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town

Annual Report 2006

IZUMI Co., Ltd.

TENANTS

HOUSEHOLD GOODS

You Me Town Delivering Dreams with "One-Stop" Service

FOODS

CLOTHING

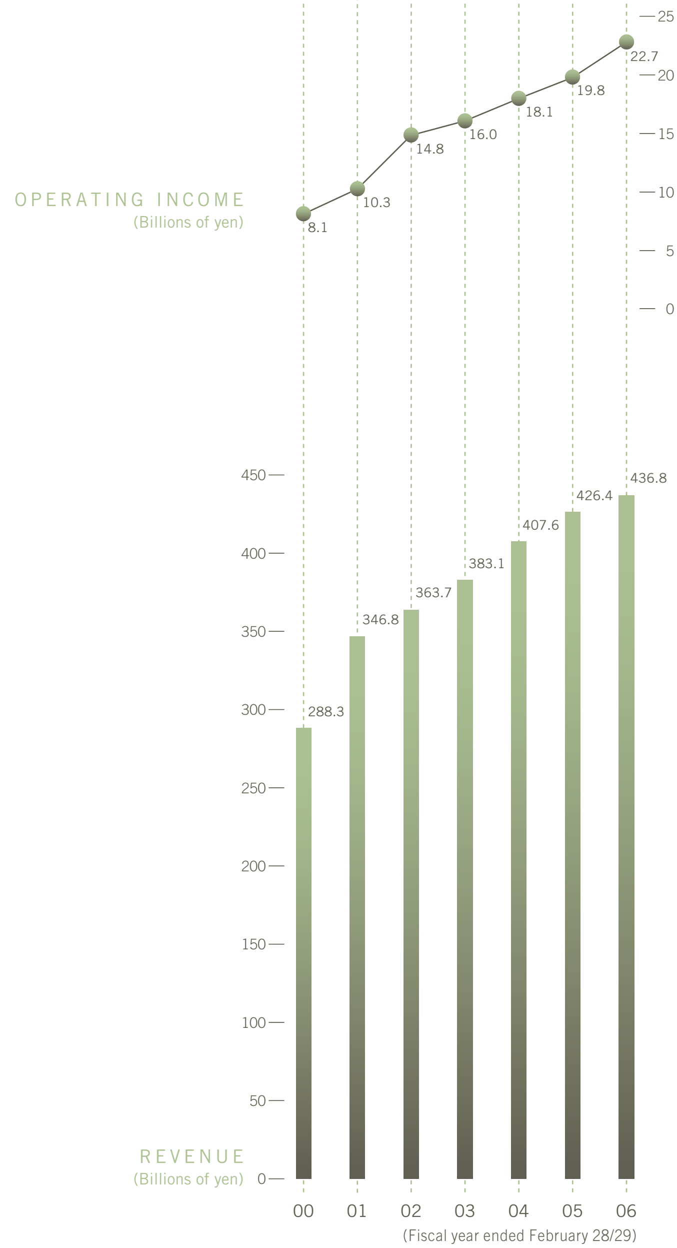
CONTENTS

COVER PHOTO: Izumi's latest flagship You Me Town store, in Yatsushiro, Kumamoto Prefecture, prior to its opening in June 2005.

Izumi Co., Ltd.

Izumi Co., Ltd. ("Izumi" or the "Company") takes pride in being the predominant retail chain in the Chugoku, Shikoku and Kyushu Regions. As of February 2006, its hypermarkets and food supermarkets extended to 70 locations in the area. In 1990, Izumi opened its first You Me Town hypermarket. In the ensuing period, the Company has worked to become number one in the region in terms of scale and product lineup, with You Me Town significantly contributing to the Company's continued growth. Buoyed by the support of You Me Town, Izumi enjoyed an increase in revenues and earnings in the fiscal year ended February 28, 2006, the seventh consecutive year of growth.

Through the You Me Town business model, Izumi strives to realize the dreams of an increasing number of customers. In providing one-stop service, featuring a broad shopping lineup as well as an array of amusements, restaurants, cultural and community offerings, and other facilities, You Me Town delivers everything customers want to buy or do, all under one roof.



SEVEN-YEAR FINANCIAL SUMMARY

	Millions of yen							Thousands of U.S. dollars (Note 1)
	2006 Mar. 2005– Feb. 2006	2005 Mar. 2004– Feb. 2005	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	**2006 Mar. 2005– Feb. 2006**
Revenues	**¥436,825**	¥426,437	¥407,648	¥383,098	¥363,714	¥346,811	¥288,343	**$3,756,988**
Operating income	**22,706**	19,771	18,079	15,994	14,784	10,285	8,134	**195,287**
Income before income taxes and minority interests	**21,490**	18,089	16,888	11,834	9,493	7,790	3,360	**184,828**
Net income	**11,583**	9,601	8,713	5,600	4,832	3,415	1,437	**99,622**
Net income/revenues	**2.65%**	2.25%	2.14%	1.46%	1.33%	0.98%	0.50%	**2.65%**
Total stockholders' equity	**88,542**	85,519	84,354	76,892	74,132	71,810	74,471	**761,521**
Total assets	**313,086**	318,893	295,927	273,484	268,655	270,757	236,785	**2,692,750**
	Yen							U.S. dollars (Note 1)
Per share (Note 2):								
Net income — basic	**¥ 216.60**	¥ 166.88	¥ 148.07	¥ 95.23	¥ 81.46	¥ 53.66	¥ 21.99	**$ 1.86**
Net income — diluted	**192.69**	155.02	—	94.21	79.40	48.87	20.36	**1.66**
Cash dividends declared	**26.00**	24.00	23.00	23.00	21.00	21.00	21.00	**0.22**

Notes 1: Yen amounts are translated into U.S. dollars, solely for convenience, at the prevailing exchange rate on February 28, 2006, ¥116.27 = U.S. $1.
2: See Note 2 (19) of Notes to Consolidated Financial Statements.

