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IZUMI Co., Ltd.

Annual Report
2003

FINANCIAL HIGHLIGHTS

	Millions of yen					Thousands of U.S. dollars (Note 1)
	2003 Mar. 2002– Feb. 2003	2002 Mar. 2001– Feb. 2002	2001 Mar. 2000– Feb. 2001	2000 Mar. 1999– Feb. 2000	1999 Mar. 1998– Feb. 1999	**2003 Mar. 2002– Feb. 2003**
Revenues	**¥383,098**	¥363,714	¥346,811	¥288,343	¥278,799	**$3,246,593**
Operating income	**15,994**	14,784	10,285	8,134	5,714	**135,542**
Income before income taxes and minority interests	**11,834**	9,493	7,790	3,360	877	**100,288**
Net income	**5,600**	4,832	3,415	1,437	342	**47,457**
Net income/revenues	**1.46%**	1.33%	0.98%	0.50%	0.12%	**1.46%**
Total stockholders' equity	**76,892**	74,132	71,810	74,471	74,309	**651,627**
Total assets	**273,484**	268,655	270,757	236,785	232,768	**2,317,661**
	Yen					U.S. dollars (Note 1)
Per share (Note 2):						
Net income—basic	**¥95.23**	¥81.46	¥53.66	¥21.99	¥5.17	**$0.81**
Net income—diluted	**94.21**	79.40	48.87	20.36	—	**0.80**
Cash dividends declared	**23.00**	21.00	21.00	21.00	21.00	**0.19**

Notes 1. Yen amounts are translated into U.S. dollars, solely for convenience, at the prevailing exchange rate on February 28, 2003 of ¥118 = U.S. $1.
2. See Note 2 (17) of Notes to Consolidated Financial Statements.

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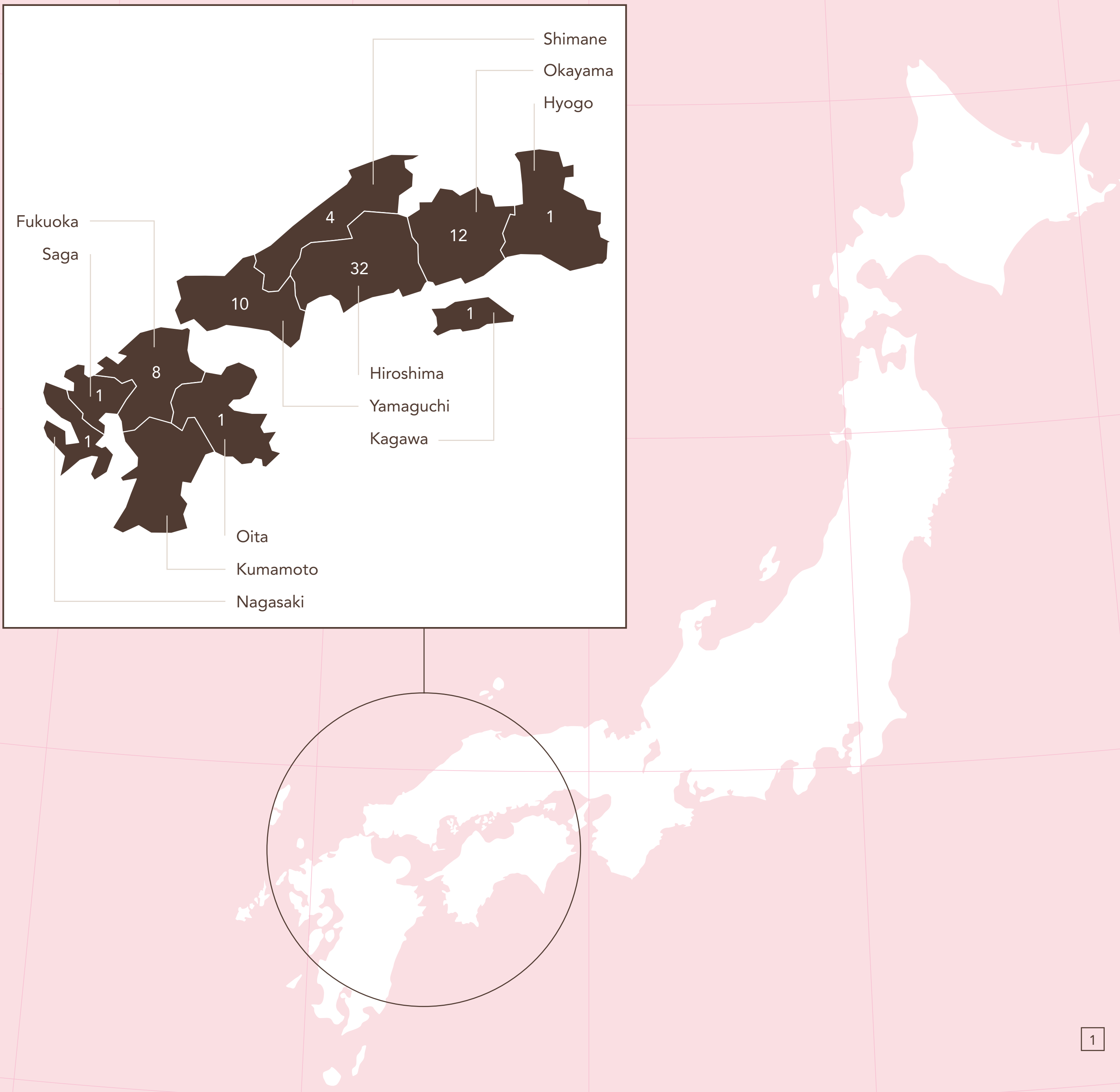
PROFILE

Izumi Co., Ltd. is the number one retail chain in Western Japan's Chugoku region, with 71 stores throughout Hiroshima, Okayama, Yamaguchi, Shimane and Hyogo Prefectures; Kagawa Prefecture in Shikoku; and Fukuoka, Saga, Oita and Nagasaki Prefectures in Kyushu. Izumi has steadily expanded the geographic focus of its dominant area strategy with outlets, stores and merchandise that respond to changes in the purchasing and lifestyle needs of customers in its operating area.

In the 21st century, Izumi aims to maintain its reputation as the number one retail chain for customer satisfaction. As it expands development of Youme Town mega-shopping centers in Kyushu, Izumi will continue to foster customer loyalty with an enhanced product lineup and quality service.

BRANCH LOCATIONS



The protracted recession and lackluster consumer spending continued to unleash a flood of structural transformations in the retail industry in the form of increasing large-scale bankruptcies and other trends that produced an even more discouraging operating environment. Against this backdrop, Izumi Co., Ltd. returned to the principal underlying theme of the retail industry, focusing on enhancing customer satisfaction.

