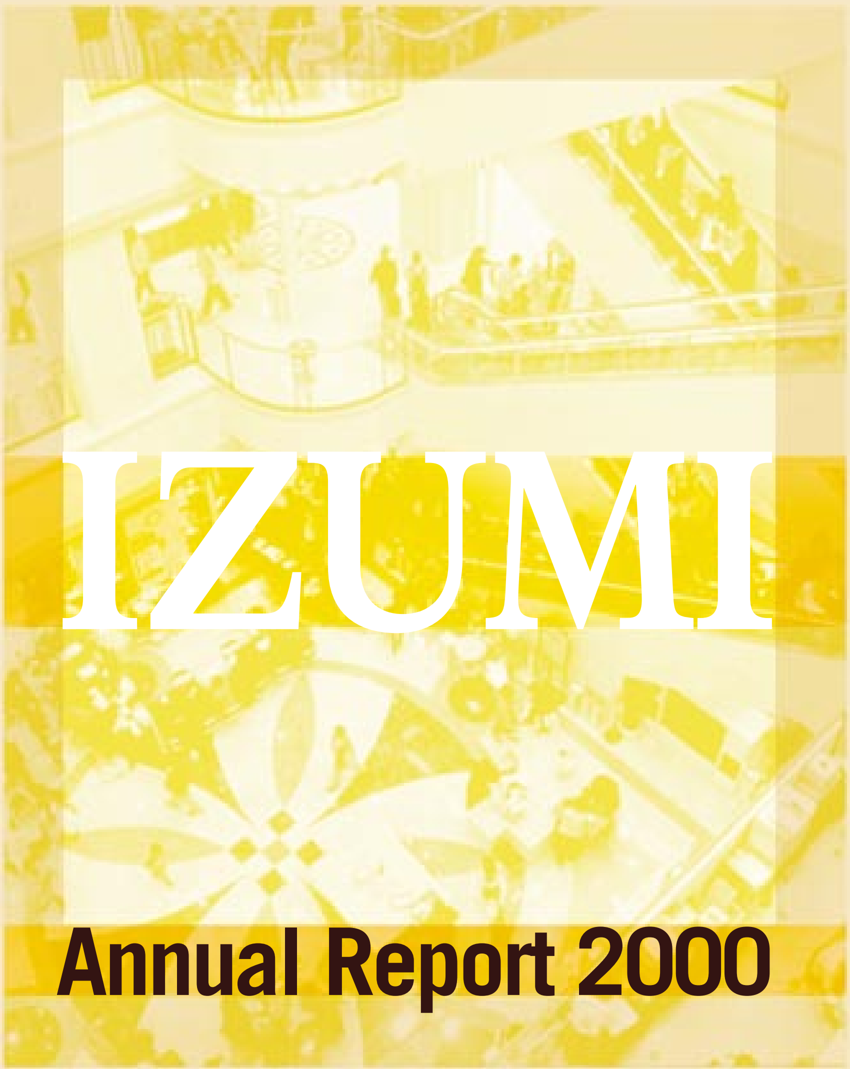


IZUMI

Annual Report 2000

IZUMI CO., LTD.

Financial Highlights

Non-Consolidated

	Millions of yen					Thousands of U.S. dollars (Note1)
	1996 Mar. 1995 –Feb. 1996	1997 Mar. 1996 –Feb. 1997	1998 Mar. 1997 –Feb. 1998	1999 Mar. 1998 –Feb. 1999	**2000 Mar. 1999 –Feb. 2000**	**2000 Mar. 1999 –Feb. 2000**
Revenues	¥ 219,379	¥ 249,398	¥ 263,245	¥ 275,424	**¥ 283,988**	**$2,584,058**
Operating income	9,403	8,184	6,665	5,683	**7,613**	**69,272**
Income before income taxes	9,099	5,710	3,801	813	**2,945**	**26,797**
Net income	4,303	2,717	1,470	393	**1,346**	**12,248**
Net income/revenues	2.0%	1.1%	0.56%	0.14%	**0.47%**	**—**
Total shareholders' equity	74,549	75,850	75,883	74,549	**74,586**	**678,672**
Total assets	172,244	192,935	208,460	214,534	**217,179**	**1,976,151**
	Yen					U.S. dollars (Note1)
Per share (Note 2):						
Net income	¥ 64.91	¥ 40.98	¥ 22.18	¥ 5.94	**¥ 20.60**	**$ 0.19**
Net income assuming dilution	—	39.37	21.82	—	**18.84**	**0.17**
Cash dividends	21.00	21.00	21.00	21.00	**21.00**	**0.19**

Consolidated (Note 3)

	Millions of Yen			Thousands of U.S. dollars (Note1)
	1998 Mar. 1997 –Feb. 1998	1999 Mar. 1998 –Feb. 1999	**2000 Mar. 1999 –Feb. 2000**	**2000 Mar. 1999 –Feb. 2000**
Revenues	¥ 263,529	¥ 278,799	**¥ 288,343**	**$2,623,685**
Operating income	6,082	5,714	**8,134**	**74,013**
Income before income taxes	3,181	877	**3,360**	**30,574**
Net income	1,318	342	**1,437**	**13,076**
Net income/revenues	0.50%	0.12%	**0.50%**	**—**
Total shareholders' equity	75,745	74,309	**74,471**	**677,625**
Total assets	216,681	232,768	**236,785**	**2,154,550**
	Yen			U.S. dollars (Note1)
Per share (Note 2):				
Net income	¥ 19.88	¥ 5.17	**¥ 21.99**	**$ 0.20**
Net income assuming dilution	19,65	—	**20.36**	**0.19**
Cash dividends	21.00	21.00	**21.00**	**0.19**

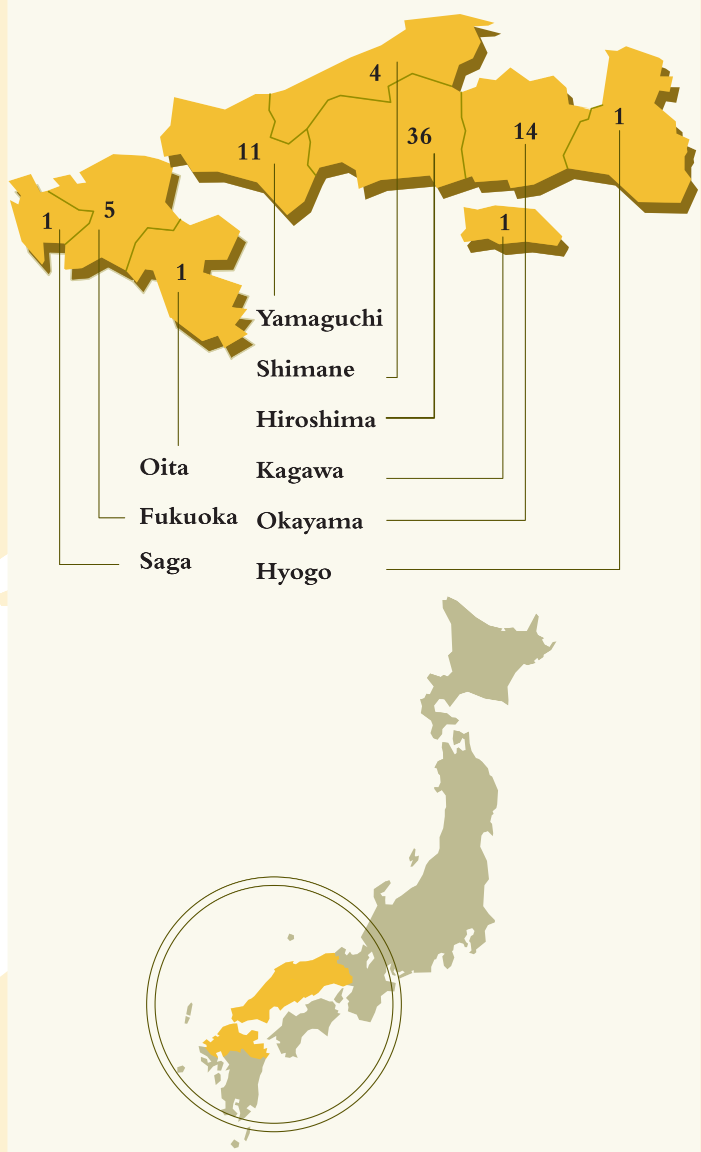
Notes 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥109.9 = U.S.$1, the rate of exchange on 29th February, 2000.
2. See Note 1 of Notes to Non-Consolidated Financial Statements.
3. The Company has been required to prepare the consolidated financial statements from the year ended 28th February, 1998. Accordingly, the consolidated financial data for the years ended 29th February,1996 and 28th February, 1997 is not presented.

Contents

Izumi Co., Ltd. is the number one retail chain in Western Japan's Chugoku region, with 74 stores throughout Hiroshima, Okayama, Yamaguchi, Shimane and Hyogo Prefectures; Kagawa Prefecture on Shikoku; and Fukuoka, Saga and Oita Prefectures on Kyushu. **Izumi** has steadily expanded the geographic focus of its dominant area strategy with outlets, stores and merchandise that respond to changes in the purchasing and lifestyle needs of customers in its operating area.

As the next century approaches, **Izumi** aims to maintain its reputation as the number one retail chain for customer satisfaction. As it expands development of Youme Town mega-shopping centers on Kyushu, **Izumi** will continue to foster customer loyalty with an enhanced product lineup and quality service.

