Annual Report 1999

IZUMI CO., LTD.

Financial Highlights

	Millions of yen				
	1995 Mar. 1994 –Feb. 1995	1996 Mar. 1995 –Feb. 1996	1997 Mar. 1996 –Feb. 1997	1998 Mar. 1997 –Feb. 1998	1999 Mar. 1998 –Feb. 1999
Revenues	¥ 198,806	¥ 219,379	¥ 249,398	¥ 263,245	¥ 275,424
Operating income	9,231	9,403	8,184	6,665	5,683
Income before income taxes	8,088	9,099	5,710	3,801	813
Net income	4,030	4,303	2,717	1,470	393
Net income/revenues	2.0%	2.0%	1.1%	0.56%	0.14%
Total shareholders' equity	71,624	74,549	75,850	75,883	74,548
Total assets	140,871	172,244	192,935	208,460	214,534

	Yen				
Per share:					
Net income	¥ 63.77	¥ 64.91	¥ 40.98	¥ 22.18	5.94
Net income assuming dilution	—	—	39.37	21.82	—
Cash dividends	19.50	21.00	21.00	21.00	21.00

	Thousands of U.S. dollars				
	1995 Mar. 1994 –Feb. 1995	1996 Mar. 1995 –Feb. 1996	1997 Mar. 1996 –Feb. 1997	1998 Mar. 1997 –Feb. 1998	1999 Mar. 1998 –Feb. 1999
Revenues	$1,662,953	$1,835,040	$2,086,140	$2,201,965	$2,303,839
Operating income	77,215	78,653	68,457	55,750	47,537
Income before income taxes	67,654	76,110	47,762	31,794	6.800
Net income	33,710	35,993	22,727	12,296	3,287
Net income/revenues	2.0%	2.0%	1.1%	0.56%	0.14%
Total shareholders' equity	599,113	623,580	634,463	634,739	623,572
Total assets	1,178,344	1,440,770	1,613,844	1,743,706	1,794,513

	U.S. dollars				
Per share:					
Net income	$ 0.53	$ 0.54	$ 0.34	$ 0.19	$ 0.05
Net income assuming dilution	—	—	0.33	0.18	—
Cash dividends	0.16	0.18	0.18	0.18	0.18

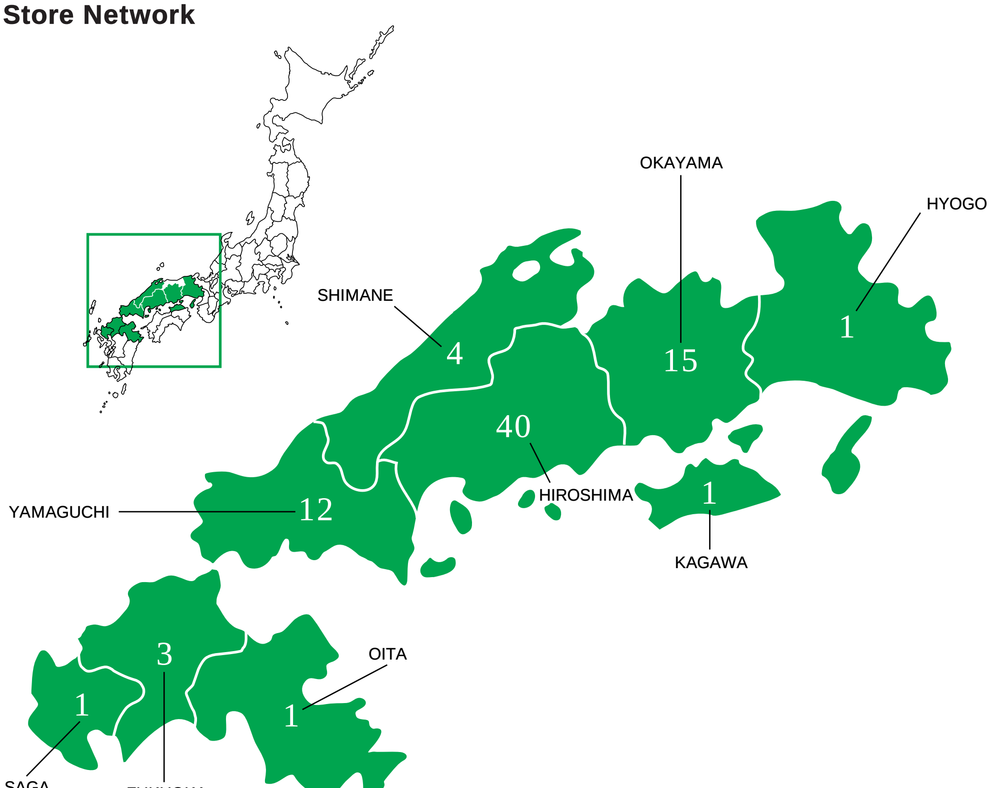
Notes 1. All dollar figures herein refer to U.S. dollar amounts and are translated from yen, for convenience only, at the rate of ¥119.55 = U.S.$1.00.
2. See Notes to Non-Consolidated Financial Statements.

Contents

Izumi Co., Ltd. is the number one retail chain in Western Japan's Chugoku region, with 78 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 28,1999

BUSINESS RESULTS

In the fiscal year ended February 28, 1999, Japan's economic recession worsened as unemployment and bankruptcy rates rose and international financial markets were shaken by turmoil. Although injection of public funds into the banking system and large-scale stimulus packages from the Japanese government resulted in slight improvements in the second half of the fiscal year, these measures failed to lift the economy from its slump. In the retail industry, prolonged sluggishness in personal income and uncertainty over employment dampened consumer sentiment and added to the continuing harsh environment.

