ANNUAL REPORT 2005




you me town

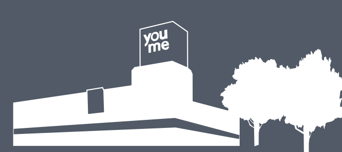



IZUMI Co., Ltd.

PROFILE

Izumi Co., Ltd. ("Izumi" or the "Company") takes pride in being the predominant retail chain in the Chugoku, Shikoku and Kyushu regions of Western Japan. As of the end of February 2005, its hypermarkets and food supermarkets extended to 75 locations in the area. In the former category, Youme Town in particular is striving to be number one in the region in terms of scale and product lineup, with its "Dream Street" supporting the local inhabitants' lifestyles by continuing positive business development.

Under the guiding management principle of "customer satisfaction," Izumi will continue to respond appropriately to customer needs and further establish its position of competitive dominance in the region.



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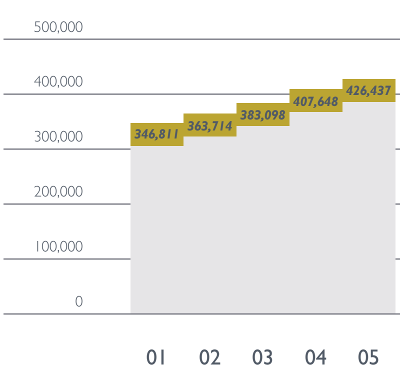
FINANCIAL HIGHLIGHTS

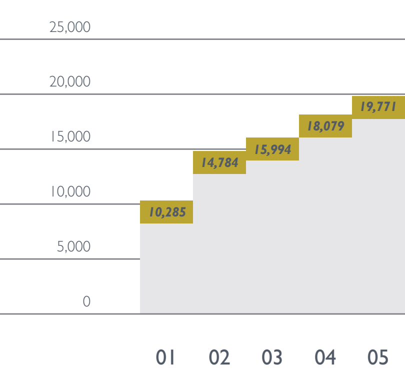
	Millions of yen					Thousands of U.S. dollars (Note 1)
	2005 Mar. 2004– Feb. 2005	2004 Mar. 2003– Feb. 2004	2003 Mar. 2002– Feb. 2003	2002 Mar. 2001– Feb. 2002	2001 Mar. 2000– Feb. 2001	**2005 Mar. 2004– Feb. 2005**
Revenues	**¥426,437**	¥407,648	¥383,098	¥363,714	¥346,811	**$4,071,386**
Operating income	**19,771**	18,079	15,994	14,784	10,285	**188,763**
Income before income taxes and minority interests	**18,089**	16,888	11,834	9,493	7,790	**172,704**
Net income	**9,601**	8,713	5,600	4,832	3,415	**91,665**
Net income/revenues	**2.25%**	2.14%	1.46%	1.33%	0.98%	**2.25%**
Total stockholders' equity	**85,519**	84,354	76,892	74,132	71,810	**816,488**
Total assets	**318,893**	295,927	273,484	268,655	270,757	**3,044,615**
	Yen					U.S. dollars (Note 1)
Per share (Note 2):						
Net income—basic	**¥ 166.88**	¥ 148.07	¥ 95.23	¥ 81.46	¥ 53.66	**$ 1.59**
Net income—diluted	**155.02**	—	94.21	79.40	48.87	**1.48**
Cash dividends declared	**24.00**	23.00	23.00	21.00	21.00	**0.23**

Notes 1. Yen amounts are translated into U.S. dollars, solely for convenience, at the prevailing exchange rate on February 28, 2005, of ¥104.74 = U.S. $1.
2. See Note 2 (19) of Notes to Consolidated Financial Statements.

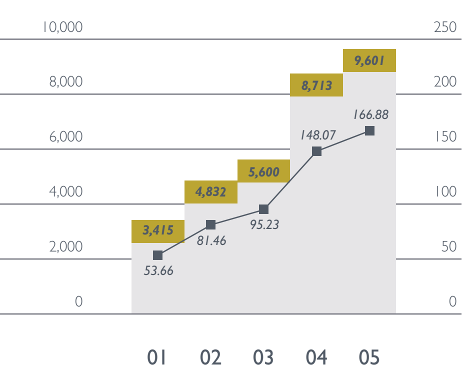
Revenues
(Millions of yen)



Operating Income
(Millions of yen)



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



Yasuaki Yamanishi
President

The fiscal year under review, ended February 28, 2005, was characterized by continued severity in the operating environment surrounding the distribution industry, with the largest number of competing stores opening since the enactment of the Large-Scale Retail Store Law, record-breaking heat spells, numerous severe typhoons and other unfavorable weather conditions.

Against this backdrop, established store sales were sluggish. However, Izumi's efforts to further cost reductions, open new stores and implement measures to increase added-value of stores, such as tailoring store operations to local characteristics, enabled the Company to record increases in revenues and profits for the sixth consecutive year.

INCREASE VALUE-ADDED STORES

Izumi believes that customer satisfaction is the wellspring of corporate revenues, and by extension, endeavoring to maximize customer satisfaction is the shortest path to meeting stockholders' expectations. Aiming to create store layouts that please customers, the Company continued to enhance established stores and to introduce popular tenants at its facilities during the fiscal year under review.

Aware of the need to strengthen competitiveness, the Company made adjustments to the products it handles and to pricing. In addition, Izumi promoted the realization of product lineups that meet local needs. In particular, the foods department continued to recover competitiveness through fashioning store layouts cohesive with local areas during the period under review. Moreover, we continued to strengthen links with business partners in order to expand services and respond to diverse customer needs.

These measures contributed to improving the added-value of stores, and as a result, Izumi further established its superior competitive position in the regions where it operates and won the continued allegiance of many customers.

NEW STORE OPENINGS

Izumi pursues a strategy of limiting store openings to the Chugoku, Shikoku and Kyushu areas in order to gain unrivalled strength by devoting our entire efforts to local regions. The Company opened the new “Youme Town Hikarinomori” in the Kikuchi district of Kumamoto Prefecture in June 2004, and “Youme Town Kure” in Kure City, Hiroshima, in September 2004. These areas are projected to gain greater ability to lure customers with the further development of bullet train and highway networks, creating a stronger base for the Company’s aim to maintain its dominant position in the region.