Izumi continued its focus on customer satisfaction and accelerated reforms to both management and business operations.

Yasuaki Yamanishi
President

HIGHLIGHTS

- Consolidated revenues rose 2.4% year on year to ¥436.8 billion ($3,757.0 million)
- Consolidated operating income increased 14.8% year on year to ¥22.7 billion ($195.3 million)
- Net income jumped 20.6% year on year to ¥11.6 billion ($99.6 million)
- Established store sales remained stable, with non-consolidated established store sales edging up 0.3% year on year
- Efforts continued to reduce the cost of sales and implement cost structure reforms:
  Non-consolidated operating income ratio increased 0.5 of a percentage point to 5.0%,
  Consolidated operating income ratio rose 0.6 of a percentage point to 5.4%.
- Consolidated ROE was 13.3%, up 2.0 percentage points from the previous fiscal year.

In fiscal 2006, the fiscal year ended February 28, 2006, conditions in the retail industry were mixed. On the one hand, the operating environment benefited from an extraordinarily harsh winter, which contributed to a recovery in winter apparel sales. On the other hand, reforms to the pension and taxation systems and expectations of an increased burden on household budgets led to an increase in selective consumer spending patterns and intense competition across all business types. Against this backdrop, Izumi continued its focus on customer satisfaction and accelerated reforms to both management and business operations.

Improving Management and Operating Structure

The Company redoubled efforts to reduce the cost of sales and implement cost structure reforms. As a result, the non-consolidated operating income ratio improved 0.5 of a percentage point to 5.0% and the consolidated operating income ratio climbed 0.6 of a percentage point to 5.4%.

With the aim of securing stable established store sales, Izumi undertook from the customer's perspective a comprehensive review of its product lineup, store layouts and prices in its mainstay retail business during the fiscal year under review. Efforts were also made to reform the cost structure, with particular focus on the gross profit margin at directly managed stores.

Status of Consolidated Subsidiaries

Conditions at consolidated subsidiaries remained solid. In the card-service business, Youme Card Co., Ltd. focused on increasing the volume of credit card transactions, while building maintenance company Ideo Co., Ltd. expanded orders outside the Group. Implementing measures to close underperforming stores, X-Sell Inc. made progress in improving its operating structure. Accordingly, consolidated subsidiary ordinary income rose 21.5% compared with the previous fiscal year to ¥5.6 billion.

Accounting for the aforementioned factors, consolidated revenues for the fiscal year ended February 28, 2006 increased 2.4% year on year to ¥436.8 billion. Consolidated operating income rose 14.8% to ¥22.7 billion, while net income jumped 20.6% to ¥11.6 billion. These figures represent our seventh consecutive year of increased revenues and profits.

Buoyed by these favorable results, the Company has raised the cash dividend per share from last year's level of ¥24.00 to ¥26.00, as a way of returning profits to stockholders.

山西泰明

Yasuaki Yamanishi
President

Sales Strategies by Business Segment

Basic Policy

In the retail industry, store strategies relating to layout and development and those relating to products and sales are opposite sides of the same coin. Inextricably linked, both are essential to securing a high level of customer satisfaction resulting in revenues and profits.

Under the You Me Town brand, Izumi focuses on opening hypermarkets in western Japan, including Chugoku, Kyushu and Shikoku, areas in which the Company maintains significant competitive advantage. Collaborating with leading tenants, the Company's directly managed store division strives to provide an unrivaled product lineup in each region and to ensure high levels of customer traffic. Based on this store strategy, Izumi has enjoyed seven consecutive years of increased revenues and profits.

Complementing this store strategy, Izumi has positioned high-value-added products and services as integral to promoting customer satisfaction. Through a lineup of fresh and innovative products and services, the Company strives to excite its customers and to leave a lasting impression. Unlike the major markets of Tokyo and Osaka, the smaller niche markets in which Izumi operates dictate targeting a broad customer base. In an effort to appeal to all ages, Izumi implements the following product and sales strategies.

You Me Town New Store

The new You Me Town Yatsushiro store opened in June 2005. Located in Yatsushiro City, Kumamoto Prefecture, the store boasts a store area of 28,100 square meters, 90 tenants and parking for 2,200 vehicles. Collaborating with local government and shopping areas, the store strives to reenergize the surrounding district while providing Kumamoto's largest range of products through distinctive tenants.

You Me Town Saga

Izumi plans to open You Me Town Saga in Saga Prefecture with a store area of 50,000 square meters in the second half of the fiscal year ending February 28, 2007.

Clothing

While many in the general merchandise store industry have suffered from a slump in clothing operations, Izumi has enjoyed relatively high rates of growth irrespective of industry peaks and troughs. This competitive advantage is attributed to the Company's fundamental policies. Firstly, Izumi procures products from a customer perspective and coordinates a total package including effective displays to enhance value and appeal. Secondly, the Company builds the most attractive fashion zone in each region based on the You Me Town platform.

To ensure customer appeal, Izumi adopts a five-point plan to:

1. Ensure a comprehensive range of high-value-added urban-life clothing,
2. Build a merchandising system that successfully combines the Company's directly owned store format with brand tenants,
3. Promote excitement and change through displays, with products and brands renewed on a weekly basis,
4. Develop independent specialty stores outside the target markets of existing tenants, and
5. Focus on visual merchandising such as utilizing fixtures and lighting to enhance product appeal.

