IZUMI CO., LTD.

Annual Report

2001

FINANCIAL HIGHLIGHTS

	Millions of yen				Thousands of U.S. dollars (Note 1)
	2001 Mar. 2000 –Feb. 2001	2000 Mar. 1999 –Feb. 2000	1999 Mar. 1998 –Feb. 1999	1998 Mar. 1997 –Feb. 1998	**2001 Mar. 2000 –Feb. 2001**
Revenues	**¥346,811**	¥288,343	¥278,799	¥263,529	**$2,989,750**
Operating income	**10,285**	8,134	5,714	6,082	**88,664**
Income before income taxes	**7,790**	3,360	877	3,181	**67,155**
Net income	**3,415**	1,437	342	1,318	**29,440**
Net income/revenues	**0.98%**	0.50%	0.12%	0.50%	**0.98%**
Total stockholders' equity	**71,810**	74,471	74,309	75,745	**619,052**
Total assets	**270,757**	236,785	232,768	216,681	**2,334,112**
	Yen				U.S. dollars (Note 1)
Per share (Note 2):					
Net income—basic	**¥53.66**	¥21.99	¥ 5.17	¥19.88	**$0.46**
Net income—diluted	**48.87**	20.36	—	19.65	**0.42**
Cash dividends	**21.00**	21.00	21.00	21.00	**0.18**

Notes 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥116 = U.S.$1, the rate of exchange on 28th February, 2001.
2. See Note 2 of Notes to Consolidated Financial Statements.

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PROFILE

Store Network

As of February 28, 2001

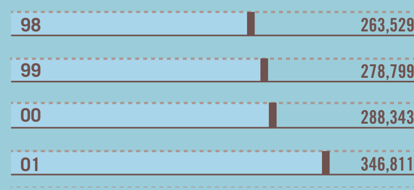
Izumi Co., Ltd. is the number one retail chain in Western Japan's Chugoku region, with 74 stores throughout Hiroshima, Okayama, Yamaguchi, Shimane and Hyogo Prefectures; Kagawa Prefecture on Shikoku; and Fukuoka, Saga, Oita and Nagasaki Prefectures on Kyushu. Izumi has steadily expanded the geographic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

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

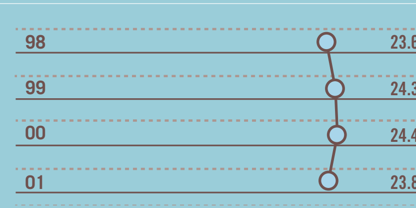
The fiscal year ended February 28, 2001, was a period of impressive results for Izumi Co., Ltd. We were once again able to post increases in revenues and profits on both a non-consolidated and consolidated basis.

For the Izumi Group, consolidated revenues grew 20.3% to ¥346,811 million (US$2,989.8 million) compared with the previous fiscal year, while operating income rose 26.4% to ¥10,285 million (US$88.7 million) and net income surged 137.6% to ¥3,415 million (US$29.4 million). These gains were the result of swift innovation in management and work processes aimed at enhancing customer satisfaction in our retail spaces.

Consolidated



Revenues (Millions of yen)



Gross Profit as a Percentage of Net Sales (%)

AMID UNFAVORABLE CONDITIONS FOR GENERAL MERCHANDISE STORES

The operating environment surrounding the retail industry continued to be severe, with unit prices falling under the strain of prolonged stagnation in consumer spending and fierce competition in new store development. The general merchandise store (GMS)—a business form that emerged in the 1950s—is now truly ready for reinvention. A history of chronic overcapacity in retail floor space and relentless price competition has necessitated constant reforms of the cost structure for businesses to keep pace with competition. A number of major players in the industry have shown poor business results, and some would suggest that the general merchandise store as a concept is on the verge of extinction. We believe, however, that this form of business will persevere as long as it retains a strong regional focus. As retail is a domestic business, we believe that our mission is to precisely respond to customer needs by region. In other words, responding to regional customer needs is the foremost priority of stores, and the scale of its operations nationwide is unimportant.

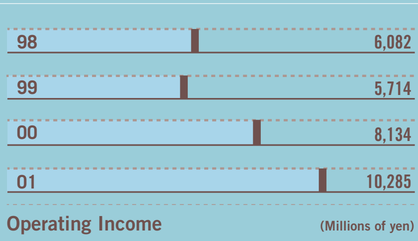
INCREASING CUSTOMER SATISFACTION

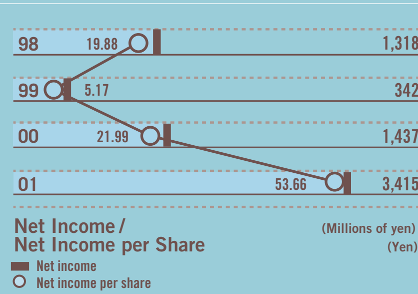
Izumi believes that customer satisfaction is the source of corporate revenues, and that working to maximize customer satisfaction is the shortest path to enhancing corporate value. Maturing markets and intensifying competition characterize our present operating environment. We aim to steadily increase corporate value and create unique added value by developing an organization and human resources that can respond precisely to changing customer needs, and through the selective allocation of management resources in fields where we have competitive advantages. As a corporation involved in local communities, we aim to contribute to the environment, create employment opportunities and enrich culture.

INITIATIVES THROUGHOUT THE FISCAL YEAR

During the fiscal year under review, the Izumi Group implemented a range of reforms to ensure continued prosperity amid the harsh business environment. On the product sales front, keenly aware of the need to develop valuable products that satisfy customer requirements for quality and price, we strengthened ties with business partners and continued with a review of supply channels. At the same time, we pressed ahead with IT investment to complete a system that will ensure the timely and precise ordering and replacement of stock. In addition to bringing seasonally flavored variety to our retail spaces, energetic sales promotions boosted our excellent-value image and increased customer appeal.