PROMOTING LOW-COST OPERATIONS

The Company continues to develop its cost structure reforms, and these efforts resulted in the ratio of selling, general and administrative expenses to revenues dropping to 21.8% on a non-consolidated basis, an improvement of 0.4% from the previous fiscal year. The gross profit ratio (non-consolidated basis) dropped slightly to 22.2%, down 0.5 points due to an increase in tenants’ share of net sales at new retail facilities, but directly managed departments maintained a ratio of 30.1%, a level equivalent to that of the previous fiscal year. As a result of these factors, the non-consolidated operating income ratio increased to 4.5%, up 0.4 percentage points from fiscal 2004.

CONDITION OF CONSOLIDATED SUBSIDIARIES

Conditions at consolidated subsidiaries remained solid, including card-service company Youme Card Co., Ltd., building maintenance company Ideo Co., Ltd. and Youme Town Kumamoto Co., Ltd., which has inherited stores from NIKONIKODO Co., Ltd., a company under corporate rehabilitation.

FISCAL PERFORMANCE

As a result of the above, consolidated revenues for the fiscal year ended February 28, 2005 rose 4.6% to ¥426.4 billion, net income climbed 10.2% to ¥9.6 billion, and net income per share increased 12.7% to ¥166.88. These figures represent our sixth consecutive year of increased revenues and profits.

Having achieved increases in revenues and profits for the sixth year in succession, the Company has raised the cash dividend per share from last year’s level of ¥23.00 to ¥24.00, as a way of returning profits to our stockholders.

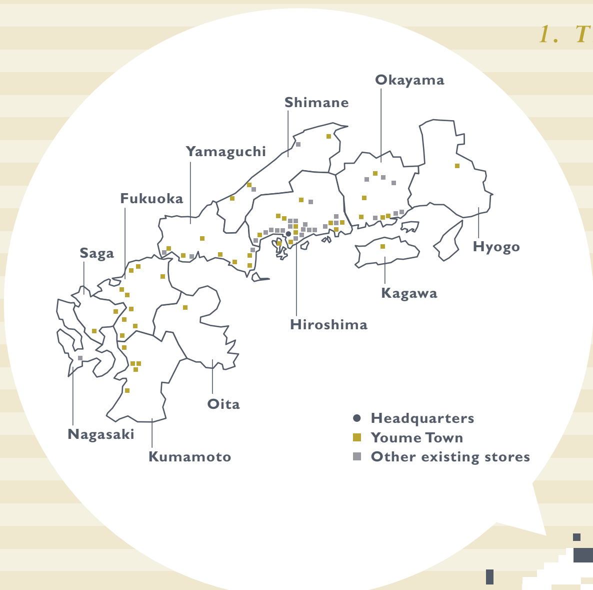
山西泰明

Yasuaki Yamanishi
President

SPECIAL FEATURE

Growth through Youme Town

Youme Town—Prominence and Profitability

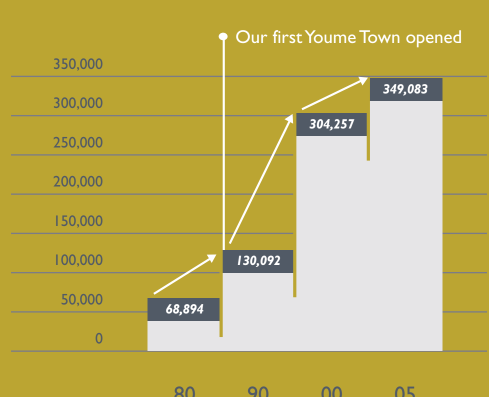


1. THE DEVELOPMENT OF YOUME TOWN

In the midst of an increasingly competitive retail industry, Izumi boasts a dominant competitive position in regions where it operates in terms of both scale and quality through the opening of new Youme Town outlets. Developed primarily around the Company Headquarters in the Hiroshima area, Youme Town outlets are opened in areas where rail and highway networks continue to expand. Youme Town operations support the growth of the whole of Izumi.

CHANGE IN IZUMI NET SALES SINCE OPENING THE FIRST YOUME TOWN

Trend of Net Sales
(Millions of yen)



Since the opening of our first Youme Town outlet in 1990, Company growth and net sales at Izumi have soared. Non-consolidated net sales in the fiscal year ended February 28, 2005 reached ¥349 billion, a jump of 2.7 times the amount in 1990. Youme Town sales accounted for 78.9% of non-consolidated net sales in the fiscal year ended February 28, 2005.

2. THE STRENGTH OF YOUME TOWN

Number one in scale and quality

↑ The first cinema complex in the area, with nine screens

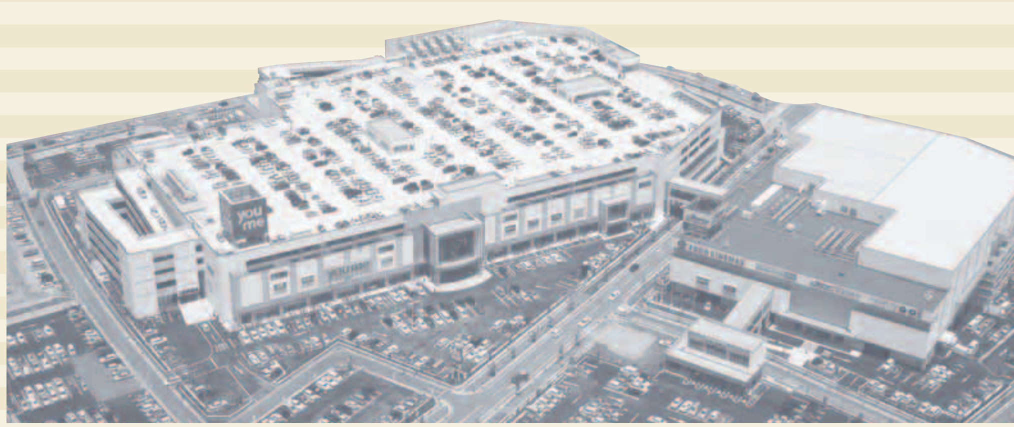
↑ Introduction of regional delicacies

Youme Town's strength lies with its large-scale operations and its responsiveness to local characteristics. The outlets draw customers from a broad area due to their diverse product lineups, and are positioned as the unparalleled number one stores in the region. The newly opened Hikarinomori outlet offers a product lineup ranging from goods to enrich everyday life to high-fashion articles through prominent specialty store groups. While providing the region's first and most developed lineup of items, the outlets also provide one-stop service, featuring an array of amusements, restaurants, community and other facilities, so that virtually everything customers want to buy or do are all under one roof, making Youme Town the perfect place for a family to spend a day. The outlets are centers of their respective regions, as they attract customers from a broad area.

