	329
Allowance for point discounts	698	946	5,893
Other current liabilities	7,046	6,306	59,490
Total current liabilities	110,141	91,555	929,931
LONG-TERM DEBT (Note 7)	79,537	98,461	671,538
ACCRUED SEVERANCE INDEMNITIES (Note 8)	5,672	5,344	47,889
LEASE DEPOSITS RECEIVED	23,416	22,115	197,704
DEFERRED INCOME TAXES (Note 13)	1,063	1,002	8,975
ALLOWANCE FOR LOSS ON GUARANTEES	1,100	—	9,287
OTHER LIABILITIES	9,611	595	81,147
Total liabilities	230,540	219,072	1,946,471
COMMITMENTS AND CONTINGENT LIABILITIES (Note 9)			
NET ASSETS (Note 11):			
Common stock, no par value:			
Authorized:			
February 28, 2007—195,243,000 shares			
February 28, 2006—195,243,000 shares			
Issued:			
February 28, 2007—61,558,710 shares	19,614	—	165,603
February 28, 2006—61,558,710 shares	—	19,614	—
Additional paid-in capital	22,491	22,320	189,894
Retained earnings	76,888	64,238	649,173
Less–treasury stock at cost:			
February 28, 2007—9,652,302 shares	(21,761)	—	(183,730)
February 28, 2006—9,255,077 shares	—	(19,653)	—
Net unrealized gains on securities	2,334	2,027	19,706
Gain on deferred hedges	66	—	557
Less–foreign currency translation adjustments	(25)	(4)	(211)
Minority interests in consolidated subsidiaries	5,398	5,472	45,575
Total net assets	105,005	94,014	886,567
	¥335,545	¥313,086	$2,833,038

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Izumi Co., Ltd. and its subsidiaries
For the years ended February 28, 2007, 2006 and 2005

		Millions of yen							
		Stockholders' equity				Revaluation and translation adjustments			
	Number of shares of common stock (thousands)	Common stock	Additional paid-in capital	Retained earnings	Treasury stock at cost	Net unrealized gains on securities	Gain on deferred hedges	Foreign currency translation adjustments	Minority interests in consolidated subsidiaries
BALANCE AT FEBRUARY 29, 2004	61,559	¥19,614	¥22,315	¥45,823	¥ (3,930)	¥ 535	¥ —	¥ (3)	¥ —
Net income for the year				9,601					
Cash dividends				(1,381)					
Directors' and corporate auditors' bonuses				(25)					
Net unrealized gains on securities						445			
Foreign currency translation adjustments								(1)	
Increase in treasury stock, net					(7,474)				
BALANCE AT FEBRUARY 28, 2005	61,559	¥19,614	¥22,315	¥54,018	¥(11,404)	¥ 980	¥ —	¥ (4)	¥ —
Net income for the year				11,583					
Cash dividends				(1,361)					
Directors' and corporate auditors' bonuses				(12)					
Gain on appropriation of treasury stock			5		17				
Net unrealized gains on securities						1,047			
Foreign currency translation adjustments								0	
Increase in treasury stock, net					(8,266)				
Other increase (Note 12)				10					
BALANCE AT FEBRUARY 28, 2006	61,559	¥19,614	¥22,320	¥64,238	¥(19,653)	¥2,027	¥ —	¥ (4)	¥5,472
Net income for the year				13,158					
Cash dividends				(1,622)					
Directors' and corporate auditors' bonuses				(71)					
Gain on appropriation of treasury stock			171		617				
Increase in treasury stock, net					(2,725)				
Net adjustment to retained earnings due to change in scope of consolidation (Note 2 (1))				1,185					
Items other than changes in stockholders' equity						307	66	(21)	(74)
BALANCE AT FEBRUARY 28, 2007	61,559	¥19,614	¥22,491	¥76,888	¥(21,761)	¥2,334	¥66	¥(25)	¥5,398

	Thousands of U.S. dollars (Note 3)							
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock at cost	Net unrealized gains on securities	Gain on deferred hedges	Foreign currency translation adjustments	Minority interests in consolidated subsidiaries
BALANCE AT FEBRUARY 28, 2006	$165,603	$188,450	$542,368	$(165,932)	$17,114	$ —	$ (34)	$46,200
Net income for the year			111,094					
Cash dividends			(13,695)					
Directors' and corporate auditors' bonuses			(599)					
Gain on appropriation of treasury stock		1,444		5,209				
Increase in treasury stock, net				(23,007)				
Net adjustment to retained earnings due to change in scope of consolidation			10,005					
Items other than changes in stockholders' equity					2,592	557	(177)	(625)
BALANCE AT FEBRUARY 28, 2007	$165,603	$189,894	$649,173	$(183,730)	$19,706	$557	$(211)	$45,575

