

FINANCIAL HIGHLIGHTS

	Millions of yen				Thousands of U.S. dollars (Note 1)
	2002 Mar. 2001– Feb. 2002	2001 Mar. 2000– Feb. 2001	2000 Mar. 1999– Feb. 2000	1999 Mar. 1998– Feb. 1999	2002 Mar. 2001– Feb. 2002
Revenues	¥363,714	¥346,811	¥288,343	¥278,799	\$2,714,284
Operating income	14,784	10,285	8,134	5,714	110,328
Income before income taxes	9,493	7,790	3,360	877	70,843
Net income	4,832	3,415	1,437	342	36,060
Net income/revenues	1.33%	0.98%	0.50%	0.12%	—
Total stockholders' equity	74,132	71,810	74,471	74,309	553,224
Total assets	268,655	270,757	236,785	232,768	2,004,888
	Yen				U.S. dollars (Note 1)
Per share (Note 2):					
Net income—basic	¥81.46	¥53.66	¥21.99	¥ 5.17	\$0.61
Net income—diluted	79.40	48.87	20.36	—	0.59
Cash dividends declared	21.00	21.00	21.00	21.00	0.16

Notes 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥134 = U.S. \$1, the rate of exchange on February 28, 2002.
2. See Note 2 of Notes to Consolidated Financial Statements

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As of February 28, 2002

Store Network

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 in Shikoku; and Fukuoka, Saga, Oita and Nagasaki Prefectures in 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.

In the 21st century, 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 in Kyushu, Izumi will continue to foster customer loyalty with an enhanced product lineup and quality service.

PROFILE

TO OUR STOCKHOLDERS

The fiscal year under review, ended February 28, 2002, was a record-setting one for Izumi Co., Ltd.

Initiatives and Performance for the Fiscal Year Under Review

The protracted recession and lackluster consumer spending unleashed a flood of structural transformations in the industry in the form of increased bankruptcies and other trends that produced an even more discouraging operational environment.

To address such developments, Izumi designated the fiscal year under review as a period for intense structural reinforcement, and aimed to strengthen its corporate base through cost-structure reforms related to procurement and marketing, reduction in interest-bearing debt and concentration on personnel education and training.

➔ Augmenting Brand Strength and Marketing Capabilities

Amid ongoing deflation, Izumi worked to prevent further declines in per-customer spending by promoting high-value-added merchandise. Additionally, strengthened ties with suppliers enabled the Company to procure hot-selling products and rotate stock on sales floors for the start of each season, thereby producing increased store visits.

Such achievements produced brisk sales at existing stores, and signaled a measure of success in cost-structure reforms geared toward improving the gross margin ratio with reduced procurement costs.

➔ New Store Openings and Capital Investment

Izumi opened Youme Town Omuta as the Company's 11th store in Kyushu. The branch is expected to act as a catalyst in revitalizing commerce in the area, and has already achieved impressive sales performance as a result of having the largest store space and strongest customer pull in the region. The Company will also continue investing in renewal of existing stores to meet the current needs of customers.

Since this capital investment limited cash flows provided by operating activities, surplus funds were allocated to retire interest-bearing debt.

➔ Galvanizing Personnel

Organizationally, the Company augmented personnel training, encouraged the promotion of women, younger staff and part-time employees, and pursued merit-based personnel policies in addition to a horizontal operational structure. Moreover, we increased investment in information technology (IT) to raise decision-making capabilities at the retail store level.



The above initiatives produced the following results:

- Consolidated revenues rose 4.9% to ¥363,714 million (US\$2,714 million).
- Consolidated operating income increased 43.7% to ¥14,784 million (US\$110 million).
- Consolidated net income per share jumped 51.8% to ¥81.46.
- A dip in non-consolidated existing store sales was contained to 0.2%, and retail performance in the Kyushu region contributed to a 2.8% increase in non-consolidated sales.
- The non-consolidated gross profit margin rose 0.5 percentage point, the ratio of selling, general and administrative expenses to net sales edged down 0.4 percentage point, and reform of the cost structure contributed to a 1.1 percentage point rise in the operating income margin to 3.9%.
- A lump-sum write-off was performed for ¥2,480 million in differences arising from change in accounting standards for retirement benefits.
- Free cash flows of ¥10,000 million produced by brisk sales and restriction of new store openings was applied to the reduction of interest-bearing debt, resulting in a year-end balance of ¥137,700 million.
- As a result of the above factors, return on shareholders' equity (ROE) was 6.6%.

