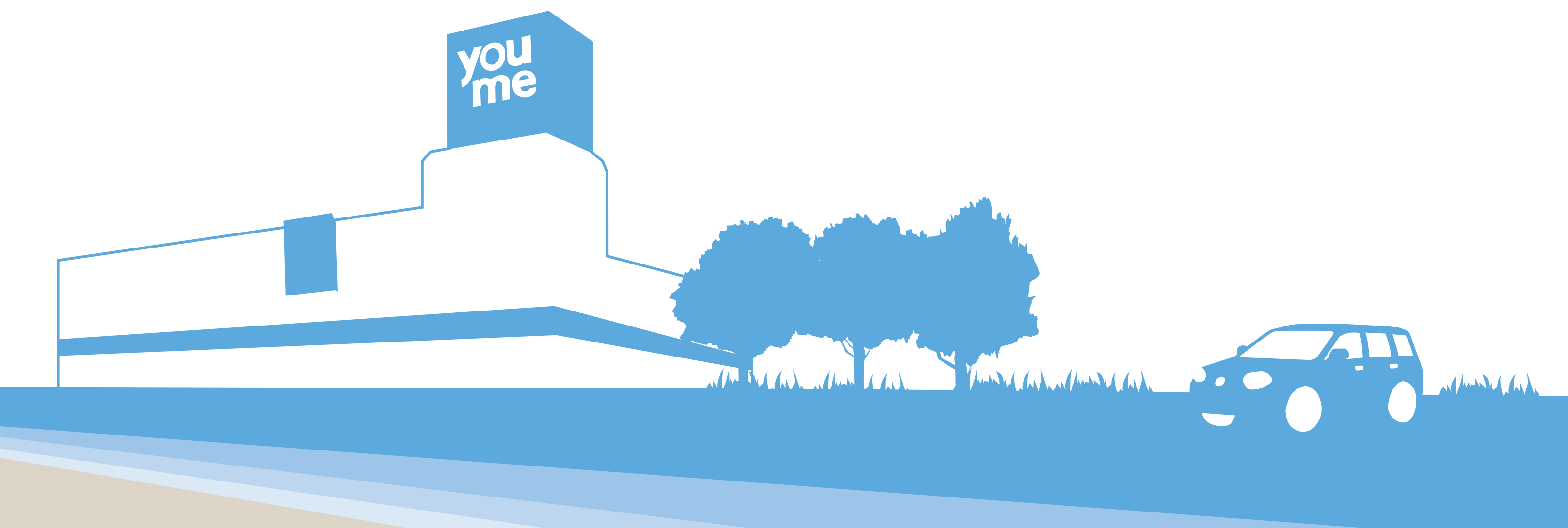
you me town



IZUMI Co., Ltd.

Annual Report
2004

FINANCIAL HIGHLIGHTS

	Millions of yen					Thousands of U.S. dollars (Note 1)
	2004 Mar. 2003– Feb. 2004	2003 Mar. 2002– Feb. 2003	2002 Mar. 2001– Feb. 2002	2001 Mar. 2000– Feb. 2001	2000 Mar. 1999– Feb. 2000	**2004 Mar. 2003– Feb. 2004**
Revenues	**¥ 407,648**	¥ 383,098	¥ 363,714	¥ 346,811	¥ 288,343	**$ 3,719,755**
Operating income	**18,079**	15,994	14,784	10,285	8,134	**164,969**
Income before income taxes and minority interests	**16,888**	11,834	9,493	7,790	3,360	**154,102**
Net income	**8,713**	5,600	4,832	3,415	1,437	**79,505**
Net income/revenues	**2.14%**	1.46%	1.33%	0.98%	0.50%	**2.14%**
Total stockholders' equity	**84,354**	76,892	74,132	71,810	74,471	**769,724**
Total assets	**295,927**	273,484	268,655	270,757	236,785	**2,700,310**
	Yen					U.S. dollars (Note 1)
Per share (Note 2):						
Net income—basic	**¥ 148.07**	¥ 95.23	¥ 81.46	¥ 53.66	¥ 21.99	**$ 1.35**
Net income—diluted	**—**	94.21	79.40	48.87	20.36	**—**
Cash dividends declared	**23.00**	23.00	21.00	21.00	21.00	**0.21**

Notes 1. Yen amounts are translated into U.S. dollars, solely for convenience, at the prevailing exchange rate on February 29, 2004 of ¥109.59 = U.S. $1.
2. See Note 2 (17) of Notes to Consolidated Financial Statements.

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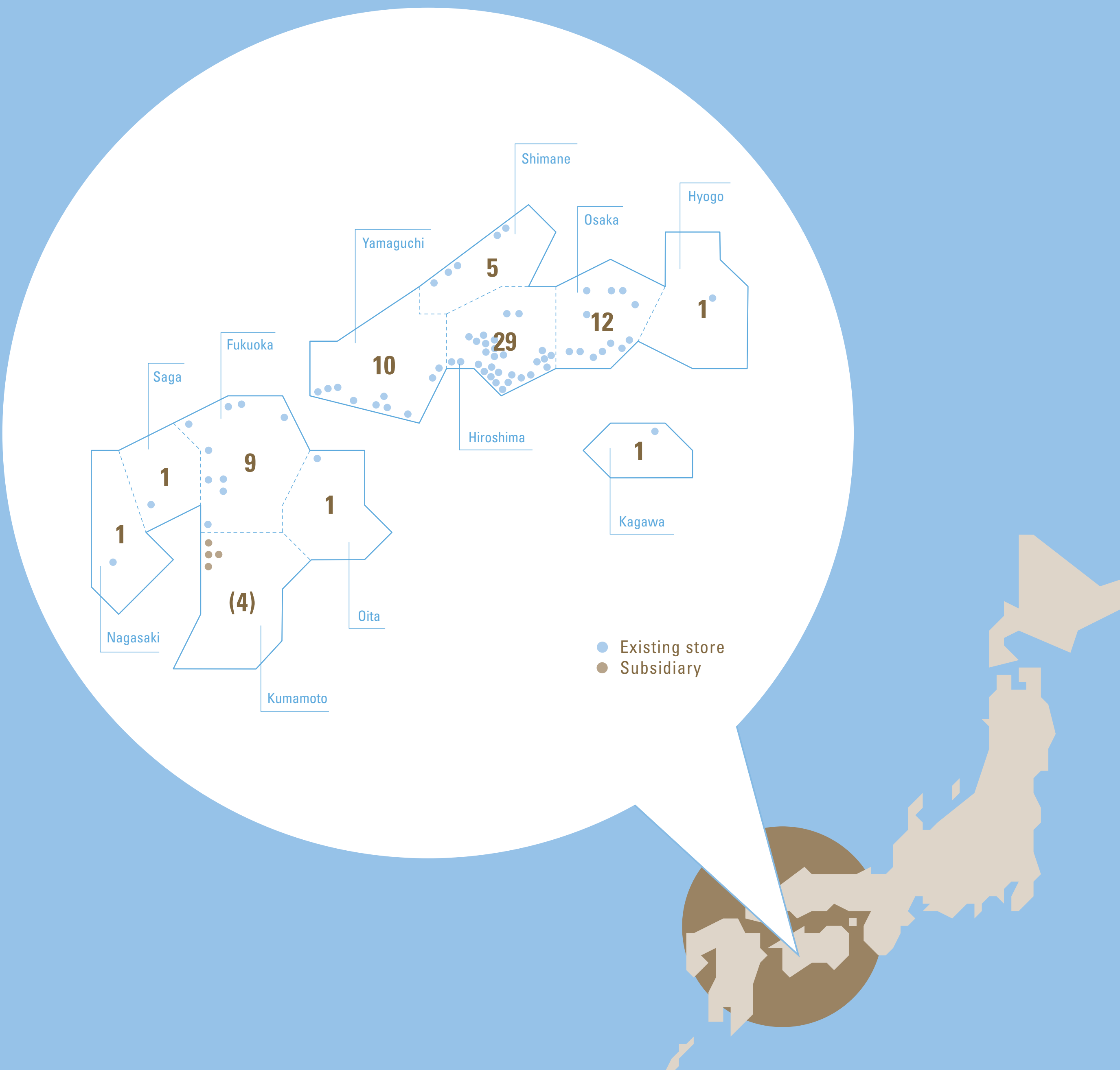
PROFILE