Amid these conditions, Izumi Co., Ltd. continued work to improve merchandise selection and quality from the customer's viewpoint, guided by the slogan, "Shopping Environments Built for Customer Satisfaction." We continued to make progress in creating stores and merchandise for the region's most popular retail experience, Izumi's Youme Town. Three new stores were created, including Youme Town Takamatsu, the first Youme Town in Shikoku and the largest in western Japan. With the acquisition of Okayama-based retailer Kobeya Co., Ltd.'s Sanyo store, Izumi's total sales floor space at fiscal year-end grew to 493,961 square meters.

As a result of our efforts in the term under review, revenues rose 4.6% to ¥275,424 million (US$2,303.8 million). Although sales expanded on robust growth in new stores, failure on the part of existing stores to respond to external changes continued to weaken growth in operating income. And despite progress with a series of measures to improve our gross profit ratio, increased depreciation and start-up costs from new store openings resulted in a 14.7% decrease in operating income to ¥5,683 million (US$47.5 million). In addition, the Company recorded ¥2,640 million (US$22.1 million) in losses on write-down and sales of marketable securities, and liquidation of cash trusts. As a result, net income declined for the third consecutive period, falling 73.3% to ¥393 million (US$3.3 million).

FOR FUTURE GROWTH

The Company has experienced three years of declining income. These results stem directly from increased start-up costs incurred by store expansion and a deterioration in the competitive edge of our existing stores, as well as efforts to improve asset efficiency, through which we have realized substantial losses on sales of marketable securities.

Since the start of the 1990s, Izumi has worked aggressively to open new stores and expand its dominant area. We have succeeded in constructing a store network that provides stable, long-term revenues through Youme Towns, the region's number-one shopping center.

The Company originally planned to support the substantial burden of its store expansion with revenue from existing stores. However, tougher competition and a continual mismatching of store merchandise with current customer needs have steadily eroded the competitive edge of our existing stores. These unforeseen changes to the operating environment have disturbed the balance between new store start-up costs and existing store revenues, resulting in stagnant growth in recent years.

Izumi intends to take radical measures to halt this deterioration, revitalize operations and return the Company to the path of growth. To alleviate the burden of new store start-up costs, we are initiating strict selection criteria for new store investments and building a network of competitive stores with a firm emphasis on recovering investments. To regain competitiveness at our existing stores, we are aiming to provide better merchandise and more effective marketing.

I believe it is wrong, however, to blame our loss of competitiveness solely on changes to the external environment. Our internal efforts to provide customer satisfaction have been insufficient. To remedy this, we are going to respond more rapidly to changes in the needs of consumers. We are clarifying the things we overlooked during our growth process, revising our previous strategy, and listening with undivided attention–from the executive ranks down to the sales staff at each Izumi store–to the voices of our customers.

I have full confidence in the pivotal role Youme Town store development will play in Izumi's future revenues. Youme Town Takamatsu, newly opened last year, has been a huge success. The new Hakata and Nagasaki stores will undoubtedly form a major step toward development when they are opened in 2000. Izumi's strategy of combining revitalization of existing stores with Youme Town development will create a network of competitive stores that foster loyalty.

Izumi Group companies are continuing to grow and complement the Company's retail functions. Yume Town Co. Ltd. now has 1.7 million subscribers to its credit card service. With such new features as an industry-leading tie-up with the post office for ATM compatibility, the card continues to be more attractive to consumers. Providing a wide selection of major foreign brands at reasonable prices, X-Sell Inc. is realizing strong growth from new stores in major locations throughout Japan, including Ginza, the luxury shopping capital of Japan. We expect these Group activities to boost the competitiveness and profitability of Izumi's retail operations.

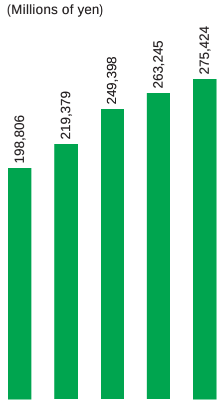
Prolonged sluggishness in consumer spending is expected to continue into the current term. However, despite the harshness of today's retail environment, we are thoroughly emphasizing customer satisfaction and making more of the right efforts in management to gain a leading position in our industry, maintain a stable corporate base and secure revenues over the long-term. We thank our customers and shareholders and ask for their continued support and guidance.

July 1999

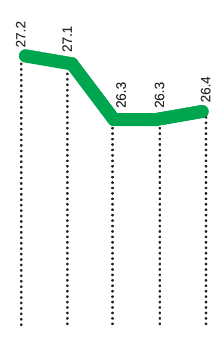
山西泰明

Yasuaki Yamanishi
President

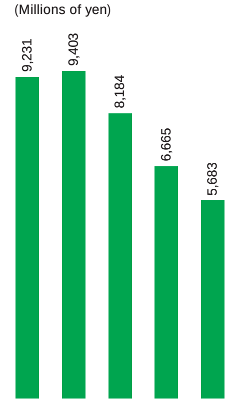
Revenues
(Millions of yen)



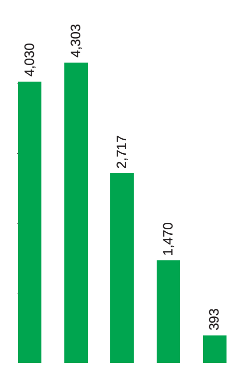
Gross Profit as a Percentage of Net Sales
(%)



Operating Income
(Millions of yen)



Net Income
(Millions of yen)



For Customer Satisfaction

Can today's retail formats really satisfy customers? Based on the current sluggishness in consumer spending, we believe the answer is no. The new consumer wants more user-friendliness, a wider selection of merchandise and an enjoyable shopping environment with easier access. Izumi's store strategy in the 1990s has been built around responding to these needs.