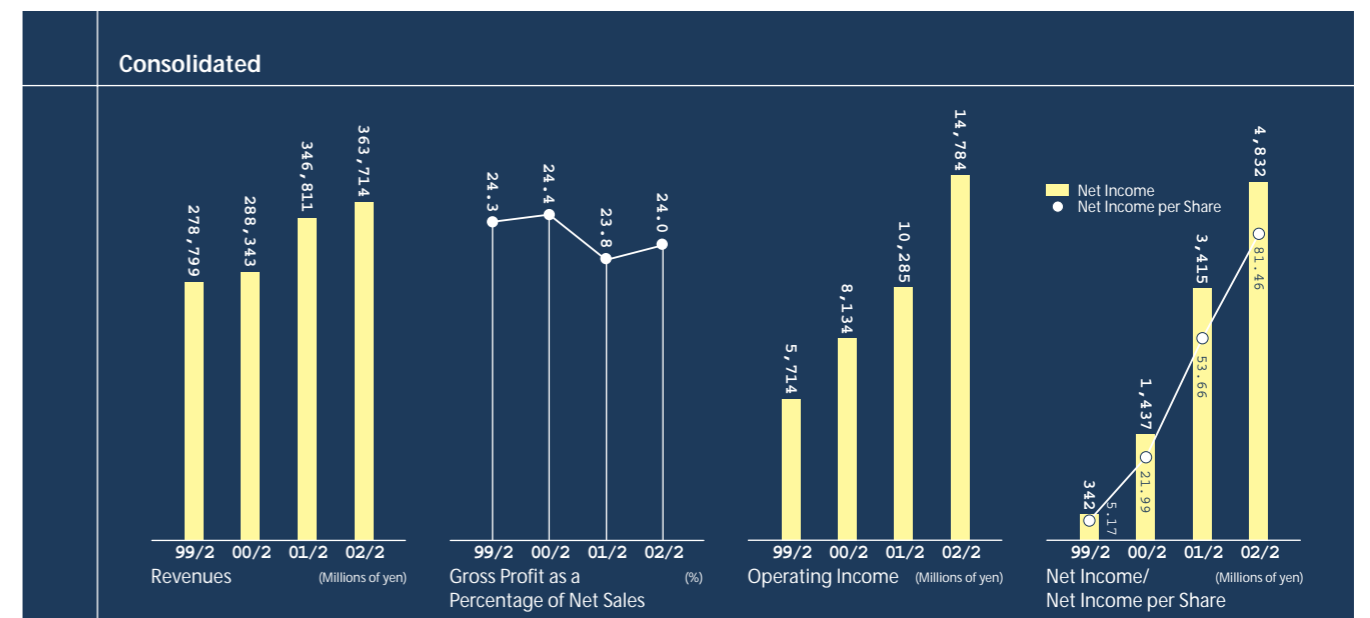
Targets for the Current Fiscal Year

In addition to the severe economic conditions, difficulties in the Japanese government and scandals among Japanese companies are aggravating consumer anxieties. Accordingly, Izumi must strive more than ever to gain the trust of its customers. At the same time, the retail industry is on the verge of a sweeping structural transformation as the struggle for corporate survival progresses.

We aim to transform our organizational structure and reaffirm Izumi's corporate mission to provide customers with genuine satisfaction, while further accelerating operational reforms and pursuing the construction of a competitively streamlined store network and high-margin cost structure.

We thank our stockholders for their support and ask for their continued guidance in our future endeavors.

山西泰明
Yasuaki Yamanishi
President



SPECIAL FEATURE

The Japanese retail industry is facing a form of survival of the fittest stemming from excessive floor space, as well as penetration of overseas companies and increased alliances that are producing a more turbulent environment in which market share can fluctuate dramatically.

The current business climate has brought both considerable opportunities and risks for companies in Japan. Limiting risks and maximizing opportunities will demand a sounder corporate base. Without one in place, the Company will not be able to ride out the current storm.

The most reliable foundation for many companies is undoubtedly the support of customers, and accordingly, most of these companies have strategies in the form of business models for obtaining this support. Since management determined that scrutinizing the efficacy of Izumi's business model and encouraging an adaptive approach to changes in the market environment would be indispensable toward strengthening the corporate base, efforts were made to refine this model toward a more streamlined framework. The result is outlined below in three themes: (1) Key to Effectiveness, (2) Adaptation to Fluctuations in Operational Environment, and (3) Core Group Strategies.

Streamlined Business Model

Izumi's business model advocates concentrated investment of limited management resources into fields that will directly produce increased customer support.

➔ Range of Core Businesses

Izumi has defined its core business as the supply of daily products in the general merchandise store (GMS) business.

In GMS, the desire of customers to comfortably make all their purchases of useful products at one location is universal, and is an appealing business target to strive for. Izumi has built up a wealth of management resources in such areas as personnel and operational expertise as a result of its historical concentration on addressing these kinds of needs. The Company has maintained that effective business expansion can be achieved only by concentrating on fields of core competence with available management resources, rather than by carelessly dabbling in fields outside its expertise.

Izumi has been able to avoid directly facing the demands inherent in handling avant-garde and specialty lines itself by entrusting that role to competent stores specializing in those areas.

➔ Adapting to Myriad Needs

The supply of daily products requires a balance between achieving uniformity in all chain stores in operation while also adapting to the varying needs of customers. A company in this



industry must rely on an efficient system supported by standardization while also tailoring its services to the myriad needs of each customer.

One example is the richly unique array of regional cultures and regionally based needs produced by Japan's long, elaborate history and convoluted geography. Sales vary by region and the difference in tastes is obvious, even in the fully established consumables market.

Rather than working to ensure that each of its stores is identical to all others, Izumi assesses the desirable scale and product lineup of a targeted store given the culture of that region. Control of daily operations is then transferred to the respective branch, which becomes responsible for developing its own unique product line based on regional tastes, lifestyles and the policies of competitors. This is Izumi's key to producing added value for its customers and differentiating its stores from competitors that are pursuing the same measures toward uniformity.

➔ Enforcement of Market Dominance Strategy

While one advantage of market dominance strategy lies in its efficiency in such areas as distribution and sales promotions, its most crucial role is as an aid toward securing stronger customer support and establishing a competitive edge through meticulous understanding of the unique qualities of a given region.

Izumi has applied this strategy in the Chugoku region in tandem with concentrated investment following store openings, to achieve overwhelming market share in the targeted area. Furthermore, the Company has reallocated the earnings made in the Chugoku region to further investment in Kyushu.

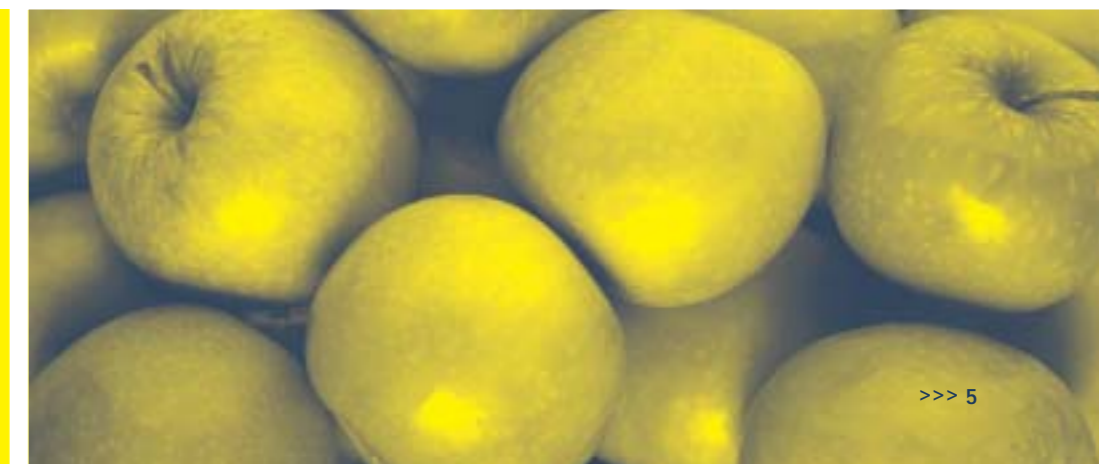
The Kyushu market has yet to experience intense competition despite being a vast, rich operational domain in Japan, making it an attractive site for further store expansion. While management was initially puzzled by the cultural differences in Kyushu compared with Chugoku, it quickly made the necessary adjustments to win the support of area customers. Kyushu currently represents 30% of the Company's total net sales, making it the second of Izumi's market dominant areas.