These simple concepts are not new to the retail industry. What sets Izumi apart from its competitors, however, is the Company's ability to mold these concepts into a unique mix, together with its You Me Town brand that creates an optimal fashion zone in each region, through skillful application of management resources and savvy attention to customer trends.

Household Goods

Given its extremely broad range, maintaining a comprehensive lineup in household-related products is problematic and an impediment to robust profits. At You Me Town, however, it is imperative that customers are consistently provided with a wide choice.

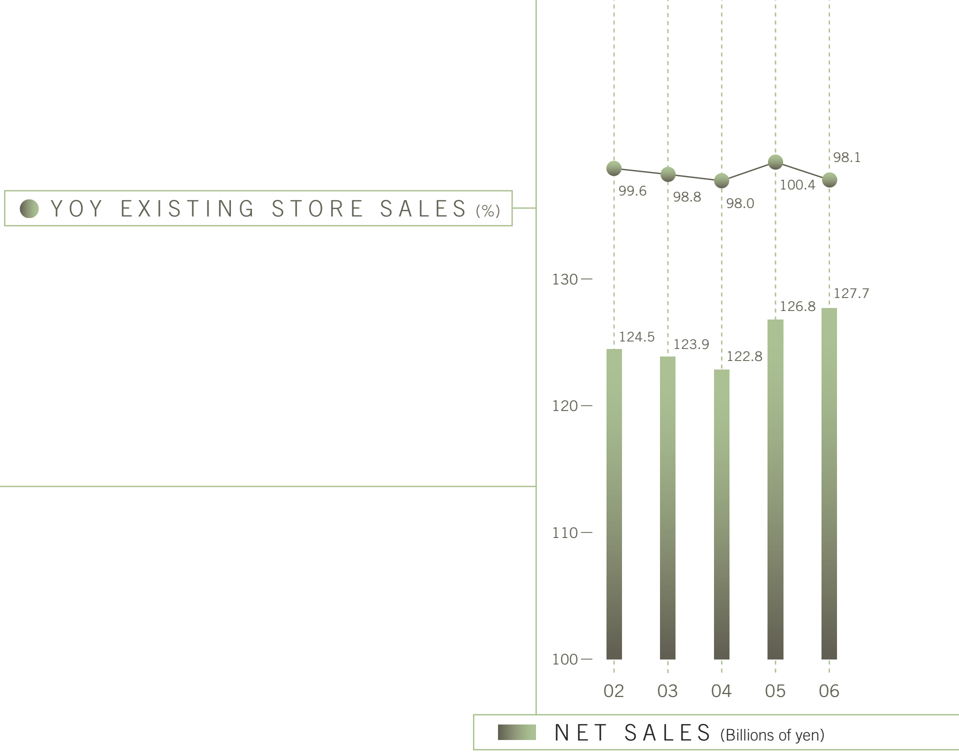
In an effort to overcome these problems, Izumi has restricted its field of operations to those household goods in which it can secure competitive advantage. Products outside these fields including books, toys, furniture and sporting goods, have been left to specialist stores with superior know-how.

In the fields in which it is active, Izumi strives to differentiate itself from competitors by delivering unique value. At the same time, the Company collaborates with external parties to further distinguish Izumi from other companies.

In specific terms, the Company develops a product range catering to the elderly and health conscious, areas that are expanding in the domestic market. This differs from many of its competitors, who handle stationery and children's goods, markets that are considered to be mature.

In addition, Izumi has established collaborative arrangements with Nihon Ryutsu Sangyo Co., Ltd. and through bulk orders has reduced procurement costs of national brands. Furthermore, through arrangements with Matsumoto Kiyoshi Co., Ltd. and other parties, Izumi is endeavoring to augment its product lineup and provide customers with even greater value.

Looking ahead, Izumi will work toward sales recovery and increased profits in household goods by selectively allocating management resources and further distinguishing the Company on the basis of both product price and customer service.



Foods

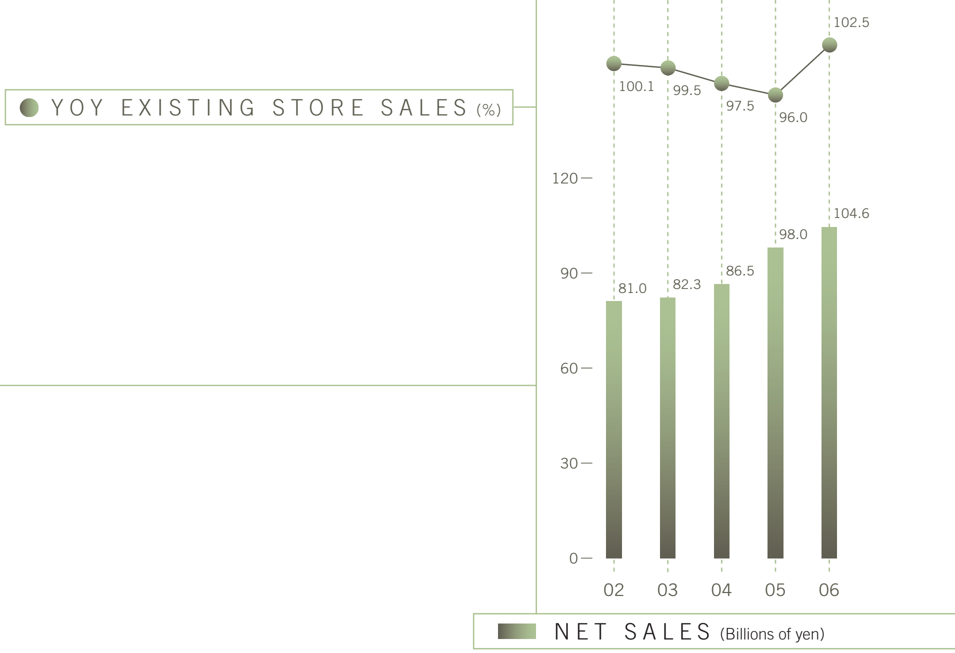
Mirroring its diverse weather conditions, Japan boasts a wide variety of food products and significant variation in tastes among regions. Accordingly, Izumi is faced with the real need to review its lineup of food products on a store-by-store basis. To this end, authority for product procurement and management is delegated to individual stores. In this manner, each store strives to precisely match the specific needs of its customers.