Izumi Co., Ltd. takes pride in being the predominant retail chain in the Chugoku, which includes Hiroshima, and Kyushu regions of Western Japan. As at the end of February 2004, its hypermarkets and food supermarkets had extended to 70 locations in the area. In the former category, Youme Town in particular is pushing to be the region's number one in terms of scale and product range with its 'Dream Street' supporting the local inhabitants' lifestyle proof positive of continued development to come.

As the guiding principle of Izumi's management style, "customer satisfaction" will be properly addressed in accordance with customers' needs in the future, as the Company further establishes its position of competitive dominance within the region.



The fiscal year under review, ended February 29, 2004, witnessed the adverse environment surrounding the distribution industry increasing in its severity, with low clouds hanging over private spending caused by employment anxieties, and wage restraints and the increasing burden of welfare guarantee payments allying with more intense competition.

Under these circumstances, Izumi undertook strengthening measures in step with changing customer needs and worked towards maximizing customer satisfaction. As a result, established store sales made little progress due to changeable weather and intensified competition, but a change in business conditions at newly opened stores resulted in them making a contribution to an increase in revenues. Furthermore, the first stage in cost structure reform combined with the robust performance of the Group as a whole, enabling it to achieve increases in revenues and profits for the fifth fiscal year in succession.

1. Contribution from newly opened stores

Over and above increasing customer satisfaction levels, the Company should take advantage of its "original strengths it has acquired by making further inroads into the region." Although our branches are confined to the Chugoku, Shikoku and Kyushu areas, there are positive store developments taking place within our catchment area, with newly opened stores making a significant contribution to increases in revenue.

- In September 2003, Izumi's premier Youme Town Kurume store opened, smoothly bringing about change by concentrating Japan's top-class in terms of scale and high-profile specialist store group as the region's number one.
- Youme Town Kumamoto opened in the previous fiscal year but, during the period under review and continuing throughout the year they contributed fully to results and significantly to those of subsidiaries. Among those stores leased from Niko Niko Do, overall activity involved the refurbishment and reopening of Sanpian and Hamasen stores as Youme Town stores.

2. Cost structure reform

On the other hand, revenue levels at our existing stores base weathered both poor consumer spending as well as unseasonable temperatures, showing a decline of 2.8% compared with the previous fiscal year. However, ongoing cost structure reform resulted in, among others, a reduction in selling, general and administrative expenses, a rise in direct gross profit and a lower breakeven point. As a result, absorbing the burden of stagnation at existing stores and store openings at newly established locations secured an increase in profits.

3. Group growth

Taking the Group as a whole, including the active expansion of X-Sell import brand stores, a strengthening of Youme Card functions and greatly increased card membership, the widening scope of orders for Ideo's energy saving business and the favorable results from Youme Town's Kumamoto store all managed to force up growth.

The above results and fiscal 2003 performance are set out below.

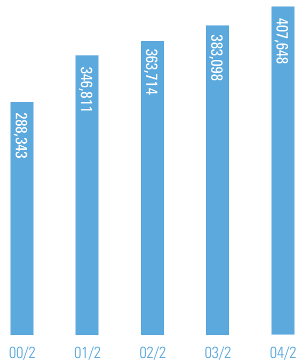
- Revenue levels at our existing stores base weathered both poor consumer spending as well as unseasonable temperatures, showing a decline of 2.8% compared with the previous fiscal year, sales at Group subsidiaries firmed up. Year-round operations at Youme Town Kumamoto, which commenced operations in July 2002 and also operates the small-scale general stores leased from Niko Niko Do, resulted in consolidated revenues of ¥407.6 billion being recorded, an increase of 6.4% compared with the previous fiscal year.
- Compared with the previous year, consolidated net income in the year under review increased 55.6%, to ¥8.71 billion, and net income per share was ¥148.07, representing an increase of 55.5%.
- Gross profit ratio from the provision and sale of products to Group companies was 22.7% (edging downward 0.6% compared with the previous year), but gross profit ratio at directly managed stores showed an improvement to 30.1%, an increase of 0.1% compared with the previous year.
- These results mean that revenues and profits have increased year-on-year for five successive fiscal years. Consolidated return on equity (ROE) was 10.8%.

Cash dividend per share has risen from last year's ¥21.00, to ¥23.00, but from the stability of allocation point of view, that for the current fiscal year could be deferred.

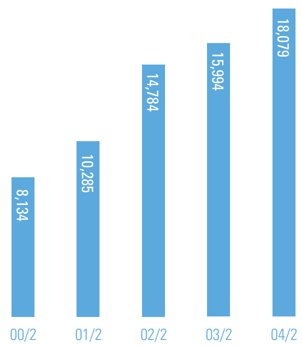
山西泰明

Yasuaki Yamanishi
President

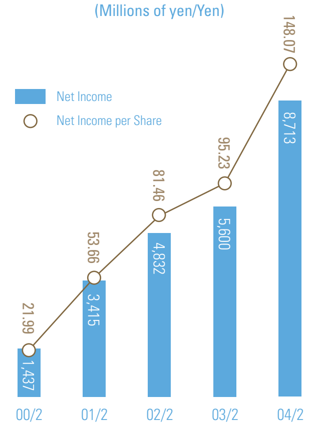
Revenues
(Millions of yen)



Operating Income
(Millions of yen)



Net Income/
Net Income per Share
(Millions of yen/Yen)



IZUMI'S OPERATING ENVIRONMENT

The environment surrounding the retail industry is as harsh as ever, with retail business breakeven points becoming a matter of life or death.

- At the start of the decade, the shake-up in multiple-location supermarkets caused a reduction in the amount of sales floor space available. This was the first stage of a deterioration in the competitive environment, and those famous companies that managed to survive once again increased by proactively opening stores.
- In the retail industry, it is generally thought that the gaining and maintaining of customer satisfaction go hand in hand with profits. However, the needs of the customer are becoming increasingly diverse and changing radically, so to comply with those needs in a precise manner poses a significant problem.
- The conflict of interest between the arrival of the retail businesses of overseas affiliates and retail/wholesale mergers and acquisitions on one side, and distribution structure rationalization on the other is intense but, as a retailer with local roots, there is an absolute necessity to cope with and at the same time exploit these special circumstances.

IZUMI'S BASIC GUIDELINES

Under these circumstances, Izumi will adhere steadfastly to the basic guidelines outlined below.