By limiting store openings to the Chugoku, Shikoku and Kyushu areas, Youme Town has received tremendous support from customers. Their support is also a response to our efforts to create stores closely connected with local communities, along with a deep understanding of regional characteristics, responsiveness to the varied needs of each region, and our promotion of "regional production and regional consumption."

Youme Town Hikarinomori

Location: Kumamoto Prefecture
Opened: June 2004
Store area: 36,600 m^2
Parking space: 2,800 vehicles



↑ We actively introduce prominent specialty stores

Izumi's pursuit of high profitability and marketing efficiency

Youme Town is working to strengthen the product lineup of the everyday items handled under Izumi's directly managed departments, which make up our core business. At the same time, Izumi promotes efficient use of management resources by actively introducing prominent specialty stores in fields in which the Company does not specialize. In addition, Izumi entrusts each store with broad autonomy, which is granted with the aim of improving flexibility to customer changes and also to advance reforms of cost structure, including cost of sales and labor cost reductions.

As the Company continuously re-energizes investment at existing stores, we also work to improve overall store profitability by opening new stores and resolutely closing down underperforming stores. Through these efforts, Youme Town has achieved exceptional profitability and marketing efficiency, and Izumi continues to nurture these outlets as the pillar of our income.

MERCHANDISING STRATEGY FOR YOUME TOWN

Youme Town's high-added-value service is unrivalled by other stores because Izumi creates stores closely linked to local regions and offers product lineups responsive to each region's demands.

Our clothing department offers a lineup of high-value-added products to each targeted customer segment through building further links with business partners. In addition, by mixing our directly managed departments with prominent tenants, we are creating both a fashionable and highly sensible shopping environment. While the clothing departments of many general merchandisers are losing profitability, Izumi's clothing department has become a main pillar supporting profits.

With a view toward enhancing the uniqueness of goods, the Company continues to link with prominent specialty stores and to shrink the number of product categories handled for more efficient use of management resources in the household-related product department.

In the general and prepared food departments, the Company focuses efforts on thorough development of product lines suited to customer characteristics. The prepared food department offers an array of quality items, while the processed food department provides a variety of goods from high-value-added products to lower-priced items. In addition, Izumi's fresh produce department contains goods from each region's leading growers, reflecting local tastes. Izumi has gained a strong competitive position with each department, but the food departments are our leading revenue source, and the Company continues to shore up the stability of this platform.

Through the competitiveness of its directly managed departments and links with prominent tenants, Izumi offers the number one shopping environment to regional customers. Youme Town continues to develop as the region's brand.

THE ORGANIZATION AND STAFF SUPPORTING YOUME TOWN

In order to conduct operations that pursue customer satisfaction at Youme Town, we believe the invigoration of full-time and part-time staff, and the entire organization is indispensable.

In order to achieve this, we entrust as much autonomy as possible to individual stores, and by leaving purchasing and other decisions up to the will of each store, staff motivation and the sense of responsibility are enhanced. By making thorough use of a performance-based system, all individuals are able to construct their own career plans in an environment where they can grasp chances and take initiatives. Finally, Izumi supports the hiring of young and female employees, in our aim to create a balanced and lively corporation.

← Young employees lead the invigoration of stores

3. THE fUTURE OF YOUME TOWN

Constructing the Youme Town brand

Izumi will continue to shore up the dominant position we hold in our regions of operation by invigorating existing stores and opening new stores.

We will not only continue to offer product lineups linked to local areas, but also deepen our relationships with communities by promoting the preservation of local environments, promoting employment, and supporting culture and sports activities. Through these efforts, we will heighten the brand strength of Youme Town as the number one store in our regions of operation.

New store plan

Izumi has traditionally carried out consistent new store openings of one or two per year. The new Youme Town Yatsushiro store opened in June 2005 in Yatsushiro City, Kumamoto. The Company will continue its policy of consistently opening new stores to achieve further corporate growth.

Izumi will continue to grow as a corporation by focusing investment in Youme Town, the number one store in our operating regions. We will take up the challenge of rising above the framework of conventional shopping centers to "create new downtowns," as the birth of new Youme Town outlets generates activity in individuals and in regions, and broadens the dreams of our communities.

Youme Town Yatsushiro
Location: Kumamoto Prefecture
Site area: 70,000 m^2
Store area: 28,100 m^2
Parking space: 2,200 vehicles

CONSOLIDATED STATEMENTS OF INCOME

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

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	**2005**
REVENUES:			
Net sales	**¥412,442**	¥395,918	**$3,937,770**
Other operating revenues	**13,995**	11,730	**133,616**
	426,437	407,648	**4,071,386**
COST OF SALES	**318,975**	303,998	**3,045,397**
Gross profit	**107,462**	103,650	**1,025,989**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**87,691**	85,571	**837,226**
Operating income	**19,771**	18,079	**188,763**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**246**	254	**2,349**
Interest expense	**(1,676)**	(1,839)	**(16,002)**
Purchase discounts	**451**	471	**4,306**
Gain on sales of investments in securities	**23**	208	**220**
Gain on sales of property and equipment	**—**	3	**—**
Loss on sales or disposal of property and equipment	**(424)**	(629)	**(4,048)**
Foreign exchange gains	**151**	306	**1,442**
Other, net	**(453)**	35	**(4,326)**
	(1,682)	(1,191)	**(16,059)**
Income before income taxes and minority interests	**18,089**	16,888	**172,704**
***INCOME TAXES** (Note 11):*			
Current	**8,090**	7,369	**77,239**
Deferred	**(264)**	(255)	**(2,521)**
	7,826	7,114	**74,718**
Income before minority interests	**10,263**	9,774	**97,986**
MINORITY INTERESTS	**662**	1,061	**6,321**
Net income	**¥ 9,601**	¥ 8,713	**$ 91,665**