Store Network



As of February 29, 2000

TO OUR SHAREHOLDERS

The fiscal year ended February 29, 2000, was a great year for Izumi Co., Ltd. Despite an operating environment of severe conditions and sluggish activity, we are pleased to report outstanding growth in sales and earnings. Consolidated revenues rose 3.4% to ¥288,343 million (US$2,623.7 million) and operating income increased 42.4% to ¥8,134 million (US$74.0 million). Net income rose an impressive 320.2% to ¥1,437 million (US$13.1 million).

We believe our performance this year stems directly from our efforts to bring speed to our management and innovation to our operations after three consecutive fiscal years of declining revenue and earnings. Our growth in the fiscal year under review is a reflection of two factors: improved competitiveness in existing stores; and the start of strong growth and profitability in our large-scale Youme Town shopping complexes, chiefly in the Kyushu region.

PESSIMISM ABOUT GENERAL MERCHANDISE STORES

Performance among general merchandise stores (GMSs) has been lackluster for the past few years, because of prolonged weakness in consumer sentiment and an excess of sales floor space that emerged as major players competed to open new stores. Based on this trend, more pessimistic analysts have concluded that our industry is in the declining growth phase and that it is no longer able to create value. The market's severe sell-off of GMS shares last year supports this viewpoint.

But is this an accurate assessment of our business? We don't think so. Saying that GMSs are in a mature growth phase is probably more realistic. Izumi believes that as long as customers have needs, our industry will not decline. We also believe that creating new corporate value is possible by responding adequately to these needs. In today's environment, where an increasing number of companies are worn down by excessive competition, the gap between companies that will thrive and companies that will falter is growing wider. We recognize that in this environment only the best strategies will allow a company to expand its market and thrive.

IZUMI'S MANAGEMENT PHILOSOPHY

Izumi believes that customer satisfaction is the source of all corporate profitability. As such, the shortest path to creating corporate value is in working to maximize customer satisfaction.

Based on this philosophy, we have created the slogan "Aiming to be a company built on customer satisfaction and confidence." Realizing this goal means constant management activity aimed at creating the kind of stores and sales spaces that regional customers love to visit. It also means providing value-added merchandise that effectively meets the diverse needs of our customers and realizing friendly sales floor space that fosters attentive service. And it means creating stores that are environmentally friendly and sensitive to the needs of senior citizens and disabled customers, and that make aggressive contributions to the employment and culture of the region.

BUSINESS RESULTS

Faced with three consecutive years of declining revenues and earnings, we revised our traditional management and administrative processes in the fiscal year under review, and worked with speed to implement innovations.

First, we resolved to improve our profitability structure by introducing a staff rotation system for optimal staff allocation, and starting a program of early retirement incentives. These programs helped us reduce head-office staff from 350 to 250 members. In addition, we continued to reduce fixed costs and revise administrative processes. Overall, we made significant progress lowering management costs, including a 12.4% reduction in utilities costs and a 20.1% decrease in furnishings and supply costs.

Our efforts to exploit the unique strengths of our total regional focus resulted in steady improvements to existing store sales. At the same time, our newly opened Youme Town stores in Kyushu achieved strong growth, and allowed the Company to post significant increases in revenue and earnings. On the strength of this performance, consolidated ordinary income increased 63.1%.

Based on our policy of supplying stable dividends to shareholders, we will continue to pay an annual dividend of ¥21.00 per share (¥10.50 interim period dividend). The Company's dividend-payout ratio totaled 101.4% in the fiscal year under review.

(Millions of yen)

	Consolidated		Non-Consolidated	
	Total	Percent Change	Total	Percent Change
Revenue	¥288,343	3.4%	¥283,988	3.1%
Operating income*	8,134	63.1%	7,613	50.1%
Net income	1,437	230.4%	1,346	242.6%
Net income per share	¥ 21.9		¥ 20.6	

*The ratio of non-consolidated operating income was 1:1.07.

INTO THE 21ST CENTURY

Considering the trends discussed above, we believe it is unrealistic to hope for an improvement in the operating environment. However, we also believe that continued earnings growth is possible if we remain focused on an effective strategy that takes advantage of our core strengths.

In the fiscal year ending February 28, 2001, we expect a larger contribution to earnings from our Kyushu stores, which are principal investments for the future. We also expect to see results emerging in our bottom line from closing six unprofitable stores in the term under review. In addition, due to the introduction of a new system of consolidated accounting, 14 companies will become consolidated subsidiaries and their performance added to Izumi's consolidated results. With valuable contributions from fast-growing, highly profitable companies such as the imported goods specialty outlet X-Sell Inc., we expect to continue seeing significant increases in revenue and earnings.

Izumi is committed to marshalling management strengths and becoming a company that thrives by satisfying its customers and creating value for its shareholders.

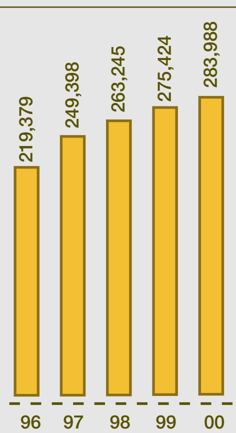
We thank our shareholders and ask for their continued support and guidance.

July 2000

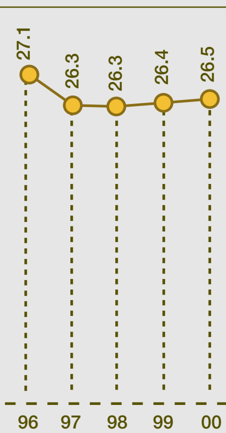
Yasuaki Yamanishi
President

Non-Consolidated

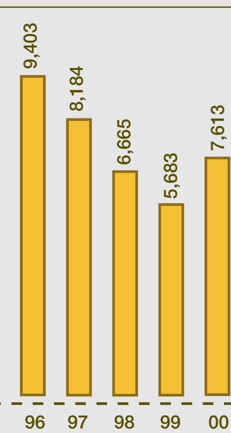
Revenues (Millions of yen)



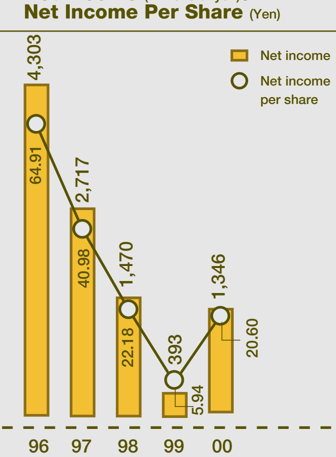
Gross Profit as a Percentage of Net Sales (%)



Operating Income (Millions of yen)



Net Income (Millions of yen) **/ Net Income Per Share** (Yen)



Taking Advantage of the Unique Strengths of Our Total Regional Focus

Izumi believes that customer satisfaction is the source of all corporate profitability. Izumi's advantage in raising customer satisfaction comes from the unique strengths of its total focus on the region. In the following section, we would like to talk a little about the corporate strength that comes from this total regional focus and about our attitude for realizing exceptional competitiveness and high profitability.

Forming a Dominant Area Strategy Around Youme Town, the Region's Number One Store

Izumi's strength lies in its total regional focus. Starting from its founding and continuing throughout the years, the Company has carried out business activities chiefly in the Chugoku region of Japan. Each store has worked to gain a deep understanding of the special traits that constitute its commercial territory, and Izumi has worked to create stores that anticipate customer needs before they arise. The result has been that customers place overwhelming confidence in Izumi. With a large number of stores concentrated in the same area—the dominant area strategy—we have gained higher customer recognition, more effective sales promotion activities, reduced distribution costs and a number of other benefits that render us highly competitive. And we have secured the number one position in the Chugoku region with far greater market share than any of our competitors.

Topic 1: Izumi—the Number One Retailer in the Chugoku Region

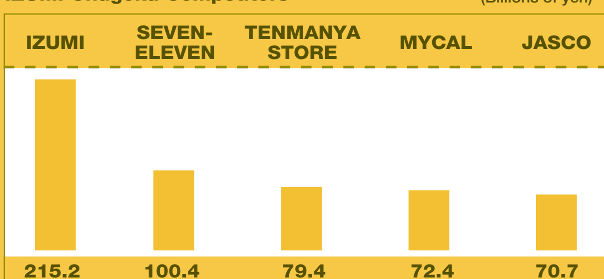
Deciding where to open new stores, what stores to open and when to open them are extraordinarily important issues for determining the profitability and growth potential of a retailer. In Japan, each region has its own history and culture and a myriad of special characteristics based on climate and atmosphere. To provide diverse value to its customers, a GMS cannot afford to ignore the distinctive features of the region in which it does business.

Based on this viewpoint, Izumi established the Chugoku region as the focus of its new store openings and strategically invested management resources accordingly. By making stores that are attuned precisely to the region's distinctive qualities, Izumi has become the market leader in the Chugoku region and has continued to build a base for strong differentiation from the major national chains, who carry out development throughout the country. In the Chugoku region, we compete against companies whose position is not as well established as Izumi's, which means we have secured a dominant position even amid the recent boom in new store openings.

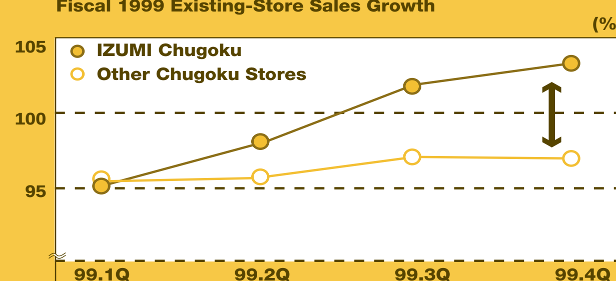
The previous fiscal year saw aggressive store openings throughout the Chugoku region. With a surplus of sales floor space, many of our competitors posted large declines in existing-store sales. However, Izumi was able to realize steady sales results that far surpassed the other industry players, as existing stores continued to make stable contributions to revenue.