The consolidated statements of changes in net assets for the year ended February 28, 2007 are presented under the new standard.
The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Izumi Co., Ltd. and its subsidiaries
For the years ended February 28, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 19,737	¥ 21,490	$ 166,641
Depreciation and amortization	11,200	11,397	94,563
Provision for allowance for doubtful accounts	(860)	50	(7,261)
Interest and dividend income	(305)	(243)	(2,575)
Interest expense	1,424	1,538	12,023
Gain on sale of property and equipment	(5)	(85)	(42)
Loss on sale or disposal of property and equipment	326	1,166	2,752
Gain on sale or revaluation of investments in securities	(1)	(116)	(8)
Impairment loss	4,011	—	33,865
Increase in notes and accounts receivable	(1,999)	(1,288)	(16,878)
Decrease (increase) in inventories	(1,200)	460	(10,132)
Increase in trade notes and accounts payable	931	295	7,861
Other, net	(1,202)	2,534	(10,149)
Sub-total	32,057	37,198	270,660
Interest and divided income received	306	255	2,584
Interest expense paid	(1,452)	(1,521)	(12,259)
Income taxes paid	(10,216)	(8,962)	(86,255)
Net cash provided by operating activities	20,695	26,970	174,730
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for purchases of property and equipment	(16,273)	(15,074)	(137,395)
Payments for purchases of intangible assets	(725)	(602)	(6,121)
Payments for purchases of investments in securities	(578)	(1,169)	(4,880)
Proceeds from sale of property and equipment	369	1,478	3,115
Proceeds from sale of investments in securities	86	593	726
Other, net	1,909	3,436	16,118
Net cash used in investing activities	(15,212)	(11,338)	(128,437)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase in short-term borrowings	10,081	5,712	85,115
Increase in long-term loans	5,700	14,233	48,126
Repayment of long-term loans	(18,625)	(21,215)	(157,253)
Redemption of bonds	—	(5,000)	—
Payment for purchases of treasury stock	(2,725)	(8,266)	(23,007)
Dividends paid	(1,692)	(1,445)	(14,286)
Net cash used in financing activities	(7,261)	(15,981)	(61,305)
Effect of exchange rate changes on cash and cash equivalents	(18)	0	(152)
Net decrease in cash and cash equivalents	(1,796)	(349)	(15,164)
Cash and cash equivalents at beginning of year	12,251	12,600	103,436
Cash and cash equivalents of newly consolidated subsidiaries	1,159	—	9,786
Cash and cash equivalents at end of year	¥ 11,614	¥ 12,251	$ 98,058

The accompanying notes are an integral part of these statements.

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Izumi Co., Ltd. (the "Company") and its subsidiaries (collectively, the "Companies") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of consolidation and accounting for investments in affiliates

As at February 28, 2007, the accompanying consolidated financial statements included the accounts of the Company and 21 of its subsidiaries, of which four subsidiaries were newly consolidated due to completion of the civil rehabilitation procedures, and two subsidiaries were excluded due to merger. As at February 28, 2006, 19 subsidiaries were consolidated.

Investments in all affiliates (20%-to-50% owned companies) are accounted for using the equity method. As at February 28, 2007, the Company had eight affiliates, of which four affiliates were newly accounted for due to acquisition of common stock. As at February 28, 2006, the Company had four affiliates.

Two non-consolidated subsidiaries, NIKONIKODO Co., Ltd. and Izumi International Limited, were not accounted for using the equity method due to civil rehabilitation and temporary control, respectively. Investments in these companies were stated at cost as at February 28, 2006.

(2) Elimination and consolidation

For the purposes of preparing the consolidated financial statements, all significant inter-company transactions and account balances have been eliminated.

Unrealized profits on sale of assets among the Companies have been entirely eliminated, and the portions attributable to minority interests are credited to net income. The depreciation expense has been adjusted in connection with the elimination of unrealized profits included in depreciable assets.

Regarding the elimination of investments in shares of consolidated subsidiaries, together with the underlying equity in the net assets of such subsidiaries, the Company follows the step-by-step acquisition method to include equity in the net income of subsidiaries subsequent to the date of acquisition in the consolidated financial statements. Any differences between the costs of investments in subsidiaries and the amount of underlying equity in the net assets of subsidiaries are charged to income as incurred.

(3) Cash and cash equivalents

Cash and cash equivalents included in the consolidated statements of cash flows are composed of cash in hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of material fluctuation in value.

(4) Translation of foreign currencies

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are included in net profit or loss for the period.

Assets and liabilities of foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Profit and loss accounts for the year are translated into Japanese yen using the average exchange rate during the year. Differences in yen amounts arising from the use of different rates are presented as "foreign currency translation adjustments" in net assets.

(5) Investments in securities

Available-for-sale securities for which market quotations are available are stated at fair value. Unrealized gains on these securities are reported as "Net unrealized gains on securities" in net assets at a net-of-tax amount, and unrealized losses on these securities are included in net profit or loss for the period. Available-for-sale securities with no available market quotations are stated at cost.

If a decline in fair value below cost of an individual security is judged to be material and other than temporary, the carrying value of the individual security is written down and charged to the income statement.