➔ Policy of Store Supremacy

Rather than applying a generic model to its expansion, Izumi holds to a established principle in its pursuit of store openings tailored to regional traits—namely that of producing only the kinds of stores guaranteed to be favored in a given area. Only a store with a reputation as the best in a region, owing to such merits as proper scale, product lineup, services and ease of

Existing-Store Sales Growth (%)		
	Y-o-Y sales growth	Percentage of net sales
Chugoku		
Youme Town	(1.2)	35
Others	(3.0)	27
Kyushu	2.8	31
Other regions	4.5	7
Total	(0.2)	100

(Fiscal year ended February 28, 2002)





access, is capable of achieving the level of overwhelming customer favor needed to outdistance the competition. Conversely, any store other than the area leader will be incapable of drawing the level of customers necessary to stay competitive.

Izumi has established Youme Town as the preeminent retail store in the Kyushu area. In addition to developing the most spacious, comfortable shopping atmosphere of any store in the area, the sales floors of Youme Town offer an area-tailored product lineup and leading specialty stores for each product category. Youme Town will uphold its rigorous standards of maintaining its edge as the regional leader by providing more valuable products and services that continue to fuel store sales.

Izumi has designated its core business as the supply of daily goods, shifted management resources accordingly and pursued far-reaching measures to tailor services to the diverse needs of its customer base, an approach that has gradually built it up and shored up the corporate base. Furthermore, restriction of the area of targeted expansion has made it easier to broaden customer support and gain a competitive advantage, while the reputation of Izumi stores as a leader in the area has secured continued growth.

The only reason that Izumi can rely on a simplified business model is because of its determination to invest management resources in a way that is congruent with such environmental factors as regional properties, and to pursue customer satisfaction above all else. The Company's business model is fueled by a strong desire to please customers and has been transformed into a simplified yet highly sound framework for scouting out areas of interest, as well as for testing and refining strategies for greater market dominance to fuel continued growth in corporate performance.

In line with this business model, Izumi aims to adapt to a range of unfolding developments and stimulate further growth.

A business model must constantly be monitored to poll whether its effectiveness has waned in the face of environmental changes. In the rapidly fluctuating product procurement and marketing fields in particular, efficiency in a business model equates with adaptability to change. Izumi is therefore working to address a multitude of needs while maintaining a broader focus on adaptation to overlying trends in the midst of daily operations.

Enacting Change

Izumi aims to please customers by taking a more active role in directing change day-to-day on the sales floor. For example, we will shorten the display life of our lines and step up the launch of new and seasonal lines to secure a greater portion of sales early in their marketable period. Further, we will ensure that our store products are always in line with the current season through the swift introduction of successive product lines.

The Company will also reorganize the classification of its products and build a store space that marks a break with past looks. This will help enable Izumi to raise brand strength in individual items, stock products in a timely fashion, raise the effectiveness of product store



displays and increase customer convenience.

With a strong degree of customer loyalty toward Youme Town, Izumi successfully initiated procurement of high-class brands once supplied only to department stores to form a volume zone with a higher price range than for previous products.

In this way, Izumi is taking control of change and undertaking frequent reforms to maintain a fresh look without being bound by previous approaches.

Fostering Employees That Advance Change

Our store employees are the personnel actually implementing Izumi's core strategy of finely tailoring efforts to meet diverse needs that arise on the sales floor, analyzing daily sales patterns and applying those results to store operation. We are in the process of gathering employees who are willing to be of service to customers, and who have the aptitude and willingness to tackle the finer details of daily operations. As the Company continues to grow, highly motivated staff are increasingly offering their services to provide higher corporate value and stronger bonds among employees.

In the personnel system, efforts are being made to provide opportunities for staff with ability and motivation, and to engineer a system in which compensation is tied to performance. Izumi is also continuing its support of a tiered training structure and career advancement for motivated employees, and working to rid the Company of favoritism based on age or gender to encourage personnel to take on greater responsibilities. Additionally, the Company is implementing a merit-based structure that applies to every level from management to part-time staff, promoting a fixed-age retirement system and incentives for managerial staff, and introducing a personnel assessment system that prevents employee motivation from waning while rewarding success.



Group-Driven Creation of Value

Izumi has spun off a portion of its businesses charged with the function of implementing the Company's business model. This policy was pursued in the interest of specialization that limits the business range of each subsidiary for a more simplified Group structure. In this way, each subsidiary acquires market competitiveness through the process of mastering its given field, and attainment of the ideal business model gradually becomes a reality.

Further, management hopes that these subsidiaries will establish their own business models, aim to transcend their roles as subsidiaries and achieve autonomous growth to become future engines of growth for the Group.

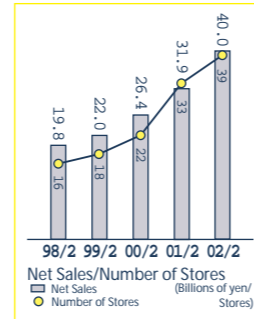
Adaptation to Change Creates Value

X-Sell Inc.



An enterprise specializing in the import of overseas designer products, X-Sell Inc. uses Europe as its procurement route to market a wide array of brands at reasonable prices. Active nationwide expansion has earned Izumi the No. 1 spot in the retail industry and produced high levels of growth. The high tenancy rates of Youme Town are also drawing in large numbers of customers.

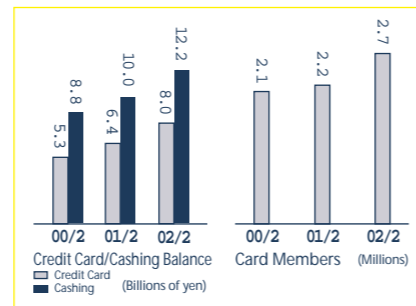
The barrier of entry into competition with Izumi is a formidable one given its continual addition of new procurement routes and acquisition of specialized expertise in the retail industry. For this reason, management is convinced that the considerable room for store expansion nationwide will produce continued growth for this subsidiary.



Youme Card Co., Ltd.

Youme Card Co., Ltd. handles house cards, credit cards and cash cards, and works to provide a wider range of services in its card products. Agreements with the post office as well as 36 major regional banks and their ATMs have made Izumi's cards the most widely used, convenient alternatives in Kyushu and Chugoku—and even internationally through the offering of such highly recognized cards as Visa and MasterCard.

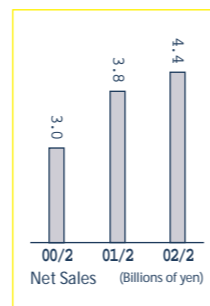
Youme Card got its beginning as Izumi's in-store point card system, but has gradually increased its client base as services were added, and is currently augmenting its highly profitable credit cashing service business.