Izumi's Youme Town stores reflect the wide-reaching dreams of "town citizens." These multiformat shopping centers attract visitors with a wide variety of features, from merchandise that responds in detail to the specific needs of each region to public amenities and amusement areas. Izumi has fueled expansion of its dominant area with aggressive development of Youme Town shopping centers.

Store Strategies

TOPIC 1

Opened in October 1998, our new Youme Town Takamatsu in Shikoku is a perfect case study of our development strategy. At 38,000 square meters, it has the largest sales floor space of any outlet in western Japan. In addition, the new store features an elevated approach for easy opposite-lane access, the first lineup of high-grade merchandise in Shikoku, a selection of Japan's most popular specialty shops and such public amenities as an in-store bank and post office. Providing merchandise and amenities previously unavailable at retail outlets in the region, Youme Town Takamatsu is cementing its position as the region's number-one shopping experience. By its second day of operations, the new store had already attracted 350,000 visitors–more than the entire population of Takamatsu. With visitors from all over the island of Shikoku, Youme Town Takamatsu is overwhelmingly attracting customers, and recreating Shikoku's retail landscape as the region's number-one "hot spot."

Izumi is positioning Kyushu as its core region for future store development. Our five stores in the region have the highest level of customer visits and profitability in the region. We believe this success stems from a declining market share among our competitors, whose older store formats have fallen out of touch with customer needs, and, conversely, our cultivation of latent demand in the region with the suburban retail format of our Youme Town stores. With new stores opening in Okawa and Munakata in 1999, Izumi intends to continue concentrating stores in the Kyushu region. We plan to create a base for growth in the 21st century by making Kyushu our number-two dominant area behind the Chugoku region. Kyushu stores are expected to account for ¥100 billion or 30% of the Company's net sales by 2001.

TOPIC 2

Scheduled to open in fiscal 2001, Youme Site Nagasaki and Youme Town Hakata will succeed Takamatsu as the flagship stores of Izumi's network. Despite the large population concentration in Nagasaki, its mountainous topography has produced a marked shortage of large-scale retail stores. As a result, the region's purchasing power is largely absorbed by other prefectures. A core item in a plan to redevelop the prefectural capital, Nagasaki Youme Site will be an urban shopping center carrying high-grade merchandise demanded by customers in the center of the newly developed Nagasaki area. The store is attracting strong attention in the region as a potential symbol for Nagasaki in the 21st century.

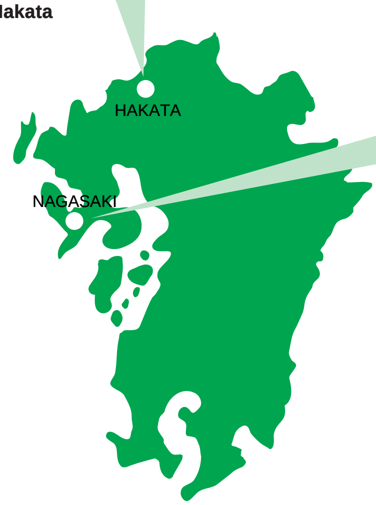
Youme Town Hakata is part of a large-scale joint project with Japan Freight Railway Company. Covering an area with 800,000 consumers, this store will have the largest market of any Izumi store. We expect Youme Town Hakata to revolutionize Fukuoka's commercial market, both for the high growth potential of its location in the metropolitan area of Fukuoka, one of Japan's largest cities, and the wide coverage area afforded by its above-average transportation access.

Izumi's store strategy will form a base for growth and profitability in its retail operations. Our aggressive development of competitive Youme Town stores, which have become number one in the region, has created this base for stable future growth. However, changing conditions have brought an end to growth in our existing stores and forced an erosion in their competitiveness. Effectively restructuring our portfolio of existing and new stores is an essential point of our store strategy for maintaining profitability.

The Company plans to continue adapting existing stores to meet newer customer needs, and improve profitability by revising sales floor layout and merchandise, and reducing fixed costs. We are moving rapidly to close unprofitable stores, recover invested resources and reallocate these resources to more profitable stores. This program began in the current term and will continue solidly until the following term, promoting renewal in our store network.

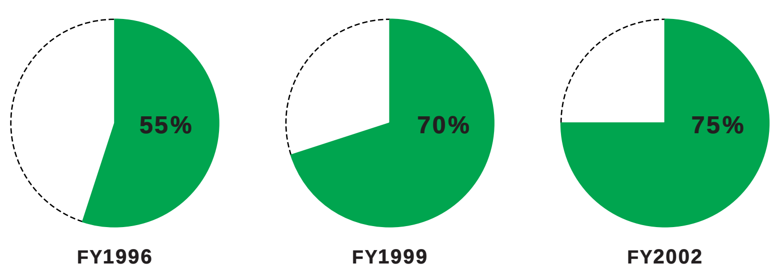
In today's ultra-competitive environment, new development of Youme Town stores and restructuring of our store portfolio are both necessary components of our strategy. We believe this strategy will enable us maintain and increase corporate profitability.

Youme Town Hakata



Youme Site Nagasaki

Percentage of Izumi Sales Floor Space in Stores 10 Years Old or Less



Better Merchandise, Better Marketing

Izumi demands customer satisfaction. This means superior quality in every part of our operations, including merchandise, sales floors and stores. We believe this is the only path for returning to profitability in the short term.

Anxiety over the economy and its future course has made consumers more concerned with merchandise value. Essential in providing this value is a clear understanding of what customers want. For Izumi, this means not only offering merchandise but also continually questioning what consumers need most, thoroughly studying daily sales trends and continually adjusting orders to meet these trends. These combined efforts create merchandise value unique to Izumi.