(6) Derivatives

Derivative financial instruments are stated at fair value and changes in the fair value are recognized as gains or losses unless the derivative financial instruments are used for hedging purposes. If the derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains and losses resulting from changes in the fair value of derivative financial instruments until the related losses or gains on the hedged items are realized. In the event that foreign exchange forward contracts, currency swap contracts or currency option contracts are used as hedges and meet certain hedging criteria, the hedged items are stated at the forward exchange contract rates. If interest rate swap agreements are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap agreements is added to or deducted from the interest on the assets or liabilities for which the swap agreements were executed.

(7) Inventories

Inventories are valued at cost. Cost is determined principally by the retail method.

Supplies are carried at cost. Cost is determined by the last purchase price method.

(8) Depreciation of property and equipment

Property and equipment are stated at cost. Significant renewals and additions are capitalized; normal repairs and maintenance including minor renewals and improvements are charged to income as incurred.

The cost and accumulated depreciation applicable to property and equipment retired or otherwise disposed of are eliminated from the related accounts and the gain or loss on disposal is credited or charged to the income statement.

Depreciation of property and equipment is computed using the declining-balance method over the estimated useful lives or lease contract term of assets prescribed by Japanese corporate tax laws, except for the following, which are depreciated using the straight-line method:

- A large-scale, compound-type shopping center
- Buildings built on leasehold land
- Property and equipment of two consolidated subsidiaries
- Buildings (excluding building improvements) acquired on or after April 1, 1998

Minor assets with an acquisition cost of ¥100 thousand or more, but less than ¥200 thousand, are depreciated over three years on a straight-line basis.

(9) Intangible assets

Capitalized software costs for internal use, included in other assets, are amortized using the straight-line method over the estimated useful life of the software (five years). Other intangible assets, included in other assets, are amortized using the straight-line method over the period stipulated by Japanese corporate income tax laws.

(10) Impairment of fixed assets

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets". The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use.

The Companies applied this standard with effect from the year ended February 28, 2007. As a result of this application, income before income taxes and minority interests decreased by ¥4,011 million ($33,865 thousand) for the year ended February 28, 2007. Further details of the impairment loss is shown in Note 5.

Accumulated loss on impairment is directly deducted from the related assets in accordance with the revised rule concerning consolidated financial statements.

(11) Allowance for doubtful accounts

An allowance for doubtful accounts is provided in preparation for the risk of uncollectible accounts. This consists of the estimated uncollectible amount with respect to individually identified doubtful receivables and an amount calculated based on the historical bad debt ratio with respect to the remaining receivables.

(12) Accrued bonuses to employees

An allowance is made for bonuses to employees and is provided for based on the amount estimated to be payable to employees at the balance sheet date.

(13) Accrued bonuses to directors and corporate auditors

An allowance is made for bonuses to directors and corporate auditors and is provided based on the amount estimated to be payable to directors and corporate auditors at the balance sheet date.

Effective from the year ended February 28, 2007, the Companies applied "Accounting standard for directors' bonus" (Accounting Standard Board of Japan Statement No. 4 issued on November 29, 2005 by the Accounting Standards Board of Japan).

As a result of the application of this standard, operating profit, ordinary income and income before income taxes for the year ended February 28, 2007 decreased by ¥39 million ($329 thousand).

(14) Allowance for point discounts

An allowance for point discounts is provided for estimated future usage of points that entitle customers to receive reductions in the price of future purchases, based on past experience.

(15) Accrued severance indemnities

Accrued retirement indemnities to employees represent the estimated present value of projected benefit obligations in excess of the fair value of the plan assets except that, as permitted under Japanese accounting standards, unrecognized actuarial differences are amortized on a straight-line basis over 6 to 11 years from the next year in which they arise and unrecognized past service costs are amortized on a straight-line basis over 6 to 11 years from the year in which they arise.

Certain subsidiaries provide for accrued severance indemnities at 100% of the liability which would be required to be paid if all eligible employees voluntarily terminated their employment at the balance sheet date.

The Company and certain subsidiaries provide for lump-sum severance benefits with respect to directors and corporate auditors. While the Company and certain subsidiaries have no legal obligation to do so, it is customary practice in Japan to make lump-sum payments to directors or corporate auditors upon retirement. Such liabilities are not funded.

(16) Allowance for loss on guarantees

The Company provides an allowance for potential loss on guarantees of loans from financial institutions taken by affiliates and others.

(17) Leases

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

(18) Consumption taxes

Consumption taxes are imposed at a flat rate of 5% on all domestic consumption of goods and services (with certain exemptions). The consumption taxes withheld on revenues and the consumption taxes paid on purchases are both excluded from the amounts of relevant items in the accompanying consolidated statements of income.

(19) Income taxes

Income taxes of the Companies consist of corporate income tax, local inhabitant tax and enterprise tax.

Deferred income taxes are determined using the asset and liability method, whereby deferred tax assets and liabilities are recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements. Deferred tax assets and liabilities are measured by using currently applicable tax rates, and the effect on these deferred tax assets and liabilities of a change in tax rates is recognized in income in the period of the application date.

