IZUMI Co., Ltd.

Annual Report 2008

PROFILE

Izumi Co., Ltd. ("Izumi" or the "Company") takes pride in being the predominant retail chain in the Chugoku, Shikoku and Kyushu regions of Japan. Izumi currently operates hypermarkets and food supermarkets at 72 locations. In 1990, Izumi opened its first You Me Town hypermarket. Since then, the Company has worked to become number one in these regions in terms of scale and product lineup, with You Me Town contributing significantly to the Company's continued growth. In providing one-stop service, featuring a broad shopping lineup as well as an array of restaurants, amusements, cultural and community offerings and other facilities, You Me Town outlets deliver everything customers want to buy or do, all under one roof. Through the You Me Town business model, Izumi is fully meeting the wishes of an increasing number of customers.

In the fiscal year under review, ended February 29, 2008, Izumi enjoyed an increase in revenues and earnings, recording its ninth consecutive year of growth, by undertaking more ambitious capital investment compared with the previous year, including the opening of a flagship You Me Town outlet in Hiroshima, where its business began. In merchandising, we are redoubling efforts to enhance our ability to respond to changes in the retailing industry.

REVENUES AND OPERATING INCOME
(Fiscal years ended February 28/29)

	2001	2002	2003	2004
Revenues	346.8	363.7	383.1	407.6
Operating Income	10.3	14.8	16.0	18.1

Q.1 What is your view of the environmental changes taking place within the retail industry and what are Izumi's responses to them?

Q.2 What are your thoughts with regard to pricing strategies in response to the changes in the retail environment?

Q.3 How will you undertake store creation, the source of Izumi's growth?

CONSOLIDATED FINANCIAL HIGHLIGHTS

	Millions of yen							Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2005	2004	2003	2002	2008
	Mar. 2007–Feb. 2008	Mar. 2006–Feb. 2007	Mar. 2005–Feb. 2006	Mar. 2004–Feb. 2005	Mar. 2003–Feb. 2004	Mar. 2002–Feb. 2003	Mar. 2001–Feb. 2002	–Mar. 2007–Feb. 2008
Revenues	¥470,698	¥446,821	¥436,825	¥426,437	¥407,648	¥383,098	¥363,714	$4,491,822
Operating income	24,798	24,144	22,706	19,771	18,079	15,994	14,784	236,645
Income before income taxes and minority interests	23,409	19,737	21,490	18,089	16,888	11,834	9,493	223,390
Net income	13,664	13,158	11,583	9,601	8,713	5,600	4,832	130,404
Net income/revenues	3.04%	2.94%	2.65%	2.25%	2.14%	1.46%	1.33%	3.04%
Total net assets (Note 2)	105,646	105,005	88,542	85,519	84,354	76,892	74,132	1,008,178
Total assets	355,588	335,545	313,086	318,893	295,927	273,484	268,655	3,393,339
	Yen							U.S. dollars (Note 1)
Per share (Note 3):								
Net income—basic	¥ 135.10	¥ 251.80	¥ 216.60	¥ 166.88	¥ 148.07	¥ 95.23	¥ 81.46	$1.29
Net income—diluted	120.14	223.88	192.69	155.02	—	94.21	79.40	1.15
Cash dividends declared	16.00	32.00	26.00	24.00	23.00	23.00	21.00	0.15

Notes 1: Yen amounts are translated into U.S. dollars, solely for convenience, at the prevailing exchange rate on February 28, 2008, ¥104,79= U.S. $1.
2: By application of the new accounting standard for presentation of net assets in the balance sheet, minority interests in consolidated subsidiaries and gain on deferred hedges are included in total net assets for the year ended February 28, 2007.
3: See Note 2 (22) of Notes to Consolidated Financial Statements.

2005	2006	2007	2008
426.4	436.8	446.8	470.7
19.8	22.7	24.1	24.8

Q.1 What is your view of the environmental changes taking place within the retail industry and what are Izumi's responses to them?

A.1

In the fiscal year under review, the Japanese economy was characterized by increased uncertainty about the future. Sluggish personal consumption resulted from downturns in employment and income. In addition, macro-economic deterioration, price increases in gasoline and food products have led to consumers showing a greater reticence to spend, dampening household expenditures.