In addition, Izumi is strengthening its cooperation with suppliers based on the same awareness. By sharing information on merchandise and customers, and integrating capabilities between manufacturer and marketer, we can achieve development of high value-added merchandise. Izumi is creating a system capable of rapidly ordering and receiving large amounts of inventory, even amid today's highly seasonal and short-lived demand trends.

TOPIC **1**

Merchandising and Marketing Strategy

Izumi has made major efforts to combat the sluggishness of its apparel sales. In 1997, the Company began efforts to provide clothing more accurately targeted to customers, and apparel sales have since begun to show signs of improvement. A major reason for this improvement is the favorable reaction from customers, who are increasingly acknowledging that Izumi stocks a wide range of their favorite merchandise–a direct result of its refined targeting.

Izumi is bolstering its marketing system to enable turnover of newly stocked items and restocking of fast-selling items in the appropriate lot and period demanded. We are building a quick response system with our suppliers, especially for basic items. And by securing fast-selling merchandise, we expect to increase sales, improve our value-added rate, eliminate missed opportunities and minimize losses resulting from falling prices.

Previously, the Company made no distinction between its lineup of apparel at small- and large-scale stores. However, we have begun to realize the necessity of revising our lineup of merchandise at small-scale stores that are close to commercial centers and cannot always secure adequate sales floor space. Based on this realization, we formed the SM apparel department in the fall of 1998. After an extensive search for the right lineup of apparel at small-scale stores, positive results have begun to emerge. Sales in the SM apparel department are growing robustly.

With the economic recession and a subsequent change in values, consumers are demanding a higher degree of reliability from retailers. To regain customer trust, Izumi has made superb efforts at each of its stores, working to attain the highest level of approval in a wide number of sales floor issues, including merchandise selection, freshness and ease of shopping. These past few years of effort have imprinted on Izumi employees and suppliers an image of “the perfect sales floor,” and made Izumi sales floors capable of running smoothly, responding to the changing needs of customers and adapting

appropriately to hourly and daily changes in the retail environment.

Izumi is making strong efforts to retain customer trust by guaranteeing the quality of merchandise it sells to customers. We achieve this guarantee through strict factory inspection before shipping and continuous improvements to the quality control carried out by every employee at every Izumi store.

The Company is conscious of its role in the region as a corporate citizen and is responding with its large-scale store location plan to be carried out in 2000. The new committee for raising customer satisfaction is promoting development and use of environmentally friendly merchandise, and creation of stores that are attentive to a variety of factors, ranging from proper waste disposal to transportation and noise issues. These efforts will help alleviate Izumi's burden on the environment, boost awareness of environmental issues regionally and provide the Company with recycling capabilities.

High quality requires the support of an active organization, especially one capable of continually responding to diverse customer needs. Izumi envisions a store-led management system where employees take initiative in responding to customers and leadership is carried out on location, independent of a central office. We upgraded our information system to support store-led management, and currently distribute online information to our stores and head office, as well as suppliers, to enable rapid response to changes in the retail climate.

TOPIC 2

In fiscal 1999, Izumi worked to revise its organizational structure for the third consecutive term, not only to reduce its fixed costs but also to further its goal of customer satisfaction. The core of this revision involves establishment of a system linking personnel costs with business results. Specifically, we eliminated the traditional seniority system and initiated a job contribution-based system of compensation. By revising the traditional Japanese system and introducing compensation based on an employee's job contribution, we intend to eradicate a recent phenomenon in corporate Japan in which "personnel costs go up while earnings go down." In addition, the new system will promote a flatter, less bloated organization, and place more emphasis on efficiency and speed in the organization. These revisions have already penetrated employees' way of thinking and are showing favorable results in the form of more individual initiative toward customer satisfaction.

Non-Consolidated Balance Sheets

Izumi Co., Ltd. 28th February, 1998 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 3)	
	1998	1999	1998	1999
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents (Note 10):				
Cash	¥ 10,984	¥ 9,057	$ 91,878	$ 75,759
Time deposits	3,549	4,120	29,686	34,463
	14,533	13,177	121,564	110,222
Short-term investments (Notes 5, 6 and 10)	3,614	1,335	30,230	11,167
Short-term loans receivable	3,205	168	26,809	1,405
Notes and accounts receivable (Note 10):				
Trade	678	699	5,671	5,847
Other	940	959	7,863	8,022
	1,618	1,658	13,534	13,869
Less, allowance for doubtful accounts	(36)	(9)	(301)	(75)
	1,582	1,649	13,233	13,794
Inventories (Note 4)	11,813	12,501	98,812	104,567
Refundable income taxes	—	794	—	6,641
Other current assets	1,898	1,063	15,876	8,892
Total current assets	36,645	30,687	306,524	256,688
INVESTMENTS AND ADVANCES (Note 10):				
Investments in securities (Note 5)	7,458	5,188	62,384	43,396
Investments in subsidiaries and affiliates	1,403	1,347	11,736	11,267
Other investments and advances	3,090	2,956	25,847	24,726
	11,951	9,491	99,967	79,389
PROPERTY AND EQUIPMENT (Note 6):				
Buildings and structures	110,223	128,569	921,982	1,075,441
Furniture and fixtures	20,144	22,330	168,499	186,784
	130,367	150,899	1,090,481	1,262,225
Less, accumulated depreciation	(55,011)	(62,719)	(460,151)	(524,626)
	75,356	88,180	630,330	737,599
Land	46,237	48,545	386,759	406,065
Construction in progress	5,909	3,401	49,427	28,448
	127,502	140,126	1,066,516	1,172,112
OTHER ASSETS:				
Fixed leasehold deposits	26,541	25,218	222,008	210,941
Other	5,821	9,012	48,691	75,383
	¥208,460	¥214,534	$1,743,706	$1,794,513