(20) Accounting standard for presentation of net assets in the balance sheet

Effective from the year ended February 28, 2007, the Companies have applied "Accounting standards for presentation of net assets in the balance sheet (Accounting Standards Board of Japan Statement No. 5)", and "Implementation guidance for Accounting standards for presentation of net assets in the balance sheet (Accounting Standards of Japan Guidance No. 8)" both issued by the Accounting Standard Board of Japan on December 9, 2005.

"Net assets" in the balance sheets for this year is presented according to the revision of "Regulations concerning the Terminology, Form and Presentation Methods of Consolidated Financial Statements" dated April 25, 2006.

Total stockholders' equity as at February 28, 2007, as presented previously incurred have accounted for ¥99,541 million ($840,434 thousand).

(21) Net income and cash dividends per share

Basic earnings per share of common stock are based on the weighted average number of shares of common stock outstanding during each period. Net income is adjusted by deducting bonuses paid to directors and corporate auditors as well as the payment of dividends to shareholders of preferred stocks to be recognized as an appropriation of retained earnings, from net income in the consolidated statements of income, and the calculation of earnings per share is made on that adjusted net income basis.

Cash dividends per share include those declared with respect to net income for the respective periods for which the dividends were proposed by the Board of Directors. Dividends are charged to retained earnings in the year in which they are paid.

(22) Reclassification

Certain reclassifications of the accompanying consolidated financial statements as of and for the year ended February 28, 2006 have been made to conform to the 2007 presentation.

3. UNITED STATES DOLLAR AMOUNTS

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥118.44 = U.S. $1, the rate of exchange on February 28, 2007 has been used in translation. The inclusion of such amounts is not intended to imply that the Japanese yen has been or could be readily converted, realized or settled in U.S. dollars at this rate or any other rate.

4. INVESTMENTS IN SECURITIES

(1) Available-for-sale securities at February 28, 2007 and 2006 which have readily determinable fair value are summarized as follows:

	Millions of yen					
	2007			2006		
	Acquisition cost	Carrying value	Gross unrealized gains (losses)	Acquisition cost	Carrying value	Gross unrealized gains (losses)
Securities with unrealized gains:						
Equity securities	¥3,757	¥7,637	¥3,880	¥3,702	¥7,122	¥3,420
Securities with unrealized losses:						
Equity securities	438	393	(45)	154	146	(8)
Total	¥4,195	¥8,030	¥3,835	¥3,856	¥7,268	¥3,412

	Thousands of U.S. dollars (Note 3)		
	2007		
Securities with unrealized gains:			
Equity securities	$31,721	$64,480	$32,759
Securities with unrealized losses:			
Equity securities	3,698	3,318	(380)
Total	$35,419	$67,798	$32,379

(2) Available-for-sale securities at February 28, 2007 and 2006, which have no readily determinable fair value, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Available-for-sale securities			
Non-listed equity securities	¥152	¥160	$1,283

(3) Total sales of available-for-sale securities for the years ended February 28, 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Sales	¥86	¥500	$726
Gross realized gains	1	116	8
Gross realized losses	14	0	118

5. IMPAIRMENT LOSS

For the year ended February 28, 2007, the Companies recognized impairment loss for the following groups of assets.

Description	Location (Prefecture)	Classification	Millions of yen	Thousands of U.S. dollars (Note 3)
Operating stores (42 groups)	Hiroshima, Okayama, Fukuoka, Others	Land	¥2,020	$17,055
Rental assets (2 groups)	Hiroshima, Yamaguchi	Buildings and structures	1,710	14,438
Idle assets (1 group)	Tottori	Others	281	2,372
Total			¥4,011	$33,865

The Companies group their fixed assets by the minimum cash-generating unit ("CGU"), such as stores, rental assets and idle assets by individual. Impairment loss was recognized and recorded in "Other income (expenses)" in accordance with new "Accounting Standard for Impairment of Fixed Assets." An impairment loss is recognized when the carrying amount of assets in a CGU exceeds the recoverable value of the assets. This may be triggered by land that has significantly depreciated in value, CGUs that will be closed in the near future or which have made consecutive operating losses.

Recoverable value of the group of assets is the higher amount of net selling price or value in use. Net selling price was primarily calculated based on independent appraisals, and value in use was calculated by discounting estimated future cash flows to which 4.07% to 4.21% discount rate was applied.

6. LEASES

(1) As lessee:

a) The acquisition cost, accumulated depreciation, accumulated impairment loss and net book value of leased assets at February 28, 2007 and 2006, if capitalized, are summarized as follows:

	Millions of yen					
	2007			2006		
	Equipment and vehicles	Other	Total	Equipment and vehicles	Other	Total
Amount to:						
Acquisition cost	¥ 2,665	¥ 3,623	¥ 6,288	¥ 2,738	¥ 5,153	¥ 7,891
Accumulated depreciation	(2,470)	(2,996)	(5,466)	(2,241)	(3,883)	(6,124)
Accumulated impairment loss	—	(15)	(15)	—	—	—
Net book value	¥ 195	¥ 612	¥ 807	¥ 497	¥ 1,270	¥ 1,767