In particular, Izumi worked to strengthen marketing capabilities and fortify existing store sales, while at the same time promoting cost-structure reforms in an effort to improve earnings.

In marketing, the Company worked to accelerate sales of seasonal goods and to expand promotion of high-value-added merchandise. At the same time, Izumi continued its efforts to nurture new ideas based on a thorough review of its store layout. Emphasizing the highest standards in safety and health, the Company took steps to confirm the quality of its upstream suppliers and to ensure that merchandise was appropriately labeled.

On the earnings front, Izumi endeavored to reduce merchandise costs in collaboration with its suppliers and to improve productivity in its human resources with a view toward curtailing selling, general and administrative (SG&A) expenses.

In addition, during the fiscal year under review, ended February 28, 2003, Izumi began efforts to support Niko Niko Do Co., Ltd., a company protected under rehabilitation law, as a stepping stone to bolster Izumi's platform in the Kyushu region, to expand its store network, and to enhance efficiencies in merchandise procurement and logistics.

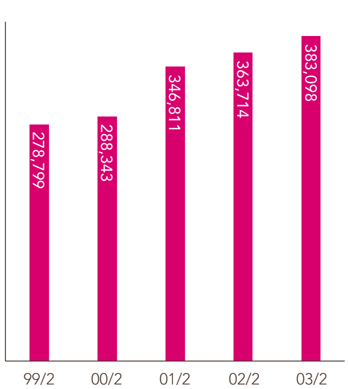
As a result of all these factors, the Company posted record earnings for the year under review, which is the fourth consecutive year of increased sales and profits. Based on this favorable performance, Izumi has declared a cash dividend per share of ¥23, up from ¥21 in the previous fiscal year.

山西泰明

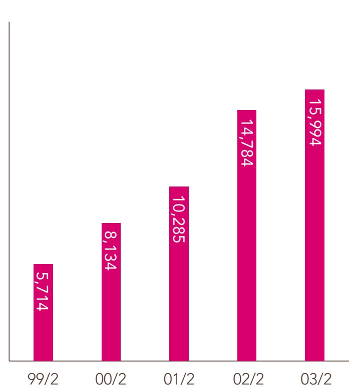
Yasuaki Yamanishi
President

CONSOLIDATED FINANCIAL DATA

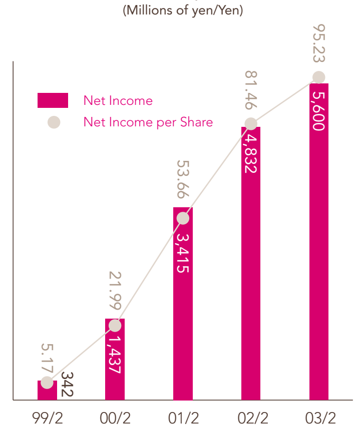
Revenues
(Millions of yen)



Operating Income
(Millions of yen)



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



REVIEW OF OPERATIONS

The fiscal year under review, ended February 28, 2003, was a record-setting year for Izumi Co., Ltd., on both a consolidated and non-consolidated basis, and marked the fourth consecutive year of increased revenue and earnings.

ENHANCING THE COMPANY'S POSITION AS THE PREFERRED CHOICE OF CUSTOMERS AND SECURING STEADY SALES AT EXISTING STORES (NON-CONSOLIDATED)

- Izumi targeted stable net sales through efforts to increase the number of customers to combat downward pressure on unit prices due to prolonged deflation and weak consumer spending.
- As a result, the Company performed steadily, with the number of customers on a non-consolidated basis up 1.8% year on year and net sales at existing stores down 0.4% compared with the previous fiscal year.
- On a regional basis, the Kyushu area, in which Izumi had actively promoted the opening of new stores, led all other regions, with a year-on-year increase of 3.4%.

REFORMING THE COST STRUCTURE AND IMPROVING EARNINGS POWER (NON-CONSOLIDATED)

- Izumi adopted initiatives targeting profit growth, including raising the earnings ratio though reforms and reduction of procurement costs and SG&A expenses, in an effort to offset a difficult sales environment.
- The Company reduced SG&A expenses, primarily personnel expenses, bolstered marketing capabilities, and cut back procurement costs by consolidating suppliers and strengthening alliances.
- As a result, the operating income ratio improved 0.4 of a percentage point to 4.3%, leading the industry in this category. Based on a strong sales performance and improved profits, the parent company posted a record operating income of ¥13.3 billion, a jump of 12.8% compared with the previous fiscal year.

STRONG GROUP COMPANY PERFORMANCE

- Group companies expanded earnings steadily, based on a competitive advantage in each of their respective business domains.
- Youme Town Kumamoto Co., Ltd., a subsidiary company that commenced operations with stores leased from Niko Niko Do Co., Ltd., posted a loss for the period, due to opening costs and other inauguration expenses. Sales are increasing steadily, and this company is expected to turn a profit in the fiscal year ending February 28, 2004.
- On a consolidated basis, the Group posted its fourth consecutive year of increased revenue and earnings, which includes the loss by Youme Town Kumamoto Co., Ltd.

STEPPING STONES FOR GROWTH

- Amidst large-scale bankruptcies and structural transformations in the industry, Izumi aggressively pursued opportunities offering growth potential. Consequently, the Company was successful in establishing a profitable store at a location vacated by The Daiei, Inc.
- In addition, in supporting the rehabilitation of Niko Niko Do Co., Ltd., Izumi completed leases of large-scale stores and strengthened its presence in the Kyushu area.

REALIZING BALANCE BETWEEN INTEREST-BEARING DEBT AND A STRONG FINANCIAL POSITION

- Izumi has funded through operating cash flows an aggressive capital expenditure program for the opening of new stores commencing the fiscal year ending February 28, 2004.
- As of February 28, 2003, the balance of interest-bearing debt stood at ¥139.7 billion, an increase of ¥2.0 billion compared with the end of the previous fiscal year. This increase was mainly attributed to the Group's credit card business Youme Card Co., Ltd. Excluding the impact of Youme Card, interest-bearing debt was ¥121.7 billion, a decrease of ¥1.7 billion.
- As a result, the consolidated equity ratio was 28.1%, and consolidated ROE was 7.4%.

The Japanese retail industry is facing dramatic structural reform in the shape of a corporate shakeout and the inflow of foreign capital. Notwithstanding the changes that are taking place, however, customer satisfaction remains at the heart of retail earnings. With this in mind, retail strategies are grounded in the delivery of stores, merchandise and services that generate customer satisfaction.