Ideo Co., Ltd.

Ideo Co., Ltd., which handles the security and electricity management of Izumi stores, formed a business alliance with a leading electrical works company to augment its technological capabilities. This move has reduced the fixed costs at Izumi stores dramatically.

Additionally, Ideo has made progress in applying for the patent of a revolutionary energy saving system, and is expanding orders through the pursuit of marketing at non-Company stores throughout Japan.

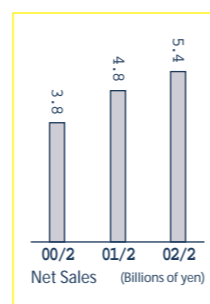


Izumi Food Service Co., Ltd.



While the in-store food court that Izumi Food Service Co., Ltd. operates is a valuable asset for attracting customers, some setbacks have been experienced in profitability. Izumi has accordingly shifted course to attract specialty stores and scrap the food court model with the aim of rapidly invigorating store sales.

The business was successful in developing authentic-looking specialty stores, such as an Italian restaurant that conjures up the atmosphere of Naples. While using the pull of Youme Town to attract greater numbers of customers, Izumi will begin concentrating expansion on roadside stores outside outlet facilities.



CONSOLIDATED STATEMENTS OF INCOME

Izumi Co., Ltd. and subsidiaries
For the years ended February 28, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2002	2001	2002
REVENUES:			
Net sales	¥353,830	¥338,002	\$2,640,523
Other operating revenues	9,884	8,809	73,761
	363,714	346,811	2,714,284
COST OF SALES	269,013	257,477	2,007,560
Gross profit	94,701	89,334	706,724
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	79,917	79,049	596,396
Operating income	14,784	10,285	110,328
OTHER INCOME (EXPENSES):			
Interest and dividend income	244	302	1,821
Interest expense	(2,479)	(2,872)	(18,500)
Gain (loss) on revaluation of short-term investments, net	(56)	801	(418)
Gain (loss) on revaluation of investments in securities, net	(473)	17	(3,530)
Gain on sales of property and equipment	46	727	343
Loss on sales or disposal of property and equipment	(1,524)	(661)	(11,373)
Loss on liquidation of subsidiaries and affiliates	—	(794)	—
Other, net	(1,049)	(15)	(7,828)
	(5,291)	(2,495)	(39,485)
Income before income taxes and minority interests	9,493	7,790	70,843
INCOME TAXES (Note 11):			
Current	5,624	3,244	41,970
Deferred	(1,474)	265	(11,000)
	4,150	3,509	30,970
Income before minority interests	5,343	4,281	39,873
MINORITY INTERESTS	511	866	3,813
Net income	¥ 4,832	¥ 3,415	\$ 36,060

	Yen	U.S. dollars (Note 3)
PER SHARE:		
Net income:		
Basic	¥81.46	¥53.66
Diluted	79.40	48.87
Cash dividends declared	21.00	21.00
		0.16
WEIGHTED AVERAGE NUMBER OF SHARES (thousands)	59,320	63,641

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

Izumi Co., Ltd. and subsidiaries
As of February 28, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2002	2001	2002
ASSETS			
CURRENT ASSETS:			
Cash and bank deposits (Note 13)	¥ 8,781	¥ 11,016	\$ 65,530
Short-term investments (Note 4)	—	107	—
Short-term loans receivable	8,996	7,667	67,134
Notes and accounts receivable:			
Trade	3,694	3,284	27,567
Other	1,082	916	8,075
	4,776	4,200	35,642
Less, allowance for doubtful accounts	(595)	(503)	(4,440)
	4,181	3,697	31,202
Inventories	21,062	19,984	157,179
Deferred income taxes (Note 11)	1,310	888	9,776
Other current assets	3,454	2,410	25,776
Total current assets	47,784	45,769	356,597
INVESTMENTS AND ADVANCES:			
Investments in securities (Note 4)	4,687	4,626	34,978
Other investments and advances	2,222	2,379	16,582
	6,909	7,005	51,560
PROPERTY AND EQUIPMENT (Note 5):			
Buildings and structures	170,597	165,952	1,273,112
Machinery, equipment, vehicles and other	27,928	27,008	208,418
	198,525	192,960	1,481,530
Less, accumulated depreciation	(87,675)	(79,081)	(654,291)
	110,850	113,879	827,239
Land	72,532	72,942	541,283
Construction in progress	856	1,304	6,388
	184,238	188,125	1,374,910
OTHER ASSETS:			
Fixed leasehold deposits	18,079	18,764	134,918
Deferred income taxes (Note 11)	2,335	1,444	17,425
Other	9,310	9,650	69,478
	¥268,655	¥270,757	\$2,004,888

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2002	2001	2002
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings (Note 6)	¥ 18,353	¥ 18,902	\$ 136,963
Current portion of long-term debt (Note 6)	33,341	17,033	248,813
Notes and accounts payable:			
Trade	13,348	13,504	99,612
Other	7,582	6,842	56,582
	20,930	20,346	156,194
Income taxes payable	4,284	1,968	31,970
Accrued bonus	1,586	1,609	11,836
Other current liabilities	3,749	3,134	27,978
Total current liabilities	82,243	62,992	613,754
LONG-TERM DEBT (Note 6)	86,011	111,826	641,873
ACCRUED SEVERANCE INDEMNITIES	4,441	2,338	33,142
LEASE DEPOSITS RECEIVED	16,382	16,872	122,254
DEFERRED INCOME TAXES (Note 11)	1,021	1,011	7,619
OTHER LIABILITIES	172	29	1,283
Total liabilities	190,270	195,068	1,419,925
CONTINGENT LIABILITIES (Note 8)			
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES			
	4,253	3,879	31,739
STOCKHOLDERS' EQUITY (Note 10):			
Common stock, no par value:			
Authorized:			
February 28, 2002—195,243,000 shares			
February 28, 2001—195,817,000 shares			
Issued:			
February 28, 2002—61,558,710 shares	19,614	—	146,373
February 28, 2001—62,132,710 shares	—	19,614	—
Additional paid-in capital	22,282	23,056	166,284
Retained earnings	34,368	30,872	256,478
Net unrealized holding gains on securities	268	—	2,000
Less, foreign currency translation adjustments	(5)	—	(38)
Less, treasury stock at cost	(2,395)	(1,732)	(17,873)
Total stockholders' equity	74,132	71,810	553,224
	¥268,655	¥270,757	\$2,004,888