- Maintaining customer satisfaction is indeed the source of profit, but Izumi, confronted by various changes, is in the process of bringing this to lasting fruition at each store by measures corresponding to independence and speed.
- Maintain focus on spheres in which we hold a dominant competitive position and have limited management resources. Specifically:
  1. Limit stores to the Chugoku-Kyushu area, deepen understanding of the area's special characteristics, increase management efficiencies
  2. In our core everyday items business in that region, continue to make stores the local number one by introducing a wider range of items from prominent Japanese specialty store groups
  3. Likewise, in the case of existing branches, continuously re-energize investment, resolutely close down underperforming stores and increase property asset efficiency

VALUE-ADDED UPGRADE OF PRODUCTS AND SERVICES

In accordance with the above-mentioned basic guidelines, the following will be put into effect at stores to ensure customer satisfaction:

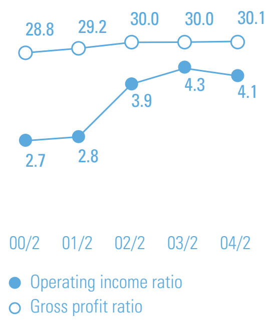
- By offering high value-added products, clothing departments have already gained customer allegiance and become Izumi profit leaders. This will be continued by the introduction of new and existing lines previously unobtainable in the region, proposing new styles to customers with

further advancement of stylish stores.

- As Izumi's household-related product department, which deals in domestic appliances, furniture and sports goods, lacked unique selling points, it was withdrawn in its early stages and a special focus is being placed on an area with more product differentiation potential. In the period under review, the drug department began cooperation with Japan's sole retail drug company, MatsumotoKiyoshi Co., Ltd. As it stocks competitive products, there will be an exchange of expertise, expertise that it has already put into its vision of the dispensing pharmacy of the future. In its position as an influential specialty store in the region, and with a view to higher value-added, Izumi will continue to address those fields in which it currently lacks expertise.
- In the general and prepared food departments, market leading product ranges have made great gains in terms of competitiveness. However, certain aspects of the fresh produce department compared unfavorably with the region's smaller food stores, showing a lack of responsiveness to its particular needs. Therefore, in addition to adopting points gleaned from regional market planning to gain customer support, the Company addressed the problem by strengthening its development of daily market-fresh produce, accepting the risk of switching to buying in deliveries direct from the market to each store on a daily basis. By doing so, a rich range of fresh produce could be developed in a short space of time, competitiveness returned, with an overall recovery trend visible in both the food department and its revenues.

FEBRUARY 2004 RESULTS

Trends in operating income ratio and gross profit ratios at directly managed stores
(%)



An explanation of financial targets and results attained in the region for the period under review follows:

1. Non-consolidated operating income ratio 4.1% (a decrease of 0.2% compared with the previous fiscal year)
   - The main cause of the fall was the increase in products sold and supplied to Group companies (compared with the previous fiscal year, the 0.5% gross profit rate of products sold and supplied increased 1.7 times, to ¥16.7 billion).

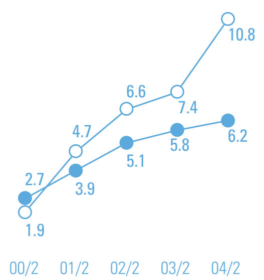
Youme Town Kurume

• As a result, gross profit of 22.2% edged down 0.3% compared with the previous year but, as the cost prices of bought-in products and price cut losses came down, the gross profit ratio of the three directly managed departments that form the profit base was able to show continued improvement to 30.1%, up 0.1% from the previous fiscal year.

• With the increased burden of company insurance, personnel expenses, selling, general and administrative expenses escalated but, on the other hand, by skillfully making changes, the effect on advertising costs and the like, advances were made in reducing expenditures. This resulted in a ratio of selling, general and administrative expenses to revenues of 22.2%, showing a slight improvement of 0.3% compared with the previous fiscal year.

In this fashion, cost structure reform continued to make progress during the period under review, with a corresponding improvement in the profit base.

Trends in consolidated ordinary income to total assets and consolidated ROE
(%)



● Ordinary income to total assets
○ Consolidated ROE

2. Ordinary income as a percentage of total assets of 6.2% (an increase of 0.4% compared with the previous fiscal year).

Izumi takes great pains to increase the asset profitability of its store network by continuously monitoring what stage in its life cycle each store has reached and by taking action accordingly.

• It is essential that newly established stores combine sufficient growth and profit potential. The Company smoothly opened its Youme Town stores to be the number one in the region but, having some high performance remaining from their competitive edge, extended the scale of Izumi's lead and was the main reason for an improvement in earning power.

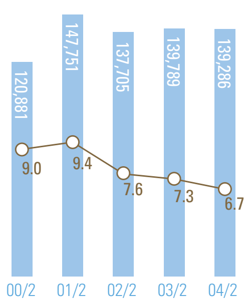
• In the face of competition and changing consumer needs, undertaking the revitalization of existing stores is of necessity an ongoing process. Every fiscal year, Izumi plows back a part of its cash flow into existing stores. By doing so, it plans to maintain and improve their profit potential.

• With reluctance, those underperforming stores that fail to meet needs or are not moving with the times are closed down. Store closures improve the earnings potential of existing stores and the setup of new high-profit stores and are essential for improved capital investment return planning.

These three points maintained healthy and high profit levels throughout the Izumi store network and secured consolidated ordinary income to total assets of 6.2%, up 0.4% compared with the previous term. With the environment surrounding the retail industry becoming progressively worse, there was wider scope for potential and long-lasting growth throughout the Company as a whole.

Regarding the capital held by stockholders, consolidated ROE showed its efficiency by improving 3.4% compared with the previous year, to 10.8%.

Trends in consolidated interest-bearing debt balances and repayment periods



■ Interest bearing debt balance (Millions of yen)
○ Repayment period (Years)

3. Consolidated interest-bearing debt of ¥139.2 billion (a decrease of ¥500 million compared with the previous year; excluding credit finance subsidiary Youme Card Co., Ltd., a decrease of ¥2.5 billion).

In the latter half of the 1990s, after three consecutive years of profit loss the opportunity was taken to slacken the pace of store openings to decrease capital investment and allocate cash flow to bring down interest-bearing debt. There was a focus on personnel training and staging a revenue recovery.

Later, to a background of a recovery in both revenues and results, Izumi once again used cash flow to open new stores, which brought about the subsequent stable growth.

• Deriving appropriate scope to strike an even balance between shareholders' equity and interest-bearing debt, a balance will be found between interest-bearing debt balances and control of arranged cash flows and investment.

• At the same time, improving cash flow generation brought about a steady reduction in interest-bearing debt repayment periods (interest-bearing debt ÷ cash flow).

By producing firm results and enriched internal reserves, an expected steady increase in shareholders' equity, increased cash flows as well as control over interest-bearing debt, Izumi's financial base is also expected to become progressively more secure.

FUTURE GROWTH STRATEGIES

Kure store planned to open in September 2004

Izumi will achieve growth by opening more Youme Town stores, the number one stores in the region. By increasing its market share in the Chugoku and Kyushu regions, Youme Town will be endowed with heightened consumer recognition as an up-market shopping center there.

By boosting performance, Izumi strengthened its management base and opened new stores over a wider area. From now on, new store openings will be entered into as actively and farsightedly as ever, taking into account related improvements in the business environment. At the present time, it has been decided to open two stores (Hikarinomori and Kure) in the fiscal year ending February 2005, with a further two to be added in the fiscal year ending in February 2006. Depending on the business environment and performance trends, consideration will then be given to the speed in which more stores can be established without causing undue financial strain, as one step in seizing opportunities enabling us to achieve high growth.