On the store development front, Youme Site Nagasaki opened in April as a joint project with Nagasaki Prefecture authorities. The complex offers an unprecedented selection of goods for the area and creates an advanced retail space that serves as a focus for the local community. This was followed by the June opening of Youme Town Hakata in Fukuoka Prefecture, the region's largest





multiplex shopping center; and the October opening of Youme Town Yame, also in Fukuoka Prefecture, our tenth outlet in the Kyushu region. In addition, during the fiscal year we reviewed the outlet store structure in a move to improve return on assets, and converted our Fits store in Okayama into a multiunit fashion complex centered on a branch of the The Loft Co., Ltd. daily goods store, and closed two low-revenue stores.

Regarding our consolidated subsidiaries, the retail credit card company Yume Town Co., Ltd. worked to reinforce the credit card functions by increasing membership and expanding its range of partner financial institutions. The imported goods specialist X-Sell Inc. aimed for aggressive growth, as it sought to expand its unique procurement channels for overseas designer goods and proceeded with nationwide expansion of its outlet network.

A change in accounting practices introduced this year expanded the scope of consolidation to include 16 consolidated subsidiaries, compared with three consolidated subsidiaries in the previous period, and added three subsidiaries accounted for by the equity method.

On a non-consolidated basis, revenues increased 7.1% to ¥304,257 million (US$2,622.9 million) and net income rose 130.7% to ¥3,106 million (US$26.8 million), owing to gains on the disposal and sale of assets following two store closures. In line with our commitment to providing stable returns to stockholders, management has maintained annual dividends of ¥21.0 (US$0.18) per share, which includes an interim dividend of ¥10.50 (US$0.09) per share.

OUTLOOK FOR THE COMING FISCAL YEAR

Business conditions for the Izumi Group are expected to remain challenging due to pessimistic consumer sentiment and intensified competition, including competition on the global level from overseas-based concerns. We will counter with a drive to maximize customer satisfaction and strengthen the revenue structure to sustain our legacy of rising revenues and profits. Regarding plans for new store development, we look forward to the autumn opening of Youme Town Omuta in Fukuoka Prefecture.

Beginning in the fiscal year ending February 2002, the Company will apply new accounting standards regarding retirement benefits. We intend to dissolve the employees' pension fund, and received approval from the Ministry of Health, Labour and Welfare in March 2001. Differences arising from the change in accounting method, comprising retirement payments and qualified pension plans, will be amortized as early as possible while considering the financial position and health of the Company.

Drawing on the combined resources of the Izumi Group, we are in position to drive forward with initiatives to maximize customer satisfaction and further increase stockholder value. We thank our stockholders for their support and ask for their continued guidance in our future endeavors.

Yasuaki Yamanishi
President

TAKING ADVANTAGE STRENGTHS OF

Izumi Carries On Amid Adversity.* *Japan's retail industry is in a very challenging position with a barrage of deterrents to profitability, including the prolonged slump in consumer spending, excessive retail floor space and intensified competition due to the entry of foreign companies. Against this backdrop, many retailers have endured poor business performance. The division between successful and unsuccessful companies is widening according to the strength of each company's business strategy in coping with the current deflationary climate. How should Izumi respond to prosper in this kind of environment?

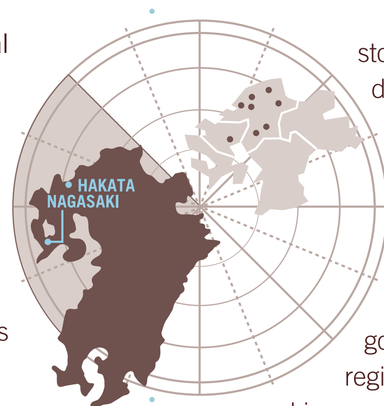
THE FUTURE OF GENERAL MERCHANDISE STORES

The general merchandise store concept has arrived at a crossroads. The barrier to market entry in this industry is low, and since product lines tend to revolve around national brands, it is considered difficult for individual companies to differentiate themselves clearly from the competition. As a consequence, companies must rely on price competition, which results in downward pressure on profit margins. The surge in new store development that followed the relaxation of regulations in 1990 has led to excessive retail space. Further casualties in the industry are inevitable.

However, demand for the convenience of one-stop shopping offered by general merchandise stores is not, as far as Izumi is concerned, about to vanish. As companies and stores continue to dwindle, the rewards for the survivors will be significant. The implications of the peripheral operating environment for general merchandise stores are undergoing a significant transition.

IZUMI'S MARKET POSITION AND FUTURE GROWTH STRATEGY

Izumi concentrates management resources by limiting its geographical area for new store development to the Chugoku region and northern Kyushu. The Chugoku region, where we boast a dominant market position, is our earnings base. The Kyushu region, where we have been making aggressive investment since 2000 and which retains vast potential for expansion, is our growth base. We look forward to the returns on our investment in Kyushu and eventually envisage this region as accounting for one-third of corporate revenues.



By limiting new store development to a definite area and ensuring individual stores possess sufficient scale, the Company believes it can provide a range of goods suited to regional characteristics and improve the level of service.

OF THE UNIQUE OUR TOTAL REGIONAL FOCUS

A future risk factor for Izumi is the possibility of a fall in the profitability of existing stores. We believe that we can avert this risk, however, by exploiting our value-creating potential as a general merchandise store. Izumi's future growth strategy follows.

Stage 1:★ Reform the Cost Structure Amid Deflationary Pressures

Stable income growth through higher profitability

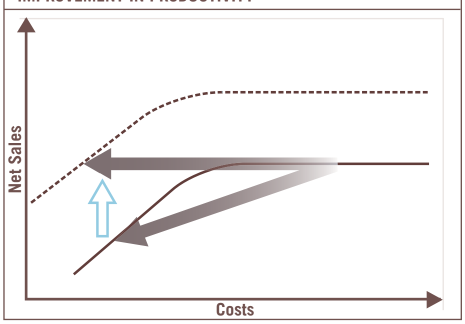
With the last few years of investment on the verge of yielding returns, Izumi will not be joining in the current rush to open new stores prior to the enforcement of the Large-Scale Retail Store Location Law. In an operating environment of stagnant sales due to deflation, the secret to expanding profit lies in reforming the cost structure. Not stopping at slashing fixed costs, we aim to raise productivity and create new value. To do so, Izumi plans to effectively combine human resources and information to boost productivity.