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Izumi Co., Ltd. and subsidiaries For the years ended February 28, 2002 and 2001	Millions of yen						
	Number of shares of common stock (thousands)	Common stock	Additional paid-in capital	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock at cost
BALANCE AT FEBRUARY 29, 2000	65,033	¥19,614	¥25,792	¥29,077	—	—	¥ (12)
Net income for the year	—	—	—	3,415	—	—	—
Cash dividends	—	—	—	(1,346)	—	—	—
Directors' and corporate auditors' bonus	—	—	—	(51)	—	—	—
Common stock repurchased and cancelled	(2,900)	—	(2,736)	—	—	—	—
Effects of subsidiaries newly consolidated	—	—	—	(223)	—	—	—
Increase in treasury stock, net	—	—	—	—	—	—	(1,720)
BALANCE AT FEBRUARY 28, 2001	62,133	19,614	23,056	30,872	—	—	(1,732)
Net income for the year	—	—	—	4,832	—	—	—
Cash dividends	—	—	—	(1,304)	—	—	—
Directors' and corporate auditors' bonus	—	—	—	(32)	—	—	—
Common stock repurchased and cancelled	(574)	—	(774)	—	—	—	—
Net unrealized holding gains on securities	—	—	—	—	¥268	—	—
Foreign currency translation adjustments	—	—	—	—	—	¥(5)	—
Increase in treasury stock, net	—	—	—	—	—	—	(663)
BALANCE AT FEBRUARY 28, 2002	61,559	¥19,614	¥22,282	¥34,368	¥268	¥(5)	¥(2,395)

	Thousands of U.S. dollars (Note 3)						
BALANCE AT FEBRUARY 28, 2001	\$146,373	\$172,060	\$230,388	—	—	—	\$(12,925)
Net income for the year	—	—	36,060	—	—	—	—
Cash dividends	—	—	(9,731)	—	—	—	—
Directors' and corporate auditors' bonus	—	—	(239)	—	—	—	—
Common stock repurchased and cancelled	—	(5,776)	—	—	—	—	—
Net unrealized holding gains on securities	—	—	—	\$2,000	—	—	—
Foreign currency translation adjustments	—	—	—	—	—	\$(38)	—
Increase in treasury stock, net	—	—	—	—	—	—	(4,948)
BALANCE AT FEBRUARY 28, 2002	\$146,373	\$166,284	\$256,478	\$2,000	\$(38)	\$(17,873)	

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Izumi Co., Ltd. and subsidiaries
For the years ended February 28, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2002	2001	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes	¥ 9,494	¥ 7,790	\$ 70,851
Depreciation and amortization	10,509	10,458	78,425
Provision for allowance for doubtful accounts	75	609	560
Interest and dividend income	(244)	(302)	(1,821)
Interest expense	2,479	3,214	18,500
Gain on sales of property and equipment	(46)	(727)	(343)
Loss on sales or disposal of property and equipment	1,524	661	11,373
Gain on sales or revaluation of short-term investments	(16)	(1,256)	(119)
Increase in notes and accounts receivable	(343)	(169)	(2,560)
Increase in inventories	(1,053)	(2,466)	(7,858)
Increase in trade notes and accounts payable	(232)	542	(1,731)
Other, net	2,612	(2,549)	19,492
Subtotal	24,759	15,805	184,769
Interest and dividend income received	245	300	1,828
Interest expense paid	(2,380)	(3,128)	(17,761)
Income taxes paid	(3,103)	(2,833)	(23,157)
Net cash provided by operating activities	19,521	10,144	145,679
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of short-term investments	5	1,484	37
Payments for purchases of property and equipment	(7,774)	(18,850)	(58,015)
Proceeds from sales of property and equipment	460	2,037	3,433
Payments for purchases of intangible assets	(353)	(1,944)	(2,634)
Payments for purchases of investments in securities	(658)	(544)	(4,911)
Acquisition, net of cash acquired	134	—	1,000
Proceeds from sales of investments in securities	226	1,753	1,687
Other, net	(326)	1,497	(2,433)
Net cash used in investing activities	(8,286)	(14,567)	(61,836)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Decrease in short-term borrowings	(999)	(58)	(7,455)
Additions to long-term loans	15,103	22,899	112,709
Repayment of long-term loans	(19,658)	(12,934)	(146,702)
Proceeds from issuance of debentures	—	9,933	—
Redemption of debentures	(5,000)	(13,545)	(37,313)
Proceeds from sales of treasury stock	785	1,330	5,858
Payments for purchases of treasury stock	(1,900)	(2,736)	(14,179)
Contribution from minority shareholders	—	120	—
Dividends paid	(1,364)	(1,402)	(10,179)
Net cash provided by (used in) financing activities	(13,033)	3,607	(97,261)
Effect of exchange rate changes on cash and cash equivalents	(5)	—	(37)
Net decrease in cash and cash equivalents	(1,803)	(816)	(13,455)
Cash and cash equivalents at beginning of year	10,464	9,217	78,089
Cash and cash equivalents of newly consolidated subsidiaries	—	2,063	—
Cash and cash equivalents at end of year (Note 13)	¥ 8,661	¥ 10,464	\$ 64,634

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Izumi Co., Ltd. and subsidiaries
For the years ended February 28, 2002 and 2001

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared based on the accounts maintained by IZUMI CO., LTD. (the "Company") and all its subsidiaries (collectively, the "Companies") in accordance with the provisions set forth in the Commercial Code of Japan 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 submitted to the Director of Kanto Finance Bureau in Japan have been reclassified in these accounts for the convenience of readers outside Japan.

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

Consolidated statements of cash flows has been required to be prepared with effect for the years ended February 28, 2001 and 2002 in accordance with a new accounting standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying consolidated financial statements as of and for the year ended February 28, 2002 include the accounts of the Company and all of its subsidiaries. The Company had 18 subsidiaries as of February 28, 2002, among which 2 subsidiaries were newly consolidated due to acquisition of their stocks. For the year ended February 28, 2001, 16 subsidiaries were consolidated.

Investments in all affiliates (20% to 50% owned companies) are accounted for by the equity method. The Company had 4 and 3 affiliates as of February 28, 2002 and 2001, respectively.

(2) Elimination and consolidation

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

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

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

(3) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash

flows are composed of cash on hand, bank deposits withdrawn on demand, and short-term investments with an original maturity of three months or less and are readily convertible to cash and represent a minor risk of fluctuation in value.