Fiscal 1999 Sales Among IZUMI Chugoku Competitors

(Billions of yen)



Fiscal 1999 Existing-Store Sales Growth

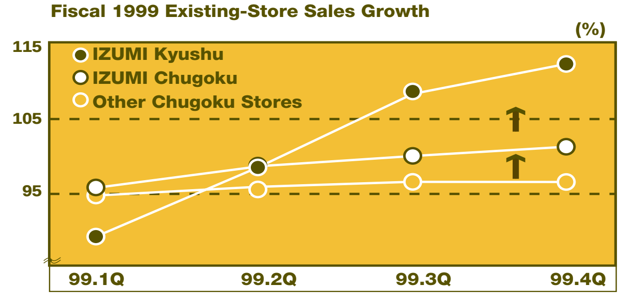


Source: Chugoku Bureau of International Trade and Industry, Ministry of International Trade and Industry

With its dominant area strategy in place in the Chugoku region, Izumi began opening new stores in Kyushu in February 1996. Kyushu is an attractive area for new store openings in many ways. It is a large commercial area with high economic growth potential, and competition in the region is comparatively light. Attracted by these factors, the Company decided to establish a new dominant area in the Kyushu region.

Customer tastes in Kyushu differ greatly from Chugoku. Each Youme Town store, however, is adapted specifically to the special characteristics of its area. In addition, they are number one for size and merchandise lineup in those areas, and feature many of Japan's premier specialty retailers. As such, they have won the strong support of local consumers. In the fiscal year under review, existing stores in Kyushu showed their capacity for high growth by outperforming the Company's steady revenue-earning stores in Chugoku (see graph). Izumi's dominant area strategy in Kyushu continues to make rapid advances.

Fiscal 1999 Existing-Store Sales Growth



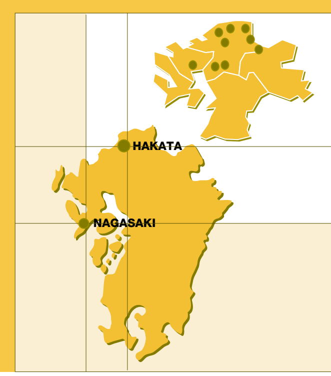
Source: Chugoku Bureau of International Trade and Industry, Ministry of International Trade and Industry

Topic 2: Rising to the Challenge in Kyushu—Opening Youme Site Nagasaki

After much planning, Izumi launched Youme Site Nagasaki in April 2000. This large-scale project was undertaken in cooperation with Nagasaki Prefecture to address the city's lack of adequate shopping facilities. A high-grade, urban shopping center, Youme Site Nagasaki is poised to become a new symbol for Nagasaki in the 21st century.

The new shopping center will provide a diverse lineup of products previously unavailable in the area and a merchandise mix that is sensitive to the special tastes of local consumers. In addition, it features bright, open spaces and complies with people-friendly, barrier-free design standards. With internal waste disposal and clean power generation using seawater, Youme Site Nagasaki represents store creation for the next century.

As an indication of the huge reaction the shopping center has elicited from the local community, more than 390,000 customers came to the store in its first three days of operations. That represents approximately 90% of the population of Nagasaki city. As a new symbol of the city, Youme Site Nagasaki boasts an incredible power to attract customers and its success is a clear example of how Izumi has realized store creation that precisely matches the expectations of local customers. This store is expected to continue posting steady earnings results and is on its way to becoming the number one shopping center in the region. Izumi's Kyushu stores will soon go from being investments in the future to providing substantial returns. As each store posts solid growth and profitability, Kyushu operations are expected to make large contributions to Companywide revenues. Approximately ¥100 billion (US$909.9 million) in sales is expected to come from the Kyushu region alone in the fiscal year ending February 28, 2002. In response, the Company plans to build a solid dominant area in Kyushu, believing that this region will be its main base for revenue growth in the 21st century.



While expanding its dominant area from Chugoku to Kyushu, Izumi will also be working to raise profitability in its existing stores. We have undertaken aggressive store renewals as a way to respond to the changing needs of our customers. We are also committed to closing down stores that, through changes in the market or the region, have lost their ability to function properly. By doing so, we believe we can address the changing needs of customers and constantly recreate our business.

Izumi's store strategy centers on recognizing the special characteristics of each region and creating stores that respond accurately to the needs of the region's customers. Through this strategy, Izumi plans to boost store strengths Companywide.

Average Age of Stores (Weighted by Floor Space)

February 1991	February 1996	February 2000
9.3 years	7.9 years	7.5 years

Strengthening the Corporate Base—Progress in Structural Innovation

While working to realize customer satisfaction, Izumi is revising the ways it has traditionally carried out purchasing of general merchandise and creation of sales floor space, and is working to reform administration as a means of creating new corporate value. To ensure these reforms are successful, Izumi believes it is essential to energize the staff and organization that make these reforms possible.

In human resources, Izumi has practiced regular hiring of new university graduates since 1968, for more than 30 years. The Company started working to accumulate human resources talent comparatively earlier than many other retailers, a practice that has created a base of support for Izumi's high level of competitiveness.

In today's market, the strength of a corporation is found in the speed of its management. Based on this recognition, Izumi is working to create an innovative, more horizontal organization where management decisions can be made with speed at the store level, the closest line to the customer. At the same time, the Company is pushing ahead with upgrades to its information infrastructure through aggressive IT investment. The goal is to provide support for objective and accurate decision making in each unit of our organization.

As part of efforts to energize the organization, we revised the traditional seniority-based pay system and introduced a new ability-based personnel system for salary and other considerations. Combined with the Company's well-established evaluation-based compensation system, which is considered one of Izumi's unique strengths, these changes promise to bring improved treatment to employees who make large contributions to the Company's performance.

In addition, amid the increasing involvement of women in the work force, Izumi has begun actively promoting women to management positions. As a result of these actions, the Company received an award from Hiroshima Prefecture for its record as an equal opportunity employer.

Our efforts with human resources and organizational revisions have resulted in a steady reduction in the average age of full-time employees (see table). We aim to create a more youthful, active organization and become a flexible but powerful corporation.

Average Age of Full-Time Employees (Weighted by Floor Space)

February 2000	February 1999	February 2000
31.6 years	30.7 years	30.3 years

Introducing the Corporate Group—Toward Full-Scale Introduction of Consolidated Accounting

The Izumi Group boasts a number of companies with high growth and high profitability. Yume Town Co., Ltd., a long-time consolidated subsidiary, has now acquired more than two million subscribers to its credit-card service. Through such initiatives as an industry-leading tie-up with the Postal Savings Bureau to provide joint-use ATM/credit cards, this company is making aggressive efforts to expand its business. The company achieved strong growth in revenue for the fiscal year under review, and we expect it to continue posting solid growth on the back of increases in credit-card subscribers and enhanced corporate functions.

In addition, a change in accounting methods effective in the current fiscal year provides the Izumi Group with several new subsidiaries that were not previously consolidated. X-Sell, a retail provider of imported luxury items at reasonable prices, best represents these new subsidiaries with industry-leading merchandising capabilities and overwhelming differentiation from competitors. This company is expanding rapidly into major cities nationwide.

Exceptional corporate group activity enhances the Izumi Group's ability to realize customer satisfaction and is expected to create greater added value. The operating environment surrounding the retail industry will most likely remain unstable. Izumi and its Group companies are committed to working hard to implement their optimal business strategy and to realize customer satisfaction. Izumi aims to be a company that thrives in the 21st century.

Non-Consolidated Statements of Income

Izumi Co., Ltd. For the years ended 28th February, 1999 and 29th February, 2000

	Millions of yen		Thousands of U.S. dollars (Note 3)	
	1999	**2000**	1999	**2000**
REVENUES (Note 12):				
Net sales	¥267,845	**¥275,611**	$2,437,170	**$2,507,834**
Other operating revenues	7,579	**8,377**	68,963	**76,224**
	275,424	**283,988**	2,506,133	**2,584,058**
COST OF SALES	204,675	**210,931**	1,862,375	**1,919,299**
Gross profit	70,749	**73,057**	643,758	**664,759**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	65,066	**65,444**	592,047	**595,487**
Operating income	5,683	**7,613**	51,711	**69,272**
OTHER INCOME (EXPENSES):				
Interest and dividend income	456	**272**	4,149	**2,475**
Discount on early settlement of accounts payable–trade	453	**480**	4,122	**4,368**
Interest expense	(2,488)	**(2,456)**	(22,639)	**(22,348)**
Loss on write-down of investments in securities	(262)	**(903)**	(2,384)	**(8,217)**
Loss on liquidation of subsidiaries	(65)	**(740)**	(591)	**(6,733)**
Loss on write-down of short term investments	(713)	**(189)**	(6,488)	**(1,720)**
Loss on sales of investments in securities	(1,093)	**—**	(9,945)	**—**
Loss on write-down of intangible assets	—	**(260)**	—	**(2,366)**
Loss on liquidation of cash trusts	(572)	**—**	(5,205)	**—**
Loss on sales or disposal of property and equipment	(581)	**(935)**	(5,287)	**(8,508)**
Additional severance benefits for early retirement	(358)	**(164)**	(3,257)	**(1,492)**
Amortisation of unrecognised effect of change in method of accounting for severance benefits of directors and corporate auditors	(112)	**—**	(1,019)	**—**
Other, net	465	**227**	4,231	**2,066**
Income before income taxes	813	**2,945**	7,398	**26,797**
INCOME TAXES (Note 13)				
Current	420	**2,041**	3,822	**18,571**
Deferred	—	**(442)**	—	**(4,022)**
Net income	¥ ,393	**¥ 1,346**	$ 3,576	**$ 12,248**

	Yen		U.S. dollars (Note 3)	
PER SHARE:				
Net income	¥ 5.94	**¥ 20.60**	$ 0.05	**$ 0.19**
Net income assuming dilution	—	**18.84**	—	**0.17**
Cash dividends	21.00	**21.00**	0.19	**0.19**
WEIGHTED AVERAGE NUMBER OF SHARES (THOUSANDS):				
Common shares	66,159	**65,354**		
Common shares assuming dilution	73,394	**72,453**		

The accompanying notes are an integral part of these statements.