We will work to reduce store operation, labor and other expenses and to improve cost performance so as to raise the productivity level of our operations. We will also ensure that adaptation to change results in the creation of new value by strengthening information systems and human resource training. To this end, we intend to modify our corporate organization by establishing a new Professional Development Department to thoroughly enhance human resource development. With regard to information systems, we plan to make large-scale investments over the next few years in an effort to lower costs by shifting from result-oriented management to process-oriented management.

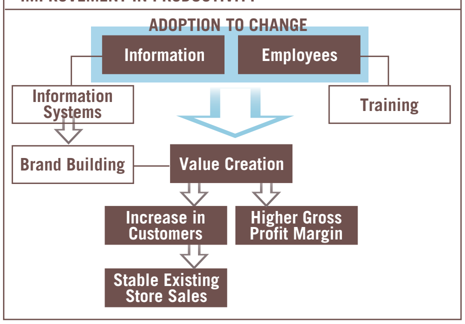
Increase return on assets

Effective investment of capital is essential to improving profitability. In specific terms, Izumi will focus efforts on increasing shareholder value by working to improve return on investment in new stores and closing unprofitable stores. In addition, Izumi is working to improve shareholder value through efforts to reduce interest-bearing debt with increased free cash flow as the Company begins to yield a return on its investments.

IMPROVEMENT IN PRODUCTIVITY



IMPROVEMENT IN PRODUCTIVITY



★ SCALE—ESSENTIAL FOR GENERAL MERCHANDISE STORES?

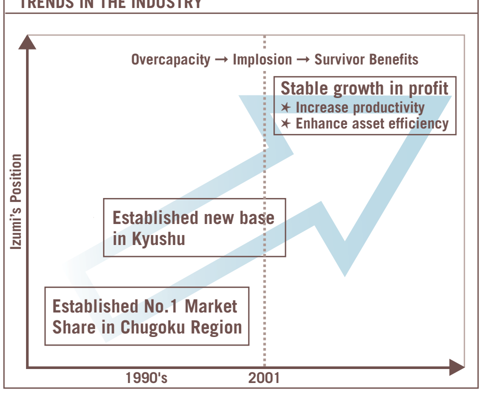
In general, it is assumed that larger scale corresponds with greater advantage in this industry. In fact, marginal productivity declines as the scale of operations increase. The bulk discount resulting from economies of scale is not sufficient in itself to tip the balance in favor of size. The true test is profitability. The determining factors are achieving low costs in all facets of the business, exploiting information resources and creating value for customers.

Stage 2:★ The Next Growth Phase

The virtues of a survivor

After the effects of the Large-Scale Retail Store Location Law have pervaded throughout the industry, we expect to enter a new growth phase in which we reap the rewards of coming out a winner. Beginning in 2003, Izumi plans to open new stores in the Kyushu region at the rate of one or two outlets a year. With other companies unable to open stores due to worsening financial positions, competition will ease and Izumi will be in a position to undertake new store development with high profit potential. In addition, we believe we will be in an excellent position to implement a successful growth strategy as non-competitive companies are culled from the retail industry through restructuring and mergers.

TRENDS IN THE INDUSTRY



TOWARD THE CREATION OF NEW VALUE

Product strategy

To respond as swiftly as possible to customer requirements, Izumi has given final responsibility for product purchasing to its staff members who work directly with customers. The introduction of the new system has led to increased accuracy in identifying strong-selling product lines and removing non-performing products. Meanwhile, the Company has promoted data sharing through such measures as the publishing of point-of-sale data. Aiming to increase income, each store directly contacts its own suppliers and orders products based on real-time data. Izumi has relentlessly encouraged stores to provide an exciting and original product lineup through store-specific merchandising with guidelines set for each store, as well as weather-sensitive merchandising. In the future, leveraging information resources will allow our marketing activities to respond with even more sensitivity to customer needs.

Differences between domestic and overseas manufacturing costs for such products as clothing have triggered a slide in prices, which in turn has stimulated new demand, driving dramatic changes in the market. Along with suppliers, Izumi is making concerted efforts to develop private brands in tune with changes in customer preferences. To obtain the lowest supply prices, the Company is promoting direct imports from China and development and procurement through a cooperative supply arrangement with Nihon Ryutsu Sangyo Co., Ltd.

Izumi aims to rationalize distribution through the improvement of its information capabilities. The conventional route from wholesaler to distribution center and then to the store has been changed to direct shipments from production site to store, reducing costs and improving the gross profit margin. We are also devoting energy to developing our own brands and bolstering local production in China.

While responding to customer sensitivity to pricing, Izumi is making aggressive efforts in product development with an emphasis on value, as customers are not swayed by low prices alone. With the right marketing approach and the right pricing level,

original and high-quality products are able to gain the widespread support of customers. For example, a staple product of our foodstuffs department, the croquette, is priced at more than twice the level of other nearby retailers. Due to its high quality and mouthwatering taste, however, it immediately became a strong seller and allowed us to create new demand. We believe that developing demand for high-value-added products of this kind will lead to significant increases in our earnings power.

Brand strategy

At Izumi, we place the utmost priority on establishing regional dominance by opening a flagship store in each area and by limiting our geographical area of operations. Central to this strategy is our chain of Youme Town shopping complexes. These centers have a strong regional focus and fulfill functions other than shopping through joint operations with enterprises in other sectors of industry, which reinforce their competitive advantage. Through these centers we emphasize our appeal as a business with local roots.