(4) Translation of foreign currencies

Effective from the year ended February 28, 2002, the Companies adopted the revised Japanese accounting standard for foreign currency translation, which was effective for the periods beginning on or after March 1, 2001. Under the revised standard, all monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date and resulting gains and losses are included in the determination of net income. The adoption of the new method had no impact to the accompanying consolidated financial statements.

Assets and liabilities of foreign consolidated subsidiaries and an affiliate accounted for by the equity method are translated into Japanese yen at the exchange rates in effect at the respective balance sheet dates. Operating accounts are translated at the average rates of exchange for the respective years. Translation adjustments result from the process of translating foreign currency financial statements into Japanese yen. These translation adjustments, which are not included in the determination of net income, are reported separately as a component of stockholders' equity.

(5) Short-term investments and investments in securities

Prior to March 1, 2001, listed securities in short-term investments and investments in securities were valued at the lower of cost or market, cost being determined by the moving-average method. Other securities were valued at cost, cost being determined by the moving-average method.

Effective March 1, 2001, the Companies adopted the new accounting standard for financial instruments and changed their valuation method of securities.

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

Available-for-sale securities whose fair value is readily determinable are stated at fair value as of the end of the year. Unrealized gains on these securities, net of applicable deferred tax assets/liabilities and minority interests, are not reflected in earnings but directly reported in a separate component of stockholders' equity and unrealized losses are included in net profit or loss for the period. Realized gains or losses on sales of such securities are computed using moving-average cost. Other securities with no available fair market value are stated at moving average cost.

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

The effect of adoption of the new standard on net income was immaterial.

The Companies reconsidered the holding purposes of securities outstanding at March 1, 2001 and reclassified securities from short-term investments in current assets to investments in securities in

non-current assets. As a result of this reclassification, short-term investments decreased and investment in securities increased by ¥57 million (\$425 thousand).

(6) Derivatives

The new accounting standard for financial instruments, effective from the year ended February 28, 2002, requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative instruments are used for hedging purposes. In accordance with the new accounting standard for financial instruments stated above, the Company adopted the method which defers gains and losses resulting from changes in fair value of derivative financial instruments until the hedged transactions occur. When foreign currency exchange forward contracts, currency swap contracts or currency option contracts meet certain conditions, the hedged items are stated by the forward exchange contract rates. If interest rate swap agreements are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap agreements is added to or deducted from the interest on the assets or liabilities for which the swap agreements were executed.

(7) Inventories

Inventories are stated at cost, being determined by the following methods:

Merchandise in shops	Retail method (inventory valuation based on the ratio of cost to selling price)
Merchandise in distribution center	Last purchase invoice method
Supplies	Last purchase invoice method

(8) Depreciation of property and equipment

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 is computed on the declining-balance method at rates based on the estimated useful lives or lease contract term of assets prescribed by corporate tax laws, except for the following, which are depreciated by the straight-line method:

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

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

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

(9) Intangible assets

Capitalized software costs, included in other assets, for internal use are amortized on a straight-line basis over the estimated useful life (five years) of the software. Other intangible assets, included in other assets, are amortized on a straight-line basis over the period regulated by corporate tax laws.

(10) Allowance for doubtful accounts

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

Effective March 1, 2001, the Companies adopted the new Japanese accounting standard for financial instruments, and changed its method of providing allowance for doubtful accounts and of accounting for golf membership rights. The adoption of the new method had no impact to the accompanying consolidated financial statements.

(11) Accrued bonus

Accrued bonus is provided in preparation for payment of bonus to employees based on the amount estimated to be paid.

(12) Retirement benefit plans

Employees of the Companies, with more than one year's service, are entitled to receive lump-sum indemnities upon termination. The amount of the benefits is determined by reference to current basic rate of pay, length of service and condition under which the termination occurs. The amount of severance indemnities to be paid by the Company is reduced by the benefits payable under an externally funded non-contributory pension plan. Consolidated subsidiaries have no such externally funded pension plan.

Effective March 1, 2001, the Companies adopted the new Japanese accounting standard for retirement benefits. The net transition obligation at date of the adoption is all expensed in the current year. Actuarial gains or losses are amortized on a straight-line basis over 6 to 8 years from the next year in which they arise. Until the year ended February 28, 2001, the accrued severance indemnities of the Company represented 40 per cent of the liability, which 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. As a result of adopting the new standard, net pension expense for the year ended February 28, 2002 has increased by ¥2,192 million (\$16,358 thousand), operating income has increased by ¥294 million (\$2,194 thousand) and income before income taxes has decreased by ¥2,192 million (\$16,358 thousand), as compared with the amounts which would have been reported if the previous standard had been applied consistently.

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

The Company and a consolidated subsidiary provide for lump-sum severance benefits with respect to directors and corporate

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

(13) Leases

Finance leases other than those that are deemed to transfer the ownership of leased assets to lessees are accounted for by the method similar to that applicable to ordinary operating leases.

(14) Consumption taxes

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

(15) Income taxes

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

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

(16) Net income and cash dividends per share

Basic net income per share of common stock is based on the weighted average number of shares of common stock outstanding during each period. Diluted net income per share 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.

3. UNITED STATES DOLLAR AMOUNTS

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥134 = U.S.\$1, the rate of exchange on February 28, 2002, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this rate or any other rate.

4. SHORT-TERM INVESTMENTS AND INVESTMENTS IN SECURITIES

Held-to-maturity debt securities at February 28, 2002, which have readily available determinable fair value, are summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Market value	Valuation gain	Carrying value	Market value	Valuation gain
Government Bonds	¥602	¥602	¥0	\$4,493	\$4,493	\$0

Available-for-sale securities at February 28, 2002, which have readily determinable fair value, are summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Carrying value	Gross unrealized gains (losses)	Acquisition cost	Carrying value	Gross unrealized gains (losses)
Securities with unrealised holding gains:						
Equity securities	¥2,828	¥3,311	¥483	\$21,105	\$24,709	\$3,604
Others	56	66	10	417	493	75
	<u>2,884</u>	<u>3,377</u>	<u>493</u>	<u>21,522</u>	<u>25,202</u>	<u>3,679</u>
Securities with unrealised holding losses:						
Equity securities	241	186	(55)	1,799	1,388	(410)
	<u>¥3,125</u>	<u>¥3,563</u>	<u>¥438</u>	<u>\$23,321</u>	<u>\$26,590</u>	<u>\$3,269</u>

Securities at February 28, 2002, which have no readily determinable fair value, are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Available-for-sale securities:		
Non-listed equity securities	¥195	\$1,455

Total sales of available-for-sales securities in the year ended February 28, 2002 amounted to ¥398 million (\$2,970 thousand) and related gains and losses amounted to ¥16 million (\$119 thousand) and ¥204 million (\$1,522 thousand).