	Thousands of U.S. dollars (Note 3)		
	2007		
Amount to:			
Acquisition cost	$ 22,501	$ 30,589	$ 53,090
Accumulated depreciation	(20,854)	(25,296)	(46,150)
Accumulated impairment loss	—	(126)	(126)
Net book value	$ 1,647	$ 5,167	$ 6,814

The acquisition cost is calculated including the interest portion as the outstanding future lease payments are immaterial to the year-end balance of property and equipment.

b) Amounts of outstanding future lease payments and allowance for impairment loss at February 28, 2007 and 2006, which include the interest portion, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Due within one year	¥556	¥ 970	$4,694
Due after one year	266	797	2,246
Total	¥822	¥1,767	$6,940
Allowance for impairment loss	¥ 15	—	$ 126

c) Lease payments, reversal of allowance for impairment loss on leased property, depreciation expense and impairment loss for the years ended February 28, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Lease payments	¥924	¥1,386	$7,801
Reversal of allowance for impairment loss on leased property	13	—	110
Depreciation expense	924	1,386	7,801
Impairment loss	28	—	236

d) Method of asset depreciation

The depreciation expense is determined based on the straight-line method over the lease term of the leased assets assuming no residual value.

(2) As lessor:

a) The acquisition cost, accumulated depreciation and net book value of leased assets at February 28, 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
	Equipment and vehicles	Equipment and vehicles	Equipment and vehicles
Amount to:			
Acquisition cost	¥210	¥ 75	$1,773
Accumulated depreciation	(39)	(18)	(329)
Net book value	¥171	¥ 57	$1,444

b) Amounts of outstanding future income at February 28, 2007 and 2006, which include the interest portion, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Due within one year	¥ 39	¥13	$ 329
Due after one year	147	49	1,241
Total	¥186	¥62	$1,570

c) Lease income and depreciation expense for the years ended February 28, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Lease income	¥22	¥10	$186
Depreciation expense amount	21	8	177

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings are primarily represented by bank overdrafts, bearing interest at the weighted average interest rates of 0.98% and 0.53% at February 28, 2007 and 2006, respectively.

Long-term debt at February 28, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Loans from banks and insurance companies, due from March 2007 to February 2018 with weighted average interest rates of 1.42% and 1.43% at February 28, 2007 and 2006, respectively.			
Secured	¥ 51,630	¥ 54,082	$ 435,917
Unsecured	32,777	43,249	276,739
	84,407	97,331	712,656
0.00% Japanese yen unsecured convertible bonds due July 2009	19,190	19,978	162,023
	103,597	117,309	874,679
Less, portion due within one year	(24,060)	(18,848)	(203,141)
	¥ 79,537	¥ 98,461	$ 671,538

The aggregate annual maturities of long-term debt outstanding at February 28, 2007 are as follows:

Years ending the last day of February:	Millions of yen	Thousands of U.S. dollars (Note 3)
2009	¥20,629	$174,172
2010	30,265	255,530
2011	8,699	73,446
2012	8,083	68,246
2013 and thereafter	11,861	100,144
Total	¥79,537	$671,538

Assets pledged as collateral and related secured debt at February 28, 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Assets pledged as collateral:			
Land	¥ 65,567	¥ 61,435	$ 553,589
Buildings	71,175	72,653	600,937
Investments in securities	1,328	1,766	11,212
Total	¥138,070	¥135,854	$1,165,738
Debt secured by the above:			
Short-term borrowings	¥ 10,050	¥ 8,954	$ 84,853
Other current liabilities	1,002	—	8,460
Long-term debt	51,630	54,082	435,917
Other liabilities	10,354	—	87,420
Total	¥ 73,036	¥ 63,036	$ 616,650

8. RETIREMENT BENEFIT PLANS

Employees of the Companies with more than one year's service are entitled to receive lump-sum indemnities upon retirement. The amount of the benefits is determined by reference to current basic rate of pay, length of service and conditions under which retirement occurs.

The funded status of the Companies at February 28, 2007 and 2006 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Projected benefit obligation	¥4,556	¥4,236	$38,467
Unrecognized net actuarial differences	(34)	(52)	(287)
Unrecognized past service costs	262	324	2,212
Accrued severance indemnities	¥4,784	¥4,508	$40,392

Pension and severance costs of the Companies included the following components for the years ended February 28, 2007 and 2006:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Service costs	¥399	¥464	$3,369
Interest costs	80	78	675
Realized net actuarial losses	17	33	144
Amortization of unrecognized past service costs	(61)	(57)	(515)
Other	130	117	1,097
Net periodic pension costs	¥565	¥635	$4,770

Pension benefits are attributed to periods of employee service based on year of service using the straight-line method.

Assumptions used in the accounting for the defined benefit plans for the years ended February 28, 2007 and 2006 are as follows:

	2007	2006
Discount rate	1.5%–2.0%	1.5%–2.0%

9. COMMITMENTS AND CONTINGENT LIABILITIES

The Company was contingently liable for guarantees of loans from financial institutions taken out by affiliates and others, totaling ¥2,641 million ($22,298 thousand) and ¥3,113 million at February 28, 2007 and 2006, respectively.