Non-Consolidated Balance Sheets

Izumi Co., Ltd. 28th February, 1999 and 29th February, 2000	Millions of yen		Thousands of U.S. dollars (Note 3)	
	1999	**2000**	1999	**2000**
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents (Notes 6 and 10):				
Cash	¥ 9,057	**¥ 7,104**	$ 82,411	**$ 64,641**
Time deposits	4,120	**1,276**	37,489	**11,611**
	13,177	**8,380**	119,900	**76,252**
Short-term investments (Notes 5, 6 and 10)	1,335	**73**	12,147	**664**
Short-term loans receivable	168	**3,267**	1,529	**29,727**
Notes and accounts receivable (Note 10):				
Trade	699	**733**	6,360	**6,670**
Other	959	**950**	8,726	**8,644**
	1,658	**1,683**	15,086	**15,314**
Less, allowance for doubtful accounts	(9)	**(9)**	(82)	**(82)**
	1,649	**1,674**	15,004	**15,232**
Inventories (Note 4)	12,501	**12,105**	113,749	**110,146**
Refundable income taxes	794	**—**	7,225	**—**
Deferred income taxes (Note 13)	—	**385**	—	**3,503**
Other current assets	1,063	**1,543**	9,672	**14,040**
Total current assets	30,687	**27,427**	279,226	**249,564**
INVESTMENTS AND ADVANCES (Note 10):				
Investments in securities (Note 5)	5,188	**5,418**	47,207	**49,299**
Investments in subsidiaries and affiliates	1,347	**1,330**	12,257	**12,102**
Other investments and advances	2,956	**3,302**	26,897	**30,045**
	9,491	**10,050**	86,361	**91,446**
PROPERTY AND EQUIPMENT (Note 6):				
Buildings and structures	128,569	**133,360**	1,169,873	**1,213,467**
Furniture and fixtures	22,330	**23,332**	203,185	**212,302**
	150,899	**156,692**	1,373,058	**1,425,769**
Less, accumulated depreciation	(62,719)	**(68,394)**	(570,692)	**(622,330)**
	88,180	**88,298**	802,366	**803,439**
Land	48,545	**49,513**	441,720	**450,528**
Construction in progress	3,401	**7,283**	30,946	**66,269**
	140,126	**145,094**	1,275,032	**1,320,236**
OTHER ASSETS:				
Fixed leasehold deposits	25,218	**22,914**	229,463	**208,499**
Deferred income taxes (Note 13)	—	**929**	—	**8,453**
Other	9,012	**10,765**	82,002	**97,953**
	¥214,534	**¥217,179**	$1,952,084	**$1,976,151**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)	
	1999	**2000**	1999	**2000**
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Short-term bank loans (Notes 6 and 10)	¥ —	**¥ 4,650**	$ —	**$ 42,311**
Current portion of long-term debt (Notes 6 and 10)	17,471	**23,267**	158,972	**211,711**
Accounts payable (Note 10):				
Trade	11,285	**11,136**	102,684	**101,329**
Construction	6,784	**2,966**	61,729	**26,988**
Other	2,671	**2,856**	24,304	**25,987**
	20,740	**16,958**	188,717	**154,304**
Accrued income taxes	—	**1,838**	—	**16,724**
Accrued payroll and bonuses	2,071	**2,086**	18,844	**18,981**
Accrued consumption taxes	82	**1,079**	746	**9,818**
Deposits received	1,730	**1,591**	15,742	**14,477**
Other current liabilities	1,325	**2,192**	12,056	**19,945**
Total current liabilities	43,419	**53,661**	395,077	**488,271**
LONG-TERM DEBT (Notes 6 and 10)	84,089	**75,876**	765,141	**690,410**
ACCRUED SEVERANCE INDEMNITIES (Note 7)	1,968	**1,950**	17,907	**17,743**
LEASE DEPOSITS RECEIVED	10,492	**11,072**	95,469	**100,746**
OTHER LIABILITIES	17	**34**	155	**309**
Total liabilities	139,985	**142,593**	1,273,749	**1,297,479**
COMMITMENTS AND CONTINGENT LIABILITIES (Note 9)				
SHAREHOLDERS' EQUITY (Note 11):				
Common stock, ¥50 ($0.45) par value:				
Authoris ed—198,717,000 shares				
Issued—65,957,710 shares at 28th February, 1999	19,614	**—**	178,471	**—**
—65,032,710 shares at 29th February, 2000	—	**19,614**	—	**178,471**
Additional paid-in capital	26,580	**25,792**	241,856	**234,686**
Legal reserve	1,679	**1,820**	15,278	**16,561**
Voluntary reserves	26,274	**25,072**	239,072	**228,135**
Retained earnings	402	**2,288**	3,658	**20,819**
Total shareholders' equity	74,549	**74,586**	678,335	**678,672**
	¥214,534	**¥217,179**	$1,952,084	**$1,976,151**

Non-Consolidated Statements of Shareholders' Equity

Izumi Co., Ltd. For the years ended 28th February, 1999 and 29th February, 2000

	Number of common shares (thousands)	Common stock	Additional paid-in capital	Legal reserve	Voluntary reserves	Retained earnings
		Millions of yen				
BALANCE AT 28TH FEBRUARY, 1998	66,316	¥19,614	¥26,866	¥1,534	¥26,230	¥ 1,640
Net income for the year	—	—	—	—	—	393
Cash dividends	—	—	—	—	—	(1,393)
Directors' and corporate auditors' bonus	—	—	—	—	—	(49)
Transfer to legal and voluntary reserves	—	—	—	145	67	(212)
Transfer from voluntary reserves	—	—	—	—	(23)	23
Common stock repurchased and cancelled	(358)	—	(286)	—	—	—
BALANCE AT 28TH FEBRUARY, 1999	65,958	19,614	26,580	1,679	26,274	402
Net income for the year	—	—	—	—	—	1,346
Cash dividends	—	—	—	—	—	(1,375)
Directors' and corporate auditors' bonus	—	—	—	—	—	(19)
Transfer to legal and voluntary reserves	—	—	—	141	26	(167)
Transfer from voluntary reserves	—	—	—	—	(1,228)	1,228
Common stock repurchased and cancelled	(925)	—	(788)	—	—	—
Cumulative effects of adopting deferred tax accounting at 1st March, 1999	—	—	—	—	—	873
BALANCE AT 29TH FEBRUARY, 2000	65,033	¥19,614	¥25,792	¥1,820	¥25,072	¥ 2,288

	Common stock	Additional paid-in capital	Legal reserve	Voluntary reserves	Retained earnings
		Thousands of U.S. dollars (Note 3)			
BALANCE AT 28TH FEBRUARY, 1998	$178,471	$244,459	$13,958	$238,672	$14,923
Net income for the year	—	—	—	—	3,576
Cash dividends	—	—	—	—	(12,675)
Directors' and corporate auditors' bonus	—	—	—	—	(446)
Transfer to legal and voluntary reserves	—	—	1,320	609	(1,929)
Transfer from voluntary reserves	—	—	—	(209)	209
Common stock repurchased and cancelled	—	(2,603)	—	—	—
BALANCE AT 28TH FEBRUARY, 1999	178,471	241,856	15,278	239,072	3,658
Net income for the year	—	—	—	—	12,248
Cash dividends	—	—	—	—	(12,512)
Directors' and corporate auditors' bonus	—	—	—	—	(173)
Transfer to legal and voluntary reserves	—	—	1,283	237	(1,520)
Transfer from voluntary reserves	—	—	—	(11,174)	11,174
Common stock repurchased and cancelled	—	(7,170)	—	—	—
Cumulative effects of adopting deferred tax accounting at 1st March, 1999	—	—	—	—	7,944
BALANCE AT 29TH FEBRUARY, 2000	$178,471	$234,686	$16,561	$228,135	$20,819

The accompanying notes are an integral part of these statements.