Marketable securities included in short-term investments and investments in securities at February 28, 2001, which were primarily stated at cost, are summarized as follows:

	Millions of yen		
	Carrying value	Market value	Valuation gain
Short-term investments:			
Equity securities	¥ 57	¥ 61	¥ 4
Investments in securities:			
Equity securities	3,401	3,589	188
Debt securities	401	401	—
Others	133	133	—
	<u>3,935</u>	<u>4,123</u>	<u>188</u>
	<u>¥3,992</u>	<u>¥4,184</u>	<u>¥192</u>

Carrying amounts of securities excluded from the information presented above at February 28, 2001 are as follows:

	Millions of yen
Short-term investments:	
Discount bonds	¥ 50
Investments in securities:	
Unlisted equity securities	499
Debt securities with remaining maturity of one year or less	162
Unlisted overseas debt securities	30

5. LEASES

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

(1) Acquisition cost equivalent amount, accumulated depreciation equivalent amount and net book value equivalent amount of the leased amount and net book value equivalent amount of the leased assets at February 28, 2002 and February 28, 2001, if capitalized, are summarized as follows:

	Millions of yen					
	2002			2001		
	Equipment and vehicles	Other	Total	Equipment and vehicles	Other	Total
Amount equivalent to:						
Acquisition cost	¥ 3,396	¥ 9,612	¥13,008	¥ 3,241	¥ 8,190	¥11,431
Accumulated depreciation	(1,489)	(4,525)	(6,014)	(1,066)	(3,285)	(4,351)
Net book value	<u>¥ 1,907</u>	<u>¥ 5,087</u>	<u>¥ 6,994</u>	<u>¥ 2,175</u>	<u>¥ 4,905</u>	<u>¥ 7,080</u>

	Thousands of U.S. dollars		
Amount equivalent to:			
Acquisition cost	\$ 25,343	\$ 71,731	\$ 97,075
Accumulated depreciation	(11,112)	(33,768)	(44,881)
Net book value	<u>\$ 14,231</u>	<u>\$ 37,963</u>	<u>\$ 52,194</u>

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) Amounts equivalent to outstanding future lease payments at February 28, 2002 and February 28, 2001, which include interest portion, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Due within one year	¥1,991	¥1,775	\$14,858
Due after one year	5,003	5,305	37,336
Total	<u>¥6,994</u>	<u>¥7,080</u>	<u>\$53,194</u>

(3) Lease payments and depreciation expense equivalent amount for the years ended February 28, 2002 and February 28, 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Lease payments	¥1,977	¥1,669	\$14,754
Depreciation expense equivalent amount	1,977	1,669	14,754

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

6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings are primarily represented by bank overdrafts, bearing interest at the weighted average interest rate of 1.25% at February 28, 2002.

Long-term debt at February 28, 2002 and February 28, 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Loans from banks and insurance companies, due from April 2002 to March 2020 with weighted average interest rates of 2.07% at February 28, 2002			
Secured	¥ 75,298	¥ 92,294	\$ 561,926
Unsecured	14,963	2,474	111,664
	<u>90,261</u>	<u>94,768</u>	<u>673,590</u>
1.7% Japanese yen unsecured convertible debentures due August 2002	4,091	4,091	30,530
2.025% Japanese yen unsecured debentures due March 2002	5,000	5,000	37,313
2.325% Japanese yen unsecured debentures due March 2003	5,000	5,000	37,313
2.175% Japanese yen unsecured debentures due October 2003	5,000	5,000	37,313
2% Japanese yen unsecured debentures due December 2001	—	5,000	—
1.53% Japanese yen unsecured debentures due March 2004	5,000	5,000	37,313
1.84% Japanese yen unsecured debentures due March 2005	5,000	5,000	37,314
	<u>119,352</u>	<u>128,859</u>	<u>890,686</u>
Less, portion due within one year	(33,341)	(17,033)	(248,813)
	<u>¥ 86,011</u>	<u>¥111,826</u>	<u>\$ 641,873</u>

The aggregate annual maturities of long-term debt outstanding at February 28, 2002 are as follows:

Years ending the last of February:	Millions of yen	Thousands of U.S. dollars
2004	¥26,145	\$195,112
2005	18,428	137,522
2006	12,355	92,202
2007	5,403	40,321
2008 and thereafter	23,680	176,716
	<u>¥86,011</u>	<u>\$641,873</u>

Assets pledged as collateral and related secured debt at February 28, 2002 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Assets pledged as collateral:		
Land	¥ 57,566	\$429,597
Buildings	61,194	456,672
Investments in securities	4,579	34,171
	<u>¥123,339</u>	<u>\$920,440</u>
Debt secured by the above:		
Short-term borrowings	8,320	62,090
Long-term loans	75,298	561,925
	<u>¥ 83,618</u>	<u>\$624,015</u>

7. RETIREMENT BENEFIT PLANS

The funded status of the Companies at February 28, 2002 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Projected benefit obligation	¥ 5,100	\$ 38,060
Unrecognised net actuarial losses	110	821
Plan assets at fair value	(1,649)	(12,306)
Accrued severance indemnities	¥ 3,561	\$ 26,575

Pension and severance costs of the Companies included the following components for the year ended February 28, 2002:

	Millions of yen	Thousands of U.S. dollars
Service cost	¥ 485	\$ 3,619
Interest cost	142	1,060
Expected return on plan assets	(29)	(216)
Amortisation of net transaction obligation	2,487	18,559
Payment for extra supplementary benefits and so on	138	1,030
	¥3,223	\$24,052

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

Assumptions used in the accounting for the defined benefit plans for the year ended February 28, 2002 are as follows:

Discount rate	2.5% – 2.8%
Expected long-term rate of return on plan assets	2.0%

8. CONTINGENT LIABILITIES

The Company was contingently liable for guarantees of loans from financial institutions made by affiliates and other, totaling ¥4,794 million (\$35,776 thousand) at February 28, 2002.