Yasuaki Yamanishi
President

FISCAL 2008 DIGEST

With the aim of maintaining customer satisfaction, the Izumi Group rapidly implemented innovations in management and operations, resulting in nine consecutive years of revenue and earnings growth.

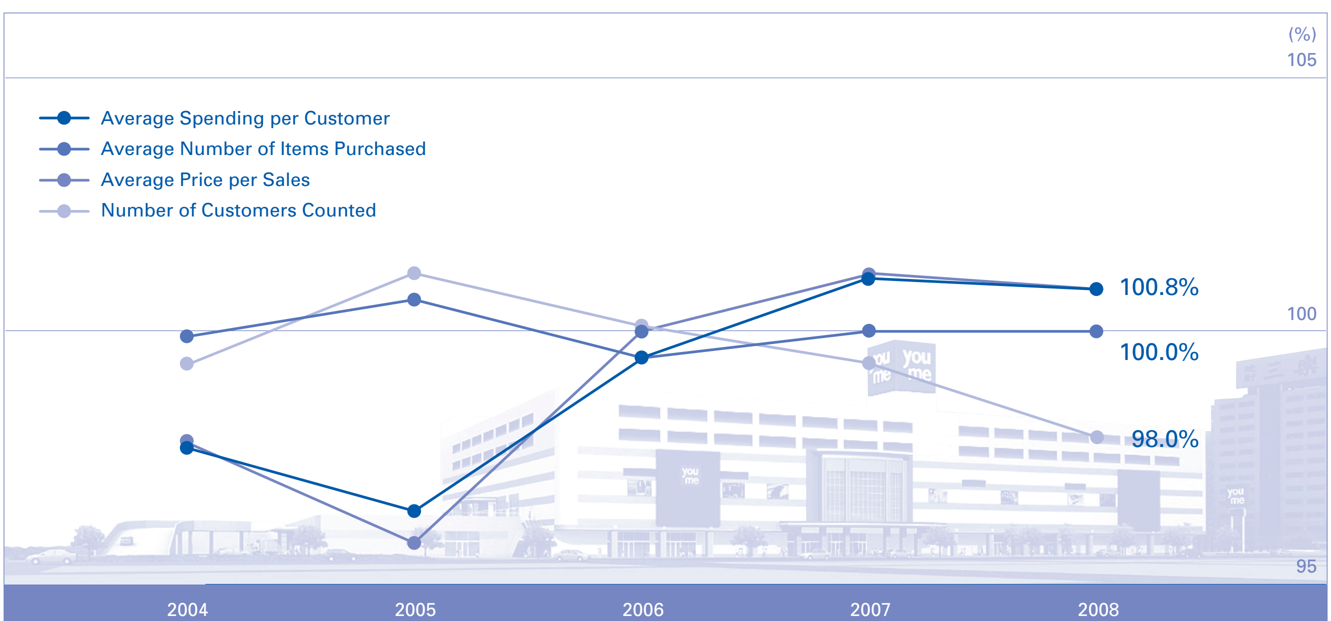
- Consolidated revenues increased 5.3% year on year to ¥470.6 billion (US$4,492 million)
- Consolidated operating income rose 2.7% year on year to ¥24.7 billion (US$237million)
- Consolidated net income increased 3.9% year on year to ¥13.6 billion (US$130 million)
- Existing store sales struggled, with non-consolidated existing stores managing 98.7% of the previous year's sales
- Average price per sale stood at 100.8% while upward trends were carried over from the previous year
- Clothing sales slumped due to unseasonable weather while the non-consolidated operating income ratio decreased 0.1 percentage point year on year to 5.3%
- Consolidated operating income ratio declined 0.2 percentage point year on year to 5.5%
- Consolidated ROE stood at 13.8%, down 0.2 percentage point from the previous fiscal year

Sales in the first half of 2007 were robust, particularly in June, and prolonged deflation was expected to end. However, the abolition of temporary tax cuts in June 2007 has served to increase the trend toward consumers exercising caution in terms of spending. Due to its concerted efforts to develop You Me Town outlets as pivotal businesses that excel at value appeal, the Company was slow to react to changing markets. This consequently manifested itself in customer numbers in the fiscal year under review being 98.0% of those of the previous fiscal year. Taking into account all general merchandising stores, this represented a year on year decrease of 4%. Despite bolstering efforts to achieve increases in revenues and earnings, from the perspective of the momentum we experienced between March and June 2007, we have no choice but to reluctantly acknowledge this situation.