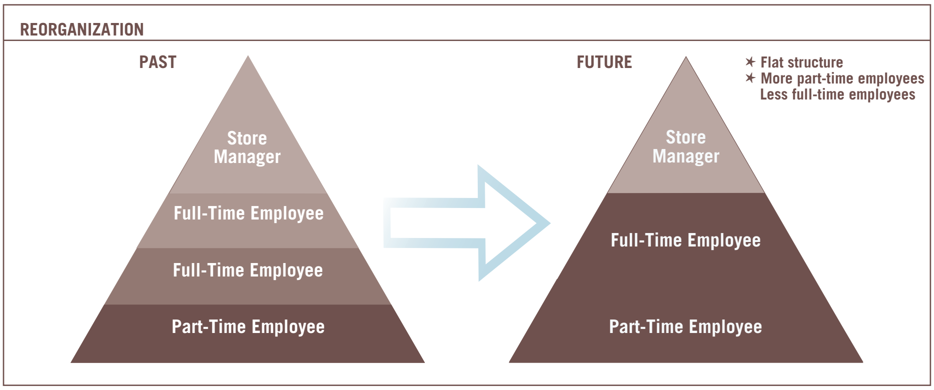
As a responsible corporate citizen, we are actively involved in local communities through commitments to environmental preservation at our stores, and we aim to contribute to society by creating employment opportunities and fostering cultural and sports activities. In each region, Izumi strives to uphold its status as a household name that stands for quality.

Revitalization of organizational and personnel structures

Personnel systems that have traditionally been the basis of Japanese-style management are becoming outdated. The hierarchical and bureaucratic structures must be replaced by flat organizations that are responsive to change and delegate decision making to the front line. Advancement based on seniority must give way to a performance-based system, and a universal vision must be offered in the face of diversifying value systems. Izumi is committed to organizational reform and is exploring personnel and organizational models in tune with the 21st century.

As an enterprise closely linked to local communities, Izumi has, since 1993, been moving to a store-based management system designed to accelerate decision making and support initiative and flexibility at the front line of our operations. Replacing the centralized sales environment, this system allows for timely responses by those in direct contact with the customer.

Plans call for introducing further reforms to replace the present four-stage chain of command (store manager—assistant manager—supervisor—part-time employee) with a two-stage chain of command (store manager—full-time employee and part-time employee). In addition to simplifying communications and reducing costs, this initiative broadens the scope of activity of the most capable part-time workers and is expected to promote the creation of sales environments with stronger ties to local communities. The upgrading



of the information systems mentioned above, making them readily accessible to all non-specialist staff, will support this delegation of responsibilities. It is now possible to manage gross profit margins at the store level, including the reduction of prices.

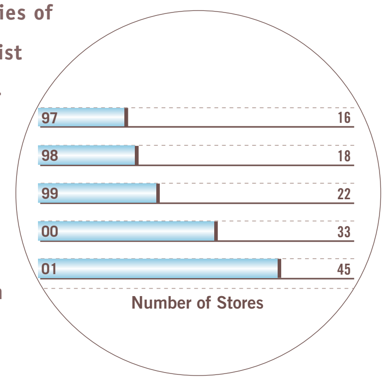
To improve staff performance and motivation, we are committed to completely switching to a performance-based personnel system. As part of this policy, we are moving to a salary system based on job descriptions and introducing annual salary reviews this fiscal year.

Reinforcement of Group management

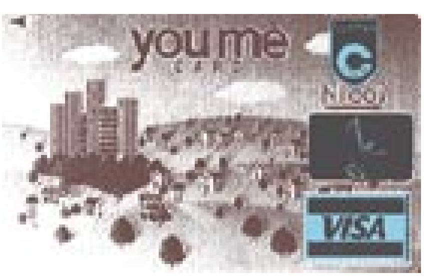
Each company of the Izumi Group has a clearly defined business area. This system of complementary functions contributes to the growth of Group earnings and the expansion of corporate value.

★ X-SELL INC. PERFORMANCE

An enterprise specializing in the import of overseas designer goods, X-Sell Inc. has established unique channels for acquiring products that other companies cannot emulate. This allows X-Sell to offer a full range of high-quality goods at affordable prices, resulting in rapid growth over the last few years. Diverging from the framework of the Izumi Group, X-Sell has pursued an aggressive store development program in all major cities of Japan, solidifying a position as Japan's leading specialist import retailer. In the fiscal year under review, the number of outlets increased by 11 to 33 stores. In the next fiscal year, plans call for raising the total to 45 stores. X-Sell is now laying the groundwork for further expansion with plans for specialist outlets dealing in other promising categories of imported goods, including foodstuffs and watches. As a result of these activities, X-Sell's operating revenues grew 120.6% to ¥31,896 million (US$275.0 million) while ordinary income soared to ¥1,036 million (US$8.9 million), or 7.8 times, compared with the previous fiscal year.



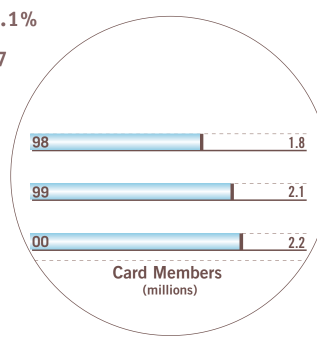
★ YUME TOWN CO., LTD. PERFORMANCE

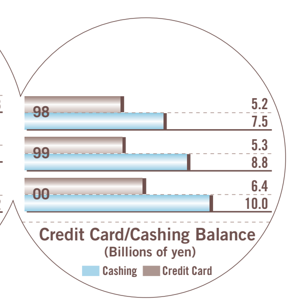


Yume Town Co., Ltd. is a credit card service company with a membership of 2.2 million. Through agreements with the post office and major regional banks, this company boasts a network of some 32,000 automatic teller machines in its operational region. As such, Yume Town contends to offer the shopping card of choice among consumers in the region. The company plans to increase the appeal of its products with the development of international cards and other new services.

These business promotion activities generated a substantial increase in membership, resulting in growth in revenue and profits for the year ended February 28, 2001. Yume Town operating revenues increased 113.1% to ¥3,401 million (US$29.3 million), and ordinary income grew 21.2% to ¥757 million (US$6.5 million) compared with the previous fiscal year.