9. DERIVATIVE FINANCIAL INSTRUMENTS

(1) Status of transaction

a) Nature of transactions

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

b) Purpose of transactions and policy to use transactions

The Companies use foreign currency exchange forward contracts, currency swap contracts and currency option contracts to minimize exposure and to reduce risk from exchange rate fluctuation in import transactions. The Companies also use interest rate swap agreements to hedge against exposure of interest rate fluctuation and to adapt the long-term fixed interest rate to the current rate in line with the change in the market rate. The Companies do not use speculative transactions.

c) Risks in transactions

Derivative instruments used by the Companies are exposed to risk from market rate fluctuation. Counterparties are highly creditworthy domestic banks and, therefore, the Companies do not expect losses due to non-performance of counterparties.

d) Risk management

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

e) Other

The contract or notional amount shown in the "Market value etc. of transactions" below is not indicative of the quantity of market risk.

(2) Market value etc. of transactions

Contract or notional amount, market value and valuation gain or loss of derivative instruments at February 28, 2001 are summarized as follows:

	Millions of yen			
	Total	Over one year	Market value	Valuation gain
Currency option:				
Purchase—call (U.S. dollars)	¥320	¥200	¥36	¥36
Sale—call (U.S. dollars)	320	200	(8)	(8)
	¥640	¥400	¥28	¥28
Interest rate swap:				
Receipt in fixed rate and payment in variable rate	¥24,000	¥1,000	¥ 667	¥ 667
Receipt in variable rate and payment in fixed rate	14,938	2,125	(241)	(241)
	¥38,938	¥3,125	¥ 426	¥ 426

The fair value is quoted from financial institutions with which the Companies make currency option contracts and interest rate swap agreements.

Excluded from the above disclosure are foreign currency exchange forward contracts relating to receivables and payables denominated in foreign currency of which yen settlement amounts were fixed at the contracted forward rates and recorded at such amounts in the balance sheets or eliminated at such amounts in consolidation procedures.

Effective from the year ended February 28, 2002, the Companies state derivative instruments at fair value, so the schedule is not listed.

10. STOCKHOLDERS' EQUITY

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

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

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

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

11. INCOME TAXES

The Companies are subject to a number of different taxes based on income, which, in aggregate, result in statutory income tax rates of approximately 41.7% for the years ended February 28, 2002 and 2001.

Reconciliation of the difference between the statutory income tax rates and the effective income tax rates for the year ended February 28, 2001 is as follows:

	2001
Statutory income tax rate	41.7%
Increase (decrease) in taxes resulting from:	
Entertainment expenses and other which are permanently non-tax-deductible	0.4
Dividend income and other which are permanently non-taxable	(0.5)
Per capita inhabitant taxes and other	2.1
Valuation allowance provided for tax loss carryforwards of subsidiaries	1.3
Effective income tax rate	45.0%

The reconciliation schedule for the year ended February 28, 2002 is not listed because the difference between the statutory income tax rates and the effective income tax rates is within 5% of the statutory income tax rates.

The significant components of deferred tax assets and liabilities at February 28, 2002 and February 28, 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Deferred tax assets:			
Allowance for doubtful accounts	¥ 290	¥ 290	\$ 2,164
Property and equipment	114	152	851
Intangible assets	166	155	1,239
Investments in securities	335	326	2,500
Interest on land newly acquired	—	123	—
Accrued enterprise tax	359	174	2,679
Accrued bonus	343	257	2,560
Accrued severance indemnities	1,490	564	11,119
Fair value adjustments of consolidated subsidiaries	423	423	3,157
Tax loss carryforwards	174	88	1,298
Excess depreciation and amortization	310	—	2,313
Other	170	144	1,269
	4,174	2,696	31,149
Deferred tax liabilities:			
Reserve for special depreciation	(72)	(79)	(537)
Reserve for advanced depreciation of fixed assets	(263)	(275)	(1,962)
Fair value adjustments of consolidated subsidiaries	(1,011)	(1,021)	(7,545)
Unrealized holding gains on securities	(205)	—	(1,530)
	(1,551)	(1,375)	(11,574)
Net deferred tax assets	¥ 2,623	¥ 1,321	\$ 19,575

12. RELATED PARTY TRANSACTIONS

The Company purchased ¥10,781 million (\$80,455 thousand) of merchandise from Japan Logistics Industry Co., Ltd. ("JLI") for the year ended February 28, 2002. A representative director and vice president of JLI, Mr. Yasuaki Yamanishi, is also a representative director and the president of the Company and owns 1.60% of the Company's voting stock. At February 28, 2002, the Company had accounts payable of ¥1,237 million (\$9,231 thousand) and deposited a guarantee money of ¥483 million (\$3,604 thousand) to JLI.

The Company leases a building of Higashi-Hiroshima shop from Izumi Kosan K.K. ("Izumi") with lease payments of ¥341 million (\$2,545 thousand) for the year ended February 28, 2002. Izumi is a majority-owned subsidiary of a company wholly owned by Mr. Yasuaki Yamanishi and his relatives. The lease terms are the same as those for third parties. At February 28, 2002, the Company deposited guarantee money of ¥4,127 million (\$30,799 thousand) to Izumi, which was determined based on the total construction costs of the building and the area occupied by the Company.

13. SUPPLEMENTARY CASH FLOW INFORMATION

Cash and cash equivalents at February 28, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Cash and bank deposits	¥8,781	¥11,016	\$65,530
Less, time deposits with deposit term of over three months	(120)	(552)	(896)
Cash and cash equivalents	¥8,661	¥10,464	\$64,634

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors
Izumi Co., Ltd.

We have audited the accompanying consolidated balance sheets of Izumi Co., Ltd. and its subsidiaries as of February 28, 2002 and 2001, and the related consolidated statements of income, stockholders' equity and cash flows for each of the two years in the period ended February 28, 2002, 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 February 28, 2002 and 2001, and the consolidated results of their operations and cash flows for each of the two years in the period ended February 28, 2002 in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis.

As described in Note 2, effective from the year ended February 28, 2002, Izumi Co., Ltd. and its subsidiaries have adopted the new Japanese accounting standards for financial instruments, retirement benefits, and foreign currency translation.

The amounts expressed in U.S. dollars, provided solely for the convenience of the readers, 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
May 23, 2002

DIRECTORS AND CORPORATE AUDITORS

Chairman
Yoshimasa Yamanishi

President
Yasuaki Yamanishi

Executive Vice President
Hiromasa Takanishi

Directors
Takashi Kaneko
Hiroaki Bando

Full-Time Corporate Auditor
Akira Tsumura

Corporate Auditors
Yoshiharu Kanasugi
Toyomi Takimoto
Jiro Matsubara

(as of May 28, 2002)

CORPORATE DATA

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

Date of Establishment
October 27, 1961

Paid-in Capital
¥19,614 million (as of February 28, 2002)

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

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

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

Auditors
ChuoAoyama Audit Corporation