In the fiscal year under review, Izumi reinforced its product lineups with increased emphasis on fresh food and local preferences. Adopting the theme “local production for local consumption,” Izumi attracted significant praise for its efforts to link producers with consumers.

In the area of prepared food, Izumi has consistently worked to develop a high-value-added menu while swiftly withdrawing slow-moving products. In this manner, the Company has fostered a source of high earnings. In recent years, Izumi has accelerated growth, buoyed by the growing trend toward quick and easy meals.

Izumi has established a weekly product development plan for its processed foods. In an effort to compete on both price and non-price factors, the Company strives to consistently deliver highly sought products, while providing new experiences on a weekly basis all year round.

Despite the impacts of a weak market for fresh food and intense competition, Izumi secured a high market share for holiday season and other special event projects. This, and the dominant market position of its You Me Town stores, contributed significantly to profits. Over the long term, foods are expected to provide Izumi with a major portion of its profit, while contributing to increased stability.



Tenants

Tenant quality is a key factor in attracting customers. In addition to the general merchandise of its directly managed departments, You Me Town outlets are supplemented by a variety of brand products from Japan's leading specialty stores, delivering to customers a comprehensive lineup.

The synergy Izumi creates with its tenants distinguishes You Me Town from other shopping centers. Despite the regional nature of its operations, Izumi is able to introduce leading brands due to the overwhelming market dominance of You Me Town outlets, which provide long-term benefits to Izumi and its tenants alike. This success in turn increases credibility and attracts more leading brands. Based on this positive operating cycle, You Me Town outlets are able to maintain and expand their leading positions in respective regions.

Furthermore, in its fashion zones Izumi strives to develop a complementary relationship between directly managed departments and tenants. As communication between parties increases on a daily basis, a sense of common ownership emerges, enhancing the value and impact of marketing plans. This collaboration contributes to significant drawing power ensuring a constant level of high customer flows.

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. With existing outlets, Izumi actively strives to replace underperforming tenants and ensure a consistently high level of competitiveness.

From an earnings perspective, directly managed operations account for approximately 70% of retail profits, with tenant operations providing the remainder. The defining feature of tenant operations is its stability over the long term. Looking ahead, tenants are expected to support earnings growth.

CONSOLIDATED STATEMENTS OF INCOME

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

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	**2006**
REVENUES:			
Net sales	**¥418,086**	¥412,442	**$3,595,820**
Other operating revenues	**18,739**	13,995	**161,168**
	436,825	426,437	**3,756,988**
COST OF SALES	**321,663**	318,975	**2,766,518**
Gross profit	**115,162**	107,462	**990,470**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**92,456**	87,691	**795,183**
Operating income	**22,706**	19,771	**195,287**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**243**	246	**2,090**
Interest expense	**(1,538)**	(1,676)	**(13,228)**
Purchase discounts	**435**	451	**3,741**
Gain on sales of investments in securities	**116**	23	**998**
Gain on sales of property and equipment	**85**	—	**731**
Loss on sales or disposal of property and equipment	**(1,166)**	(424)	**(10,028)**
Foreign exchange gains	**98**	151	**842**
Other, net	**511**	(453)	**4,395**
	(1,216)	(1,682)	**(10,459)**
Income before income taxes and minority interests	**21,490**	18,089	**184,828**
INCOME TAXES (Note 11):			
Current	**9,553**	8,090	**82,162**
Deferred	**(662)**	(264)	**(5,694)**
	8,891	7,826	**76,468**
Income before minority interests	**12,599**	10,263	**108,360**
MINORITY INTERESTS	**1,016**	662	**8,738**
Net income	**¥ 11,583**	¥ 9,601	**¥ 99,622**

	Yen		U.S. dollars (Note 3)
PER SHARE:			
Net income (Note 2 (19)):			
Basic	**¥216.60**	¥166.88	**$1.86**
Diluted	**192.69**	155.02	**1.66**
Cash dividends declared	**26.00**	24.00	**0.22**
WEIGHTED AVERAGE NUMBER OF SHARES (thousands)	**53,156**	57,474	