Non-Consolidated Statements of Cash Flows

Izumi Co., Ltd. For the years ended 28th February, 1999 and 29th February, 2000

	Millions of yen		Thousands of U.S. dollars (Note 3)	
	1999	**2000**	1999	**2000**
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	¥ 393	**¥ 1,346**	$ 3,576	**$ 12,248**
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Depreciation and amortisation	8,702	**8,897**	79,181	**80,955**
Loss on sales or disposal of property and equipment	581	**935**	5,287	**8,508**
Loss on write-down of short-term investments	713	**189**	6,488	**1,720**
Loss on write-down of investments in securities	262	**903**	2,384	**8,217**
Loss on write-down of other assets	—	**279**	—	**2,539**
Loss on liquidation of subsidiaries	65	**—**	591	**—**
Loss on sales of investment in securities	1,093	**—**	9,945	**—**
Loss on liquidation of cash trusts	572	**—**	5,205	**—**
Provision for accrued severance indemnities	538	**430**	4,895	**3,913**
Deferred income taxes	—	**(442)**	—	**(4,022)**
Changes in assets and liabilities:				
Increase in notes and accounts receivable	(40)	**(15)**	(364)	**(137)**
Decrease (increase) in inventories	(688)	**396**	(6,260)	**3,603**
Decrease (increase) in refundable income tax	(794)	**794**	(7,225)	**7,225**
(Increase) decrease in other current assets	863	**(440)**	7,852	**(4,004)**
Increase in notes and accounts payable	687	**36**	6,251	**328**
Increase in accrued payroll and bonuses	128	**15**	1,165	**136**
Increase in accrued income taxes	(900)	**1,838**	(8,189)	**16,724**
Increase (decrease) in other current liabilities	(874)	**1,725**	(7,953)	**15,696**
Other, net	(15)	**(211)**	(1,920)	**(1,920)**
Total adjustments	10,893	**15,329**	99,117	**139,481**
Net cash provided by operating activities	11,286	**16,675**	102,693	**151,729**
CASH FLOWS FROM INVESTING ACTIVITIES:				
Payments for purchases of property and equipment	(23,470)	**(20,462)**	(213,558)	**(186,188)**
Proceeds from sales of property and equipment	482	**1,919**	4,386	**17,461**
Payments for purchases of investments and advances	(670)	**(596)**	(6,096)	**(5,423)**
Proceeds from sales of investments and collection of advances	1,434	**167**	13,048	**1,520**
Decrease in short-term investments	1,182	**—**	10,755	**—**
(Increase) decrease in short-term loans receivable	3,166	**(3,047)**	28,808	**(27,725)**
Increase in fixed leasehold deposits	(159)	**(1,975)**	(1,447)	**(17,971)**
Decrease in fixed leasehold deposits	1,275	**4,394**	11,602	**39,982**
Other, net	(2,072)	**(3,326)**	(18,854)	**(30,264)**
Net cash used in investing activities	(18,832)	**(22,926)**	(171,356)	**(208,608)**
CASH FLOWS FROM FINANCING ACTIVITIES:				
Increase (decrease) in short-term bank loans	(8,300)	**4,650**	(75,523)	**42,311**
Decrease in commercial paper	(9,000)	**—**	(81,893)	**—**
Proceeds from issuance of long-term debt	29,200	**15,248**	265,696	**138,744**
Repayments of long-term debt	(6,323)	**(17,665)**	(57,534)	**(160,737)**
Increase in lease deposits received	3,286	**1,358**	29,900	**12,357**
Repayments of lease deposits received	(1,272)	**(779)**	(11,574)	**(7,088)**
Cash dividends paid	(1,393)	**(1,375)**	(12,675)	**(12,512)**
Other, net	(8)	**17**	(73)	**156**
Net cash provided by financing activities	6,190	**1,454**	56,324	**13,231**
Net decrease in cash and cash equivalents	(1,356)	**(4,797)**	(12,339)	**(43,648)**
Cash and cash equivalents at beginning of year	14,533	**13,177**	132,239	**119,900**
Cash and cash equivalents at end of year	¥ 13,177	**¥ 8,380**	$ 119,900	**$ 76,252**
SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid during the year for:				
Interest	¥ 2,665	**¥ 2,554**	$ 24,249	**$ 23,239**
Income taxes	1,992	**180**	18,126	**1,638**
Non-cash financing activities:				
Transfer of short-term investments to investments in securities	¥ —	**¥ 1,073**	$ —	**$ 9,763**

The accompanying notes are an integral part of these statements.

Izumi Co., Ltd. For the years ended 28th February, 1999 and 29th February, 2000

1. Basis of Presenting Non-Consolidated Financial Statements

The accompanying non-consolidated financial statements have been prepared based on the accounts maintained by Izumi Co., Ltd. (the "Company") in accordance with the provisions set forth in the Japanese Commercial 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 as to application and disclosure requirements of International Accounting Standards.

Certain items presented in the non-consolidated financial statements filed with the Ministry of Finance (the "MOF") in Japan have been reclassified in these accounts for the convenience of readers outside Japan. In addition, the non-consolidated financial statements of cash flows are not required to be filed with the MOF, but have been prepared and included in the non-consolidated financial statements.

The non-consolidated financial statements are not intended to present the non-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.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Summary of Significant Accounting Policies

(1) Translation of Foreign Currencies

Investments in securities denominated in foreign currencies are translated into Japanese yen at the historical exchange rates.

(2) Inventories

Inventories are stated at cost, primarily determined by the retail inventory method (inventory valuation is based on the ratio of cost to selling price).

(3) Short-Term Investments and Investments in Securities

Securities with quoted market prices are stated at the lower of cost or market, and others are stated at cost. Cost is determined by the moving average method.

(4) Investments in Subsidiaries and Affiliates

Investments in subsidiaries and affiliates are valued at cost. Subsidiaries have not been consolidated nor has the equity method of accounting been applied to account for investments in affiliates in the accompanying non-consolidated financial statements.

(5) Property and Equipment and Depreciation

Property and equipment, including significant renewals and additions, are carried at cost.

Cost of property and equipment retired or otherwise disposed of and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is reflected in income.

Depreciation of property and equipment, other than a large-scale and compound-type shopping center and buildings acquired on or after 1st April, 1998, is computed on the declining balance method at rates based on the estimated useful lives of assets prescribed by the Japanese income tax laws. A large-scale and compound-type shopping center and buildings acquired on or after Ist April,1998 are depreciated by the straight-line method.

The useful lives of buildings (excluding building improvements) were changed in accordance with 1998 amendments to the Japanese tax laws. The effects of this change were to increase depreciation expense by ¥429 million ($3,904 thousand), and to decrease both operating income and income before income taxes by ¥429 million ($3,904 thousand) for the year ended 29th February, 2000. In accordance with 1998 amendments to the Japanese tax laws, the capitalization threshold was lowered from ¥200 thousand to ¥100 thousand, and minor assets with acquisition costs of ¥100 thousand or more but less than ¥200 thousand have been depreciated over five years on a straight-line basis. The effects of this change were to increase operating income and income before income taxes by ¥68 million ($619 thousand) for the year ended 29th February, 2000.

The range of the estimated useful lives is as follows:

Buildings and structures	10 to 65 years
Furniture and fixtures	4 to 17 years

Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

(6) Leases

The Company leases certain of its superstore properties under noncancellable agreements primarily for a 30-year period. The rental fees are usually renegotiated every three years. Those leases are accounted for as operating leases. When leasing land, the Company is usually required to make certain fixed leasehold deposits which are returnable only when the lease is terminated. In connection with the leasing of buildings for superstores, the Company generally enters into agreements whereby the Company advances to the lessors the amounts of the construction costs of the buildings. Upon completion of construction, the advances are reclassified to fixed leasehold deposits for the buildings. After 10 years of the lease, 70 to 80 per cent of such fixed leasehold deposits is refunded in installments over 10 to 20 years.

The Company also leases certain superstore equipment and office equipment under noncancellable agreements for seven years. Those leases are also accounted for as operating leases.

(7) Accrued Severance Indemnities and Pension Plans

Employees of the Company, with more than one year's service, are entitled to receive lump-sum indemnities upon termination. The amount of the benefit is determined by 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 is reduced by the benefits payable under a non-contributory pension plan.

The accrued severance indemnities in the accompanying non-consolidated balance sheets represent 40 per cent of the liability the Company would be required to pay (reduced by the benefits payable under the non-contributory pension plan) if all eligible employees voluntarily terminated employment at the balance sheet date. Such liability is not funded.

The Company provides for lump-sum severance benefits with respect to directors and corporate auditors. While the Company has 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 liability is not funded.

(8) Income Taxes

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

Effective lst March,1999, the Company adopted the deferred tax accounting method in accordance with the amended regulations for preparation of financial statements. Income taxes were determined using the asset and liability approach, whereby deferred tax assets and liabilities were recognised 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 recognised in income in the period that includes the enactment date. The cumulative effect of adopting deferred tax accounting at 1st March, 1999 was charged to retained earnings.

In the year ended 28th February, 1999, income taxes of the Company were provided for at an amount currently payable based on the tax returns filed with the tax authorities.

(9) Net Income and Dividends per Share

Net income per share of common stock is based on the weighted average number of shares of common stock outstanding during each period. Diluted earnings per share additionally assumes the conversion of outstanding convertible debentures. Diluted earnings per share for the year ended 28th February, 1999 was not presented due to the anti-dilutive effect of the assumed conversion of outstanding convertible debentures.

Cash dividends per share include those declared with respect to the earnings 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.

(10) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and bank deposits, including time deposits maturing within one year.

3. United States Dollar Amounts

The Company maintains its accounting records in Japanese yen. The dollar amounts included in the accompanying non-consolidated financial statements and notes thereto represent the arithmetical results of translating yen into dollars on the basis of ¥109.9=U.S.$1, the approximate rate of exchange on 29th February, 2000.

The inclusion of such dollar amounts is solely for convenience and is not intended to imply that assets and liabilities have been or could be readily converted, realised or settled in dollars at ¥109.9=U.S.$1, or at any other rate.