As has happened in the past, possibilities will also arise in the entire Chugoku, Shikoku and Kyushu region that will enable us to extend the store area by making use of the ease of access afforded by Shinkansen services and high-speed roads. In this fashion, by extending the area in which Youme Town is dominant, Izumi's business base will be further strengthened.

Topic: Hikarinomori Store Opened on June 3, 2004

The Hikarinomori store, which was opened on June 3, is located in the large suburban commuter belt around the hub city of Kumamoto in central Kyushu, currently an area with a growing population. Izumi gives careful consideration to direct access when selecting new store locations. Here it is more than adequate, with a dedicated bridge that was constructed from the highway the store faces and a newly opened Japan Railways station. The challenges posed by providing ease of access for elderly and disabled customers were also addressed by the introduction of barrier-free design features. As this is the first of the Company's stores to include a movie theater (nine screens, 1,800 seats) it is expected to bring in high numbers of visitors from the surrounding area.

Youme Town Hikarinomori store

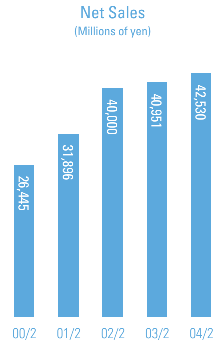
Site area: 48,500 m^2
Store area: 36,600 m^2
Parking space for 2,600 vehicles

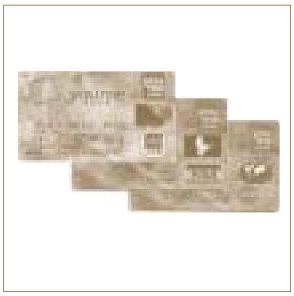
GROUP COMPANIES

Group companies, which are gaining in competitive strength in several business domains, intend to expand in areas outside Izumi’s current framework.

X-Sell Inc.

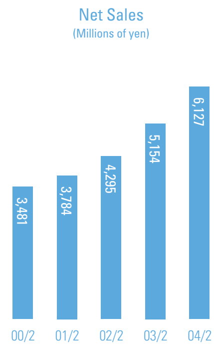
By utilizing its own supply channels, X-Sell operates stores specializing in imported premier brands, offering them at reasonable prices. Being the only unrivalled stores of their kind in the industry has resulted in vigorous store expansion that has attracted attention from nationwide shopping center chains. Two subsidiary companies derived from X-Sell, one specializing in watches the other jewelry, are proud of their competitive strength and are accelerating X-Sell’s growth.





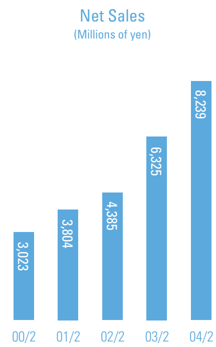
Youme Card Co., Ltd

Youme Card, which is operated as Izumi’s own house card and has developed as a credit card/cash advance business, has become the region’s most widely used card with the cooperation of financial organizations. VISA, Mastercard and JCB have all assisted in extending their convenience and favorably increased card-holder numbers, which has resulted in the internationalization of credit cards. By strengthening credit controls and further developing the system, Izumi will promote credit card use among its customers and is planning to extend its business even further.



Ideo Co., Ltd

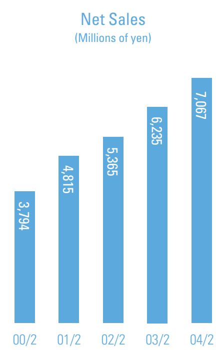
Deriving its principal business from securing and safeguarding building facilities as well as electrical and building maintenance and cleaning services, Ideo Co., Ltd. undertakes general building maintenance. From the Company`s shopping centers to Narita International Airport and government buildings, Ideo attracts business from a wide variety of facilities throughout Japan. Furthermore, large-scale facilities such as water treatment works are putting into operation cost reduction measures, which may point toward another growth phase in the near future.



Izumi Food Service Co., Ltd

Izumi Food Service operates the Company’s in-store restaurants. There has been a continuing shift away from the former mid-range food courts to genuine specialist shops offering, for example, Italian and Chinese cuisine. These have acted as core businesses attracting customers to YoumeTown, which places a number of popular stores under one roof.

From now on, as well as making further improvements in quality, progress will be made towards specialization that will produce higher profits than ever before from within a variety of specialist businesses. This will bring with it improvements in growth as well as profit earning potential.



CONSOLIDATED STATEMENTS OF INCOME

Izumi Co., Ltd. and its subsidiaries
For the years ended February 29, 2004 and February 28, 2003

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	**2004**
REVENUES:			
Net sales	**¥395,918**	¥373,428	**$3,612,720**
Other operating revenues	**11,730**	9,670	**107,035**
	407,648	383,098	**3,719,755**
COST OF SALES	**303,998**	283,925	**2,773,957**
Gross profit	**103,650**	99,173	**945,798**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**85,571**	83,179	**780,829**
Operating income	**18,079**	15,994	**164,969**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**254**	231	**2,318**
Interest expense	**(1,839)**	(2,184)	**(16,780)**
Loss on revaluation of investments in securities, net	**(61)**	(206)	**(556)**
Gain on sales of property and equipment	**3**	22	**27**
Loss on sales or disposal of property and equipment	**(629)**	(2,581)	**(5,740)**
Foreign exchange gains	**306**	133	**2,792**
Other, net	**775**	425	**7,072**
	(1,191)	(4,160)	**(10,867)**
Income before income taxes and minority interests	**16,888**	11,834	**154,102**
INCOME TAXES (Note 11)**:**			
Current	**7,369**	5,682	**67,242**
Deferred	**(255)**	(341)	**(2,327)**
	7,114	5,341	**64,915**
Income before minority interests	**9,774**	6,493	**89,187**
MINORITY INTERESTS	**1,061**	893	**9,682**
Net income	**¥ 8,713**	¥ 5,600	**$ 79,505**

	Yen		U.S. dollars (Note 3)
PER SHARE:			
Net income (Note 2 (17)):			
Basic	**¥148.07**	¥95.23	**$1.35**
Diluted	**—**	94.21	**—**
Cash dividends declared	**23.00**	23.00	**0.21**
WEIGHTED AVERAGE NUMBER OF SHARES (thousands)	**58,670**	58,806	

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

Izumi Co., Ltd. and its subsidiaries
As of February 29, 2004 and February 28, 2003