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)	
	1998	1999	1998	1999
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Short-term bank loans (Notes 6 and 10)	¥ 8,300	¥ —	$ 69,427	$ —
Commercial paper (Note 10)	9,000	—	75,282	—
Current portion of long-term debt (Notes 6 and 10)	3,559	17,471	29,770	146,140
Accounts payable (Note 10):				
Trade	10,593	11,285	88,607	94,396
Construction	6,442	6,784	53,886	56,746
Other	2,676	2,671	22,384	22,342
	19,711	20,740	164,877	173,484
Accrued income taxes	816	—	6,826	—
Accrued payroll and bonuses	1,943	2,071	16,253	17,323
Deposits received	1,448	1,730	12,112	14,471
Other current liabilities	2,365	1,407	19,782	11,769
Total current liabilities	47,142	43,419	394,329	363,187
LONG-TERM DEBT (Notes 6 and 10)	75,124	84,089	628,390	703,379
ACCRUED SEVERANCE INDEMNITIES (Note 7)	1,807	1,968	15,115	16,462
LEASE DEPOSITS RECEIVED	8,479	10,493	70,924	87,771
OTHER LIABILITIES	25	17	209	142
Total liabilities	132,577	139,986	1,108,967	1,170,941
COMMITMENTS AND CONTINGENT LIABILITIES (Note 9)				
SHAREHOLDERS' EQUITY (Note 11):				
Common stock, ¥50 ($0.42) par value:				
Authorized—199,642,000 shares				
Issued—66,315,710 shares at 28th February, 1998	19,613	—	164,057	—
65,957,710 shares at 28th February, 1999	—	19,613	—	164,057
Additional paid-in capital	26,866	26,580	224,726	222,334
Legal reserve	1,534	1,679	12,832	14,044
Voluntary reserves	26,230	26,274	219,406	219,774
Retained earnings	1,640	402	13,718	3,363
Total shareholders' equity	75,883	74,548	634,739	623,572
	¥208,460	¥214,534	$1,743,706	$1,794,513

Non-Consolidated Statements of Income

Izumi Co., Ltd. For the years ended 28th February, 1998 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 3)	
	1998	1999	1998	1999
REVENUES (Note 12):				
Net sales	¥256,084	¥267,845	$2,142,066	$2,240,443
Other operating revenues	7,161	7,579	59,899	63,396
	263,245	275,424	2,201,965	2,303,839
COST OF SALES	195,805	204,675	1,637,850	1,712,045
Gross profit	67,440	70,749	564,115	591,794
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	60,775	65,066	508,365	544,257
Operating income	6,665	5,683	55,750	47,537
OTHER INCOME (EXPENSES):				
Interest and dividend income	369	456	3,086	3,814
Discount on early settlement of accounts payable-trade	359	453	3,003	3,789
Interest expense	(1,232)	(2,488)	(10,305)	(20,811)
Loss on write-down of investments in securities	(1,390)	(262)	(11,627)	(2,192)
Loss on liquidation of subsidiaries	(319)	(65)	(2,668)	(544)
Loss on write-down of short term investments	(21)	(713)	(176)	(5,964)
Loss on sales of investments in securities	(20)	(1,093)	(167)	(9,143)
Loss on liquidation of cash trusts	(230)	(572)	(1,924)	(4,785)
Loss on sales or disposal of property and equipment	(47)	(581)	(393)	(4,860)
Additional severance benefits for early retirement	—	(358)	—	(2,994)
Amortization of unrecognized effect of change in method of accounting for severance benefits of directors and corporate auditors	(118)	(112)	(987)	(937)
Other, net	(215)	465	(1,798)	3,890
Income before income taxes	3,801	813	31,794	6,800
INCOME TAXES (Note 13)	2,331	420	19,498	3,513
Net income	¥ 1,470	¥ 393	$ 12,296	$ 3,287

	Yen		U.S. dollars (Note 3)	
PER SHARE:				
Net income	¥ 22.18	¥ 5.94	$ 0.19	$ 0.05
Net income assuming dilution	21.82	—	0.18	—
Cash dividends	21.00	21.00	0.18	0.18
WEIGHTED AVERAGE NUMBER OF SHARES (THOUSANDS):				
Common shares	66,316	66,159		
Common shares assuming dilution	70,147	73,394		

The accompanying notes are an integral part of these statements.

Non-Consolidated Statements of Shareholders' Equity

Izumi Co., Ltd. For the years ended 28th February, 1998 and 1999

	Number of common shares (thousands)	Millions of yen: Common stock	Additional paid-in capital	Legal reserve	Voluntary reserves	Retained earnings
BALANCE AT 28TH FEBRUARY, 1997	66,316	¥ 19,613	¥ 26,866	¥ 1,390	¥ 25,052	¥ 2,929
Net income for the year	—	—	—	—	—	1,470
Cash dividends	—	—	—	—	—	(1,392)
Directors' and corporate auditors' bonus	—	—	—	—	—	(45)
Transfer to legal and voluntary reserves	—	—	—	144	1,178	(1,322)
BALANCE AT 28TH FEBRUARY, 1998	66,316	19,613	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	¥ 19,613	¥ 26,580	¥ 1,679	¥ 26,274	¥ 402

	Thousands of U.S. dollars (Note 3): Common stock	Additional paid-in capital	Legal reserve	Voluntary reserves	Retained earnings
BALANCE AT 28TH FEBRUARY, 1997	$164,057	$224,726	$11,627	$209,553	$24,500
Net income for the year	—	—	—	—	12,296
Cash dividends	—	—	—	—	(11,644)
Directors' and corporate auditors' bonus	—	—	—	—	(376)
Transfer to legal and voluntary reserves	—	—	1,205	9,853	(11,058)
BALANCE AT 28TH FEBRUARY, 1998	164,057	224,726	12,832	219,406	13,718
Net income for the year	—	—	—	—	3,287
Cash dividends	—	—	—	—	(11,652)
Directors' and corporate auditors' bonus	—	—	—	—	(410)
Transfer to legal and voluntary reserves	—	—	1,212	561	(1,773)
Transfer from voluntary reserves	—	—	—	(193)	193
Common stock repurchased and cancelled	—	(2,392)	—	—	—
BALANCE AT 28TH FEBRUARY, 1999	$164,057	$222,334	$14,044	$219,774	$ 3,363