Although its management resources are small in comparison with the major retail chains, Izumi concentrates on specific areas in the opening of new stores. Our growth strategy therefore is based on maximum application of our unique characteristics and strengths. The core elements of our growth strategy are outlined in the special feature that follows. Izumi first implemented these strategies in fiscal 1998, and has recorded increased revenue and earnings in each of the five years that have followed.

1. STORE STRATEGY

Fundamental Policy

Store strategy in the retail industry is a key factor of growth. Izumi, however, does not contemplate major changes to its existing policy. Accordingly, the Company plans to continue enforcing its market dominance strategy, focusing on the Chugoku and Kyushu regions, in which it has a competitive advantage. Through meticulous understanding of the unique qualities of these regions, Izumi strives to enhance efficiency in distribution and sales promotion, and to secure a dominant position as the preferred choice of customers.

Izumi has established Youme Town as the preeminent retail store in its dominant region. The focus of the Youme Town store format is to deliver best-fit scale, product lineup, and services that match the unique features of the region. At the same time, we collaborate with leading specialty stores to attract a greater numbers of visitors. By these means, Youme Town achieves the level of overwhelming customer favor needed to outdistance the competition. To a large degree, Izumi's growth is closely linked to the success of the Youme Town format.

Izumi also continues to revitalize existing stores in an effort to address the diverse needs of customers. The Company concentrates on the integrity of the profit cycle, taking steps to progressively close unprofitable stores, and to arrest deterioration in store network earnings power.

Results

Beginning in the 1990s, Izumi actively expanded its network of general merchandise stores (GMSs), assuming a leading position in the industry. Cementing a dominant position in the Chugoku region, the Company commenced expansion into the adjoining Kyushu region.

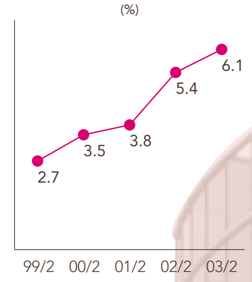
The Company's store network in the Chugoku region—which Izumi has developed as its base of operations since its inauguration—is characterized by its maturity, with performance entrenched in the latter stages of the earnings cycle. As a result, the Company allocates approximately 10-20% of its annual cash flow to the revitalization of its store network, while at the same time closing unprofitable stores. In the five-year period since fiscal 1998, Izumi has opened 11 new stores, closing 15.

In the Kyushu region, Izumi has adopted an aggressive investment policy, with a highly competitive network of 11 stores, contributing approximately ¥100 billion to sales. The Kyushu region is now the Company's second earnings base.

Information and trends regarding Izumi's store network over the past five years are summarized as follows.

- The number of stores in the Chugoku region has fallen from 71 to 58, with net sales declining 14%. Based on the bipolar policy of revitalizing stores with potential while closing unprofitable stores, however, profit over this period has increased approximately 10%.
- The number of stores in the Kyushu region has increased from 5 to 11, with sales exceeding ¥100 billion, a jump of 2.6 times. Burdened by the costs of store openings and establishment, this segment recorded a loss in fiscal 1999. In fiscal 2002, the Kyushu region accounted for approximately 40% of the Company's total profit.
- As a result, Izumi's asset earnings power (operating income to total assets on a non-consolidated basis) has risen from 2.7% to 6.1%.

Operating Income to Total Assets
Non-consolidated
(%)



Pressing Issues

Youme Town Kurume store

To date, the Chugoku region has provided Izumi with its principal source of earnings. In an effort to expand its earnings base, Izumi has invested in the Kyushu region. This investment has now moved full circle, with the Kyushu region generating a significant return. In the future, we anticipate greater earnings from this region, as the Kyushu Logistics Center becomes fully operational and initiatives to enhance the merchandising division bear fruit.

With a growing trend toward plant relocation, we anticipate a number of attractive sites will become available in the Chugoku region. With this in mind, Izumi will embark on investment in both the Chugoku and Kyushu regions in an effort to further broaden its earnings base. Specifically, the Company plans to open a Youme Town store in Kurume, Kyushu in fiscal 2003, and Youme Town stores in Kumamoto, Kyushu and in Kure, Hiroshima Prefecture in fiscal 2004.

Izumi's strategy for growth is based on continued investment in profitable areas with investments funded by operating cash flows.

Topic: Supporting Niko Niko Do Co., Ltd.

In fiscal 2002, Izumi began supporting the rehabilitation of Niko Niko Do Co., Ltd., a company protected under rehabilitation law. Despite the significant challenges confronting the Company, this support has led to the lease of four attractive large-scale stores. In addition, we plan to establish a new company, and to spin off Niko Niko's network of small-scale stores to this new company. Although we are considering short-term support if required, as a principle, we anticipate the new company will operate autonomously, linked closely to its local community, providing economic and employment benefits.

The Izumi Group focuses on large-scale stores that boast a leading position in their respective communities and that attract large volumes of customers. In addition, with an emphasis on leased stores, the Company's financial burden remains light, impacting favorably on profitability. In leveraging economies of scale, Izumi strives to further enhance its dominant position in each area and to improve efficiency in the procurement of merchandise, logistics, and promotion.

Youme Town Sanpian store

Youme Town Hamasen store

Niko Niko Do stores converted to the Youme Town format

2. MERCHANDISING STRATEGY

In the complex process that encompasses manufacture through sale, Izumi places the greatest emphasis on linking the optimal product mix with the most appealing point of sale. This is the foundation for creating value and to successfully achieve customer satisfaction. Based on its accumulated know-how, the Company selects those products that represent the highest quality and value and packages them through stores that enhance customer appeal. The following are examples of this product strategy in action.

- Izumi creates a unique store experience in tune with seasonal changes and events. Throughout the year we present a variety of campaigns, deliver products in season before our competitors, and a comprehensive product lineup, providing our customers with a fresh and pleasant experience with each visit. In addition, we adapt our product portfolio to match the lifestyles of our customers, adjusting to days of the week and times of the day.
- In delivering our products, we focus on the customer's perspective, working to rebuild stores that enhance our product portfolio. Our goal is to find the optimal product mix and the most attractive display to add value to each store experience and to raise customer appeal. To enhance the shopping experience further, Izumi applies a business model dividing each store into specific zones based on brand and other criteria. In this manner, we enhance the individual character and unique features of each store.
- Consumer tastes are reflecting increasing polarization as customers seek value both in price and quality. Accordingly, Izumi delivers a comprehensive range of products based on price and a separate range of high-value-added brand merchandise. In providing this wide selection and exclusive brands not offered by our competitors through our Youme store network, we build customer loyalty and distinguish ourselves from our rivals.