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	**2004**
ASSETS			
CURRENT ASSETS:			
Cash and bank deposits	**¥ 10,184**	¥ 8,168	**$ 92,928**
Short-term loans receivable	**13,810**	12,008	**126,015**
Notes and accounts receivable:			
Trade	**6,915**	5,854	**63,099**
Other	**1,381**	1,064	**12,602**
	8,296	6,918	**75,701**
Less–allowance for doubtful accounts	**(784)**	(643)	**(7,154)**
	7,512	6,275	**68,547**
Inventories	**22,200**	20,936	**202,573**
Deferred income taxes (Note 11)	**1,718**	1,287	**15,677**
Other current assets	**3,044**	3,608	**27,776**
Total current assets	**58,468**	52,282	**533,516**
INVESTMENTS AND ADVANCES:			
Investments in securities (Note 4)	**4,695**	4,562	**42,842**
Other investments and advances	**2,476**	2,024	**22,593**
	7,171	6,586	**65,435**
PROPERTY AND EQUIPMENT (Note 5 and 6)**:**			
Buildings and structures	**188,583**	173,615	**1,720,805**
Machinery, equipment, vehicles and other	**32,992**	30,015	**301,049**
	221,575	203,630	**2,021,854**
Less–accumulated depreciation	**(103,591)**	(95,669)	**(945,259)**
	117,984	107,961	**1,076,595**
Land	**79,246**	73,863	**723,113**
Construction in progress	**2,583**	1,613	**23,570**
	199,813	183,437	**1,823,278**
OTHER ASSETS:			
Fixed leasehold deposits	**16,864**	17,528	**153,882**
Deferred income taxes (Note 11)	**2,304**	2,724	**21,024**
Other	**11,307**	10,927	**103,175**
	¥295,927	¥273,484	**$2,700,310**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	**2004**
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings (Note 6)	**¥ 20,982**	¥ 24,883	**$ 191,459**
Current portion of long-term debt (Note 6)	**28,663**	28,593	**261,548**
Notes and accounts payable:			
Trade	**17,485**	14,644	**159,549**
Other	**11,215**	6,397	**102,336**
	28,700	21,041	**261,885**
Income taxes payable	**4,535**	3,868	**41,381**
Accrued bonus	**1,317**	1,464	**12,018**
Other current liabilities	**6,045**	4,313	**55,160**
Total current liabilities	**90,242**	84,162	**823,451**
LONG-TERM DEBT (Note 6)	**89,643**	86,314	**817,985**
ACCRUED SEVERANCE INDEMNITIES (Note 7)	**4,623**	4,413	**42,184**
LEASE DEPOSITS RECEIVED	**20,138**	16,114	**183,758**
DEFERRED INCOME TAXES (Note 11)	**994**	1,021	**9,070**
OTHER LIABILITIES	**609**	347	**5,557**
Total liabilities	**206,249**	192,371	**1,882,005**
COMMITMENTS AND CONTINGENT LIABILITIES (Note 8)			
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES	**5,324**	4,221	**48,581**
STOCKHOLDERS' EQUITY (Note 10)**:**			
Common stock, no par value:			
Authorized:			
February 29, 2004—195,243,000 shares			
February 28, 2003—195,243,000 shares			
Issued:			
February 29, 2004—61,558,710 shares	**19,614**	—	**178,976**
February 28, 2003—61,558,710 shares	**—**	19,614	**—**
Additional paid-in capital	**22,315**	22,315	**203,623**
Retained earnings	**45,823**	38,573	**418,131**
Net unrealized gains on securities	**535**	221	**4,882**
Less–foreign currency translation adjustments	**(3)**	(4)	**(27)**
Less–treasury stock at cost:			
February 29, 2004—2,909,775 shares	**(3,930)**	—	**(35,861)**
February 28, 2003—3,596,400 shares	**—**	(3,827)	**—**
Total stockholders' equity	**84,354**	76,892	**769,724**
	¥295,927	¥273,484	**$2,700,310**

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Izumi Co., Ltd. and its subsidiaries
For the years ended February 29, 2004 and February 28, 2003

	Number of shares of common stock (thousands)	Millions of yen					
		Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock at cost
BALANCE AT FEBRUARY 28, 2001	62,133	¥19,614	¥23,056	¥30,872	—	—	¥(1,732)
Net income for the year	—	—	—	4,832	—	—	—
Cash dividends	—	—	—	(1,304)	—	—	—
Directors' and corporate auditors' bonuses	—	—	—	(32)	—	—	—
Common stock repurchased and cancelled	(574)	—	(774)	—	—	—	—
Net unrealized gains on securities	—	—	—	—	¥268	—	—
Foreign currency translation adjustments	—	—	—	—	—	¥(5)	—
Increase in treasury stock, net	—	—	—	—	—	—	(663)
BALANCE AT FEBRUARY 28, 2002	61,559	¥19,614	¥22,282	¥34,368	¥268	¥(5)	¥(2,395)
Net income for the year	—	—	—	5,600	—	—	—
Cash dividends	—	—	—	(1,292)	—	—	—
Directors' and corporate auditors' bonuses	—	—	—	(103)	—	—	—
Treasury stock at more than cost	—	—	33	—	—	—	200
Net unrealized gains on securities	—	—	—	—	(47)	—	—
Foreign currency translation adjustments	—	—	—	—	—	1	—
Increase in treasury stock, net	—	—	—	—	—	—	(1,632)
BALANCE AT FEBRUARY 28, 2003	61,559	¥19,614	¥22,315	¥38,573	¥221	¥(4)	¥(3,827)
Net income for the year	—	—	—	8,713	—	—	—
Cash dividends	—	—	—	(1,442)	—	—	—
Directors' and corporate auditors' bonuses	—	—	—	(21)	—	—	—
Net unrealized gains on securities	—	—	—	—	314	—	—
Foreign currency translation adjustments	—	—	—	—	—	1	—
Increase in treasury stock, net	—	—	—	—	—	—	(103)
Increase due to application of equity method to additional subsidiaries and affiliates	—	—	—	0	—	—	—
BALANCE AT FEBRUARY 29, 2004	**(61,559)**	**¥19,614**	**¥22,315**	**¥45,823**	**¥535**	**¥(3)**	**¥(3,930)**

	Thousands of U.S. dollars (Note 3)					
	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock at cost
BALANCE AT FEBRUARY 28, 2003	$178,976	$203,623	$351,975	$2,017	$(36)	$(34,921)
Net income for the year	—	—	79,505	—	—	—
Cash dividends	—	—	(13,158)	—	—	—
Directors' and corporate auditors' bonuses	—	—	(191)	—	—	—
Net unrealized gains on securities	—	—	—	2,865	—	—
Foreign currency translation adjustments	—	—	—	—	9	—
Increase in treasury stock, net	—	—	—	—	—	(940)
Increase due to application of equity method to additional subsidiaries and affiliates	—	—	0	—	—	—
BALANCE AT FEBRUARY 29, 2004	**$178,976**	**$203,623**	**$418,131**	**$4,882**	**$(27)**	**$(35,861)**

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 29, 2004 and February 28, 2003

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	**2004**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥ 16,888**	¥11,834	**$ 154,102**
Depreciation and amortization	**10,828**	10,578	**98,804**
Provision for allowance for doubtful accounts	**189**	162	**1,725**
Interest and dividend income	**(254)**	(231)	**(2,318)**
Interest expense	**1,839**	2,184	**16,780**
Gain on sales of property and equipment	**(3)**	(22)	**(27)**
Loss on sales or disposal of property and equipment	**629**	2,581	**5,740**
Gain on sales or revaluation of short-term investments	**(203)**	(105)	**(1,852)**
Increase in notes and accounts receivable	**(1,061)**	(2,160)	**(9,682)**
Increase (Decrease) in inventories	**(1,264)**	126	**(11,534)**
Increase in trade notes and accounts payable	**2,841**	1,296	**25,924**
Other, net	**7,044**	(355)	**64,276**
Sub-total	**37,473**	25,888	**341,938**
Interest and divided income received	**280**	230	**2,555**
Interest expense paid	**(1,814)**	(2,149)	**(16,552)**
Income taxes paid	**(6,698)**	(6,208)	**(61,119)**
Net cash provided by operating activities	**29,241**	17,761	**266,822**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for purchases of property and equipment	**(25,379)**	(12,783)	**(231,582)**
Payments for purchases of intangible assets	**(524)**	(2,838)	**(4,781)**
Payments for purchases of investments in securities	**(106)**	(425)	**(967)**
Proceeds from sales of property and equipment	**561**	968	**5,119**
Proceeds from sales of investments in securities	**468**	600	**4,270**
Other, net	**(273)**	(2,177)	**(2,491)**
Net cash used in investing activities	**(25,253)**	(16,655)	**(230,432)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (Decrease) in short-term borrowings	**(3,901)**	6,529	**(35,596)**
Additions to long-term loans	**35,644**	34,826	**325,249**
Repayment of long-term loans	**(22,246)**	(30,180)	**(202,993)**
Redemption of straight bonds	**(10,000)**	(5,000)	**(91,249)**
Redemption of convertible bonds	**—**	(4,091)	**—**
Proceeds from issue of stocks to minority interests in consolidated subsidiary	**220**	400	**2,007**
Proceeds from sales of treasury stock	**—**	319	**—**
Payment for purchases of treasury stock	**(179)**	(3,076)	**(1,633)**
Dividends paid	**(1,511)**	(1,327)	**(13,788)**
Net cash used in financing activities	**(1,973)**	(1,600)	**(18,003)**
Effect of exchange rate changes on cash and cash equivalents	**1**	1	**9**
Net increase (decrease) in cash and cash equivalents	**2,016**	-493	**18,396**
Cash and cash equivalents at beginning of year	**8,168**	8,661	**74,532**
Cash and cash equivalents at end of year	**¥ 10,184**	¥ 8,168	**$ 92,928**