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, 1998 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 3)	
	1998	1999	1998	1999
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	¥ 1,470	¥ 393	$ 12,296	$ 3,287
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	8,244	8,702	68,959	72,790
Loss on sales or disposal of property and equipment	47	581	393	4,860
Loss on write-down of short-term investments	21	713	176	5,964
Loss on write-down of investments in securities	1,390	262	11,627	2,192
Loss on liquidation of subsidiaries	319	65	2,668	544
Loss on sales of investment in securities	20	1,093	167	9,143
Loss on liquidation of cash trusts	230	572	1,924	4,785
Provision for accrued severance indemnities	456	538	3,814	4,500
Changes in assets and liabilities:				
(Increase) decrease in notes and accounts receivable	464	(40)	3,881	(335)
Increase in inventories	(1,365)	(688)	(11,418)	(5,755)
Increase in refundable income tax	—	(794)	—	(6,642)
Decrease (increase) in other current assets	(656)	863	(5,487)	7,219
Increase (decrease) in notes and accounts payable	(1,836)	687	(15,357)	5,746
Increase (decrease) in accrued payroll and bonuses	(114)	128	(953)	1,071
(Decrease) increase in accrued income taxes	237	(900)	1,982	(7,528)
Increase in deposits received	717	282	5,997	2,359
(Decrease) increase in other current liabilities	1,220	(874)	10,205	(7,311)
Other, net	31	(297)	259	(2,485)
Total adjustments	9,425	10,893	78,837	91,117
Net cash provided by operating activities	10,895	11,286	91,133	94,404
CASH FLOWS FROM INVESTING ACTIVITIES:				
Payments for purchases of property and equipment	(16,540)	(23,470)	(138,352)	(196,320)
Proceeds from sales of property and equipment	657	482	5,495	4,032
Payments for purchases of investments and advances	(1,172)	(670)	(9,804)	(5,604)
Proceeds from sales of investments and collection of advances	252	1,434	2,108	11,995
Decrease in short-term investments	822	1,182	6,876	9,887
Decrease (increase) in short-term loans receivable	(436)	3,166	(3,647)	26,483
Other, net	(157)	(956)	(1,313)	(7,997)
Net cash used in investing activities	(16,574)	(18,832)	(138,637)	(157,524)
CASH FLOWS FROM FINANCING ACTIVITIES:				
(Decrease) increase in short-term bank loans	261	(8,300)	2,183	(69,427)
Decrease in commercial paper	(26,000)	(9,000)	(217,482)	(75,282)
Proceeds from issuance of long-term debt	50,600	29,200	423,254	244,249
Repayments of long-term debt	(11,106)	(6,323)	(92,898)	(52,890)
Increase in lease deposits received	1,185	3,286	9,912	27,487
Repayments of lease deposits received	(508)	(1,272)	(4,249)	(10,640)
Cash dividends paid	(1,392)	(1,393)	(11,644)	(11,652)
Other, net	—	(8)	—	(67)
Net cash provided by financing activities	13,040	6,190	109,076	51,778
Net (decrease) increase in cash and cash equivalents	7,361	(1,356)	61,572	(11,342)
Cash and cash equivalents at beginning of year	7,172	14,533	59,992	121,564
Cash and cash equivalents at end of year	¥ 14,533	¥13,177	$ 121,564	$ 110,222
SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid during the year for:				
Interest	¥ 1,340	¥ 2,665	$ 11,209	$ 22,292
Income taxes	2,064	1,992	17,265	16,663
Non-cash financing activities:				
Transfer of short-term investments to investments in securities	¥ 2,772	¥ —	$ 23,187	$ —

The accompanying notes are an integral part of these statements.

Izumi Co., Ltd. For the years ended 28th February, 1998 and 1999

1. Basis of Presenting Non-Consolidated Financial Statements

The accompanying non-consolidated financial statements have been prepared from accounts and records maintained by Izumi Co., Ltd. (the "Company") in accordance with the provisions set forth in the Japanese Commercial Code 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 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 is depreciated by the straight line method.

The depreciation method of buildings was changed from the declining balance method to the straight line method for the buildings acquired on or after 1st April, 1998 in accordance with 1998 amendments of the Japanese income tax laws. The effects of this change were to decrease depreciation expense by ¥125 million ($1,046 thousand) and to increase both operating income and income before income taxes by ¥125 million ($1,046 thousand) for the year ended 28th February, 1999.

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

The Company provides for corporate income tax, inhabitant tax and enterprise tax based upon amounts currently payable for each fiscal year. No tax effect is recorded for temporary differences between tax and financial reportings.

(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.

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 ¥119.55=U.S.$1, the approximate rate of exchange at 26th February, 1999.

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, realized or settled in dollars at ¥119.55=U.S.$1, or at any other rate.