These results demonstrate how the Izumi Group is promoting greater value in all areas, from products and sales activities to organizational structure. Izumi is committed to solidifying its superior competitive position and reinforcing its corporate structure to grasp the upcoming wave of restructuring in the industry as an opportunity for renewed growth.





CONSOLIDATED STATEMENTS OF INCOME

Izumi Co., Ltd. and subsidiaries
For the years ended February 28, 2001 and February 29, 2000

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2001	2000	**2001**
REVENUES:			
Net sales	**¥338,002**	¥280,630	**$2,913,810**
Other operating revenues	**8,809**	7,713	**75,940**
	346,811	288,343	**2,989,750**
COST OF SALES	**257,477**	212,174	**2,219,629**
Gross profit	**89,334**	76,169	**770,121**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**79,049**	68,035	**681,457**
Operating income	**10,285**	8,134	**88,664**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**302**	245	**2,603**
Interest expense	**(2,872)**	(2,514)	**(24,759)**
Gain (loss) on revaluation of short-term investments, net	**801**	(189)	**6,905**
Gain (loss) on revaluation of investments in securities, net	**17**	(905)	**147**
Gain on sales of property and equipment	**727**	74	**6,267**
Loss on sales or disposal of property and equipment	**(661)**	(961)	**(5,698)**
Loss on liquidation of subsidiaries and affiliates	**(794)**	(740)	**(6,845)**
Other, net	**(15)**	216	**(129)**
	(2,495)	(4,774)	**(21,509)**
Income before income taxes and minority interests	**7,790**	3,360	**67,155**
INCOME TAXES (Note 10):			
Current	**3,244**	2,406	**27,966**
Deferred	**265**	(487)	**2,284**
	3,509	1,919	**30,250**
Income before minority interests	**4,281**	1,441	**36,905**
MINORITY INTERESTS	**866**	4	**7,465**
Net income	**¥ 3,415**	¥ 1,437	**$ 29,440**

	Yen		U.S. dollars (Note 3)
PER SHARE:			
Net income:			
Basic	**¥ 53.66**	¥ 21.99	**$ 0.46**
Diluted	**48.87**	20.36	**0.42**
Cash dividend declared	**21.00**	21.00	**0.18**
WEIGHTED AVERAGE NUMBER OF SHARES (thousands)	**63,641**	65,354	

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

Izumi Co., Ltd. and subsidiaries
As of February 28, 2001 and February 29, 2000

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2001	2000	2001
ASSETS			
CURRENT ASSETS:			
Cash and bank deposits (Note 12)	¥ 11,016	¥ 9,644	$ 94,966
Short-term investments (Note 4)	107	73	922
Short-term loans receivable	7,667	8,602	66,095
Notes and accounts receivable:			
Trade	3,284	1,190	28,310
Other	916	966	7,896
	4,200	2,156	36,206
Less, allowance for doubtful accounts	(503)	(229)	(4,336)
	3,697	1,927	31,870
Inventories	19,984	12,141	172,276
Deferred income taxes (Note 10)	888	466	7,655
Other current assets	2,410	1,265	20,776
Total current assets	45,769	34,118	394,560
INVESTMENTS AND ADVANCES:			
Affiliates and unconsolidated subsidiaries	—	745	—
Investments in securities (Note 4)	4,626	5,416	39,879
Other investments and advances	2,379	2,781	20,509
	7,005	8,942	60,388
PROPERTY AND EQUIPMENT (Note 5)**:**			
Buildings and structures	165,952	138,482	1,430,621
Machinery, equipment, vehicles and other	27,008	23,886	232,827
	192,960	162,368	1,663,448
Less, accumulated depreciation	(79,081)	(68,988)	(681,732)
	113,879	93,380	981,716
Land	72,942	58,238	628,810
Construction in progress	1,304	7,335	11,241
	188,125	158,953	1,621,767
OTHER ASSETS:			
Fixed leasehold deposits	18,764	22,379	161,759
Deferred income taxes (Note 10)	1,444	937	12,448
Other	9,650	11,456	83,190
	¥270,757	¥236,785	$2,334,112

The accompanying notes are an integral part of these statements.

	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars (Note 3) 2001
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings (Note 6)	**¥ 18,902**	¥ 8,450	**$ 162,948**
Current portion of long-term debt (Note 6)	**17,033**	23,868	**146,836**
Notes and accounts payable:			
Trade	**13,504**	11,188	**116,414**
Other	**6,842**	5,922	**58,983**
	20,346	17,110	**175,397**
Income taxes payable	**1,968**	2,148	**16,965**
Accrued bonus	**1,609**	1,412	**13,871**
Other current liabilities	**3,134**	5,205	**27,017**
Total current liabilities	**62,992**	58,193	**543,034**
LONG-TERM DEBT (Note 6)	**111,826**	88,563	**964,017**
ACCRUED SEVERANCE INDEMNITIES	**2,338**	1,961	**20,155**
LEASE DEPOSITS RECEIVED	**16,872**	13,555	**145,448**
DEFERRED INCOME TAXES (Note 10)	**1,011**	—	**8,716**
OTHER LIABILITIES	**29**	34	**250**
Total liabilities	**195,068**	162,306	**1,681,620**
CONTINGENT LIABILITIES (Note 7)			
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES	**3,879**	8	**33,440**
STOCKHOLDERS' EQUITY (Note 9)**:**			
Common stock, ¥50 ($0.47) par value:			
Authorized:			
February 28, 2001—195,817,000 shares			
February 29, 2000—198,717,000 shares			
Issued:			
February 28, 2001—62,132,710 shares	**19,614**	—	**169,086**
February 29, 2000—65,032,710 shares	—	19,614	—
Additional paid-in capital	**23,056**	25,792	**198,759**
Retained earnings	**30,872**	29,077	**266,138**
Less, treasury stock at cost	**(1,732)**	(12)	**(14,931)**
Total stockholders' equity	**71,810**	74,471	**619,052**
	¥270,757	¥236,785	**$2,334,112**