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Izumi Co., Ltd. and its subsidiaries
For the years ended February 29, 2004 and February 28, 2003

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared based on the accounts maintained by Izumi Co., Ltd. (the "Company") and its subsidiaries (collectively, the "Companies") in accordance with the provisions set forth in the Commercial Code of Japan (the "Code") and the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

As at February 29, 2004, the accompanying consolidated financial statements include the accounts of the Company and 17 of its subsidiaries, among which 1 subsidiary was newly consolidated due to establishment and 1 subsidiary was excluded due to liquidation. As at February 28, 2003, 17 of its subsidiaries were consolidated.

Investments in all affiliates (20%-to-50% owned companies) are accounted for using the equity method. The company had 5 and 4 affiliates as at February 29, 2004 and February 28, 2003, respectively.

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.

(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 sales of assets among the Companies have been entirely eliminated, and the portions attributable to minority interests are credited to net income. 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 net assets of such subsidiaries, the Company follows the step-by-step acquisition method to include equity in 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 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 on 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 the 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 stockholders' equity.

(5) Investments in securities

Held-to-maturity securities are stated at amortized cost adjusted for the amortization of premiums and the accretion of discounts to maturity.

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 stockholders' equity 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 moving average 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.

(6) Derivatives

Derivative financial instruments are stated at fair value and changes in the fair value are recognized as gains or losses unless 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 fair value of derivative financial instruments until the related losses or gains on the hedged items are realized. In case where foreign exchange forward contracts, currency swap contracts or currency option contracts are used as hedges and meet certain hedging conditions, 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 income.

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

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

Minor assets with acquisition costs 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, included in other assets, for internal use are amortized by the straight-line method over the estimated useful life (5 years). Other intangible assets, included in other assets, are amortized by the straight-line method over the period regulated by the Japanese corporate income tax laws.

(10) Allowance for doubtful accounts
An allowance for doubtful accounts is provided in preparation for possible risk of uncollectible accounts. It consists of the estimated uncollectible amount with respect to identified doubtful receivables and an amount calculated on the historical bad debt ratio with respect to remaining receivables.

(11) Accrued bonus
An accrued bonus is provided in preparation for payment of bonus to employees based on the amount estimated to be paid.

(12) 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.

Until February 28, 2002, point discounts were not charged to income when they were provided but recognized as expenses only when customers used them. The Company became able to match expenses and revenues relating to points discounts, and therefore, from the year ended February 28, 2003, point discounts are charged to income when they are provided.

As a result, in the year ended February 28, 2003, net sales and operating income decreased by ¥106 million, other expenses increased by ¥499 million and income before income taxes and minority interests decreased by ¥606 million compared with what would have been recorded under the previous accounting method.

(13) Accrued severance indemnities
Accrued retirement indemnities to employees represents 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 8 years from the next year in which they arise.

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

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

(14) Leases
Leases that transfer substantially all risk and rewards of ownership of the assets are accounted for as capital leases, except 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.

(15) 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.

(16) 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 enacted 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 that includes the enactment date.

(17) Net income and cash dividends per share
Effective from the year ended February 29, 2004, the Company adopted the Statement of Financial Accounting Standard No. 2 "Earnings per Share" issued by the Accounting Standards Board of Japan. Prior to adopting the new statement, earnings per share were calculated based on the net income shown on the Statement of Income. The earnings per share calculation therefore excluded bonuses to directors and corporate auditors, since under the Code, these are recognized as an appropriation of retained earnings in the Statement of Stockholders' Equity, rather than as expenses in the Statement of Income. However, the new statement requires that net income should be 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 shown in the Statement of Income, and the calculation of net income per share be made on that adjusted net income basis. Net income per share for the year ended February 29, 2004 calculated using the previous method and under the new statement is ¥148.51 and ¥148.07, respectively.

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.

3. UNITED STATES DOLLAR AMOUNTS

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥109.59 = U.S.$1, the rate of exchange on February 29, 2004 has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have 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) Held-to-maturity debt securities at February 29, 2004 and February 28, 2003, which have readily available determinable fair value, are summarized as follows:

	Millions of yen					
	2004			2003		
	Carrying value	Market value	Valuation gains (losses)	Carrying value	Market value	Valuation gains (losses)
Securities with valuation gains:						
Government bonds	**¥71**	**¥71**	**¥ 0**	¥641	¥641	¥ 0
Securities with valuation losses:						
Government bonds	**430**	**430**	**(0)**	—	—	—
Total	**¥501**	**¥501**	**¥ 0**	¥641	¥641	¥ 0

	Thousands of U.S. Dollars (Note 3)		
Securities with valuation gains:			
Government bonds	**$ 648**	**$ 648**	**$ 0**
Securities with valuation losses:			
Government bonds	**3,924**	**3,924**	**(0)**
Total	**$4,572**	**$4,572**	**$ 0**

(2) Available-for-sale securities at February 29, 2004 and February 28, 2003 which have readily determinable fair value, are summarized as follows:

	Millions of yen					
	2004			2003		
	Acquisition cost	Carrying value	Gross unrealized gains (losses)	Acquisition cost	Carrying value	Gross unrealized gains (losses)
Securities with unrealized gains:						
Equity securities	**¥1,368**	**¥2,266**	**¥898**	¥2,462	¥2,840	¥ 378
Securities with unrealized losses:						
Equity securities	**1,295**	**1,206**	**(89)**	560	355	(205)
Total	**¥2,663**	**¥3,472**	**¥809**	¥3,022	¥3,195	¥ 173

	Thousands of U.S. Dollars (Note 3)		
Securities with unrealized gains:			
Equity securities	**$12,483**	**$20,677**	**$8,194**
Securities with unrealized losses:			
Equity securities	**11,817**	**11,005**	**(812)**
Total	**$24,300**	**$31,682**	**$7,382**

(3) Available-for-sale securities at February 29, 2004 and February 28, 2003, which have no readily determinable fair value, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	**2004**
Available-for-sale securities			
Non-listed equity securities	**¥189**	¥332	**$1,725**

(4) Total sales of available-for-sale securities for the years ended February 29, 2004 and February 28, 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	**2004**
Sales	**¥369**	¥156	**$3,367**
Gross realized gains	**193**	46	**1,761**
Gross realized losses	**5**	3	**46**