Essential to providing a complete range of superior and attractive merchandise is a strong relationship with suppliers. Based on this key driver, our efforts to assume a leading position in the retail sector are also supported by our ability to procure hot-selling items in a timely fashion, deliver unique products, and leverage our know-how and expertise to create attractive displays and promotions.

For suppliers urgently seeking new sales channels, a close collaboration with the retail industry, together with customer information, and a stable sales route, are essential to production efficiency. Amidst a volatile market and changing logistics composition, manufacturers, wholesalers and retailers are searching for the most effective cooperation.

As retailers have adopted a more selective approach in their relationship with suppliers, Izumi, from its dominant position in the Chugoku and Kyushu regions, has followed an open and fair policy, endearing it to suppliers across the board and strengthening collaboration. In the future, Izumi will continue to strengthen its procurement capabilities and to pursue the optimal store and merchandising strategies in an effort to secure and enhance customer satisfaction.

3. COST STRUCTURE REFORM

In an operating environment characterized by prolonged deflation and downward pressure on unit prices, improving the profit ratio is essential to corporate growth. For this reason, Izumi has focused on structural reform of its procurement and promotional costs. In the five years beginning fiscal 1998, the parent company has implemented the following initiatives.

- Izumi has raised the gross profit margin (company stores) from 28.8% to 30.0% by reducing purchasing costs through enhanced collaboration with suppliers. In addition, the Company has accelerated inventory turnover (company stores) from 35.0 days to 32.9 days, an improvement of 6.0%.
- Regarding SG&A expenses, Izumi worked to restructure the major component, namely personnel expenses.
  - ➜ Izumi adopted a number of measures in an effort to reform personnel expenses. These included the introduction of a performance-based remuneration system and the abolition of the seniority system to increase employee motivation, and moves to shift personnel expenses from fixed costs to variable costs by linking them to the Company's operating performance.
  - ➜ Izumi undertook a comprehensive review of all operating functions allowing full-time staff to concentrate on specific management responsibilities. Izumi also increased the proportion of part-time employees and implemented a clear distinction between miscellaneous tasks and principal business activities. The proportion of part-time staff increased from 71.3% to 76.1%. At the same time, personnel expenses per employee fell 7.5%.
  - ➜ Izumi achieved a reduction in the number of employees per store by standardizing business operations and by efficiently applying information systems. As a result, net sales per employee improved by 1.7%.
  - ➜ Accounting for all these factors, personnel expenses as a percentage of net sales (company stores) fell from 14.0% to 12.7%.
- Izumi also made efforts to curtail other expenses. As a result, the SG&A expenses to net sales ratio improved from 24.3% to 22.5%.
- In conjunction with efforts to reform the Company's cost structure, Izumi has also successfully improved earnings, with the operating income ratio climbing to 4.3% from 2.1%. These figures represent Izumi's earnings in the GMS business, positioning the Company among the leaders in the industry.

COST STRUCTURE REFORM AND RESULTS

	99/2	03/2	Change
Gross profit margin (company stores)	28.8%	30.0%	1.2 points
Personnel expenses to net sales (company stores)	14.0%	12.7%	(1.3) points
— Personnel expenses per employee (yen)	3,170,000	2,933,000	(7.5)%
— Net sales per employee (yen)	22,704,000	23,093,000	1.7 %
SG&A expenses to net sales (all stores)	24.3%	22.5%	(1.8) points
Operating income ratio (all stores)	2.1%	4.3%	2.2 points

4. GROUP COMPANIES

Each Group company strives to maintain competitive advantage in its business domain and is steadily expanding operations. All Group companies work to support the principal activities of the parent company, namely general retailing, while at the same time exploring business opportunities outside the Group.

X-Sell Inc.

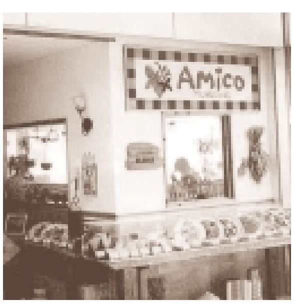
An enterprise specializing in the import of overseas designer products, X-Sell Inc. uses Europe as its procurement route to market a wide array of brands at reasonable prices. Active nationwide expansion has earned X-Sell the number one spot in its market and the company will continue to open new stores (currently totaling 36), in an effort to generate further growth.

Youme Card Co., Ltd.

Youme Card Co., Ltd. handles house cards, credit cards and cash advances, and works to provide a wider range of services in its card business. Agreements with the post office as well as 36 major regional banks and their ATMs have provided customers with broad access and convenience. The company is also pursuing international access for its cardholders through tie-ups with internationally recognized cards. Cardholders continue to grow steadily with current membership totaling 2.81 million.

Ideo Co., Ltd.

Ideo Co., Ltd., which handles the security and electricity management of Izumi stores, formed a business alliance with a leading electrical works company to augment its technological capabilities and is successfully reducing fixed costs of Izumi stores. Additionally, Ideo has made progress in applying for the patent of a revolutionary energy saving system, and is expanding orders through the pursuit of marketing at non-company stores throughout Japan.



Izumi Food Service Co., Ltd.

The in-store food court that Izumi Food Service Co., Ltd. operates has contributed significantly to attracting customers. The company has however worked to shift its course, implementing a specialty store model, currently numbering 132, with the aim of rapidly expanding business. Izumi Food Service has been successful in developing authentic-looking specialty stores, such as an Italian restaurant that conjures up the atmosphere of Naples and will continue to push roadside stores outside outlet facilities.

The four platforms we have identified above form the backbone of the Group's strategy for growth. Each strategy works in concert with all others, with the aim of maximizing benefits. This is the unique feature of Izumi and provides the basis for improved efficiency.

Amid a retail industry characterized by increasing complexity, Izumi will tirelessly pursue each strategy based on the underlying theme of enhancing customer satisfaction.