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Izumi Co., Ltd. and subsidiaries
For the years ended February 28, 2001 and February 29, 2000

	Number of shares of common stock (thousands)	Millions of yen			
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock at cost
BALANCE AT FEBRUARY 28, 1999	65,958	¥19,614	¥26,580	¥28,117	¥ (2)
Net income for the year	—	—	—	1,437	—
Cash dividends	—	—	—	(1,375)	—
Directors' and corporate auditors' bonus	—	—	—	(19)	—
Common stock repurchased and cancelled	(925)	—	(788)	—	—
Cumulative effects of adopting deferred tax accounting at March 1, 1999	—	—	—	917	—
Increase in treasury stock, net	—	—	—	—	(10)
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)

	Thousands of U.S. dollars (Note 3)			
BALANCE AT FEBRUARY 29, 2000	$169,086	$222,345	$250,664	$ (103)
Net income for the year	—	—	29,440	—
Cash dividends	—	—	(11,603)	—
Directors' and corporate auditors' bonus	—	—	(440)	—
Common stock repurchased and cancelled	—	(23,586)	—	—
Effects of subsidiaries newly consolidated	—	—	(1,923)	—
Increase in treasury stock, net	—	—	—	(14,828)
BALANCE AT FEBRUARY 28, 2001	$169,086	$198,759	$266,138	$(14,931)

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Millions of yen	Thousands of U.S. dollars (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income before income taxes	¥ 7,790	$ 67,155
Depreciation and amortization	10,458	90,155
Provision for allowance for doubtful accounts	609	5,250
Interest and dividend income	(302)	(2,603)
Interest expense	3,214	27,707
Gain on sales of property and equipment	(727)	(6,267)
Loss on sales or disposal of property and equipment	661	5,698
Gain on sales or revaluation of short-term investments	(1,256)	(10,828)
Increase in notes and accounts receivable	(169)	(1,457)
Increase in inventories	(2,466)	(21,259)
Increase in trade notes and accounts payable	542	4,673
Other, net	(2,549)	(21,974)
Subtotal	15,805	136,250
Interest and dividend income received	300	2,586
Interest expense paid	(3,128)	(26,966)
Income taxes paid	(2,833)	(24,422)
Net cash provided by operating activities	10,144	87,448
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of short-term investments	1,484	12,793
Payments for purchases of property and equipment	(18,850)	(162,500)
Proceeds from sales of property and equipment	2,037	17,560
Payments for purchases of intangible assets	(1,944)	(16,759)
Payments for purchases of investments in securities	(544)	(4,689)
Proceeds from sales of investments in securities	1,753	15,112
Other, net	1,497	12,905
Net cash used in investing activities	(14,567)	(125,578)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in short-term borrowings	(58)	(500)
Additions to long-term loans	22,899	197,405
Repayment of long-term loans	(12,934)	(111,500)
Proceeds from issuance of debentures	9,933	85,629
Redemption of debentures	(13,545)	(116,767)
Proceeds from sales of treasury stock	1,330	11,466
Payments for purchases of treasury stock	(2,736)	(23,586)
Contribution from minority shareholders	120	1,034
Dividends paid	(1,402)	(12,086)
Net cash provided by financing activities	3,607	31,095
Net decrease in cash and cash equivalents	(816)	(7,035)
Cash and cash equivalents at beginning of year	9,217	79,457
Cash and cash equivalents of newly consolidated subsidiaries	2,063	17,785
Cash and cash equivalents at end of year (Note 12)	¥ 10,464	$ 90,207

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, 2001 and February 29, 2000

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 statement of cash flows has been required to be prepared with effect for the year ended February 28, 2001, 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, 2001 include the accounts of the Company and all of its subsidiaries. The Company has 16 subsidiaries as of February 28, 2001, among which 13 subsidiaries were newly consolidated due to the increased materiality, and as a result of the application of a new consolidation rule, which focuses on substantial control other than ownership of voting interest in accordance with revised accounting standards. For the year ended February 29, 2000, three subsidiaries were consolidated and the remaining five unconsolidated subsidiaries were accounted for by the cost method.

Investments in all affiliates (20%-to-50% owned companies) are accounted for by the equity method from the year ended February 28, 2001 due to the increased materiality, while these affiliates were accounted for by the cost method in the prior year due to immateriality.

(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 statement 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) Short-term investments and investments in securities

Listed securities included in short-term investments and investments in securities are valued at the lower of cost or market, cost being determined by the moving-average method.

Other securities are valued at cost, cost being determined by the moving-average method.

(5) 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

(6) 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 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
- 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.

(7) 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.

(8) Allowance for doubtful accounts

Allowance for doubtful accounts is provided in preparation for possible risk of uncollectible accounts. The balance of the allowance is determined at the amount provided for any individual account balances which are deemed uncollectible.

(9) Accrued bonus

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

(10) 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.

The accrued severance indemnities of the Company represent 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. Consolidated 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. Such liabilities are not funded.

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.

(11) Leases

Finance leases other than those which 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.

(12) 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.

(13) Income taxes

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

Effective March 1, 1999, the Companies adopted the deferred tax accounting method in accordance with the amended regulations for preparation of consolidated financial statements. Income taxes were determined using the asset and liability approach, whereby deferred tax assets and liabilities were 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. The cumulative effect of adopting deferred tax accounting at March 1, 1999 was charged to retained earnings.