5. LEASES

Information for finance lease transactions other than those leased assets that are deemed to transfer the ownership to lessees is summarized below:

(1) As lessee:

a) Acquisition cost, accumulated depreciation and net book value of the leased assets at February 29, 2004 and February 28, 2003, if capitalized, are summarized as follows:

	Millions of yen					
	2004			2003		
	Equipment and vehicles	Other	Total	Equipment and vehicles	Other	Total
Amount to:						
Acquisition cost	**¥ 3,188**	**¥ 8,531**	**¥11,719**	¥ 3,402	¥ 9,271	¥12,673
Accumulated depreciation	**(2,042)**	**(5,228)**	**(7,270)**	(1,895)	(4,705)	(6,600)
Net book value	**¥ 1,146**	**¥ 3,303**	**¥ 4,449**	¥ 1,507	¥ 4,566	¥ 6,073

	Thousands of U.S. Dollars (Note 3)		
Amount to:			
Acquisition cost	**$ 29,090**	**$ 77,845**	**$106,935**
Accumulated depreciation	**(18,633)**	**(47,705)**	**(66,338)**
Net book value	**$ 10,457**	**$ 30,140**	**$ 40,597**

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 at February 29, 2004 and February 28, 2003, which include the interest portion, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	**2004**
Due within one year	**¥1,754**	¥1,893	**$16,005**
Due after one year	**2,695**	4,180	**24,592**
Total	**¥4,449**	¥6,073	**$40,597**

c) Lease payments and depreciation expense for the years ended February 29, 2004 and February 28, 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	**2004**
Lease payments	**¥1,936**	¥2,047	**$17,666**
Depreciation expense	**1,936**	2,047	**17,666**

d) Method of asset depreciation
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) Acquisition cost amount, accumulated depreciation and net book value of the leased assets at February 29, 2004 and February 28, 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	**2004**
	Equipment and vehicles	Equipment and vehicles	Equipment and vehicles
Amount to:			
Acquisition cost	**¥53**	¥35	**$484**
Accumulated depreciation	**(6)**	(2)	**(55)**
Net book value	**¥47**	¥33	**$429**

b) Amounts of outstanding future income at February 29, 2004 and February 28, 2003, which include the interest portion, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	**2004**
Due within one year	**¥ 8**	¥ 5	**$ 73**
Due after one year	**45**	34	**411**
Total	**¥53**	¥39	**$484**

c) Lease income and depreciation expense for the years ended February 29, 2004 and February 28, 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	**2004**
Lease income	**¥6**	¥2	**$55**
Depreciation expense amount	**4**	1	**36**

6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings are primarily represented by bank overdrafts, bearing interest at the weighted average interest rate of 1.12% at February 29, 2004 and February 28, 2003.

Long-term debt at February 29, 2004 and February 28, 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	**2004**
Loans from banks and insurance companies, due from April 2004 to February 2018 with weighted average interest rates of 1.51% and 1.68% at February 29, 2004 and February 28, 2003, respectively.			
Secured	**¥ 52,119**	¥ 54,794	**$ 475,581**
Unsecured	**56,187**	40,113	**512,702**
	108,306	94,907	**988,283**
2.325% Japanese yen unsecured straight bonds due March 2003	**—**	5,000	**—**
2.175% Japanese yen unsecured straight bonds due October 2003	**—**	5,000	**—**
1.53% Japanese yen unsecured straight bonds due March 2004	**5,000**	5,000	**45,625**
1.84% Japanese yen unsecured straight bonds due March 2005	**5,000**	5,000	**45,625**
	118,306	114,907	**1,079,533**
Less, portion due within one year	**(28,663)**	(28,593)	**(261,548)**
	¥ 89,643	¥ 86,314	**$ 817,985**

The aggregate annual maturities of long-term debt outstanding at February 29, 2004 are as follows:

Years ending February 28 or 29:	Millions of yen	Thousands of U.S. dollars (Note 3)
2006	¥25,445	$232,184
2007	17,566	160,288
2008	16,537	150,899
2009	8,430	76,923
2010 and thereafter	21,665	197,691
Total	¥89,643	$817,985

Assets pledged as collateral and related secured debt at February 29, 2004 and February 28, 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	**2004**
Assets pledged as collateral:			
Land	**¥ 55,381**	¥ 55,293	**$ 505,347**
Buildings	**63,496**	57,651	**579,396**
Investments in securities	**2,520**	2,206	**22,995**
Total	**¥121,397**	¥115,150	**$1,107,738**
Debt secured by the above:			
Short-term borrowings	**¥ 6,308**	¥ 3,656	**$ 57,560**
Long-term debt	**52,119**	54,794	**475,581**
Total	**¥ 58,427**	¥ 58,450	**$ 533,141**

7. RETIREMENT BENEFIT PLANS

Employees of the Companies, with more than one year's service, are entitled to receive lump-sum indemnities upon termination. The amount of the benefits is determined by reference to current basic rate of pay, length of service and condition under which the termination occurs. The amount of severance indemnities to be paid by the Company and a consolidated subsidiary is reduced by the benefits payable under an externally funded non-contributory pension plan.

The funded status of the Companies at February 29, 2004 and February 28, 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	**2004**
Projected benefit obligation	**¥ 5,669**	¥ 5,587	**$ 51,729**
Unrecognized net actuarial differences	**(87)**	(232)	**(793)**
Plan assets at fair value	**(1,783)**	(1,869)	**(16,270)**
Prepaid pension cost	**—**	140	**—**
Accrued severance indemnities	**¥ 3,799**	¥ 3,626	**$ 34,666**

Pension and severance costs of the Companies included the following components for the years ended February 29, 2004 and February 28, 2003:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	**2004**
Service cost	**¥531**	¥507	**$4,846**
Interest cost	**108**	136	**985**
Expected return on plan assets	**(19)**	(16)	**(173)**
Realized net actuarial losses	**36**	(17)	**328**
Payment for extra supplementary benefits and other payments	**24**	30	**219**
Net periodic pension cost	**¥680**	¥640	**$6,205**

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

Assumptions used in the accounting for the defined benefit plans for the years ended February 29, 2004 and February 28, 2003 are as follows:

	2004	2003
Discount rate	**2.0%**	2.0%–2.5%
Expected rate of return on plan assets	**1.0%**	1.0%

8. COMMITMENTS AND CONTINGENT LIABILITIES

The Company was contingently liable for guarantees of loans from financial institutions made by affiliates and others, totaling ¥4,526 million ($41,300 thousand) and ¥4,766 million at February 29, 2004 and February 28, 2003, respectively.

9. DERIVATIVE FINANCIAL INSTRUMENTS

(1) Status of transaction

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 fluctuations in import transactions. The Companies also use interest rate swap agreements to hedge against exposure of interest rate fluctuations and to adapt the long-term fixed interest rate to the current rate in line with the change 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 of counter-parties.