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

Izumi Co., Ltd. and its subsidiaries
As of February 28, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	**2006**
ASSETS			
CURRENT ASSETS:			
Cash and bank deposits	**¥ 12,251**	¥ 12,623	**$ 105,367**
Short-term loans receivable	**12,222**	13,476	**105,117**
Notes and accounts receivable:			
Trade	**8,814**	7,526	**75,806**
Other	**1,767**	1,755	**15,198**
	10,581	9,281	**91,004**
Less–allowance for doubtful accounts	**(883)**	(834)	**(7,595)**
	9,698	8,447	**83,409**
Inventories	**23,665**	24,125	**203,535**
Deferred income taxes (Note 11)	**2,357**	1,934	**20,272**
Other current assets	**2,535**	2,751	**21,803**
Total current assets	**62,728**	63,356	**539,503**
INVESTMENTS AND ADVANCES:			
Investments in non-consolidated subsidiaries and affiliates	**1,093**	1,052	**9,400**
Investments in securities (Notes 4 and 6)	**7,428**	4,999	**63,886**
Other investments and advances	**1,596**	1,610	**13,727**
	10,117	7,661	**87,013**
PROPERTY AND EQUIPMENT (Notes 5 and 6)***:***			
Buildings and structures	**207,880**	203,797	**1,787,907**
Machinery, equipment, vehicles and other	**35,741**	36,274	**307,397**
	243,621	240,071	**2,095,304**
Less–accumulated depreciation	**(122,535)**	(114,189)	**(1,053,883)**
	121,086	125,882	**1,041,421**
Land	**90,853**	89,534	**781,397**
Construction in progress	**3,285**	4,149	**28,253**
	215,224	219,565	**1,851,071**
OTHER ASSETS:			
Fixed leasehold deposits	**14,704**	16,868	**126,464**
Deferred income taxes (Note 11)	**1,648**	2,080	**14,174**
Other	**8,665**	9,363	**74,525**
	¥ 313,086	¥ 318,893	**$ 2,692,750**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	**2006**
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings (Note 6)	**¥ 33,504**	¥ 27,792	**$ 288,157**
Current portion of long-term debt (Note 6)	**18,848**	25,665	**162,105**
Notes and accounts payable			
Trade	**15,925**	15,630	**136,966**
Other	**8,793**	14,467	**75,625**
	24,718	30,097	**212,591**
Income taxes payable	**5,812**	4,905	**49,987**
Accrued bonuses	**1,421**	1,375	**12,222**
Allowance for point discounts	**946**	881	**8,136**
Other current liabilities	**6,306**	5,488	**54,236**
Total current liabilities	**91,555**	96,203	**787,434**
LONG-TERM DEBT (Note 6)	**98,461**	103,649	**846,831**
ACCRUED SEVERANCE INDEMNITIES (Note 7)	**5,344**	5,136	**45,962**
LEASE DEPOSITS RECEIVED	**22,115**	22,285	**190,204**
DEFERRED INCOME TAXES (Note 11)	**1,002**	1,006	**8,618**
OTHER LIABILITIES	**595**	463	**5,117**
Total liabilities	**219,072**	228,742	**1,884,166**
COMMITMENTS AND CONTINGENT LIABILITIES (Note 8)			
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES	**5,472**	4,632	**47,063**
STOCKHOLDERS' EQUITY (Note 10)***:***			
Common stock, no par value:			
Authorized:			
February 28, 2006—195,243,000 shares			
February 28, 2005—195,243,000 shares			
Issued:			
February 28, 2006—61,558,710 shares	**19,614**	—	**168,693**
February 28, 2005—61,558,710 shares	**—**	19,614	**—**
Additional paid-in capital	**22,320**	22,315	**191,967**
Retained earnings	**64,238**	54,018	**552,490**
Net unrealized gains on securities	**2,027**	980	**17,434**
Less–foreign currency translation adjustments	**(4)**	(4)	**(34)**
Less–treasury stock at cost:			
February 28, 2006—7,518,537 shares	**(19,653)**	—	**(169,029)**
February 28, 2005—6,250,126 shares	**—**	(11,404)	**—**
Total stockholders' equity	**88,542**	85,519	**761,521**
	¥313,086	¥318,893	**$2,692,750**

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Izumi Co., Ltd. and its subsidiaries
For the years ended February 28, 2006, 2005 and February 29, 2004

	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, 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)
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	¥ 980	¥(4)	¥(11,404)
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 11)	—	—	—	10	—	—	—
BALANCE AT FEBRUARY 28, 2006	61,559	¥19,614	¥22,320	¥64,238	¥2,027	¥(4)	¥(19,653)

	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, 2005	$168,693	$191,924	$464,591	$ 8,429	$(34)	$ (98,082)
Net income for the year	—	—	99,622	—	—	—
Cash dividends	—	—	(11,706)	—	—	—
Directors' and corporate auditors' bonuses	—	—	(103)	—	—	—
Gain on appropriation of treasury stock	—	43	—	—	—	146
Net unrealized gains on securities	—	—	—	9,005	—	—
Foreign currency translation adjustments	—	—	—	—	0	—
Increase in treasury stock, net	—	—	—	—	—	(71,093)
Other increase (Note 11)	—	—	86	—	—	—
BALANCE AT FEBRUARY 28, 2006	$168,693	$191,967	$552,490	$17,434	$(34)	$(169,029)