CONSOLIDATED STATEMENTS OF INCOME

Izumi Co., Ltd. and its subsidiaries
For the years ended February 28, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2003	2002	2003
REVENUES:			
Net sales	¥373,428	¥353,830	$3,164,644
Other operating revenues	9,670	9,884	81,949
	383,098	363,714	3,246,593
COST OF SALES	283,925	269,013	2,406,144
Gross profit	99,173	94,701	840,449
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	83,179	79,917	704,907
Operating income	15,994	14,784	135,542
OTHER INCOME (EXPENSES):			
Interest and dividend income	231	244	1,958
Interest expense	(2,184)	(2,479)	(18,508)
Gain (loss) on revaluation of investments in securities, net	(206)	(473)	(1,746)
Gain on sales of property and equipment	22	46	186
Loss on sales or disposal of property and equipment	(2,581)	(1,524)	(21,873)
Other, net	558	(1,105)	4,729
	(4,160)	(5,291)	(35,254)
Income before income taxes and minority interests	11,834	9,493	100,288
INCOME TAXES (Note 11):			
Current	5,682	5,624	48,153
Deferred	(341)	(1,474)	(2,890)
	5,341	4,150	45,263
Income before minority interests	6,493	5,343	55,025
MINORITY INTERESTS	893	511	7,568
Net income	¥ 5,600	¥ 4,832	$ 47,457

	Yen		U.S. dollars (Note 3)
PER SHARE:			
Net income:			
Basic	¥95.23	¥81.46	$0.81
Diluted	94.21	79.40	0.80
Cash dividends declared	23.00	21.00	0.19
WEIGHTED AVERAGE NUMBER OF SHARES (thousands)	58,806	59,320	

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

Izumi Co., Ltd. and its subsidiaries
As of February 28, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2003	2002	2003
ASSETS			
CURRENT ASSETS:			
Cash and bank deposits (Note 13)	¥ 8,168	¥ 8,781	$ 69,220
Short-term loans receivable	12,008	8,996	101,763
Notes and accounts receivable:			
Trade	5,854	3,694	49,610
Other	1,064	1,082	9,017
	6,918	4,776	58,627
Less–allowance for doubtful accounts	(643)	(595)	(5,449)
	6,275	4,181	53,178
Inventories	20,936	21,062	177,424
Deferred income taxes (Note 11)	1,287	1,310	10,907
Other current assets	3,608	3,454	30,576
Total current assets	52,282	47,784	443,068
INVESTMENTS AND ADVANCES:			
Investments in securities (Note 4)	4,562	4,687	38,661
Other investments and advances	2,024	2,222	17,153
	6,586	6,909	55,814
PROPERTY AND EQUIPMENT (Note 5):			
Buildings and structures	173,615	170,597	1,471,314
Machinery, equipment, vehicles and other	30,015	27,928	254,364
	203,630	198,525	1,725,678
Less–accumulated depreciation	(95,669)	(87,675)	(810,754)
	107,961	110,850	914,924
Land	73,863	72,532	625,958
Construction in progress	1,613	856	13,669
	183,437	184,238	1,554,551
OTHER ASSETS:			
Fixed leasehold deposits	17,528	18,079	148,542
Deferred income taxes (Note 11)	2,724	2,335	23,085
Other	10,927	9,310	92,601
	¥273,484	¥268,655	$2,317,661

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2003	2002	2003
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings (Note 6)	¥ 24,883	¥ 18,353	$ 210,873
Current portion of long-term debt (Note 6)	28,593	33,341	242,314
Notes and accounts payable:			
Trade	14,644	13,348	124,102
Other	6,397	7,582	54,212
	21,041	20,930	178,314
Income taxes payable	3,868	4,284	32,779
Accrued bonus	1,464	1,586	12,407
Other current liabilities	4,313	3,749	36,550
Total current liabilities	84,162	82,243	713,237
LONG-TERM DEBT (Note 6)	86,314	86,011	731,475
ACCRUED SEVERANCE INDEMNITIES	4,413	4,441	37,398
LEASE DEPOSITS RECEIVED	16,114	16,382	136,559
DEFERRED INCOME TAXES (Note 11)	1,021	1,021	8,653
OTHER LIABILITIES	347	172	2,941
Total liabilities	192,371	190,270	1,630,263
CONTINGENT LIABILITIES (Note 8)			
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES	4,221	4,253	35,771
STOCKHOLDERS' EQUITY (Note 10):			
Common stock, no par value:			
Authorized:			
February 28, 2003—195,243,000 shares			
February 28, 2002—195,243,000 shares			
Issued:			
February 28, 2003—61,558,710 shares	19,614	—	166,220
February 28, 2002—61,558,710 shares	—	19,614	—
Additional paid-in capital	22,315	22,282	189,110
Retained earnings	38,573	34,368	326,890
Net unrealized gains on securities	221	268	1,873
Less–foreign currency translation adjustments	(4)	(5)	(34)
Less–treasury stock at cost, February 28, 2003—3,596,400 shares	(3,827)	(2,395)	(32,432)
Total stockholders' equity	76,892	74,132	651,627
	¥273,484	¥268,655	$2,317,661

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Izumi Co., Ltd. and its subsidiaries For the years ended February 28, 2003 and 2002	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, 2001	62,133	¥19,614	¥23,056	¥30,872	—	—	¥(1,732)
Net income for the year	—	—	—	4,832	—	—	—
Cash dividends	—	—	—	(1,304)	—	—	—
Directors' and corporate auditors' bonuses	—	—	—	(32)	—	—	—
Common stock repurchased and cancelled	(574)	—	(774)	—	—	—	—
Net unrealized gains on securities	—	—	—	—	¥268	—	—
Foreign currency translation adjustments	—	—	—	—	—	¥(5)	—
Increase in treasury stock, net	—	—	—	—	—	—	(663)
BALANCE AT FEBRUARY 28, 2002	61,559	19,614	22,282	34,368	268	(5)	(2,395)
Net income for the year	—	—	—	5,600	—	—	—
Cash dividends	—	—	—	(1,292)	—	—	—
Directors' and corporate auditors' bonuses	—	—	—	(103)	—	—	—
Treasury stock issued 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)**

		Thousands of U.S. dollars (Note 3)					
BALANCE AT FEBRUARY 28, 2002	61,559	$166,220	$188,830	$291,254	$2,271	$(42)	$(20,296)
Net income for the year	—	—	—	47,457	—	—	—
Cash dividends	—	—	—	(10,949)	—	—	—
Directors' and corporate auditors' bonuses	—	—	—	(872)	—	—	—
Treasury stock issued at more than cost	—	—	280	—	—	—	1,695
Net unrealized gains on securities	—	—	—	—	(398)	—	—
Foreign currency translation adjustments	—	—	—	—	—	8	—
Increase in treasury stock, net	—	—	—	—	—	—	(13,831)
BALANCE AT FEBRUARY 28, 2003	**61,559**	**$166,220**	**$189,110**	**$326,890**	**$1,873**	**$(34)**	**$(32,432)**