	Yen		U.S. dollars (Note 3)
PER SHARE:			
Net income *(Note 2 (19)):*			
Basic	**¥166.88**	¥148.07	**$1.59**
Diluted	**155.02**	—	**1.48**
Cash dividends declared	**24.00**	23.00	**0.23**
WEIGHTED AVERAGE NUMBER OF SHARES *(thousands)*	**57,474**	58,670	

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

Izumi Co., Ltd. and its subsidiaries
As of February 28, 2005 and February 29, 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	**2005**
ASSETS			
CURRENT ASSETS:			
Cash and bank deposits	**¥ 12,623**	¥ 10,184	**$ 120,517**
Short-term loans receivable	**13,476**	13,810	**128,661**
Notes and accounts receivable:			
Trade	**7,526**	6,915	**71,854**
Other	**1,755**	1,381	**16,756**
	9,281	8,296	**88,610**
Less–allowance for doubtful accounts	**(834)**	(784)	**(7,963)**
	8,447	7,512	**80,647**
Inventories	**24,125**	22,200	**230,332**
Deferred income taxes *(Note 11)*	**1,934**	1,718	**18,465**
Other current assets	**2,751**	3,044	**26,266**
Total current assets	**63,356**	58,468	**604,888**
INVESTMENTS AND ADVANCES:			
Investments in non-consolidated subsidiaries and affiliates	**1,052**	997	**10,044**
Investments in securities *(Note 4)*	**4,999**	4,215	**47,728**
Other investments and advances	**1,610**	2,476	**15,371**
	7,661	7,688	**73,143**
PROPERTY AND EQUIPMENT *(Notes 5 and 6)**:***			
Buildings and structures	**203,797**	188,583	**1,945,742**
Machinery, equipment, vehicles and other	**36,274**	32,992	**346,324**
	240,071	221,575	**2,292,066**
Less–accumulated depreciation	**(114,189)**	(103,591)	**(1,090,214)**
	125,882	117,984	**1,201,852**
Land	**89,534**	79,246	**854,821**
Construction in progress	**4,149**	2,583	**39,612**
	219,565	199,813	**2,096,285**
OTHER ASSETS:			
Fixed leasehold deposits	**16,868**	16,864	**161,047**
Deferred income taxes *(Note 11)*	**2,080**	2,304	**19,859**
Other	**9,363**	10,790	**89,393**
	¥318,893	¥295,927	**$3,044,615**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	**2005**
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings *(Note 6)*	**¥ 27,792**	¥ 20,982	**$ 265,343**
Current portion of long-term debt *(Note 6)*	**25,665**	28,663	**245,035**
Notes and accounts payable:			
Trade	**15,630**	17,485	**149,227**
Other	**14,467**	11,215	**138,123**
	30,097	28,700	**287,350**
Income taxes payable	**4,905**	4,535	**46,830**
Accrued bonuses	**1,375**	1,317	**13,128**
Allowance for point discounts	**881**	752	**8,411**
Other current liabilities	**5,488**	5,293	**52,396**
Total current liabilities	**96,203**	90,242	**918,493**
LONG-TERM DEBT *(Note 6)*	**103,649**	89,643	**989,584**
ACCRUED SEVERANCE INDEMNITIES *(Note 7)*	**5,136**	4,623	**49,036**
LEASE DEPOSITS RECEIVED	**22,285**	20,138	**212,765**
DEFERRED INCOME TAXES *(Note 11)*	**1,006**	994	**9,605**
OTHER LIABILITIES	**463**	609	**4,420**
Total liabilities	**132,539**	206,249	**1,265,410**
COMMITMENTS AND CONTINGENT LIABILITIES *(Note 8)*			
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES	**4,632**	5,324	**44,224**
STOCKHOLDERS' EQUITY *(Note 10)**:***			
Common stock, no par value:			
Authorized:			
February 28, 2005—195,243,000 shares			
February 29, 2004—195,243,000 shares			
Issued:			
February 28, 2005—61,558,710 shares	**19,614**	—	**187,264**
February 29, 2004—61,558,710 shares	**—**	19,614	**—**
Additional paid-in capital	**22,315**	22,315	**213,051**
Retained earnings	**54,018**	45,823	**515,734**
Net unrealized gains on securities	**980**	535	**9,357**
Less–foreign currency translation adjustments	**(4)**	(3)	**(39)**
Less–treasury stock at cost:			
February 28, 2005—6,250,126 shares	**(11,404)**	—	**(108,879)**
February 29, 2004—2,909,775 shares	**—**	(3,930)	**—**
Total stockholders' equity	**85,519**	84,354	**816,488**
	¥318,893	¥295,927	**$3,044,615**