10. DERIVATIVE FINANCIAL INSTRUMENTS

(1) Status of transactions

a) Nature of transactions
The Companies use derivative instruments, which comprise foreign currency exchange forward contracts, currency swap contracts, currency option contracts and interest rate swap agreements.

b) Purpose and policy of transactions
The Companies use foreign currency exchange forward contracts, currency swap contracts and currency option contracts to minimize exposure and to reduce risk from exchange rate fluctuation in import transactions. The Companies also use interest rate swap agreements to hedge against exposure to interest rate fluctuation and to adapt the long-term fixed interest rate to the current rate in line with changes in the market rate. The Companies do not use derivative instruments for speculative trading purposes.

c) Risks in transactions
Derivative instruments used by the Companies are exposed to risk from market rate fluctuations. Counter-parties are highly creditworthy domestic banks and, therefore, the Companies do not expect losses due to non-performance by these counter-parties.

d) Risk management
Derivative transactions are managed and approved by responsible decision-making bodies such as management meetings, and executed by the related departments.

(2) Market value of transactions

The Companies had the following derivative contracts outstanding at February 28, 2007 and 2006:

	Millions of yen					
	2007			2006		
	Contract amount	Fair market value	Unrealized gains	Contract amount	Fair market value	Unrealized gains
Currency option contracts	¥1,732	¥91	¥91	¥3,872	¥43	¥43

	Thousands of U.S. dollars (Note 3)		
	2007		
Currency option contracts	$14,623	$768	$768

The fair value is quoted by financial institutions with which the Companies conclude foreign currency exchange forward contracts and currency option contracts.

Derivative transactions with hedge accounting applied are excluded from the above table.

11. NET ASSETS

Through May 1, 2006, the Company and its domestic subsidiaries are subject to the Commercial Code of Japan (the "Code"). Under the Code the entire amount of the issue price of new shares issued is required to be capitalized as stated common stock, although the Company may, by resolution of its Board of Directors, capitalize an amount not exceeding one half of the issue price of the new shares as additional paid-in capital.

The Code requires a domestic company to appropriate, as a legal reserve, an amount equal to at least 10% of the amount paid out by it as appropriation of retained earnings (including any payment by way of annual dividend and bonuses to directors and corporate auditors) for the period or equal to 10% of any interim dividend, until the sum of the legal reserve and the additional paid-in capital equals 25% of its stated common stock. The legal reserve and additional paid-in capital may be transferred to stated common stock through suitable director action or used to reduce a deficit through suitable stockholder action.

Under the Code, the appropriation of retained earnings (including year-end cash dividend payment) proposed by the Board of Directors should be approved at a stockholders' meeting, which must be held within three months of the balance sheet date. The appropriation of retained earnings reflected in the accompanying consolidated financial statements represents the results of such appropriations which are applicable to the immediately preceding fiscal year but which are approved by the stockholders' meeting and disposed of during the current year.

As is customary practice in Japan, the payment of bonuses to directors and corporate auditors is made out of retained earnings instead of being charged to income for the year and constitutes a part of the appropriations cited above.

On May 1, 2006, a new Corporate Law (the "Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the years ending on or after May 1, 2006. The significant changes in the Law that affect financial and accounting matters are summarized below.

a) *Dividends:* The Law allows Japanese companies to pay dividends at any time during the year in addition to the year-end dividend upon resolution at the stockholders' meeting. For Japanese companies that meet certain criteria such as, having the Board of Directors, having independent auditors, having the Board of Corporate Auditors, and the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation. The Law permits Japanese companies to distribute dividends-in-kind (non-cash assets) to stockholders subject to certain limitations and additional requirements. The Law continues to provide certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the stockholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b) *Increase/decrease and transfer of common stock, reserve and surplus:* The Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (of retained earnings) or as additional paid-in capital (of capital surplus) depending on the equity account charged upon the payment of such dividends until the total aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Law, the total amount of additional paid-in capital and legal reserve may be reversed without the limitation of threshold that the Code provided. The Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the stockholders.

c) *Treasury stock:* The Law continues to provide for Japanese companies to repurchase/dispose of treasury stock just as the Code did. The amount of treasury stock purchased cannot exceed the amount available for distribution to the stockholders which is determined by a specific formula.

(1) Type and number of issued shares

Type of stock	Number of shares as of February 28, 2006	Number of shares increased	Number of shares decreased	Number of shares as of February 28, 2007
Common stock	61,558,710	—	—	**61,558,710**

(2) Type and number of shares of treasury stock

Type of stock	Number of shares as of February 28, 2006	Number of shares increased	Number of shares decreased	Number of shares as of February 28, 2007
Common stock	9,255,077	657,184	259,959	**9,652,302**

The increase in treasury stock is from purchases in the open market and purchases of non-full unit stocks. The decrease in treasury stock is from distribution of treasury stock when exercising stock warrants.