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

(2) Market value of transactions

The Companies had the following derivative contracts outstanding at February 29, 2004 and February 28, 2003:

	Millions of yen					
	2004			2003		
	Contract amount	Fair market value	Unrealized gains (losses)	Contract amount	Fair market value	Unrealized gains (losses)
Foreign currency exchange forward contracts	**¥1,772**	**¥ 54**	**¥ 54**	¥ 390	¥ 78	¥ 78
Currency swap contracts	**140**	**44**	**44**	698	144	144
Currency option contracts	**1,221**	**(20)**	**(20)**	2,215	62	62
Total	**¥3,133**	**¥ 78**	**¥ 78**	¥3,303	¥284	¥284

	Thousands of U.S. Dollars (Note 3)		
Foreign currency exchange forward contracts	**$16,169**	**$ 493**	**$ 493**
Currency swap contracts	**1,277**	**402**	**402**
Currency option contracts	**11,142**	**(183)**	**(183)**
Total	**$28,588**	**$ 712**	**$ 712**

The fair value is quoted from financial institutions with which the Companies make foreign currency exchange forward contracts, currency swap contracts and currency option contracts.

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

10. STOCKHOLDERS' EQUITY

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 actions or used to reduce a deficit through suitable stockholder actions.

Under the Code, the appropriation of retained earnings (including year-end cash dividend payment) proposed by the Board of Directors should be approved at stockholders' meeting, which must be held within 3 months after 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.

Effective for the year ended February 28, 2003, the Company adopted the Statement of Financial Accounting Standard No. 1 "Accounting for Treasury Stock and Reversal of Capital and Legal Reserves" issued by the Accounting Standards Board of Japan. However, the effect on net income for the period of adopting this new statement was immaterial.

11. 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 41.7% for the years ended February 29, 2004 and February 28, 2003.

The reconciliation of the difference between the statutory income tax rates and the effective income tax rates for the year ended February 28, 2003 is as follows:

	2003
Statutory income tax rate	41.7%
Increase (decrease) in taxes resulting from:	
Entertainment expenses and other which are permanently non-tax-deductible	0.3
Dividend income and other income which is permanently non-taxable	(0.2)
Per capita inhabitant taxes and other	1.6
Valuation allowance provided for tax loss carry-forwards of subsidiaries	2.3
Effect on liquidated consolidated subsidiary	(1.5)
Others	0.9
Effective income tax rate	45.1%

The reconciliation schedule for the year ended February 29, 2004 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 29, 2004 and February 28, 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	**2004**
Deferred tax assets:			
Allowance for doubtful accounts	**¥ 300**	¥ 292	**$ 2,738**
Property and equipment	**126**	69	**1,150**
Intangible assets	**162**	166	**1,478**
Investments in securities	**99**	392	**903**
Accrued enterprise tax	**391**	318	**3,568**
Accrued bonus	**480**	417	**4,380**
Accrued severance indemnities	**1,656**	1,468	**15,111**
Fair value adjustments of consolidated subsidiaries	**355**	469	**3,239**
Tax loss carry-forwards	**290**	434	**2,646**
Excess depreciation and amortization	**354**	377	**3,230**
Allowance for point discounts	**314**	—	**2,865**
Other	**295**	375	**2,692**
Total	**4,822**	4,777	**44,000**
Valuation allowance	**(86)**	(282)	**(784)**
Total	**4,736**	4,495	**43,216**
Deferred tax liabilities:			
Reserve for special depreciation	**(115)**	(72)	**(1,049)**
Reserve for advanced depreciation of fixed assets	**(236)**	(252)	**(2,154)**
Fair value adjustments of consolidated subsidiaries	**(994)**	(1,021)	**(9,070)**
Unrealized gains on available-for-sale securities	**(363)**	(160)	**(3,312)**
	(1,708)	(1,505)	**(15,585)**
Net deferred tax assets	**¥ 3,028**	¥ 2,990	**$ 27,631**

On March 31, 2003, the Japanese National Diet approved various changes to the calculation of the statutory local enterprise tax for companies with capital in excess of ¥100 million, effective April 1, 2004. Under the amended legislation, the 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, although there was only an "income tax based component" before the amendment. Concurrently, the basic tax rate for the "income based component" has resulted in a reduction from 9.6% to 7.2%. As a result of this amendment, the tax rate to be applied to deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, that are expected to reverse in the year beginning March 1, 2005 or later, decreased from 41.7 % to 40.4 % as at February 29, 2004. For temporary differences that are expected to reverse in the year ending February 28, 2005, a tax rate of 41.7 % has continued to be used at that date. As a result, deferred tax assets (net of deferred tax liabilities) decreased by ¥23 million ($210 thousand), income taxes-deferred (debit) increased by ¥35 million ($ 319 thousand) and net unrealized gains on securities increased by ¥12 million ($109 thousand) in the year ended February 29, 2004.

12. RELATED PARTY TRANSACTIONS

For the years ended February 29, 2004 and February 28, 2003, the Company purchased ¥11,056 million ($100,885 thousand) and ¥11,709 million of merchandise from Japan Logistics Industry Co., Ltd. ("JLI"), respectively. A representative director and vice president of JLI, Mr. Yasuaki Yamanishi, is also a representative director and the president of the Company and owns 1.7% of the Company's voting stock. At February 29, 2004 and February 28, 2003, the Company had accounts payable of ¥1,204 million ($10,986 thousand) and ¥1,298 million, and deposited guarantee money of ¥538 million ($4,909 thousand) and ¥505 million to JLI, respectively.

Mr. Yasuaki Yamanishi and Mr. Hiromasa Takanishi purchased the Company's subsidiary stocks from the Company for ¥40 million ($365 thousand) on February 25, 2004 and for ¥10 million ($91 thousand) on February 20, 2004. Mr. Hiromasa Takanishi is a representative director and the vice president of the Company and owns 0.13% of the Company's voting stock. These purchase prices were identical with the offering price of the allocation of new shares to a third party on February 28, 2004.

For the years ended February 29, 2004 and February 28, 2003, the Company leased the building of Higashi-Hiroshima shop from Izumi Kosan K.K. ("Izumi") with lease payments of ¥341 million ($3,112 thousand). Izumi is a majority-owned subsidiary of a company, which is wholly owned by Mr. Yasuaki Yamanishi and his relatives. The lease terms are the same as those for third parties. At February 29, 2004 and February 28, 2003, the Company deposited guarantee money of ¥3,174 million ($28,962 thousand) and ¥3,650 million respectively, to Izumi, which were determined based on the total construction costs of the building and the area occupied by the Company.

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheets of Izumi Co., Ltd. and its subsidiaries as of February 29, 2004 and February 28, 2003, and the related consolidated statements of income, stockholders' equity 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 audits in accordance with auditing standards, procedures and practices generally accepted and applied 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 29, 2004 and February 28, 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 1).

As described in Note 2 (12), effective for the year ended February 28, 2003, Izumi Co., Ltd. and its subsidiaries changed their method of accounting for the allowance for point discounts.

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.

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PrincewaterhouseCoopers

Hiroshima, Japan
May 27, 2004

DIRECTORS AND CORPORATE AUDITORS

Chairman
Yoshimasa Yamanishi

President
Yasuaki Yamanishi

Executive Vice President
Hiromasa Takanishi

Directors
Hiroaki Bando
Hiroshi Toko
Heijiro Natsuhara

Full-Time Corporate Auditor
Akira Tsumura

Corporate Auditors
Toyomi Takimoto
Jiro Matsubara
Yasuyuki Tudo

(as of July 12, 2004)

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 29, 2004)

Securities Traded
Common Stock
Tokyo Stock Exchange, First Section
Osaka Securities Exchange, First Section
Hiroshima Stock Exchange

Transfer Agent and Registrar
Japan Securities Agents, Ltd.
2-4, Nihonbashi-Kayaba-cho, 1-chome,
Chuo-ku, Tokyo 103-8202, 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
ChuoAoyama PricewaterhouseCoopers

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