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Izumi Co., Ltd. and its subsidiaries For the years ended February 28, 2005, February 29, 2004 and February 28, 2003	Number of shares of common stock (thousands)	Millions of yen Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock at cost
BALANCE AT FEBRUARY 28, 2002	61,559	¥19,614	¥22,282	¥34,368	¥268	¥(5)	¥ (2,395)
Net income for the year	—	—	—	5,600	—	—	—
Cash dividends	—	—	—	(1,292)	—	—	—
Directors' and corporate auditors' bonuses	—	—	—	(103)	—	—	—
Treasury stock at more than cost	—	—	33	—	—	—	200
Net unrealized gains on securities	—	—	—	—	(47)	—	—
Foreign currency translation adjustments	—	—	—	—	—	1	—
Increase in treasury stock, net	—	—	—	—	—	—	(1,632)
BALANCE AT FEBRUARY 28, 2003	61,559	¥19,614	¥22,315	¥38,573	¥221	¥(4)	¥ (3,827)
Net income for the year	—	—	—	8,713	—	—	—
Cash dividends	—	—	—	(1,442)	—	—	—
Directors' and corporate auditors' bonuses	—	—	—	(21)	—	—	—
Net unrealized gains on securities	—	—	—	—	314	—	—
Foreign currency translation adjustments	—	—	—	—	—	1	—
Increase in treasury stock, net	—	—	—	—	—	—	(103)
Increase due to application of equity method to additional subsidiaries and affiliates	—	—	—	0	—	—	—
BALANCE AT FEBRUARY 29, 2004	61,559	¥19,614	¥22,315	¥45,823	¥535	¥(3)	¥ (3,930)
Net income for the year	—	—	—	9,601	—	—	—
Cash dividends	—	—	—	(1,381)	—	—	—
Directors' and corporate auditors' bonuses	—	—	—	(25)	—	—	—
Net unrealized gains on securities	—	—	—	—	445	—	—
Foreign currency translation adjustments	—	—	—	—	—	(1)	—
Increase in treasury stock, net	—	—	—	—	—	—	(7,474)
BALANCE AT FEBRUARY 28, 2005	**61,559**	**¥19,614**	**¥22,315**	**¥54,018**	**¥980**	**¥(4)**	**¥(11,404)**

	Thousands of U.S. dollars (Note 3)					
BALANCE AT FEBRUARY 29, 2004	$187,264	$213,051	$437,493	$5,108	$(29)	$ (37,521)
Net income for the year	—	—	91,665	—	—	—
Cash dividends	—	—	(13,185)	—	—	—
Directors' and corporate auditors' bonuses	—	—	(239)	—	—	—
Net unrealized gains on securities	—	—	—	4,249	—	—
Foreign currency translation adjustments	—	—	—	—	(10)	—
Increase in treasury stock, net	—	—	—	—	—	(71,358)
BALANCE AT FEBRUARY 28, 2005	**$187,264**	**$213,051**	**$515,734**	**$9,357**	**$(39)**	**$(108,879)**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 18,089	¥ 16,888	$ 172,704
Depreciation and amortization	11,461	10,828	109,423
Provision for allowance for doubtful accounts	356	189	3,399
Interest and dividend income	(246)	(254)	(2,349)
Interest expense	1,676	1,839	16,002
Gain on sales of property and equipment	—	(3)	—
Loss on sales or disposal of property and equipment	424	629	4,048
Gain on sales or revaluation of investments in securities	(23)	(203)	(220)
Increase in notes and accounts receivable	(553)	(1,061)	(5,280)
Increase in inventories	(1,900)	(1,264)	(18,140)
Increase (decrease) in trade notes and accounts payable	(1,964)	2,841	(18,751)
Other, net	(231)	7,044	(2,205)
Sub-total	27,089	37,473	258,631
Interest and divided income received	268	280	2,559
Interest expense paid	(1,691)	(1,814)	(16,145)
Income taxes paid	(7,700)	(6,698)	(73,515)
Net cash provided by operating activities	17,966	29,241	171,530
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for purchases of property and equipment	(21,645)	(25,379)	(206,655)
Payments for purchases of intangible assets	(255)	(524)	(2,435)
Payments for purchases of investments in securities	(605)	(106)	(5,776)
Proceeds from sales of property and equipment	338	561	3,227
Proceeds from sales of investments in securities	635	468	6,063
Acquisition, net of cash acquired	148	—	1,413
Other, net	265	(273)	2,530
Net cash used in investing activities	(21,119)	(25,253)	(201,633)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in short-term borrowings	5,596	(3,901)	53,428
Additions to long-term loans	18,950	35,644	180,924
Repayment of long-term loans	(23,642)	(22,246)	(225,721)
Redemption of bonds	(5,000)	(10,000)	(47,737)
Proceeds from issue of bonds	19,955	—	190,519
Proceeds from issue of stocks to minority interests in consolidated subsidiary	180	220	1,719
Payment of liquidation dividends to minority interests in consolidated subsidiary	(196)	—	(1,871)
Payment for purchases of treasury stock	(8,855)	(179)	(84,543)
Dividends paid	(1,468)	(1,511)	(14,016)
Net cash provided by (used in) financing activities	5,520	(1,973)	52,702
Effect of exchange rate changes on cash and cash equivalents	0	1	0
Net increase in cash and cash equivalents	2,367	2,016	22,599
Cash and cash equivalents at beginning of year	10,184	8,168	97,231
Cash and cash equivalents of newly consolidated subsidiaries	49	—	468
Cash and cash equivalents at end of year	¥ 12,600	¥ 10,184	$ 120,298

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Izumi Co., Ltd. (the "Company") and its subsidiaries (collectively, the "Companies") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

As of February 28, 2005, the accompanying consolidated financial statements included the accounts of the Company and 21 of its subsidiaries, of which five subsidiaries were newly consolidated due to establishment, acquisition or increase of significance, and one subsidiary was excluded due to liquidation. As at February 29, 2004, 17 subsidiaries were consolidated.

Investments in all affiliates (20%-to-50%-owned companies) are accounted for using the equity method. The company had four and five affiliates as of February 28, 2005 and February 29, 2004, respectively.

Two non-consolidated subsidiaries, NIKONIKODO Co., Ltd. and Izumi International Limited, were not accounted for using the equity method due to civil rehabilitation and temporary control, respectively. Investments in these companies were stated at cost.

(2) Elimination and consolidation

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

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

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

(3) Cash and cash equivalents

Cash and cash equivalents included in the consolidated statements of cash flows are composed of cash on hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of material fluctuation in value.

(4) Translation of foreign currencies

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are included in net profit or loss for the period.

Assets and liabilities of the foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Profit and loss accounts for the year are translated into Japanese yen using the average exchange rate during the year. Differences in yen amounts arising from the use of different rates are presented as "foreign currency translation adjustments" in stockholders' equity.