4. Inventories

Inventories as of 28th February, 1998 and 1999, consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	1998	1999	1998	1999
Clothing	¥ 5,921	¥ 7,626	$49,527	$ 63,789
Household goods	4,017	3,174	33,601	26,550
Fresh and processed foods	1,736	1,566	14,521	13,099
Supplies	139	135	1,163	1,129
	¥11,813	¥12,501	$98,812	$104,567

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, 1998 and 1999, are summarised as follows:

	Millions of yen		Thousands of U.S. dollars	
	1998	1999	1998	1999
Current:				
Market	¥2,200	¥1,294	$18,402	$10,824
Cost (carrying amounts)	2,062	1,285	17,248	10,749
Unrealized gains	¥ 138	¥ 9	$ 1,154	$ 75
Non-current:				
Market	¥6,000	¥3,873	$50,188	$32,397
Cost (carrying amounts)	5,860	3,629	49,017	30,356
Unrealized gains	¥ 140	¥ 244	$ 1,171	$ 2,041

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 1.39%.

Long-term debt as of 28th February, 1998 and 1999, consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	1998	1999	1998	1999
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	¥30,512	¥55,326	$255,225	$462,786
Unsecured	4,087	3,798	34,187	31,769
	34,599	59,124	289,412	494,555
Japanese yen unsecured convertible debentures:				
4.5% due February 2001	9,645	9,545	80,678	79,842
1.7% due August 2002	4,439	4,091	37,132	34,220
2.3% Japanese yen unsecured debentures due March 2000	5,000	4,000	41,823	33,459
2.025% Japanese yen unsecured debentures due March 2002	5,000	5,000	41,823	41,823
2.325% Japanese yen unsecured debentures due March 2003	5,000	5,000	41,823	41,823
2.175% Japanese yen unsecured debentures due October 2003	5,000	5,000	41,823	41,823
2.0% Japanese yen unsecured debentures due December 2001	5,000	5,000	41,823	41,823
2.05% Japanese yen unsecured debentures due February 2000	5,000	4,800	41,823	40,151
	78,683	101,560	658,160	849,519
Less: portion due within one year	(3,559)	(17,471)	(29,770)	(146,140)
	¥75,124	¥84,089	$628,390	$703,379

The aggregate annual maturities of long-term debt outstanding as of 28th February, 1999, are as follows:

Year ending the last day of February	Millions of yen	Thousands of U.S. dollars
2001	¥20,550	$171,895
2002	12,713	106,340
2003	26,294	219,941
2004	13,858	115,918
2005 and thereafter	10,674	89,285
	¥84,089	$703,379

Convertible debentures outstanding as of 28th February, 1999, 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	104%~ 100%	¥1,897.0	5,032
1.7% due August 2002 (c)	1st September, 1998	103%~ 100%	¥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 28th February, 1999, marketable securities of ¥3,299 million ($27,595 thousand), and property and equipment with a net book value of ¥73,416 million ($614,103 thousand) were pledged as collateral for 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 ¥1,049 million ($8,775 thousand) as of 28th February, 1999.

The past service cost for the pension plan aggregated ¥750 million ($6,274 thousand) as of 28th February, 1999, 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, 1998 and 1999, are as follows:

Millions of yen		Thousands of U.S. dollars	
1998	1999	1998	1999
¥452	¥536	$3,781	$4,484

8. Leases

The total rental expense for leases for the two years ended 28th February, 1998 and 1999, are as follows:

	Millions of yen		Thousands of U.S. dollars	
	1998	1999	1998	1999
Total rental expense, principally land and buildings for superstores (a)	¥5,076	¥6,242	$42,459	$52,213
Less: sublease rental income from tenants (b)	1,600	1,810	13,384	15,140
Net rental expense	¥3,476	¥4,432	$29,075	$37,073

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

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, 1998 and 1999, if capitalized, are summarised as follows:

	Millions of yen		Thousands of U.S. dollars	
	1998	1999	1998	1999
Acquisition cost equivalent amount	¥7,987	¥9,496	$66,809	$79,431
Accumulated depreciation equivalent amount	4,333	4,947	36,244	41,380
Net book value equivalent amount	¥3,654	¥4,549	$30,565	$38,051

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, 1998 and 1999, which include interest portion, are summarised as follows:

	Millions of yen		Thousands of U.S. dollars	
	1998	1999	1998	1999
Due within one year	¥ 957	¥ 976	$ 8,005	$ 8,164
Due after one year	2,697	3,572	22,560	29,879
Total	¥3,654	¥4,548	$30,565	$38,043

(3) Rental expenses and depreciation expense equivalent amounts for the two years ended 28th February, 1999, are as follows:

	Millions of yen		Thousands of U.S. dollars	
	1998	1999	1998	1999
Rental expenses	¥923	¥1,101	$7,721	$9,210
Depreciation expense equivalent amounts	923	1,101	7,721	9,210

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 28th February, 1999, are as follows:

Year ending the last day of February	Millions of yen		
	Real Estate	Equipment	Total Commitment
2000	¥ 3,823	¥971	¥ 4,794
2001	3,703	926	4,629
2002	3,628	839	4,467
2003	3,488	691	4,179
2004	3,393	610	4,003
2005 and thereafter	48,133	381	48,514

Year ending the last day of February	Thousands of U.S. dollars		
	Real Estate	Equipment	Total Commitment
2000	$ 31,978	$8,122	$ 40,100
2001	30,975	7,746	38,721
2002	30,347	7,018	37,365
2003	29,176	5,780	34,956
2004	28,381	5,103	33,484
2005 and thereafter	402,618	3,187	405,805

The Company was contingently liable for guarantees of loans from financial institutions and lease agreements made by affiliates and other, totalling ¥23,345 million ($195,274 thousand) at 28th February, 1999.