(3) Stock warrants

		Number of shares subject to stock warrants			
Type of stock warrants	Type of stock	Number of shares as of February 28, 2006	Number of shares increased	Number of shares decreased	Number of shares as of February 28, 2007
Unsecured convertible bonds	Common stock	6,591,224	—	259,981	**6,331,243**

The balance of stock warrants as of February 28, 2007 is ¥19,190 million ($162,023 thousand). The amount payable on the stock warrant exercise date is ¥3,301 ($27.87). However, on March 1, 2007, a share split (2 for 1) was made, resulting in an amount payable on the stock warrant exercise date of ¥1,515 ($12.79)

(4) Matters related to dividends

a) Dividend payments

		Millions of yen	Yen			Thousands of U.S dollars (Note 3)	U.S dollars (Note 3)
Resolution	Type	Total amount of cash dividends	Dividend per share	Record date	Effective date	Total amount of cash dividends	Dividend per share
May 25, 2006 Stockholders' meeting	Common stock	¥757	¥14.00	February 28, 2006	May 26, 2006	$6,392	$0.12
October 11, 2006, Board of directors' meeting	Common stock	¥865	¥16.00	August 31, 2006	October 26, 2006	$7,303	$0.14

b) Dividends whose record date is within the year ended February 28, 2007, but effective after the year-end

		Millions of yen	Yen			Thousands of U.S dollars (Note 3)	U.S dollars (Note 3)
Resolution	Type	Total amount of cash dividends	Dividend per share	Record date	Effective date	Total amount of cash dividends	Dividend per share
May 24, 2007 Stockholders' meeting	Common stock	¥858	¥16.00	February 28, 2007	May 25, 2007	$7,244	$0.14

12. DETAILS OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The following are the major elements of "operating expenses" for the years ended February 28, 2007 and 2006.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Advertising and promotion	¥ 5,896	¥ 5,899	$ 49,780
Shipping expense	4,095	3,803	34,574
Allowance for doubtful accounts	776	799	6,552
Salaries and bonus expense	32,595	32,950	275,203
Welfare expense	1,544	1,414	13,036
Accrued bonus	5,673	5,402	47,898
Pension costs	541	600	4,568
Real estate rental fees	9,268	10,203	78,251
Utilities expense	5,269	5,395	44,487
Depreciation expense	10,326	10,621	87,183

13. INCOME TAXES

The Companies are subject to a number of different taxes based on income, which, in aggregate, result in statutory income tax rates of approximately 40.4% for the years ended February 28, 2007 and 2006. The other increase of ¥10 million in the Consolidated Statements of Changes in Net Assets for the year ended February 28, 2006, resulted from a change in the statutory income tax rate.

The reconciliation of the difference between the statutory income tax rates and the effective income tax rates for the year ended February 28, 2007 is as follows:

Statutory income tax rate	40.4%
Increase (decrease) in tax resulting from:	
Entertainment expenses and other which are permanently non-tax-deductible	0.1%
Dividend income and other income which is permanently non-taxable	(0.2%)
Per capita inhabitant taxes and other	1.1%
Valuation allowance	(8.8%)
Other	0.1%
Effective income tax rate	32.7%

The reconciliation schedule for the year ended February 28, 2006 is not disclosed because the difference between the statutory income tax rates and the effective income tax rates is less than 5% of the statutory income tax rates.

The significant components of deferred tax assets and liabilities at February 28, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Deferred tax assets:			
Allowance for doubtful accounts	¥ 222	¥ 205	$ 1,875
Property and equipment	237	163	2,001
Intangible assets	276	254	2,330
Investments in securities	88	36	743
Accrued enterprise tax	378	434	3,192
Accrued bonus	1,091	1,064	9,211
Accrued severance indemnities	2,299	2,089	19,411
Fair value adjustments of consolidated subsidiaries	355	355	2,997
Evaluation losses on investments in consolidated subsidiaries	1,901	—	16,050
Tax loss carried forward	3,109	73	26,250
Excess depreciation and amortization	407	324	3,436
Allowance for point discounts	283	383	2,389
Impairment loss	1,334	—	11,263
Provision for loss on guarantees	459	—	3,875
Other	426	489	3,597
Total	12,865	5,869	108,620
Valuation allowance	(4,082)	(104)	(34,464)
Total	8,783	5,765	74,156
Deferred tax liabilities:			
Reserve for special depreciation	(176)	(192)	(1,486)
Reserve for advanced depreciation of fixed assets	(210)	(218)	(1,773)
Fair value adjustments of consolidated subsidiaries	(985)	(984)	(8,316)
Unrealized gains on available-for-sale securities	(1,549)	(1,350)	(13,078)
Unrealized gains on property and equipment	(10)	(10)	(85)
Other	(0)	(8)	(0)
	(2,930)	(2,762)	(24,738)
Net deferred tax assets	¥ 5,853	¥ 3,003	$ 49,418

On March 31, 2003, the Japanese National Diet approved various changes to the calculation of the statutory local enterprise tax, effective April 1, 2004. Under the amended legislation, enterprise tax will be the sum of three tax components; a) an income based component, b) a value added component and c) a capital based component. For the year ended February 28, 2006, the value added component and the capital based component of this tax amounting to ¥308 million were included in selling, general and administrative expenses, in accordance with Practical Solution Report No. 12, issued by the Accounting Standards Board of Japan on February 13, 2004. As a result, selling, general and administrative expenses increased by ¥308 million and operating income and income before income taxes and minority interests decreased by the equivalent amount.