(5) Investments in securities

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

Available-for-sale securities for which market quotations are available are stated at fair value. Unrealized gains on these securities are reported as "Net unrealized gains on securities" in stockholders' equity at a net-of-tax amount, and unrealized losses on these securities are included in net profit or loss for the period. Available-for-sale securities with no available market quotations are stated at moving average cost.

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

(6) Derivatives

Derivative financial instruments are stated at fair value and changes in the fair value are recognized as gains or losses unless the derivative financial instruments are used for hedging purposes. If the derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains and losses resulting from changes in the fair value of derivative financial instruments until the related losses or gains on the hedged items are realized. In the event that foreign exchange forward contracts, currency swap contracts or currency option contracts are used as hedges and meet certain hedging conditions, the hedged items are stated at the forward exchange contract rates. If interest rate swap agreements are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap agreements is added to or deducted from the interest on the assets or liabilities for which the swap agreements were executed.

(7) Inventories

Inventories are valued at cost. Cost is determined principally by the retail method.

Supplies are carried at cost. Cost is determined by the last purchase price method.

(8) Depreciation of property and equipment

Property and equipment are stated at cost. Significant renewals and additions are capitalized; normal repairs and maintenance including minor renewals and improvements are charged to income as incurred.

The cost and accumulated depreciation applicable to property and equipment retired or otherwise disposed of are eliminated from the related accounts and the gain or loss on disposal is credited or charged to income.

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

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

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

(9) Intangible assets
Capitalized software costs, included in other assets, for internal use are amortized by the straight-line method over its estimated useful life (five years). Other intangible assets, included in other assets, are amortized by the straight-line method over the period stipulated by the Japanese corporate income tax laws.

(10) Impairment of fixed assets
On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets." The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use.

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

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

(11) Bond issuance costs
Bond issuance costs are charged to income as incurred.

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

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

(14) Allowance for point discounts
An allowance for point discounts is provided for estimated future usage of points that entitle customers to receive reductions in the price of future purchases, based on past experience.

(15) Accrued severance indemnities
Accrued retirement indemnities to employees represent the estimated present value of projected benefit obligations in excess of the fair value of the plan assets except that, as permitted under Japanese accounting standards, unrecognized actuarial differences are amortized on a straight-line basis over six to eight years from the next year in which they arise and unrecognized past service costs are amortized on a straight-line basis over six years from the year in which they arise.

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

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

(16) Leases
Leases that transfer substantially all risks and rewards of ownership of the assets are accounted for as capital leases. Leases which do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

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

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

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

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

Cash dividends per share include those declared with respect to net income for the respective periods for which the dividends were proposed by the Board of Directors. Dividends are charged to retained earnings in the year in which they are paid.

3. UNITED STATES DOLLAR AMOUNTS
Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥104.74 = U.S.$1, the rate of exchange on February 28, 2005 has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this rate or any other rate.

4. INVESTMENTS IN SECURITIES

(1) Held-to-maturity debt securities at February 28, 2005 and February 29, 2004, which have readily available determinable fair value, are summarized as follows:

	Millions of yen					
	2005			2004		
	Carrying value	Market value	Valuation gains (losses)	Carrying value	Market value	Valuation gains (losses)
Securities with valuation gains:						
Government bonds	¥60	¥60	¥0	¥ 71	¥ 71	¥0
Securities with valuation losses:						
Government bonds	—	—	—	430	430	(0)
Total	¥60	¥60	¥0	¥501	¥501	¥0

	Thousands of U.S. dollars (Note 3)		
Securities with valuation gains:			
Government bonds	$573	$573	$0
Securities with valuation losses:			
Government bonds	—	—	—
Total	$573	$573	$0

(2) Available-for-sale securities at February 28, 2005 and February 29, 2004 which have readily determinable fair value, are summarized as follows:

	Millions of yen					
	2005			2004		
	Acquisition cost	Carrying value	Gross unrealized gains (losses)	Acquisition cost	Carrying value	Gross unrealized gains (losses)
Securities with unrealized gains:						
Equity securities	¥3,093	¥4,745	¥1,652	¥1,368	¥2,266	¥898
Securities with unrealized losses:						
Equity securities	6	5	(1)	1,295	1,206	(89)
Total	¥3,099	¥4,750	¥1,651	¥2,663	¥3,472	¥809

	Thousands of U.S. dollars (Note 3)		
Securities with unrealized gains:			
Equity securities	$29,530	$45,303	$15,773
Securities with unrealized losses:			
Equity securities	57	48	(9)
Total	$29,587	$45,351	$15,764

(3) Available-for-sale securities at February 28, 2005 and February 29, 2004, which have no readily determinable fair value, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Available-for-sale securities			
Non-listed equity securities	¥189	¥189	$1,804

(4) Total sales of available-for-sale securities for the years ended February 28, 2005 and February 29, 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Sales	¥208	¥369	$1,986
Gross realized gains	23	193	220
Gross realized losses	—	5	—

5. LEASES

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

(1) As lessee:

a) The acquisition cost, accumulated depreciation and net book value of leased assets at February 28, 2005 and February 29, 2004, if capitalized, are summarized as follows:

	Millions of yen					
	2005			2004		
	Equipment and vehicles	Other	Total	Equipment and vehicles	Other	Total
Amount to:						
Acquisition cost	¥ 2,779	¥ 6,564	¥ 9,343	¥ 3,188	¥ 8,531	¥11,719
Accumulated depreciation	(1,994)	(4,553)	(6,547)	(2,042)	(5,228)	(7,270)
Net book value	¥ 785	¥ 2,011	¥ 2,796	¥ 1,146	¥ 3,303	¥ 4,449

	Thousands of U.S. dollars (Note 3)		
Amount to:			
Acquisition cost	$ 26,532	$ 62,669	$ 89,201
Accumulated depreciation	(19,038)	(43,470)	(62,508)
Net book value	$ 7,494	$ 19,199	$ 26,693

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

b) Amounts of outstanding future lease payments at February 28, 2005 and February 29, 2004, which include the interest portion, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Due within one year	¥1,237	¥1,754	$11,810
Due after one year	1,560	2,695	14,894
Total	¥2,797	¥4,449	$26,704

c) Lease payments and depreciation expense for the years ended February 28, 2005 and February 29, 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Lease payments	¥1,675	¥1,936	$15,992
Depreciation expense	1,675	1,936	15,992

d) Method of asset depreciation

The depreciation expense is determined based on the straight-line method over the lease term of the leased assets assuming no residual value.