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, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2003	2002	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 11,834	¥ 9,493	$ 100,288
Depreciation and amortization	10,578	10,509	89,644
Provision for allowance for doubtful accounts	162	75	1,373
Interest and dividend income	(231)	(244)	(1,958)
Interest expense	2,184	2,479	18,508
Gain on sales of property and equipment	(22)	(46)	(186)
Loss on sales or disposal of property and equipment	2,581	1,524	21,873
Gain on sales or revaluation of short-term investments	(105)	(16)	(890)
Increase in notes and accounts receivable	(2,160)	(343)	(18,305)
Increase (Decrease) in inventories	126	(1,053)	1,068
Increase (Decrease) in trade notes and accounts payable	1,296	(232)	10,983
Other, net	(355)	2,613	(3,008)
Sub-total	25,888	24,759	219,390
Interest and divided income received	230	245	1,949
Interest expense paid	(2,149)	(2,380)	(18,212)
Income taxes paid	(6,208)	(3,103)	(52,610)
Net cash provided by operating activities	17,761	19,521	150,517
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of short-term investments	—	5	—
Payments for purchases of property and equipment	(12,783)	(7,774)	(108,330)
Proceeds from sales of property and equipment	968	460	8,203
Payments for purchases of intangible assets	(2,838)	(353)	(24,051)
Payments for purchases of investments in securities	(425)	(658)	(3,602)
Acquisition, net of cash acquired	—	134	—
Proceeds from sales of investments in securities	600	226	5,085
Other, net	(2,177)	(326)	(18,449)
Net cash used in investing activities	(16,655)	(8,286)	(141,144)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (Decrease) in short-term borrowings	6,529	(999)	55,331
Additions to long-term loans	34,826	15,103	295,136
Repayment of long-term loans	(30,180)	(19,658)	(255,763)
Redemption of straight bonds	(5,000)	(5,000)	(42,373)
Redemption of convertible bonds	(4,091)	—	(34,669)
Proceeds from issue of stocks to minority interests in consolidated subsidiary	400	—	3,390
Proceeds from sales of treasury stock	319	785	2,703
Payment for purchases of treasury stock	(3,076)	(1,900)	(26,068)
Dividends paid	(1,327)	(1,364)	(11,246)
Net cash used in financing activities	(1,600)	(13,033)	(13,559)
Effect of exchange rate changes on cash and cash equivalents	1	(5)	8
Net decrease in cash and cash equivalents	(493)	(1,803)	(4,178)
Cash and cash equivalents at beginning of year	8,661	10,464	73,398
Cash and cash equivalents at end of year (Note 13)	¥ 8,168	¥ 8,661	$ 69,220

The accompanying notes are an integral part of these statements.

Izumi Co., Ltd. and its subsidiaries
For the years ended February 28, 2003 and 2002

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 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 from the 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

As at February 28, 2003, the accompanying consolidated financial statements include the accounts of the Company and 17 of its subsidiaries, among which 1 subsidiary was excluded due to liquidation. As at February 28, 2002, 18 of its subsidiaries were consolidated.

Investments in all affiliates (20%-to-50% owned companies) are accounted for by the equity method. The company had 4 affiliates as of February 28, 2003 and 2002.

A non-consolidated subsidiary, NIKO NIKO DO Co., Ltd, was not accounted for by the equity method due to civil rehabilitation. Investments in it were stated at cost as of February 28, 2003.

(2) Elimination and consolidation

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

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

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

(3) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits 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 fluctuation in value.

(4) Translation of foreign currencies

Effective from the year ended February 28, 2002, the Companies adopted the new Japanese accounting standard for foreign currency translation, which was effective for periods beginning on or after April 1, 2000. Under the new standard, all monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are included in net profit or loss for the period. The adoption of the new method had no material impact on the accompanying consolidated financial statements.

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

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

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

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

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

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

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

The Companies reconsidered the holding purposes of securities outstanding at March 1, 2001 and reclassified securities from short-term investments in current assets to investments in securities in non-current assets. As a result of this reclassification, short-term investments decreased and investment in securities increased by ¥57 million.

(6) Derivatives

The new accounting standard for financial instruments, effective from the year ended February 28, 2002, requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative instruments are used for hedging purposes. In accordance with the new accounting standard for financial instruments stated above, the Company adopted the method that defers gains and losses resulting from changes in fair value of derivative financial instruments until the hedged transactions occur. When foreign exchange forward contracts, currency swap contracts or currency option contracts meet certain 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 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 cost method
Supplies	Last purchase cost 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 the Japanese corporate tax laws, except for the following, which are depreciated by the straight-line method:

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

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

(9) Intangible assets

Capitalized software costs, included in other assets, for internal use are amortized by the straight-line method over the estimated useful life (5 years). Other intangible assets, included in other assets, are amortized by the straight-line method over the period regulated by the Japanese corporate income tax laws.

(10) Allowance for doubtful accounts

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

(11) Accrued bonus

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

(12) 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.

Previously, point discounts were not charged to income when they were provided but recognized as expenses only when customers used them. The Company became able to match expenses and revenues relating to points discounts, and therefore, from the year ended February 28, 2003, point discounts are charged to income when they are provided.

As a result, in the year ended February 28, 2003, net sales and operating income decreased by ¥106 million ($898 thousand), other expenses increased by ¥499 million ($4,229 thousand) and income before income taxes and minority interests decreased by ¥606 million ($5,136 thousand) compared with what would have been recorded under the previous accounting method.

(13) Retirement benefit plans

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

Effective March 1, 2001, the Companies adopted the new Japanese accounting standard for retirement benefits. The net transition obligation at date of the adoption is all expensed in the current year. Actuarial gains or losses are amortized on a straight-line basis over 6 to 8 years from the next year in which they arise. Until the year ended February 28, 2001, the accrued severance indemnities of the Company represented 40 percent of the liability, which the Company would be required to pay (reduced by the benefits payable under the non-contributory pension plan) if all eligible employees voluntarily terminated employment at the balance sheet date. As a result of adopting the new standard, net pension expense for the year ended February 28, 2002 has increased by ¥2,192 million, operating income has increased by ¥294 million and income before income taxes has decreased by ¥2,192 million, as compared with the amounts which would have been reported if the previous standard had been applied consistently.

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

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

(14) Leases

Leases that transfer substantially all risk and rewards of ownership of the assets are accounted for as capital leases, except that leases 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.

(15) 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.

(16) 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 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.

(17) 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 ¥118 = U.S.$1, the rate of exchange on February 28, 2003 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

Held-to-maturity debt securities at February 28, 2003, which have readily available determinable fair value, are summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Market value	Valuation gain	Carrying value	Market value	Valuation gain
Government						
Bonds	¥641	¥641	¥0	$5,432	$5,432	$0

Available-for-sale securities at February 28, 2003, which have readily determinable fair value, are summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Carrying value	Gross unrealized gains (losses)	Acquisition cost	Carrying value	Gross unrealized gains (losses)
Securities with unrealized gains:						
Equity securities	¥2,462	¥2,840	¥ 378	$20,864	$24,068	$ 3,204
Securities with unrealized losses:						
Equity securities	560	355	(205)	4,746	3,008	(1,738)
	¥3,022	¥3,195	¥ 173	$25,610	$27,076	$ 1,466

Securities at February 28, 2003, which have no readily determinable fair value, are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Available-for-sale securities:		
Non-listed equity securities	¥332	$2,814

Total sales of available-for-sale securities in the year ended February 28, 2003 amounted to ¥156 million ($1,322 thousand) and related gains and losses amounted to ¥46 million ($390 thousand) and ¥3 million ($25 thousand), respectively.