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 ¥21,000 million ($175,659 thousand) and ¥20,687 million ($173,041 thousand) at 28th February, 1998 and 1999, 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, 1998 and 1999, are as follows:

	Millions of yen			
	1998		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	¥14,533	¥14,533	¥13,177	¥13,177
Short-term investments	2,111	2,249	1,286	1,295
Notes and accounts receivable	1,582	1,582	1,649	1,649
Investments and advances	7,587	7,718	5,309	5,553
Liabilities:				
Short-term bank loans	8,300	8,300	—	—
Commercial paper	9,000	9,000	—	—
Accounts payable	19,711	19,711	20,740	20,740
Long-term debt	78,682	76,892	42,436	41,926
	Thousands of U.S. dollars			
Assets:				
Cash and cash equivalents	$121,564	$121,564	$110,222	$110,222
Short-term investments	17,658	18,812	10,757	10,832
Notes and accounts receivable	13,233	13,233	13,794	13,794
Investments and advances	63,463	64,559	44,408	46,449
Liabilities:				
Short-term bank loans	69,427	69,427	—	—
Commercial paper	75,282	75,282	—	—
Accounts payable	164,877	164,877	173,484	173,484
Long-term debt	658,151	643,179	354,964	350,698

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, Commercial Paper 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 ($410 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 ¥4,182 million ($34,981 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 and the present (discounted) value of the future cash flows using appropriate current discount rates and exchange rates.

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	
	1998	1999	1998	1999
Sales	¥60,519	¥65,451	$506,223	$547,478
Rental income	1,600	1,810	13,384	15,140

13. Income Taxes

The Company is subject to a number of different taxes based on income which, in the aggregate, indicates statutory tax rates of approximately 51 per cent for the fiscal years 1998 and 1999.

However, income tax expenses as shown in the accompanying non-consolidated statements of income differ from the amounts computed by applying the above-mentioned statutory tax rates to "Income before income taxes." The principal reasons for this difference are that entertainment expenses are not deductible from taxable income, and certain dividend income is not taxable. In addition, the difference arises because no tax effect has been recognized on certain temporary differences between financial accounting and tax reporting primarily in relation to accrued enterprise tax, office space tax and severance benefits for directors and corporate auditors, which are not deductible until paid, and interest expenses in the case of acquisition of land.

Unlike other income taxes, enterprise tax is deductible for tax purposes when it is paid. Although enterprise tax is presented as selling, general and administrative expenses in the financial statements disclosed in conformity with the accounting practices in Japan, the reclassification of income taxes has been made in the accompanying non-consolidated statements of income.

14. Reclassification

Certain reclassifications of previously reported amounts have been made to the non-consolidated statements of income and cash flows for the year ended February 28th, 1998, to conform to the 1999 presentation. Such reclassifications have no effect on net income and net cash flows.

15. Subsequent Events

The appropriations of retained earnings in respect of the year ended 28th February, 1999, proposed by the Board of Directors ("BOD") and approved at the shareholders' meeting held on 27th May, 1999, are as follows:

	Millions of yen	Thousands of U.S. dollars
Retained earnings at 28th February, 1999	¥ 402	$ 3,363
Reversal of voluntary reserves	1,173	9,812
	1,575	13,175
Appropriations:		
Cash dividends (¥10.50 per share)	692	5,788
Directors' and corporate auditors' bonuses	18	151
Transfer to legal reserve	72	602
Transfer to voluntary reserves	26	218
Total appropriations	808	6,759
Retained earnings after appropriation	¥ 767	$ 6,416

Based on the resolution of the BOD's meeting held on 20th April, 1999, the Company entered into the following agreements:

An agreement dated 6th May, 1999, with Yume Town Higashihiroshima Kaihatsu Co., Ltd. ("YHK") was made to acquire all of YHK's operations with its assets and liabilities. The transfer of assets and liabilities is scheduled on 1st July, 1999, and their book values at 28th February, 1999, are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 108	$ 903
Non-current assets	2,730	22,836
Total Assets	¥2,838	$23,739
Current liabilities	¥ 108	$ 903
Non-current liabilities	2,670	22,334
Total liabilities	¥2,778	$23,237

An agreement dated 30th April, 1999, with Yanai Shopping Center Co., Ltd. ("YSC") was made to acquire all of YSC's operations with its assets and liabilities. The transfer of assets and liabilities is scheduled on 1st July, 1999 and their book values at 31st March, 1999 are as follows:

	Millions of yen	Thousands of U.S. dollars
Non-current assets	¥1,564	$13,082
Lease and guarantee desposits received	465	3,890

An agreement dated 30th April, 1999 with Chofu Shogyo Kaihatsu Co., Ltd. ("CSK") was made to acquire all of CSK's operations excluding post office operation with its assets and liabilities. The transfer of assets and liabilities is scheduled on 1st July, 1999, and their book values at 28th February, 1999, are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 646	$ 5,404
Non-current assets	654	5,470
Total Assets	¥1,300	$10,874
Current liabilities	¥ 177	$ 1,480
Non-current liabilities	1,096	9,168
Total liabilities	¥1,273	$10,648

The above acquisitions were approved at the 38th general shareholders' meeting held on 27th May, 1999.

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, 1998 and 1999, and the related non-consolidated statements of income, shareholder's 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, 1998 and 1999, 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 2) 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.

Hiroshima, Japan
27th May, 1999

CHUO AUDIT CORPORATION
Chuo Audit Corporation

Directors and Corporate Auditors

Chairman
Yoshimasa Yamanishi

President
Yasuaki Yamanishi

Executive Managing Director
Hiromasa Takanishi
Syoichiro Shibata

Managing Directors
Hiroshi Toko
Hiroshi Shigehiro

Directors
Katsumi Konishi
Umeo Mashimo
Chiharu Hatagoshi
Mitsuharu Kawano
Toshihiko Yasumoto
Heijiro Natsuhara

Full-Time Corporate Auditors
Akira Tsumura
Kazunobu Ishigaki

Corporate Auditors
Yoshiharu Kanasugi
Jiro Matsubara

(as of May 27, 1999)

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
¥19,613 million (as of February 28, 1999)

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
Chuo Audit Corporation

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

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