(2) As lessor:

a) The acquisition cost, accumulated depreciation and net book value of leased assets at February 28, 2005 and February 29, 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	**2005**
	Equipment and vehicles	Equipment and vehicles	Equipment and vehicles
Amount to:			
Acquisition cost	**¥40**	¥53	**$382**
Accumulated depreciation	**(9)**	(6)	**(86)**
Net book value	**¥31**	¥47	**$296**

b) Amounts of outstanding future income at February 28, 2005 and February 29, 2004, which include the interest portion, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	**2005**
Due within one year	**¥ 6**	¥ 8	**$ 57**
Due after one year	**30**	45	**287**
Total	**¥36**	¥53	**$344**

c) Lease income and depreciation expense for the years ended February 28, 2005 and February 29, 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	**2005**
Lease payments	**¥8**	¥6	**$76**
Depreciation expense amount	**6**	4	**57**

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 0.90% and 1.12% at February 28, 2005 and February 29, 2004.

Long-term debt at February 28, 2005 and February 29, 2004, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	**2005**
Loans from banks and insurance companies, due from March 2005 to February 2018 with weighted average interest rates of 1.44% and 1.51% at February 28, 2005 and February 29, 2004, respectively.			
Secured	**¥ 55,801**	¥ 52,119	**$ 532,757**
Unsecured	**48,513**	56,187	**463,176**
	104,314	108,306	**995,933**
1.53% Japanese yen unsecured straight bonds due March 2004	**—**	5,000	**—**
1.84% Japanese yen unsecured straight bonds due March 2005	**5,000**	5,000	**47,737**
0.00% Japanese yen unsecured convertible bonds due July 2009	**20,000**	—	**190,949**
	129,314	118,306	**1,234,619**
Less, portion due within one year	**(25,665)**	(28,663)	**(245,035)**
	¥103,649	¥ 89,643	**$ 989,584**

The aggregate annual maturities of long-term debt outstanding at February 28, 2005 are as follows:

Years ending the last day of February	Millions of yen	Thousands of U.S. dollars (Note 3)
2007	¥ 23,857	$227,774
2008	19,251	183,798
2009	9,497	90,672
2010	26,546	253,447
2011 and thereafter	24,498	233,893
Total	¥103,649	$989,584

Assets pledged as collateral and related secured debt at February 28, 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	**2005**
Assets pledged as collateral:			
Land	**¥ 60,173**	¥ 55,381	**$ 574,499**
Buildings	**74,679**	63,496	**712,994**
Investments in securities	**1,897**	2,520	**18,112**
Total	**¥136,749**	¥121,397	**$1,305,605**
Debt secured by the above:			
Short-term borrowings	**¥ 9,217**	¥ 6,308	**$ 87,999**
Long-term debt	**55,801**	52,119	**532,757**
Total	**¥ 65,018**	¥ 58,427	**$ 620,756**

7. RETIREMENT BENEFIT PLANS

Employees of the Companies with more than one year's service are entitled to receive lump-sum indemnities upon termination. The amount of the benefits is determined by reference to current basic rate of pay, length of service and condition under which the termination of employment occurs. The amount of severance indemnities to be paid by the Company and certain consolidated subsidiaries are reduced by the benefits payable under an externally funded non-contributory pension plan. In January 2005, the Company terminated an externally funded non-contributory pension plan.

The funded status of the Companies at February 28, 2005 and February 29, 2004 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	**2005**
Projected benefit obligation	**¥4,127**	¥ 5,669	**$39,402**
Unrecognized net actuarial differences	**(181)**	(87)	**(1,728)**
Unrecognized past service costs	**337**	—	**3,217**
Plan assets at fair value	**—**	(1,783)	**—**
Accrued severance indemnities	**¥4,283**	¥ 3,799	**$40,891**

Pension and severance costs of the Companies included the following components for the years ended February 28, 2005 and February 29, 2004:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	**2005**
Service costs	**¥506**	¥531	**$4,831**
Interest costs	**105**	108	**1,002**
Expected return on plan assets	**(18)**	(19)	**(172)**
Realized net actuarial losses	**16**	36	**153**
Payment for extra supplementary benefits and other payments	**—**	24	**—**
Amortization of unrecognized past service costs	**(4)**	—	**(38)**
Other	**16**	—	**153**
Net periodic pension costs	**¥621**	¥680	**$5,929**

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

Assumptions used in the accounting for the defined benefit plans for the years ended February 28, 2005 and February 29, 2004 are as follows:

	2005	2004
Discount rate	**1.5%–2.0%**	2.0%
Expected rate of return on plan assets	**1.0%**	1.0%

8. COMMITMENTS AND CONTINGENT LIABILITIES

The Company was contingently liable for guarantees of loans from financial institutions taken out by affiliates and others, totaling ¥3,578 million ($34,161 thousand) and ¥4,526 million at February 28, 2005 and February 29, 2004, respectively.

9. DERIVATIVE FINANCIAL INSTRUMENTS

(1) Status of transaction

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

b) Purpose and policy of transactions
The Companies use foreign currency exchange forward contracts, currency swap contracts and currency option contracts to minimize exposure and to reduce risk from exchange rate fluctuation in import transactions. The Companies also use interest rate swap agreements to hedge against exposure of interest rate fluctuation and to adapt the long-term fixed interest rate to the current rate in line with changes in the market rate. The Companies do not use derivative instruments for speculative trading purposes.

c) Risks in transactions
Derivative instruments used by the Companies are exposed to risk from market rate fluctuations. Counter-parties are highly creditworthy domestic banks and, therefore, the Companies do not expect losses due to non-performance by these counter-parties.

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

(2) Market value of transactions

The Companies had the following derivative contracts outstanding at February 28, 2005 and February 29, 2004.