4. Inventories

Inventories as of 28th February, 1999 and 29th February, 2000, consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	1999	**2000**	1999	**2000**
Clothing	¥ 7,626	**¥ 5,881**	$ 69,390	**$ 53,512**
Household goods	3,174	**4,376**	28,881	**39,818**
Fresh and processed foods	1,566	**1,714**	14,249	**15,596**
Supplies	135	**134**	1,229	**1,220**
	¥12,501	**¥12,105**	$113,749	**$110,146**

5. Marketable Equity Securities

Marketable equity securities included in short-term investments (current assets) and investments in securities (non-current assets) as of 28th February, 1999 and 29th February, 2000, are summarised as follows:

	Millions of yen		Thousands of U.S. dollars	
	1999	**2000**	1999	**2000**
Current:				
Market	¥1,294	**¥ 34**	$11,774	**$309**
Cost (carrying amounts)	1,285	**35**	11,692	**318**
Unrealised (losses) gains	¥ 9	**¥ (1)**	$ 82	**$ (9)**
Non-current:				
Market	¥3,873	**¥4,466**	$35,241	**$40,637**
Cost (carrying amounts)	3,629	**4,397**	33,021	**40,009**
Unrealised gains	¥ 244	**¥ 69**	$ 2,220	**$ 628**

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

Short-term bank loans are represented by bank overdrafts, bearing interest at the weighted average interest rate of 1.23%.

Long-term debt as of 28th February, 1999 and 29th February, 2000, consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	1999	**2000**	1999	**2000**
Loans from banks and insurance companies, due from April 1999 to August 2011 with interest rates primarily based on the long-term prime rate:				
Secured	¥55,326	**¥55,666**	$503,421	**$506,515**
Unsecured	3,798	**5,841**	34,559	**53,149**
	59,124	**61,507**	537,980	**559,664**
Japanese yen unsecured convertible debentures:				
4.5% due February 2001	9,545	**9,545**	86,851	**86,851**
1.7% due August 2002	4,091	**4,091**	37,225	**37,225**
2.3% Japanese yen unsecured debentures due March 2000	4,000	**4,000**	36,397	**36,397**
2.025% Japanese yen unsecured debentures due March 2002	5,000	**5,000**	45,496	**45,496**
2.325% Japanese yen unsecured debentures due March 2003	5,000	**5,000**	45,496	**45,496**
2.175% Japanese yen unsecured debentures due October 2003	5,000	**5,000**	45,496	**45,496**
2.0% Japanese yen unsecured debentures due December 2001	5,000	**5,000**	45,496	**45,496**
2.05% Japanese yen unsecured debentures due February 2000	4,800	**—**	43,676	**—**
	101,560	**99,143**	924,113	**902,121**
Less: portion due within one year	(17,471	**(23,267)**	(158,972)	**(211,711)**
	¥84,089	**¥75,876**	$ 765,141	**$ 690,410**

The aggregate annual maturities of long-term debt outstanding as of 29th February, 2000, are as follows:

Year ending the last day of February	Millions of yen	Thousands of U.S. dollars
2002	¥13,301	$121,028
2003	27,001	245,687
2004	14,543	132,330
2005	8,769	79,791
2006 and thereafter	12,262	111,574
	¥75,876	$690,410

Convertible debentures outstanding as of 29th February, 2000, are redeemable or convertible as follows:

	Redeemable on or after	Redeemable price range	Current conversion price per share (a)	Number of shares of issuable common stock upon conversion (thousands)
4.5% due February 2001 (b)	1st March, 1996	105%–100%	¥1,897.0	5,032
1.7% due August 2002 (c)	1st September, 1998	103%–94%	¥1,979.0	2,067

(a) Subject to adjustments under certain circumstances, including stock splits of common stock.
(b) Under the terms of the convertible debentures, the aggregate payments of cash dividends including interim cash dividends shall not exceed ¥1,900 million plus the aggregate amounts of net income of the Company for each year ending subsequent to 29th February, 1992 until all the debentures are redeemed.
(c) Under the terms of the convertible debentures, the aggregate payments of cash dividends including interim cash dividends shall not exceed ¥2,300 million plus the aggregate amounts of net income of the Company for each year ending subsequent to 31st August, 1993 until all the debentures are redeemed.

As of 29th February, 2000, bank deposits of ¥300 million ($2,730thousand), marketable securities of ¥2,554 million ($23,239 thousand), and property and equipment with a net book value of ¥82,157 million ($747,561 thousand) were pledged as collateral for short-term loans and long-term loans including the current portion.

7. Accrued Severance Indemnities and Pension Plans

The accumulated balance of fund assets of the pension plan aggregated ¥1,027 million ($9,345 thousand) as of 29th February, 2000.

The past service cost for the pension plan aggregated ¥806 million ($7,334 thousand) as of 29th February, 2000, and was being amortized over 14 years and four months.

Severance indemnities and pension costs, for the Company's employees, charged to income for the two years ended 28th February, 1999 and 29th February, 2000, are as follows:

Millions of yen		Thousands of U.S. dollars	
1999	**2000**	1999	**2000**
¥536	**¥712**	$4,877	**$6,479**

8. Leases

The total rental expense for leases for the two years ended 28th February, 1999 and 29th February, 2000, are as follows:

	Millions of yen		Thousands of U.S. dollars	
	1999	**2000**	1999	**2000**
Total rental expense, principally land and buildings for superstores (a)	¥6,242	**¥5,273**	$56,797	**$47,980**
Less: sublease rental income from tenants (b)	1,810	**2,193**	16,469	**19,955**
Net rental expense	¥4,432	**¥3,080**	$40,328	**$28,025**

(a) See Note 2 (6) for discussion of the accounting leases.
(b) See Note 12 for discussion of the rental incom

Information for finance lease transactions other than those which are deemed to transfer the ownership of leased assets to lessees for each period is summarised as follows:

(1) Acquisition cost equivalent amount, accumulated depreciation equivalent amount and net book value equivalent amount of the leased furniture and fixtures as at 28th February, 1999 and 29th February, 2000, if capitalised, are summarised as follows:

	Millions of yen		Thousands of U.S. dollars	
	1999	**2000**	1999	**2000**
Acquisition cost equivalent amount	¥9,496	**¥8,565**	$86,406	**$77,934**
Accumulated depreciation equivalent amount	4,947	**2,978**	45,014	**27,097**
Net book value equivalent amount	¥4,549	**¥5,587**	$41,392	**$50,837**

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

(2) The amounts equivalent to outstanding future lease payments at 28th February, 1999 and 29th February, 2000, which include interest portion, are summarised as follows:

	Millions of yen		Thousands of U.S. dollars	
	1999	**2000**	1999	**2000**
Due within one year	¥ 976	**¥1,097**	$ 8,881	**$ 9,982**
Due after one year	3,572	**4,490**	32,502	**40,855**
Total	¥4,548	**¥5,587**	$41,383	**$50,837**

(3) Rental expenses and depreciation expense equivalent amounts for the two years ended 29th February, 2000, are as follows:

	Millions of yen		Thousands of U.S. dollars	
	1999	**2000**	1999	**2000**
Rental expenses	¥1,101	**¥1,218**	$10,018	**$11,083**
Depreciation expense equivalent amounts	1,101	**1,218**	10,018	**11,083**

Depreciation expense equivalent amount is determined based on the straight-line method over the lease term of the leased assets with no residual value.

9. Commitments and Contingent Liabilities

Minimum rental commitments under noncancellable operating leases at 29th February, 2000, are as follows:

	Millions of yen		
Year ending the last day of February	Real Estate	Equipment	Total Commitment
2001	¥ 3,971	¥1,295	¥ 5,266
2002	3,841	1,259	5,100
2003	3,738	1,111	4,849
2004	3,614	1,016	4,630
2005	3,499	752	4,251
2006 and thereafter	48,554	568	49,122

	Thousands of U.S. dollars		
Year ending the last day of February	Real Estate	Equipment	Total Commitment
2001	$ 36,133	$ 11,783	$ 47,916
2002	34,950	11,456	46,406
2003	34,013	10,109	44,122
2004	32,884	9,245	42,129
2005	31,838	6,843	38,681
2006 and thereafter	441,802	5,168	446,970

The Company was contingently liable for guarantees of loans from financial institutions and lease agreements made by affiliates and other, totalling ¥36,680 million ($333,758 thousand) at 29th February, 2000.

10. Fair Value of Financial Instruments

The Company uses derivative financial instruments to reduce its finance costs and to hedge its exposure to market risk from fluctuation in interest rates. The Company does not hold or issue derivative financial instruments for speculative purposes.

The Company has entered into interest rate swap agreements, under which the Company receives fixed-rate interest and pays variable-rate interest, to reduce costs for debentures issued or loans borrowed at fixed interest rate. The Company has also entered into interest rate swap agreements, under which the Company receives variable-rate interest and pays fixed-rate interest, to fix the interest payments on a long-term basis. The contract amounts of interest rate swap agreements were ¥20,685 million ($188,217 thousand) and ¥29,062 million ($264,440 thousand) at 28th February, 1999 and 29th February, 2000, respectively.

The interest rate swap transactions, which are currently used by the Company, may have a risk from interest rate fluctuations. The Company believes that there is little credit risk from nonfulfillment of contracts, as counter parties are highly creditworthy domestic banks. Derivative transactions are approved at the management conference, and executed and managed by treasury department. The head of the administrative department reports the status of transactions to the Board of Directors. The estimated fair values of financial instruments as of 28th February, 1999 and 29th February, 2000, are as follows:

	Millions of yen			
	1999		**2000**	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	¥13,177	¥13,177	**¥8,380**	**¥8,380**
Short-term investments	1,285	1,294	**35**	**34**
Notes and accounts receivable	1,649	1,649	**1,674**	**1,674**
Investments and advances	3,629	3,873	**4,397**	**4,466**
Liabilities:				
Short-term bank loans	—	—	**4,650**	**4,650**
Accounts payable	20,740	20,740	**16,958**	**16,958**
Long-term debt	42,436	41,926	**37,636**	**38,055**

	Thousands of U.S. dollars			
Assets:				
Cash and cash equivalents	$119,900	$119,900	**$ 76,252**	**$ 76,252**
Short-term investments	11,692	11,774	**318**	**309**
Notes and accounts receivable	15,004	15,004	**15,232**	**15,232**
Investments and advances	33,021	35,241	**40,009**	**40,637**
Liabilities:				
Short-term bank loans	—	—	**42,311**	**42,311**
Accounts payable	188,717	188,717	**154,304**	**154,304**
Long-term debt	386,133	381,492	**342,457**	**346,269**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

(1) Cash and Cash Equivalents, Notes and Accounts Receivable, Short-Term Bank Loans, and Accounts Payable

The carrying amount approximates fair value because of the short maturity of these instruments.