(14) 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 ¥116=U.S.$1, the rate of exchange on February 28, 2001 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

Marketable securities included in short-term investments and investments in securities at February 28, 2001 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Market value	Valuation gain	Carrying value	Market value	Valuation gain
Short-term investments:						
Equity securities	¥ 57	¥ 61	¥ 4	$ 491	$ 526	$ 35
Investments in securities:						
Equity securities	3,401	3,589	188	29,319	30,939	1,620
Debt securities	401	401	—	3,457	3,457	—
Others	133	133	—	1,147	1,147	—
	3,935	4,123	188	33,923	35,543	1,620
	¥3,992	¥4,184	¥192	$34,414	$36,069	$1,655

Computation method of market value (including market value equivalent amount):

(1) Securities listed on the stock exchange
Closing prices primarily at the Tokyo Stock Exchange

(2) Securities with quotations
Over-the-counter quotations on public and corporate bonds announced by the Japanese Securities Dealers Association

(3) Other debt securities (except for items of which fair values are not readily determined)
Prices determined by reference to yields and remaining maturity of bonds with over-the-counter quotations on public and corporate bonds announced by the Japanese Securities Dealers Association

(4) Beneficiary certificates of unlisted securities investment trusts
Net asset value per unit

Carrying amounts of securities excluded from the information presented above are as follows:

	Millions of yen	Thousands of U.S. dollars
Short-term investments:		
Discount bonds	¥ 50	$ 431
Investments in securities:		
Unlisted equity securities	¥499	$4,302
Debt securities with remaining maturity of one year or less	162	1,396
Unlisted overseas debt securities	30	258

5. LEASES

Information for finance lease transactions other than those which 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 assets at February 28, 2001 and February 29, 2000, if capitalized, are summarized as follows:

	Millions of yen					
	2001			2000		
	Equipment and vehicles	Other	Total	Equipment and vehicles	Other	Total
Amount equivalent to:						
Acquisition cost	**¥ 3,241**	**¥ 8,190**	**¥11,431**	¥3,153	¥ 5,996	¥ 9,149
Accumulated depreciation	**(1,066)**	**(3,285)**	**(4,351)**	(682)	(2,512)	(3,194)
Net book value	**¥ 2,175**	**¥ 4,905**	**¥ 7,080**	¥2,471	¥ 3,484	¥ 5,955

	Thousands of U.S. dollars		
Amount equivalent to:			
Acquisition cost	**$27,940**	**$ 70,603**	**$ 98,543**
Accumulated depreciation	**(9,190)**	**(28,319)**	**(37,509)**
Net book value	**$18,750**	**$ 42,284**	**$ 61,034**

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, 2001 and February 29, 2000, which include interest portion, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Due within one year	**¥1,775**	¥1,208	**$15,302**
Due after one year	**5,305**	4,747	**45,732**
Total	**¥7,080**	¥5,955	**$61,034**

(3) Lease payments and depreciation expense equivalent amount for the years ended February 28, 2001 and February 29, 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Lease payments	**¥1,669**	¥1,325	**$14,388**
Depreciation expense equivalent amount	**1,669**	1,325	**14,388**

(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 1.64% at February 28, 2001.

Long-term debt at February 28, 2001 and February 29, 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Loans from banks and insurance companies, due from April 2001 to March 2020 with weighted average interest rates of 2.28% at February 28, 2001			
Secured	**¥ 92,294**	¥ 20,435	**$ 795,638**
Unsecured	**2,474**	54,360	**21,327**
	94,768	74,795	**816,965**
Japanese yen unsecured convertible debentures:			
4.5% due February 2001	**—**	9,545	**—**
1.7% due August 2002	**4,091**	4,091	**35,267**
2.3% Japanese yen unsecured debentures due March 2000	**—**	4,000	**—**
2.025% Japanese yen unsecured debentures due March 2002	**5,000**	5,000	**43,104**
2.325% Japanese yen unsecured debentures due March 2003	**5,000**	5,000	**43,104**
2.175% Japanese yen unsecured debentures due October 2003	**5,000**	5,000	**43,104**
2% Japanese yen unsecured debentures due December 2001	**5,000**	5,000	**43,103**
1.53% Japanese yen unsecured debentures due March 2004	**5,000**	—	**43,103**
1.84% Japanese yen unsecured debentures due March 2005	**5,000**	—	**43,103**
	128,859	112,431	**1,110,853**
Less, portion due within one year	**(17,033)**	(23,868)	**(146,836)**
	¥111,826	¥ 88,563	**$ 964,017**

The aggregate annual maturities of long-term debt outstanding at February 28, 2001 are as follows:

Years ending the last day of February	Millions of yen	Thousands of U.S. dollars
2003	¥ 34,959	$301,371
2004	23,365	201,422
2005	18,455	159,095
2006	10,192	87,862
2007 and thereafter	24,855	214,267
	¥111,826	$964,017

Assets pledged as collateral and related secured debt at February 28, 2001 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Assets pledged as collateral:		
Land	¥ 59,116	$ 509,621
Buildings	60,520	521,724
Investments in securities	4,108	35,414
	¥123,744	$1,066,759
Debt secured by the above:		
Short-term borrowings	¥ 4,452	$ 38,379
Long-term loans	92,294	795,638
	¥ 96,746	$ 834,017

7. CONTINGENT LIABILITIES

The Company was contingently liable for guarantees of loans from financial institutions made by affiliates and other, totaling ¥5,610 million ($48,362 thousand) at February 28, 2001.

8. DERIVATIVE FINANCIAL INSTRUMENTS

(1) Status of transaction

a) Nature of transactions

The Companies use derivative instruments, which comprise foreign currency exchange forward 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 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 transaction

Derivative instruments used by the Companies are exposed to risk from market rate fluctuation. Counter parties 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 transaction" below is not indicative of the quantity of market risk.

(2) Market value etc. of transaction

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			
	Contract or notional amount			
	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

	Thousands of U.S. dollars			
Currency option:				
Purchase—call (U.S. dollars)	$ 2,759	$ 1,724	$ 310	$ 310
Sale—call (U.S. dollars)	2,759	1,724	(69)	(69)
	$ 5,518	$ 3,448	$ 241	$ 241
Interest rate swap:				
Receipt in fixed rate and payment in variable rate	$206,896	$ 8,621	$ 5,750	$ 5,750
Receipt in variable rate and payment in fixed rate	128,776	18,319	(2,078)	(2,078)
	$335,672	$26,940	$ 3,672	$ 3,672

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 sheet or eliminated at such amounts in consolidation procedures.