	Millions of yen					
	2005			2004		
	Contract amount	Fair market value	Unrealized gains (losses)	Contract amount	Fair market value	Unrealized gains (losses)
Foreign currency exchange forward contracts	**¥ 151**	**¥ 23**	**¥ 23**	¥1,772	¥ 54	¥ 54
Currency swap contracts	**—**	**—**	**—**	140	44	44
Currency option contracts	**12,811**	**(38)**	**(38)**	1,221	(20)	(20)
Total	**¥12,962**	**¥(15)**	**¥(15)**	¥3,133	¥ 78	¥ 78

	Thousands of U.S. dollars (Note 3)		
	2005		
	Contract amount	Fair market value	Unrealized gains (losses)
Foreign currency exchange forward contracts	**$ 1,442**	**$ 220**	**$ 220**
Currency swap contracts	**—**	**—**	**—**
Currency option contracts	**122,312**	**(363)**	**(363)**
Total	**$123,754**	**$(143)**	**$(143)**

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

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

10. STOCKHOLDERS' EQUITY

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

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

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

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

11. INCOME TAXES

The Companies are subject to a number of different taxes based on income, which, in aggregate, result in statutory income tax rates of approximately 41.7% for the years ended February 28, 2005 and February 29, 2004.

The reconciliation schedule for the years ended February 28, 2005 and February 29, 2004 is not disclosed because the difference between the statutory income tax rate and the effective income tax rate is less than 5% of the statutory income tax rate.

The significant components of deferred tax assets and liabilities at February 28, 2005 and February 29, 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Deferred tax assets:			
Allowance for doubtful accounts	¥ 195	¥ 300	$ 1,862
Property and equipment	149	126	1,423
Intangible assets	204	162	1,948
Investments in securities	27	99	258
Accrued enterprise tax	414	391	3,953
Accrued bonus	552	480	5,270
Accrued severance indemnities	1,940	1,656	18,522
Fair value adjustments of consolidated subsidiaries	355	355	3,389
Tax loss carry-forwards	174	290	1,661
Excess depreciation and amortization	355	354	3,389
Allowance for point discounts	357	314	3,408
Other	401	295	3,829
Total	5,123	4,822	48,912
Valuation allowance	(85)	(86)	(812)
Total	5,038	4,736	48,100
Deferred tax liabilities:			
Reserve for special depreciation	(142)	(115)	(1,356)
Reserve for advanced depreciation of fixed assets	(226)	(236)	(2,158)
Fair value adjustments of consolidated subsidiaries	(985)	(994)	(9,404)
Unrealized gains on available-for-sale securities	(667)	(363)	(6,368)
Unrealized gains on property and equipment	(10)	—	(95)
	(2,030)	(1,708)	(19,381)
Net deferred tax assets	¥ 3,008	¥ 3,028	$ 28,719

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

12. RELATED PARTY TRANSACTIONS

For the years ended February 28, 2005 and February 29, 2004, the Company purchased ¥11,705 million ($111,753 thousand) and ¥11,056 million of merchandise from Japan Logistics Industry Co., Ltd. ("JLI"), respectively. A representative director and Vice President of JLI, Mr. Yasuaki Yamanishi, is also a representative director and the President of the Company and owns 1.8% of the Company's voting stock. At February 28, 2005 and February 29, 2004, the Company had accounts payable of ¥1,158 million ($11,056 thousand) and ¥1,204 million, and deposited guarantee money of ¥572 million ($5,461 thousand) and ¥538 million to JLI, respectively.

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

For the years ended February 28, 2005 and February 29, 2004, the Company leased the Higashi-Hiroshima shop building from Izumi Kosan K.K. ("Izumi") with lease payments of ¥341 million ($3,256 thousand). Izumi is a majority-owned subsidiary of a company, which is wholly owned by Mr. Yasuaki Yamanishi and his relatives. The lease terms are the same as those for third parties.

At February 28, 2005 and February 29, 2004, the Company paid guarantee money of ¥2,698 million ($25,759 thousand) and ¥3,174 million respectively, to Izumi. These amounts were determined based on the total construction costs of the building and the area occupied by the Company.

13. SUPPLEMENTARY CASH FLOW INFORMATION

Cash and cash equivalents at February 28, 2005 and February 29, 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Cash and bank deposits	¥12,623	¥10,184	$120,517
Less-time deposits with deposit Term of over 3 months	(23)	—	(219)
Cash and cash equivalents	¥12,600	¥10,184	$120,298

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

	Millions of yen	Thousands of U.S. dollars (Note 3)
Assets	¥ 2,794	$ 26,676
Liabilities	(2,644)	(25,244)
Negative goodwill	(17)	(162)
Investments in affiliates	(3)	(29)
Minority interests	(100)	(955)
Cash paid for the capital	30	286
Cash and cash equivalents of consolidated subsidiaries	178	1,699
Cash received in conjunction with the purchases of consolidated subsidiaries	¥ 148	$ 1,413

14. SUBSEQUENT EVENT

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

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

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheets of Izumi Co., Ltd. and its subsidiaries as of February 28, 2005 and February 29, 2004, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Izumi Co., Ltd. and its subsidiaries as of February 28, 2005 and February 29, 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

As described in Note 14, Izumi Co., Ltd. repurchased its own shares of ¥2,289 million ($21,854 thousand) on May 11, 2005.

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

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers

Hiroshima, Japan
May 26, 2005

DIRECTORS AND CORPORATE AUDITORS

Chairman
Yoshimasa Yamanishi

President
Yasuaki Yamanishi

Executive Vice President
Hiromasa Takanishi

Directors
Umeno Mashita
Heijiro Natsuhara

Full-Time Corporate Auditor
Kuniaki Kawamoto

Corporate Auditors
Toyomi Takimoto
Jiro Matsubara
Yasuyuki Tudo

(as of May 27, 2005)

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, 2005)

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

Transfer Agent and Registrar
The Sumitomo Trust & Banking Co., Ltd.
4-5-33, Kitahama, Chuo-ku,
Osaka 540-8639, Japan

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

Auditors
ChuoAoyama PricewaterhouseCoopers

IZUMI CO., LTD.
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