(2) Short-Term Investments

The fair value of short-term investments is estimated based on quoted market prices. Investments with a carrying amount of ¥49 million ($446 thousand) were excluded because a reasonable estimate of fair value could not be made without incurring excessive cost.

(3) Investments and Advances

The fair value of certain investments is estimated based on quoted market prices for those instruments. Investments and advances with a carrying amount of ¥5,653 million ($51,437 thousand) were excluded because a reasonable estimate of fair value could not be made without incurring excessive cost.

(4) Long-Term Debt

The fair value of long-term debt is estimated based on quoted market prices. Loans from banks and insurance companies with an aggregate carrying amount of ¥61,507 million ($559,664 thousand) were excluded because a reasonable estimate of fair value could not be made without incurring excessive cost.

11. Shareholders' Equity

The Japanese Commercial Code (the "Code") requires that the entire amount of the issue price of new shares issued upon conversion of debentures must be capitalised as "common stock." However, at or less than 50 per cent of such issue price may be capitalised as "additional paid-in capital" pursuant to a resolution of the Board of Directors on the condition that at least the par value of such new shares is capitalised as "common stock."

The Code requires the appropriation of retained earnings as legal reserve in an amount equivalent to at least 10 per cent of cash payments for appropriation of retained earnings until the reserve equals 25 per cent of common stock. This reserve may be transferred to common stock by a resolution of the Board of Directors or used to reduce a deficit by a resolution of the shareholders' meeting.

Under the Code, the appropriation of retained earnings (including year-end cash dividend payments) proposed by the Board of Directors should be approved at the shareholders' meeting which must be held within three months after the end of each fiscal year. The appropriation of retained earnings reflected in the accompanying non-consolidated financial statements represents the results of such appropriations which are applicable to the immediately preceding fiscal year 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 of the year and constitutes a part of the appropriations cited above.

The Company's Board of Directors has made annual appropriations of retained earnings for various purposes, the accumulated balance of which is presented as "Voluntary reserves" in the accompanying non-consolidated financial statements.

12. Revenues from Tenants

The Company rents part of its sales floor space to tenants for the operation of independent complementary retail businesses. Net sales include sales of tenants who are on a percentage rent basis and other operating revenues include rental income from tenants who are on a fixed or variable rent basis. Sales of tenants and rental income from tenants are summarised as follows:

	Millions of yen		Thousands of U.S. dollars	
	1999	**2000**	1999	**2000**
Sales	¥65,451	**¥68,546**	$595,551	**$623,712**
Rental income	1,810	**2,193**	16,470	**19,955**

13. Income Taxes

The Company is subject to a number of different taxes based on income which, in aggregate, indicates statutory tax rates of approximately 51.0% for the year ended 28th February, 1999 and 47.3% for the year ended 29th February, 2000. Reconciliation of the differences between the statutory income tax rate and the effective income tax rate for the years ended 28th February, 1999 and 29th February, 2000 are as follows:

	1999	2000
Statutory income tax rate	51.0%	47.3%
Increase (decrease) in taxes resulting from:		
Per capita Inhabitant taxes	18.2	5.1
Effect of change in statutory income tax rate	—	2.0
Dividend income which is permanently non-taxable	(4.6)	(1.1)
Entertainment expenses and other which are permanently non-tax deductible	13.4	0.9
Tax effects of temporary differences on which deferred taxes were not recognised	(33.7)	—
Other	7.4	0.1
Effective income tax rate	51.7%	54.3%

The significant components of deferred tax assets and liabilities at 29th February, 2000, are as follows:

	Millions of yen	Thousands of U.S. dollars
Deferred tax assets:		
Provision for accrued severance indemnities to directors and corporate auditors	¥ 349	$ 3,176
Interest expenses computed on lands newly acquired	266	2,420
Loss on write-down of investments in securities	264	2,402
Accrued enterprise tax	193	1,756
Loss on write-down of intangible assets	117	1,065
Excess provision for accrued bonus	95	864
Excess provision for accrued severance indemnities to employees	35	318
Other	116	1,056
Total deferred tax assets	1,435	13,057
Deferred tax liabilities:		
Reserve for special depreciation	(76)	(692)
Deferred capital gains on sale of property	(45)	(409)
Total deferred tax liabilities	(121)	(1,101)
Net deferred tax assets	¥1,314	$11,956

14. Reclassification

Certain reclassifications of previously reported amounts have been made to the non-consolidated balance sheet as of 28th February, 1999 and non-consolidated statements of cash flows for the year ended 28th February , 1999, to conform to the 2000 presentation. Such reclassifications have no effect on net assets and net cash flows.

15. Subsequent Events

The appropriations of retained earnings in respect of the year ended 29th February, 2000, proposed by the Board of Directors ("BOD") and approved at the shareholders' meeting held on 25th May, 2000, are as follows:

	Millions of yen	Thousands of U.S. dollars
Retained earnings at 29th February, 2000	¥2,288	$20,819
Reversal of voluntary reserves	13	118
	2,301	20,937
Appropriations:		
Cash dividends (¥10.50 per share)	683	6,215
Directors' and corporate auditors' bonuses	51	464
Transfer to legal reserve	74	673
Transfer to voluntary reserves	406	3,694
Total appropriations	1,214	11,046
Retained earnings after appropriation	¥1,087	$ 9,891

Report of Independent Accountants

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

We have audited the accompanying non-consolidated balance sheets of Izumi Co., Ltd. as of 28th February, 1999 and 29th February, 2000, and the related non-consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the non-consolidated financial statements referred to above present fairly the non-consolidated financial position of Izumi Co., Ltd. as of 28th February, 1999 and 29th February, 2000, and the non-consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis.

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

ChuoAoyama Audit Corporation

CHUOAOYAMA AUDIT CORPORATION

Hiroshima, Japan
25th May, 2000

Consolidated Balance Sheets

Izumi Co., Ltd. and Subsidiaries
28th February, 1999 and 29th February, 2000

	Millions of yen		Thousands of U.S. dollars (Note 3)	
	1999	**2000**	1999	**2000**
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents:				
Cash	¥ 9,930	**¥ 8,368**	$ 90,355	**$ 76,142**
Time deposits	4,143	**1,276**	37,698	**11,611**
	14,073	**9,644**	128,053	**87,753**
Short-term investments	1,335	**73**	12,147	**664**
Short-term loans receivable	4,870	**8,602**	44,313	**78,271**
Notes and accounts receivable:				
Trade	1,160	**1,190**	10,555	**10,828**
Other	1,642	**966**	14,941	**8,790**
	2,802	**2,156**	25,496	**19,618**
Less, allowance for doubtful accounts	(136)	**(229)**	(1,238)	**(2,084)**
	2,666	**1,927**	24,258	**17,534**
Inventories	12,535	**12,141**	114,058	**110,473**
Deferred income taxes	—	**466**	—	**4,240**
Other current assets	1,463	**1,265**	13,312	**11,511**
Total current assets	36,942	**34,118**	336,141	**310,446**
INVESTMENTS AND ADVANCES:				
Investments in securities	5,955	**6,161**	54,186	**56,060**
Other investments and advances	2,835	**2,781**	25,796	**25,305**
	8,790	**8,942**	79,982	**81,365**
PROPERTY AND EQUIPMENT:				
Buildings and structures	133,237	**138,482**	1,212,348	**1,260,073**
Furniture and fixtures	22,740	**23,888**	206,916	**217,361**
	155,977	**162,370**	1,419,264	**1,477,434**
Less, accumulated depreciation	(63,033)	**(68,990)**	(573,549)	**(627,753)**
	92,944	**93,380**	845,715	**849,681**
Land	57,269	**58,238**	521,101	**529,918**
Construction in progress	3,401	**7,335**	30,946	**66,743**
	153,614	**158,953**	1,397,762	**1,446,342**
OTHER ASSETS:				
Fixed leasehold deposits	24,184	**22,379**	220,055	**203,631**
Deferred Income taxes	—	**937**	—	**8,526**
Other	9,238	**11,456**	84,058	**104,240**
	¥232,768	**¥236,785**	$2,117,998	**$2,154,550**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)	
	1999	**2000**	1999	**2000**
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Short-term bank loans	¥ 3,940	**¥ 8,450**	$ 35,851	**$ 76,888**
Current portion of long-term debt	17,471	**23,868**	158,972	**217,179**
Accounts payable:				
Trade	11,341	**11,188**	103,194	**101,802**
Construction	99	**37**	901	**337**
Other	10,921	**5,884**	99,372	**53,540**
	22,361	**17,109**	203,467	**155,679**
Accrued income taxes	—	**2,148**	—	**19,545**
Accrued payroll and bonuses	2,165	**2,188**	19,699	**19,908**
Accrued consumption taxes	—	**1,138**	—	**10,355**
Deposits received	1,183	**979**	10,764	**8,908**
Other current liabilities	1,360	**2,313**	12,375	**21,047**
Total current liabilities	48,480	**58,193**	441,128	**529,509**
LONG-TERM DEBT	95,290	**88,563**	867,061	**805,851**
ACCRUED SEVERANCE INDEMNITIES	1,973	**1,961**	17,953	**17,844**
LEASE DEPOSITS RECEIVED	12,693	**13,555**	115,496	**123,339**
OTHER LIABILITIES	17	**33**	154	**300**
Total liabilities	158,453	**162,305**	1,441,792	**1,476,843**
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES	6	**9**	55	**82**
CONTINGENT LIABILITIES (Note 4)				
SHAREHOLDERS' EQUITY:				
Common stock, ¥50 ($0.45) par value:				
Authorised—198,717,000 shares				
Issued—65,957,710 shares at 28th February, 1999	19,614	**—**	178,471	**—**
—65,032,710 shares at 29th February, 2000		**19,614**	—	**178,471**
Additional paid-in capital	26,580	**25,792**	241,856	**234,686**
Retained earnings	28,117	**29,077**	255,842	**264,577**
Treasury stock	(2)	**(12)**	(18)	**(109)**
Total shareholders' equity	74,309	**74,471**	676,151	**677,625**
	¥232,768	**¥236,785**	$2,117,998	**$2,154,550**