14. RELATED PARTY TRANSACTIONS

For the years ended February 28, 2007 and 2006, the Company purchased ¥12,030million ($101,570 thousand) and ¥11,612 million of merchandise from Japan Logistics Industry Co., Ltd. ("JLI"), respectively. Representative Director and Vice President of JLI, Mr. Yasuaki Yamanishi, is also a representative director and the President of the Company and owns 2.02% of the Company's voting stock. At February 28, 2007 and 2006, the Company had accounts payable of ¥1,176 million ($9,929 thousand) and ¥1,184 million, and deposit guarantee money of ¥50million ($422 thousand) to JLI, respectively.

For the year ended February 28, 2007, the Company purchased the Company's subsidiary stocks from Mr. Hiromasa Takanishi's relatives for ¥57 million ($481 thousand). Mr. Hiromasa Takanishi is a Representative Director and the Vice President of the Company and owns 0.03% of the Company's voting stock. The purchase price was based on the latest selling price.

For the years ended February 28, 2007 and 2006, the Company leased the Higashi-Hiroshima shop building from Izumi Kosan K.K. ("Izumi") with lease payments of ¥341 million ($2,879 thousand). Izumi is a majority-owned subsidiary of a company which is wholly owned by Mr. Yasuaki Yamanishi and his relatives and owns 4.01% of the Company's voting stock. The lease terms are the same as those for third parties. At February 28, 2007 and 2006, the Company paid guarantee money of ¥1,745 million ($14,733 thousand) and ¥2,221 million respectively, to Izumi. These amounts were determined based on the area occupied by the Company relative to the total area of the building.

15. SUPPLEMENTARY CASH FLOW INFORMATION

Cash and cash equivalents at February 28, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Cash and bank deposits	¥11,614	¥12,251	$98,058

16. SUBSEQUENT EVENT

The board of directors of the Company approved the stock split of the company's shares at the board of directors meeting held on February 5, 2007. Details of the stock split are as follows:

(1) Each share of common stock will be split into two shares on March 1, 2007.

a) Number of shares to be increased by the stock split:
61,558,710

b) Method of stock split:
Each share of common stock held by stockholders listed or recorded on the final register of stockholders and the final register of beneficial stockholders as of February 28, 2007 will be split into two shares.

(2) Effective date: March 1, 2007

The net assets and net income per share for the years ended February 2006 and 2007 are as follows, on the assumption that this stock split took place at the beginning of each year:

	Yen		U.S. dollars (Note 3)
Per share:	2007	2006	2007
Net assets	¥959.49	¥845.76	$8.10
Net income–basic	¥125.90	¥108.30	$1.06
Net income–diluted	¥111.94	¥ 96.34	$0.95

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of
Izumi Co., Ltd.

We have audited the accompanying consolidated balance sheets of Izumi Co., Ltd. and its subsidiaries as of February 28, 2006 and 2007, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 Izumi Co., Ltd. and its subsidiaries as of February 28, 2006 and 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.

As described in Note 2 (10), effective for the year ended February 28, 2007, Izumi Co., Ltd. and its subsidiaries changed their accounting policy for impairment of fixed assets.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

Misuzu Audit Corporation

Misuzu Audit Corporation
Hiroshima, Japan
May 24, 2007

DIRECTORS AND CORPORATE AUDITORS

CHAIRMAN
Yoshimasa Yamanishi

PRESIDENT
Yasuaki Yamanishi

MANAGING DIRECTOR
Tsunehiko Yoshida

DIRECTOR
Yuichiro Kajiwara

FULL-TIME CORPORATE AUDITOR
Kuniaki Kawamoto

CORPORATE AUDITORS
Toyomi Takimoto
Jiro Matsubara
Yasuyuki Tudo

(as of May 24, 2007)

CORPORATE DATA

HEAD OFFICE
2-22, Kyobashi-cho,
Minami-ku, Hiroshima,
Hiroshima Prefecture 732-0828, Japan
Tel.: (082) 264-3211

DATE OF ESTABLISHMENT
October 27, 1961

PAID-IN CAPITAL
¥19,614 million (as of February 28, 2007)

SECURITIES TRADED
Common Stock
Tokyo Stock Exchange, First Section
Osaka Securities Exchange, First Section

TRANSFER AGENT AND REGISTRAR
The Sumitomo Trust & Banking Co., Ltd.
4-5-33, Kitahama, Chuo-ku,
Osaka 540-8639, Japan

ANNUAL MEETING OF STOCKHOLDERS
The annual meeting of stockholders of the Company is normally held in May each year in Hiroshima, Japan. In addition, the Company may hold an extraordinary meeting of stockholders whenever necessary by giving at least two weeks' advance notice to stockholders.

AUDITORS
Misuzu Audit Corporation

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