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

	Millions of yen		
	Carrying value	Market value	Valuation gain
Government			
Bonds	¥602	¥602	¥0

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

	Millions of yen		
	Acquisition cost	Carrying value	Gross unrealized gains (losses)
Securities with unrealized gains:			
Equity securities	¥2,828	¥3,311	¥483
Others	56	66	10
	2,884	3,377	493
Securities with unrealized losses:			
Equity securities	¥ 241	¥ 186	¥ (55)
	¥3,125	¥3,563	¥438

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

	Millions of yen
Available-for-sale securities:	
Non-listed equity securities	¥195

Total sales of available-for-sale securities in the year ended February 28, 2002 amounted to ¥398 million and related gains and losses amounted to ¥16 million and ¥204 million, respectively.

5. LEASES

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

(1) **As lessee:**

a) Acquisition cost, accumulated depreciation and net book value of the leased assets at February 28, 2003 and 2002, if capitalized, are summarized as follows:

	Millions of yen					
	2003			2002		
	Equipment and vehicles	Other	Total	Equipment and vehicles	Other	Total
Amount to:						
Acquisition cost	¥ 3,402	¥ 9,271	¥12,673	¥ 3,396	¥ 9,612	¥13,008
Accumulated depreciation	(1,895)	(4,705)	(6,600)	(1,489)	(4,525)	(6,014)
Net book value	¥ 1,507	¥ 4,566	¥ 6,073	¥ 1,907	¥ 5,087	¥ 6,994

	Thousands of U.S. Dollars		
Amount to:			
Acquisition cost	$ 28,830	$ 78,568	$107,398
Accumulated depreciation	(16,059)	(39,873)	(55,932)
Net book value	$ 12,771	$ 38,695	$ 51,466

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

b) Amounts to outstanding future lease payments at February 28, 2003 and 2002, which include interest portion, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Due within one year	¥1,893	¥1,991	$16,042
Due after one year	4,180	5,003	35,424
Total	¥6,073	¥6,994	$51,466

c) Lease payments and depreciation expense for the years ended February 28, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Lease payments	¥2,047	¥1,977	$17,347
Depreciation expense	2,047	1,977	17,347

d) Method of asset depreciation
Depreciation expense is determined based on the straight-line method over the lease term of the leased assets with no residual value.

(2) **As lessor:**

a) Acquisition cost amount, accumulated depreciation and net book value of the leased assets at February 28, 2003 are summarized as follows:

	Millions of yen
	2003
	Equipment and vehicles
Amount to:	
Acquisition cost	¥35
Accumulated depreciation	(2)
Net book value	¥33

	Thousands of U.S. dollars
Amount to:	
Acquisition cost	$297
Accumulated depreciation	(17)
Net book value	$280

b) Amounts to outstanding future income at February 28, 2003, which include interest portion, are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2003	2003
Due within one year	¥ 5	$ 42
Due after one year	34	288
Total	¥39	$330

c) Lease income and depreciation expense for the year ended February 28, 2003 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2003	2003
Lease income	¥2	$17
Depreciation expense amount	1	8

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 1.12% at February 28, 2003.

Long-term debt at February 28, 2003 and 2002, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Loans from banks and insurance companies, due from April 2003 to August 2015 with weighted average interest rates of 1.68% at February 28, 2003			
Secured	¥54,794	¥75,298	$464,356
Unsecured	40,113	14,963	339,941
	94,907	90,261	804,297
1.7% Japanese yen unsecured convertible bonds due August 2002	—	4,091	—
2.025% Japanese yen unsecured straight bonds due March 2002	—	5,000	—
2.325% Japanese yen unsecured straight bonds due March 2003	5,000	5,000	42,373
2.175% Japanese yen unsecured straight bonds due October 2003	5,000	5,000	42,373
1.53% Japanese yen unsecured straight bonds due March 2004	5,000	5,000	42,373
1.84% Japanese yen unsecured straight bonds due March 2005	5,000	5,000	42,373
	114,907	119,352	973,789
Less–portion due within one year	(28,593)	(33,341)	(242,314)
	¥86,314	¥86,011	$731,475

The aggregate annual maturities of long-term debt outstanding at February 28, 2003 are as follows:

Years ending the last of February:	Millions of yen	Thousands of U.S. dollars
2005	¥26,059	$220,839
2006	20,845	176,653
2007	11,195	94,873
2008	9,922	84,085
2009 and thereafter	18,293	155,025
	¥86,314	$731,475

Assets pledged as collateral and related secured debt at February 28, 2003 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Assets pledged as collateral:		
Land	¥ 55,293	$468,585
Buildings	57,651	488,568
Investments in securities	2,206	18,695
	¥115,150	$975,848
Debt secured by the above:		
Short-term borrowings	3,656	30,983
Long-term debt	54,794	464,356
	¥ 58,450	$495,339

7. RETIREMENT BENEFIT PLANS

The funded status of the Companies at February 28, 2003 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Projected benefit obligation	¥ 5,587	¥ 5,100	$ 47,347
Unrecognized net actuarial differences	(232)	110	(1,966)
Plan assets at fair value	(1,869)	(1,649)	(15,838)
Prepaid pension cost	140	—	1,186
Accrued severance indemnities	¥ 3,626	¥ 3,561	$ 30,729

Pension and severance costs of the Companies included the following components for the years ended February 28, 2003 and 2002:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Service cost	¥507	¥ 485	$4,297
Interest cost	136	142	1,153
Expected return on plan assets	(16)	(29)	(136)
Amortization of net unrecognized transition obligation	—	2,487	—
Realized net actuarial losses	(17)	—	(144)
Payment for extra supplementary benefits and so on	30	138	254
Net periodic pension cost	¥640	¥3,223	$5,424

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

Assumptions used in the accounting for the defined benefit plans for the years ended February 28, 2003 and 2002 are as follows:

	2003	2002
Discount rate	2.0%–2.5%	2.5%–2.8%
Expected rate of return on plan assets	1.0%	2.0%

8. CONTINGENT LIABILITIES

The Company was contingently liable for guarantees of loans from financial institutions made by affiliates and other, totaling ¥4,766 million ($40,390 thousand) at February 28, 2003.