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, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	**2006**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥ 21,490**	¥ 18,089	**$ 184,828**
Depreciation and amortization	**11,397**	11,461	**98,022**
Provision for allowance for doubtful accounts	**50**	356	**430**
Interest and dividend income	**(243)**	(246)	**(2,090)**
Interest expense	**1,538**	1,676	**13,228**
Gain on sales of property and equipment	**(85)**	—	**(731)**
Loss on sales or disposal of property and equipment	**1,166**	424	**10,028**
Gain on sales or revaluation of investments in securities	**(116)**	(23)	**(998)**
Increase in notes and accounts receivable	**(1,288)**	(553)	**(11,077)**
Increase (decrease) in inventories	**460**	(1,900)	**3,957**
Increase (decrease) in trade notes and accounts payable	**295**	(1,964)	**2,537**
Other, net	**2,534**	(231)	**21,794**
Sub-total	**37,198**	27,089	**319,928**
Interest and divided income received	**255**	268	**2,193**
Interest expense paid	**(1,521)**	(1,691)	**(13,082)**
Income taxes paid	**(8,962)**	(7,700)	**(77,079)**
Net cash provided by operating activities	**26,970**	17,966	**231,960**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for purchases of property and equipment	**(15,074)**	(21,645)	**(129,646)**
Payments for purchases of intangible assets	**(602)**	(255)	**(5,178)**
Payments for purchases of investments in securities	**(1,169)**	(605)	**(10,054)**
Proceeds from sales of property and equipment	**1,478**	338	**12,712**
Proceeds from sales of investments in securities	**593**	635	**5,100**
Acquisition, net of cash acquired	—	148	—
Other, net	**3,436**	265	**29,552**
Net cash used in investing activities	**(11,338)**	(21,119)	**(97,514)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase in short-term borrowings	**5,712**	5,596	**49,127**
Additions to long-term loans	**14,233**	18,950	**122,413**
Repayment of long-term loans	**(21,215)**	(23,642)	**(182,463)**
Redemption of bonds	**(5,000)**	(5,000)	**(43,003)**
Proceeds from issue of bonds	—	19,955	—
Proceeds from issue of stocks to minority interests in consolidated subsidiary	—	180	—
Payment of liquidation dividends to minority interests in consolidated subsidiary	—	(196)	—
Payment for purchases of treasury stock	**(8,266)**	(8,855)	**(71,093)**
Dividends paid	**(1,445)**	(1,468)	**(12,428)**
Net cash provided by (used in) financing activities	**(15,981)**	5,520	**(137,447)**
Effect of exchange rate changes on cash and cash equivalents	**0**	0	**0**
Net increase (decrease) in cash and cash equivalents	**(349)**	2,367	**(3,001)**
Cash and cash equivalents at beginning of year	**12,600**	10,184	**108,368**
Cash and cash equivalents of newly consolidated subsidiaries	—	49	—
Cash and cash equivalents at end of year	**¥ 12,251**	¥ 12,600	**$ 105,367**

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 as to application and disclosure requirements from 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, 2006, the accompanying consolidated financial statements included the accounts of the Company and 19 of its subsidiaries, of which one subsidiary was excluded due to liquidation and one subsidiary was merged. As at February 28, 2005, 21 subsidiaries were consolidated.

Investments in all affiliates (20%-to-50% owned companies) are accounted for using the equity method. The company had four affiliates as at February 28, 2006 and 2005, 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. 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 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 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 income.

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 standard shall be effective for fiscal years beginning on or after April 1, 2005. However, earlier adoption is permitted for fiscal years beginning on or after April 1, 2004 and for fiscal years ending between March 31, 2004 and March 30, 2005.

The Companies have not yet applied this new standard nor have determined the effect of applying it on the consolidated financial statements.

(11) Bond issuance costs

Bond issuance costs are charged to income as incurred.

(12) 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 identified doubtful receivables and an amount calculated based on the historical bad debt ratio with respect to the remaining receivables.

(13) Accrued bonuses

An accrued bonus is provided for in preparation for payment of bonuses to employees based on the amount estimated to be payable.

(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 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 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) 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.

(17) 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.

(18) 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 that includes the application date.

(19) 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.

3. UNITED STATES DOLLAR AMOUNTS

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥116.27 = U.S.$1, the rate of exchange on February 28, 2006 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 28, 2006 and 2005, which have readily available determinable fair value, are summarized as follows:

	Millions of yen					
	2006			2005		
	Carrying value	Market value	Valuation gains (losses)	Carrying value	Market value	Valuation gains (losses)
Securities with valuation gains:						
Government bonds	—	—	—	¥60	¥60	¥0
Securities with valuation losses:						
Government bonds	—	—	—	—	—	—
Total	—	—	—	¥60	¥60	¥0

(2) Available-for-sale securities at February 28, 2006 and 2005 which have readily determinable fair value, are summarized as follows:

	Millions of yen					
	2006			2005		
	Acquisition cost	Carrying value	Gross unrealized gains (losses)	Acquisition cost	Carrying value	Gross unrealized gains (losses)
Securities with unrealized gains:						
Equity securities	**¥3,702**	**¥7,122**	**¥3,420**	¥3,093	¥4,745	¥1,652
Securities with unrealized losses:						
Equity securities	**154**	**146**	**(8)**	6	5	(1)
Total	**¥3,856**	**¥7,268**	**¥3,412**	¥3,099	¥4,750	¥1,651

	Thousands of U.S. dollars (Note 3)		
	2006		
Securities with unrealized gains:			
Equity securities	**$31,840**	**$61,254**	**$29,414**
Securities with unrealized losses:			
Equity securities	**1,325**	**1,256**	**(69)**
Total	**$33,165**	**$62,510**	**$29,345**

(3) Available-for-sale securities at February 28, 2006 and 2005, which have no readily determinable fair value, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Available-for-sale securities			
Non-listed equity securities	¥160	¥189	**$1,376**

(4) Total sales of available-for-sale securities for the years ended February 28, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Sales	**¥500**	¥208	**$4,300**
Gross realized gains	**116**	23	**998**
Gross realized losses	**0**	—	**0**

5. LEASES

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

(1) As lessee:

a) The acquisition cost, accumulated depreciation and net book value of leased assets at February 28, 2006 and 2005, if capitalized, are summarized as follows:

	Millions of yen					
	2006			2005		
	Equipment and vehicles	Other	Total	Equipment and vehicles	Other	Total
Amount to:						
Acquisition cost	**¥ 2,738**	**¥ 5,153**	**¥ 7,891**	¥ 2,779	¥ 6,564	¥ 9,343
Accumulated depreciation	**(2,241)**	**(3,883)**	**(6,124)**	(1,994)	(4,553)	(6,547)
Net book value	**¥ 497**	**¥ 1,270**	**¥ 1,767**	¥ 785	¥ 2,011	¥ 2,796

	Thousands of U.S. dollars (Note 3)		
	2006		
Amount to:			
Acquisition cost	**$ 23,549**	**$ 44,319**	**$ 67,868**
Accumulated depreciation	**(19,274)**	**(33,396)**	**(52,670)**
Net book value	**$ 4,275**	**$ 10,923**	**$ 15,198**

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 28, 2006 and 2005, which include the interest portion, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Due within one year	**¥ 970**	¥1,237	**$ 8,343**
Due after one year	**797**	1,560	**6,855**
Total	**¥1,767**	¥2,797	**$15,198**

c) Lease payments and depreciation expense for the years ended February 28, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Lease payments	**¥1,386**	¥1,675	**$11,921**
Depreciation expense	**1,386**	1,675	**11,921**

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, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	**2006**
	Equipment and vehicles	Equipment and vehicles	Equipment and vehicles
Amount to:			
Acquisition cost	**¥ 75**	¥40	**$ 645**
Accumulated depreciation	**(18)**	(9)	**(155)**
Net book value	**¥ 57**	¥31	**$ 490**

b) Amounts of outstanding future income at February 28, 2006 and 2005, which include the interest portion, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	**2006**
Due within one year	**¥13**	¥ 6	**$112**
Due after one year	**49**	30	**421**
Total	**¥62**	¥36	**$533**

c) Lease income and depreciation expense for the years ended February 28, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	**2006**
Lease income	**¥10**	¥8	**$86**
Depreciation expense amount	**8**	6	**69**

6. 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 0.53% and 0.90% at February 28, 2006 and 2005, respectively.

Long-term debt at February 28, 2006 and 2005, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	**2006**
Loans from banks and insurance companies, due from March 2006 to February 2018 with weighted average interest rates of 1.43% and 1.44% at February 28, 2006 and February 28, 2005, respectively.			
Secured	**¥ 54,082**	¥ 55,801	**$ 465,142**
Unsecured	**43,249**	48,513	**371,970**
	97,331	104,314	**837,112**
1.84% Japanese yen unsecured straight bonds due March 2005	—	5,000	—
0.00% Japanese yen unsecured convertible bonds due July 2009	**19,978**	20,000	**171,824**
	117,309	129,314	**1,008,936**
Less, portion due within one year	**(18,848)**	(25,665)	**(162,105)**
	¥ 98,461	¥103,649	**$ 846,831**

The aggregate annual maturities of long-term debt outstanding at February 28, 2006 are as follows:

Years ending the last day of February	Millions of yen	Thousands of U.S. dollars (Note 3)
2008	¥24,423	$210,054
2009	13,176	113,323
2010	27,344	235,177
2011	7,930	68,203
2012 and thereafter	25,588	220,074
Total	¥98,461	$846,831

Assets pledged as collateral and related secured debt at February 28, 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	**2006**
Assets pledged as collateral:			
Land	**¥ 61,435**	¥ 60,173	**$ 528,382**
Buildings	**72,653**	74,679	**624,865**
Investments in securities	**1,766**	1,897	**15,189**
Total	**¥135,854**	¥136,749	**$1,168,436**
Debt secured by the above:			
Short-term borrowings	**¥ 8,954**	¥ 9,217	**$ 77,010**
Long-term debt	**54,082**	55,801	**465,142**
Total	**¥ 63,036**	¥ 65,018	**$ 542,152**

7. 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. In January 2005, the company terminated an externally funded non-contributory pension plan.

The funded status of the Companies at February 28, 2006 and 2005 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	**2006**
Projected benefit obligation	**¥4,236**	¥4,127	**$36,432**
Unrecognized net actuarial differences	**(52)**	(181)	**(447)**
Unrecognized past service costs	**324**	337	**2,787**
Accrued severance indemnities	**¥4,508**	¥4,283	**$38,772**

Pension and severance costs of the Companies included the following components for the years ended February 28, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	**2006**
Service costs	**¥464**	¥506	**$3,990**
Interest costs	**78**	105	**671**
Expected return on plan assets	—	(18)	—
Realized net actuarial losses	**33**	16	**284**
Amortization of unrecognized past service costs	**(57)**	(4)	**(490)**
Other	**117**	16	**1,006**
Net periodic pension costs	**¥635**	¥621	**$5,461**

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, 2006 and 2005 are as follows:

	2006	2005
Discount rate	**1.5%–2.0%**	1.5%–2.0%
Expected rate of return on plan assets	—	1.0%

8. COMMITMENTS AND CONTINGENT LIABILITIES

The Company was contingently liable for guarantees of loans from financial institutions taken out by affiliates and others, totaling ¥3,113 million ($26,774 thousand) and ¥3,578 million at February 28, 2006 and 2005, 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 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, 2006 and 2005:

	Millions of yen					
	2006			2005		
	Contract amount	Fair market value	Unrealized gains (losses)	Contract amount	Fair market value	Unrealized gains (losses)
Foreign currency exchange forward contracts	¥ —	¥—	¥—	¥ 151	¥ 23	¥ 23
Currency option contracts	**3,872**	**43**	**43**	12,811	(38)	(38)
Total	**¥3,872**	**¥43**	**¥43**	¥12,962	¥(15)	¥(15)

	Thousands of U.S. dollars (Note 3)		
	2006		
	Contract amount	Fair market value	Unrealized gains (losses)
Foreign currency exchange forward contracts	$ —	$ —	$ —
Currency option contracts	**33,302**	**370**	**370**
Total	**$33,302**	**$370**	**$370**

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.