9. STOCKHOLDERS' EQUITY

Under the Commercial Code of Japan (the "Code"), the entire amount of the issue price of new shares issued upon conversion to common stock of convertible debentures 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 (subject in all cases, however, to the reminder being not less than the total par value of such new shares) as additional paid-in capital.

The Code provides that an amount equivalent to at least 10% of cash payments for appropriation of retained earnings be appropriated as a legal reserve until such reserve equals 25% of stated capital. The legal reserve may be used to reduce a deficit or may be transferred to stated capital through appropriate stockholder and director actions, but is not available for dividend payment. The legal reserve of the Company, amounting to ¥1,959 million ($16,888 thousand), was included in retained earnings at February 28, 2001.

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.

10. 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% and 47.3% for the years ended February 28, 2001 and February 29, 2000, respectively.

Reconciliation of the difference between the statutory income tax rates and the effective income tax rates for the years ended February 28, 2001 and February 29, 2000 is as follows:

	2001	2000
Statutory income tax rate	**41.7%**	47.3%
Increase (decrease) in taxes resulting from:		
Entertainment expenses and other which are permanently non-tax-deductible	**0.4**	0.8
Dividend income and other which are permanently non-taxable	**(0.5)**	(1.0)
Per capita inhabitant taxes and other	**2.1**	4.6
Effect of change in statutory income tax rate	**—**	2.0
Valuation allowance provided for tax loss carryforwards of subsidiaries	**1.3**	3.3
Other, net	**—**	0.1
Effective income tax rate	**45.0%**	57.1%

The significant components of deferred tax assets and liabilities at February 28, 2001 and February 29, 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Deferred tax assets:			
Allowance for doubtful accounts	**¥ 290**	¥ 55	**$ 2,500**
Property and equipment	**152**	—	**1,310**
Intangible assets	**155**	117	**1,336**
Investments in securities	**326**	264	**2,810**
Interest on land newly acquired	**123**	273	**1,060**
Accrued enterprise tax	**174**	220	**1,500**
Accrued bonus	**257**	97	**2,216**
Accrued severance indemnities	**564**	385	**4,862**
Fair value adjustments of consolidated subsidiaries	**423**	—	**3,647**
Tax loss carryforwards	**88**	—	**759**
Other	**144**	113	**1,241**
	2,696	1,524	**23,241**
Deferred tax liabilities:			
Reserve for special depreciation	**(79)**	(76)	**(681)**
Reserve for advanced depreciation of fixed assets	**(275)**	(45)	**(2,371)**
Fair value adjustments of consolidated subsidiaries	**(1,021)**	—	**(8,802)**
	(1,375)	(121)	**(11,854)**
Net deferred tax assets	**¥ 1,321**	¥1,403	**$ 11,387**

11. RELATED PARTY TRANSACTIONS

The Company purchased ¥18,004 million ($155,207 thousand) of merchandise from Japan Logistics Industry Co., Ltd. ("JLI") for the year ended February 28, 2001. A representative director and vice president of JLI, Mr. Yasuaki Yamanishi, is also a representative director and the president of the Company and owns 1.43% of the Company's voting stock. At February 28, 2001, the Company had accounts payable of ¥1,499 million ($12,922 thousand) and deposited a guarantee money of ¥458 million ($3,948 thousand) to JLI.

The Company purchased ¥1,116 million ($9,621 thousand) of merchandise from Iwami Foods Co., Ltd. ("Iwami") for the year ended February 28, 2001. A representative director and president of Iwami, Mr. Hiroshi Shigehiro, is also a managing director and the food department's head of the Company. At February 28, 2001, the Company had a short-term loans receivable of ¥300 million ($2,586 thousand) from Iwami with reasonable interest ratio determined based on market rate. The Company also guarantees ¥526 million ($4,534 thousand) of Iwami's bank borrowings at February 28, 2001. The Company does not receive guarantee fees from Iwami.

The Company leases a building of Higashi-Hiroshima shop from Izumi Kosan K.K. ("Izumi") with lease payments of ¥341 million ($2,940 thousand) for the year ended February 28, 2001. 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, 2001, the Company deposited a guarantee money of ¥4,603 million ($39,681 thousand) to Izumi, which was determined based on the total construction costs of the building and the area occupied by the Company. The Company also sold ¥150 million ($1,293 thousand) of securities to Izumi for the year ended February 28, 2001. The selling price was determined based on the net asset value, which was equivalent to inheritance tax valuation amount, at the date close to the transaction date, and the consideration was received in a lump-sum.

12. SUPPLEMENTARY CASH FLOW INFORMATION

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

	Millions of yen	Thousands of U.S. dollars
Cash and bank deposits	¥11,016	$94,966
Less, time deposits with deposit term of over three months	(552)	(4,759)
Cash and cash equivalents	¥10,464	$90,207

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, 2001 and February 29, 2000, the related consolidated statements of income and stockholders' equity for the years then ended, and the related consolidated statement of cash flows for the year ended February 28, 2001, 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, 2001 and February 29, 2000, the consolidated results of their operations for the years then ended, and their cash flows for the year ended February 28, 2001 in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis.

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

Chuo Aoyama Audit Corporation

CHUOAOYAMA AUDIT CORPORATION

Hiroshima, Japan
May 24, 2001

DIRECTORS AND CORPORATE AUDITORS

Chairman
Yoshimasa Yamanishi

President
Yasuaki Yamanishi

Executive Managing Directors
Hiromasa Takanishi
Syoichiro Shibata

Managing Directors
Hiroshi Toko
Hiroshi Shigehiro

Directors
Takashi Kaneko
Hiroaki Bando
Heijiro Natsuhara

Full-Time Corporate Auditor
Akira Tsumura

Corporate Auditors
Yoshiharu Kanasugi
Toyomi Takimoto
Jiro Matsubara

(as of May 28, 2001)

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, 2001)

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

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

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