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 the change in the market rate. The Companies do not use speculative transactions.

c) Risks in transactions

Derivative instruments used by the Companies are exposed to risk from market rate fluctuation. Counter-parties are highly creditworthy domestic banks and, therefore, the Companies do not expect losses due to non-performance of 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 contract outstanding at February 28, 2003.

	Millions of yen		
	2003		
	Contract amount	Fair market value	Unrealized gains or losses
Foreign currency exchange forward contracts	¥ 390	¥ 78	¥ 78
Currency swap contracts	698	144	144
Currency option contracts	2,215	62	62
Total	¥3,303	¥284	¥284

	Thousands of U.S. Dollars		
Foreign currency exchange forward contracts	$ 3,305	$ 661	$ 661
Currency swap contracts	5,915	1,220	1,220
Currency option contracts	18,771	526	526
Total	$27,991	$2,407	$2,407

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

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

Above information for 2002 is not shown due to derivative transactions with hedge accounting applied.

10. STOCKHOLDERS' EQUITY

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

The Code requires a domestic company to appropriate as a legal reserve an amount equal to at least 10% of the amount paid out by it as the 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 capital. The legal reserve and additional paid-in capital may be transferred to stated capital through suitable director actions or used to reduce a deficit through suitable stockholder actions.

Under the Code, the appropriation of retained earnings (including year-end cash dividend payment) proposed by the Board of Directors should be approved at stockholders' meeting, which must be held within 3 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.

Effective for the year ended February 28, 2003, the Company adopted the Statement of Financial Accounting Standard No. 1 "Accounting for Treasury Stock and Reversal of Capital and Legal Reserves" issued by the Accounting Standards Board of Japan. However, the effect on net income for the period of adopting this new statement was immaterial.

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, 2003 and 2002.

The reconciliation of the difference between the statutory income tax rates and the effective income tax rates for the year ended February 28, 2003 is as follows:

	2003
Statutory income tax rate	41.7%
Increase (decrease) in taxes resulting from:	
Entertainment expenses and other which are permanently non-tax-deductible	0.3
Dividend income and other income which is permanently non-taxable	(0.2)
Per capita inhabitant taxes and other	1.6
Valuation allowance provided for tax loss carry-forwards of subsidiaries	2.3
Effect on liquidated consolidated subsidiary	(1.5)
Others	0.9
Effective income tax rate	45.1%

Above information for the year ended February 28, 2002 is not shown because the difference between the statutory income tax rates and the effective income tax rate for financial statement purpose is less than 5% of the statutory income tax rates.

The significant components of deferred tax assets and liabilities at February 28, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Deferred tax assets:			
Allowance for doubtful accounts	¥ 292	¥ 290	$ 2,474
Property and equipment	69	114	585
Intangible assets	166	166	1,407
Investments in securities	392	335	3,322
Accrued enterprise tax	318	359	2,695
Accrued bonus	417	343	3,534
Accrued severance indemnities	1,468	1,490	12,441
Fair value adjustments of consolidated subsidiaries	469	423	3,974
Tax loss carry-forwards	434	174	3,678
Excess depreciation and amortization	377	310	3,195
Other	375	170	3,178
Total	4,777	4,174	40,483
Valuation allowance	(282)	—	(2,390)
Total	4,495	4,174	38,093
Deferred tax liabilities:			
Reserve for special depreciation	(72)	(72)	(610)
Reserve for advanced depreciation of fixed assets	(252)	(263)	(2,135)
Fair value adjustments of consolidated subsidiaries	(1,021)	(1,011)	(8,653)
Unrealized gains on securities	(160)	(205)	(1,356)
	(1,505)	(1,551)	(12,754)
Net deferred tax assets	¥ 2,990	¥ 2,623	$ 25,339

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 at March 31, 2003. 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.

The Company is not required to reflect this change in the accompanying consolidated financial statements as of February 28, 2003, because new tax rates have not been enacted or substantively enacted by the balance sheet date (February 28, 2003). If the Companies would measure deferred tax assets and liabilities by using new tax rates, deferred tax assets at February 28, 2003 would be decreased by ¥31 million ($ 263 thousand), compared with the assets that would have been recognized if a tax rate of 41.7 % had been fully applied to all temporary differences. The Companies expected net income for the year ended February 29, 2004 will also decrease by ¥68 million ($576 thousand) as a result of these changes in statutory local enterprise tax regulations.

12. RELATED PARTY TRANSACTIONS

The Company purchased ¥11,709 million ($99,229 thousand) of merchandise from Japan Logistics Industry Co., Ltd. ("JLI") for the year ended February 28, 2003. A representative director and vice president of JLI, Mr. Yasuaki Yamanishi, is also a representative director and the president of the Company and owns 1.70% of the Company's voting stock. At February 28, 2003, the Company had accounts payable of ¥1,298 million ($11,000 thousand) and deposited guarantee money of ¥505 million ($4,280 thousand) to JLI.

The Company leases a building of Higashi-Hiroshima shop from Izumi Kosan K.K. ("Izumi") with lease payments of ¥341 million ($2,890 thousand) for the year ended February 28, 2003. 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, 2003, the Company deposited guarantee money of ¥3,650 million ($30,932 thousand) to Izumi, which was determined based on the total construction costs of the building and the area occupied by the Company.

13. SUPPLEMENTARY CASH FLOW INFORMATION

Cash and cash equivalents at February 28, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Cash and bank deposits	¥8,168	¥8,781	$69,220
Less–time deposits with deposit term of over 3 months	—	(120)	—
Cash and cash equivalents	¥8,168	¥8,661	$69,220

REPORT OF INDEPENDENT AUDITORS

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, 2003 and 2002, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Izumi Co., Ltd. and its subsidiaries as of February 28, 2003 and 2002, 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 (see Note 1) applied on a consistent basis, except for the changes described in the next paragraph.

As discussed in Note 2 (12) to the consolidated financial statements, effective from the year ended February 28, 2003, Izumi Co., Ltd. and its subsidiaries changed their method of accounting for the allowance for point discounts.

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

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

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation

Hiroshima, Japan
May 22, 2003

DIRECTORS AND CORPORATE AUDITORS

Chairman
Yoshimasa Yamanishi

President
Yasuaki Yamanishi

Executive Vice President
Hiromasa Takanishi

Directors
Takashi Kaneko
Hiroaki Bando
Heijiro Natsuhara

Full-Time Corporate Auditor
Akira Tsumura

Corporate Auditors
Yoshiharu Kanasugi
Toyomi Takimoto
Jiro Matsubara

(as of May 22, 2003)

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, 2003)

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

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