10. STOCKHOLDERS' EQUITY

Under the Commercial Code of Japan (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.

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 40.4% and 41.7% for the years ended February 28, 2006 and 2005, respectively. The other increase of ¥10 million ($86 thousand) in the Consolidated Statement of Stockholders' Equity resulted from a change in the statutory income tax rate.

The reconciliation schedule for the years ended February 28, 2006 and 2005 is not disclosed because the difference between the statutory income tax rate and the effective income tax rate is less than 5% of the statutory income tax rate.

The significant components of deferred tax assets and liabilities at February 28, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Deferred tax assets:			
Allowance for doubtful accounts	¥ 205	¥ 195	$ 1,763
Property and equipment	163	149	1,402
Intangible assets	254	204	2,184
Investments in securities	36	27	309
Accrued enterprise tax	434	414	3,733
Accrued bonus	1,064	552	9,151
Accrued severance indemnities	2,089	1,940	17,967
Fair value adjustments of consolidated subsidiaries	355	355	3,053
Tax loss carry-forwards	73	174	628
Excess depreciation and amortization	324	355	2,787
Allowance for point discounts	383	357	3,294
Other	489	401	4,206
Total	5,869	5,123	50,477
Valuation allowance	(104)	(85)	(894)
Total	5,765	5,038	49,583
Deferred tax liabilities:			
Reserve for special depreciation	(192)	(142)	(1,651)
Reserve for advanced depreciation of fixed assets	(218)	(226)	(1,875)
Fair value adjustments of consolidated subsidiaries	(984)	(985)	(8,463)
Unrealized gains on available-for-sale securities	(1,350)	(667)	(11,611)
Unrealized gains on property and equipment	(10)	(10)	(86)
Other	(8)	—	(69)
	(2,762)	(2,030)	(23,755)
Net deferred tax assets	¥ 3,003	¥ 3,008	$ 25,828

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 ($86 thousand) 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 ($2,649 thousand) and operating income and income before income taxes and minority interests decreased by the equivalent amount.

12. RELATED PARTY TRANSACTIONS

For the years ended February 28, 2006 and 2005, the Company purchased ¥11,612 million ($99,871 thousand) and ¥11,705 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 2.0% of the Company's voting stock. At February 28, 2006 and 2005, the Company had accounts payable of ¥1,184 million ($10,183 thousand) and ¥1,158 million, and deposit guarantee money of ¥50 million ($430 thousand) and ¥572 million to JLI, respectively.

For the years ended February 28, 2006 and 2005, the Company leased the Higashi-Hiroshima shop building from Izumi Kosan K.K. ("Izumi") with lease payments of ¥341 million ($2,933 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 28, 2006 and 2005, the Company paid guarantee money of ¥2,221 million ($19,102 thousand) and ¥2,698 million respectively, to Izumi. These amounts were determined based on the total construction costs of the building and the area occupied by the Company.

13. SUPPLEMENTARY CASH FLOW INFORMATION

Cash and cash equivalents at February 28, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Cash and bank deposits	¥12,251	¥12,623	$105,367
Less-time deposits with deposit terms of over 3 months	—	(23)	—
Cash and cash equivalents	¥12,251	¥12,600	$105,367

For the year ended February 28, 2005, Kowa-shokuhin Co., Ltd. and its subsidiary were newly consolidated. The assets and liabilities of these subsidiaries at the time of consolidation, cash paid for the capital and cash received in conjunction with the purchases of consolidated subsidiaries were as follows:

	Millions of yen
	2005
Assets	¥ 2,794
Liabilities	(2,644)
Negative goodwill	(17)
Investments in affiliates	(3)
Minority interests	(100)
Cash paid for the capital	30
Cash and cash equivalents of consolidated subsidiaries	178
Cash received in conjunction with the purchases of consolidated subsidiaries	¥ 148

14. SUBSEQUENT EVENT

Pursuant to the resolution of the Board of Directors' meeting held on May 9, 2005, the Company repurchased its own shares on May 11, 2005 as follows:

(1) Number of shares repurchased: 867,000 shares
(2) Repurchase price: ¥2,640 ($25,205) per share
Total amount: ¥2,289 million ($21,854 thousand)
(3) Method of repurchase: Through ToSTNet-2
(closing price orders) of Tokyo Stock Exchange

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 2005, and the related consolidated statements of income, shareholders' 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 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 2005, 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 14, Izumi Co., Ltd. repurchased its own shares of ¥2,289 million on May 11, 2005.

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 PricewaterhouseCoopers

Hiroshima, Japan
June 27, 2006

DIRECTORS AND CORPORATE AUDITORS

CHAIRMAN

Yoshimasa Yamanishi

PRESIDENT

Yasuaki Yamanishi

EXECUTIVE VICE PRESIDENT

Hiromasa Takanishi

DIRECTORS

Umeno Mashimo
Heijiro Natsuhara

FULL-TIME CORPORATE AUDITOR

Kuniaki Kawamoto

CORPORATE AUDITORS

Toyomi Takimoto
Jiro Matsubara
Yasuyuki Tudo

(as of May 26, 2006)

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, 2006)

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

ChuoAoyama PricewaterhouseCoopers

IZUMI CO., LTD.
2-22, Kyobashi-cho, Minami-ku,
Hiroshima 732-0828, Japan
Tel: (082) 264-3211

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