Consolidated Statements of Income

Izumi Co., Ltd. and Subsidiaries
For the years ended 28th February, 1999 and 29th February, 2000

	Millions of yen		Thousands of U.S. dollars (Note 3)	
	1999	**2000**	1999	**2000**
REVENUES:				
Net sales	¥271,761	**¥280,630**	$2,472,803	**$2,553,503**
Other operating revenues	7,038	**7,713**	64,040	**70,182**
	278,799	**288,343**	2,536,843	**2,623,685**
COST OF SALES	205,664	**212,174**	1,871,374	**1,930,609**
Gross profit	73,135	**76,169**	665,469	**693,076**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	67,421	**68,035**	613,476	**619,063**
Operating income	5,714	**8,134**	51,993	**74,013**
OTHER INCOME (EXPENSES):				
Interest and dividend income	416	**245**	3,785	**2,229**
Discount on early settlement of accounts payable – trade	453	**480**	4,122	**4,368**
Interest expense	(2,537)	**(2,514)**	(23,085)	**(22,875)**
Loss on write-down of investments in securities	(1,186)	**(905)**	(10,792)	**(8,235)**
Loss on liquidation of subsidiaries	(65)	**(740)**	(591)	**(6,733)**
Loss on write-down of short–term investments	(713)	**(189)**	(6,488)	**(1,720)**
Loss on sales of investments in securities	(322)	**—**	(2,930)	**—**
Loss on write-down of intangible assets		**(260)**		**(2,366)**
Loss on liquidation of cash trusts	(572)	**—**	(5,205)	**—**
Loss on sales or disposal of property and equipment	(580)	**(961)**	(5,277)	**(8,744)**
Additional severance benefits for early retirement	(358)	**(164)**	(3,257)	**(1,492)**
Amortisation of unrecognised effect of change in method of accounting for severance benefits of directors and corporate auditors	(112)	**—**	(1,019)	**—**
Other, net	739	**234**	6,724	**2,129**
Income before income taxes and minority interests	877	**3,360**	7,980	**30,574**
INCOME TAXES				
Current	533	**2,406**	4,850	**21,893**
Deferred	—	**(487)**	—	**(4,431)**
Income before minority interests	344	**1,441**	3,130	**13,112**
MINORITY INTERESTS	2	**4**	18	**36**
Net income	¥ 342	**¥ 1,437**	$ 3,112	**$ 13,076**

	Yen		U.S. dollars (Note 3)	
PER SHARE:				
Net income	¥ 5.17	**¥ 21.99**	$ 0.05	**$ 0.20**
Net income assuming dilution	—	**20.36**	—	**0.19**
Cash dividends	21.00	**21.00**	0.19	**0.19**
WEIGHTED AVERAGE NUMBER OF SHARES (THOUSANDS):				
Common shares	66,159	**65,354**		
Common shares assuming dilution	73,394	**72,453**		

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Izumi Co., Ltd. and Subsidiaries
For the years ended 28th February, 1999 and 29th February, 2000

		Millions of yen			
	Number of common shares (thousands)	Common stock	Additional paid-in capital	Retained earnings	Treasury stock
BALANCE AT 28TH FEBRUARY, 1998	66,316	¥ 19,614	¥ 26,866	¥ 29,278	¥ (13)
Net income for the year	—	—	—	342	—
Cash dividends	—	—	—	(1,391)	—
Directors' and corporate auditors' bonus	—	—	—	(49)	—
Common stock repurchased and cancelled	(358)	—	(286)	—	—
Effects of subsidiaries newly consolidated	—	—	—	(63)	—
Decrease in treasury stock, net	—	—	—	—	11
BALANCE AT 28TH FEBRUARY, 1999	65,958	19,614	26,580	28,117	(2)
Net income for the year	—	—	—	1,437	—
Cash dividends	—	—	—	(1,375)	—
Directors' and corporate auditors' bonus	—	—	—	(19)	—
Common stock repurchased and cancelled	(925)	—	(788)	—	—
Cumulative effects of adopting deferred tax accounting at 1st March, 1999	—	—	—	917	—
Increase in treasury stock, net	—	—	—	—	(10)
BALANCE AT 29TH FEBRUARY, 2000	65,033	¥ 19,614	¥ 25,792	¥ 29,077	¥ (12)

	Thousands of U.S. dollars (Note 3)			
BALANCE AT 28TH FEBRUARY, 1998	$178,471	$244,459	$266,406	$ (118)
Net income for the year	—	—	3,112	—
Cash dividends	—	—	(12,657)	—
Directors' and corporate auditors' bonus	—	—	(446)	—
Common stock repurchased and cancelled	—	(2,603)	—	—
Effects of subsidiaries newly consolidated	—	—	(573)	—
Decrease in treasury stock, net	—	—	—	100
BALANCE AT 28TH FEBRUARY, 1999	178,471	241,856	255,842	(18)
Net income for the year	—	—	13,076	—
Cash dividends	—	—	(12,512)	—
Directors' and corporate auditors' bonus	—	—	(173)	—
Common stock repurchased and cancelled	—	(7,170)	—	—
Cumulative effects of adopting deferred tax accounting at 1st March, 1999	—	—	8,344	—
Increase in treasury stock, net	—	—	—	(91)
BALANCE AT 29TH FEBRUARY, 2000	$178,471	$234,686	$264,577	$ (109)

The accompanying notes are an integral part of these statements.

Izumi Co., Ltd. and Subsidiaries
For the years ended 28th February, 1999 and 29th February, 2000

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by Izumi Co., Ltd. and its subsidiaries (the "Companies") in accordance with the provisions set forth in the Japanese Commercial 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 as to application and disclosure requirements of International Accounting Standards.

Certain items presented in the consolidated financial statements filed with the Ministry of Finance (the “MOF”) 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 and results of operations 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

The consolidated financial statements include the accounts of the Company and its significant subsidiaries. Investments in unconsolidated subsidiaries and affiliates are accounted for by the cost method, as their effects on the consolidated financial statements are immaterial.

(2) Elimination and Consolidation

For the purposes of preparing the consolidated financial statements, all significant intercompany transactions and account balances among the Companies have been eliminated.

Unrealised profits on sales or purchases of assets within 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 unrealised 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) Other Accounting Principles and Practices Employed by the Companies

Significant accounting principles and practices employed by the Companies in preparing the accompanying consolidated financial statements are essentially same as those explained in Note 2, “Summary of Significant Accounting Policies” of the Notes to Non-Consolidated Financial Statements, except for the following accounting policies employed by certain subsidiaries:

a) Depreciation

Property and equipment of a consolidated subsidiary are depreciated by the straight-line method.

b) Accrued severance indemnities

Consolidated subsidiaries provide for severance indemnities at 100 per cent of the liability they would be required to pay if all eligible employees voluntarily terminated employment at the balance sheet date.

3. United States Dollar Amounts

The Companies maintain their accounting records in Japanese yen. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating Japanese yen into dollars on the basis of ¥109.9 = U.S.$1, the approximate rate of exchange at 29th February, 2000. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that the assets and liabilities have been or could be readily converted, realised or settled in dollars at ¥109.9 = U.S.$1, or any other rate.

4. Contingent Liabilities

The Company was contingently liable for guarantees of loans from financial institutions and lease agreements made by affiliates and other, totaling ¥36,680 million ($333,758 thousand) at 29th February, 2000.

Report of Independent Accountants

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

We have audited the accompanying consolidated balance sheets of Izumi Co., Ltd. and its subsidiaries as of 28th February, 1999 and 29th February, 2000, and the related consolidated statements of income and shareholders' equity for the years then ended, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Izumi Co., Ltd. and its subsidiaries as of 28th February, 1999 and 29th February, 2000, and the consolidated results of their operations for the years then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis.

The amount expressed in U.S. dollars, 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 Audit Corporation

CHUOAOYAMA AUDIT CORPORATION

Hiroshima, Japan
25th May, 2000

Directors and Corporate Auditors

Chairman
Yoshimasa Yamanishi

President
Yasuaki Yamanishi

Executive Managing Directors
Hiromasa Takanishi
Syoichiro Shibata

Managing Directors
Hiroshi Toko
Hiroshi Shigehiro

Directors
Katsumi Konishi
Umeo Mashimo
Chiharu Hatagoshi
Mitsuharu Kawano
Heijiro Natsuhara

Full-Time Corporate Auditors
Akira Tsumura
Kazunobu Ishigaki

Corporate Auditors
Yoshiharu Kanasugi
Jiro Matsubara

(as of May 28, 2000)

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, 2000)

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

Auditors
ChuoAoyama Audit Corporation

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

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