We are aware that this is an era in which the retailing industry is frequently asked about its "responsiveness to change." The rising cost of living, stemming from such factors as high oil prices, has led consumers to be increasingly frugal with regards to household spending. Yet, consumers are also more health conscious, with food product safety being a top priority.

Regarding competition in the retail industry, changes accompanying the Town and Country Planning Act demand particular attention. Besides the flurry of rushed expansion among large-scale retail store chains, the number of small retail stores with value appeal is increasing, particularly in Kyushu.

Izumi is boldly implementing measures to broaden the appeal of You Me Town outlets, along with rapidly shifting its strategy from being "responsive to value" to placing a greater emphasis on "affordability."



NUMBER OF CUSTOMERS COUNTED, AVERAGE AMOUNT SPENT PER CUSTOMER, AVERAGE PRICE PER SALE, AVERAGE NUMBER OF ITEMS PURCHASED

Q.2 What are your thoughts with regard to pricing strategies in response to the changes in the retail environment?

A.2 From mid-2007 onward, as the signs of consumer cautiousness became more pronounced, interest in fashion-oriented clothing declined. Taking unseasonal weather into account, sales of seasonal clothing and household goods have also stagnated. High gasoline prices have curtailed the amount of customers who drive to You Me Town outlets from surrounding areas or on weekends.

In response to this environment, we initiated what we call the "lifestyle support promise," developing merchandising that is more responsive to prices. In January 2008, we began selling 200 different food products and other daily items. Owing to favorable reviews, the number of campaign-products presently being offered stands at 700.

Over and above price strategies that address the need for greater affordability, we have promoted "safe and healthy-oriented" product differentiation by expanding sales of "JAS-approved organic vegetables," non-allergic food products and a variety of health food items.

In the clothing segment, Izumi is continuing its focus on Visual Merchandising as well as making efforts to create new channels through which to sell high fashion apparel. At the same time, we plan to upgrade high-value-added products through improved customer service. In addition, with our sights firmly on sales expansion, the Company will shift toward products that are unaffected by weather conditions.

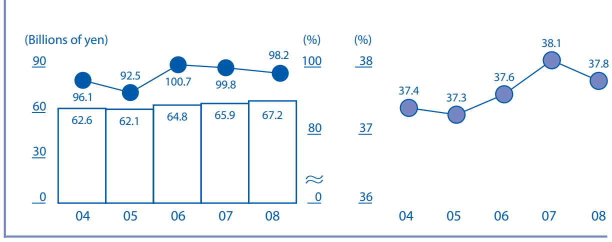
In the household goods segment, we are attempting to stand out from our competitors by creating unique marketing opportunities and responding with greater efficiency to clear indications of market expansion in the merchandising sector, such as in bedding, stationary, gifts, and kitchen utensil.

In the foods segment, in addition to expanding our "lifestyle support promise," we are putting forward value-added approaches unique to Izumi. These approaches include promoting local consumption of local produce to maximize product freshness, changing merchandise on a weekly basis as well as at regular intervals throughout the day.

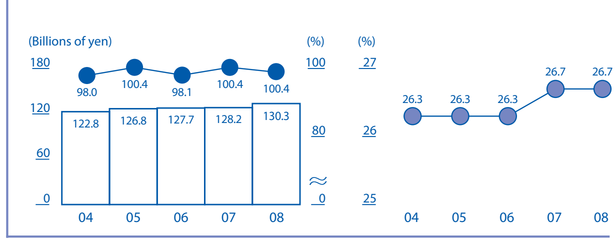
As we continue to be responsive to these changes in our business environment, Izumi aims to create stores that offer customers the feeling of "freshness, excitement and surprise."

Net sales / YOY existing store sales / Gross Profit Margin by segment:
(clothing, household goods, foods and tenants)

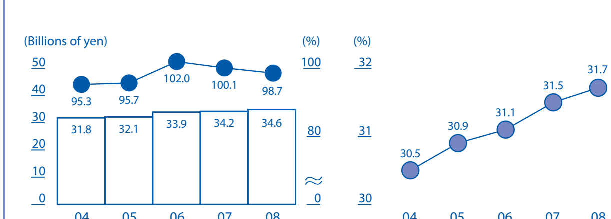
Clothing



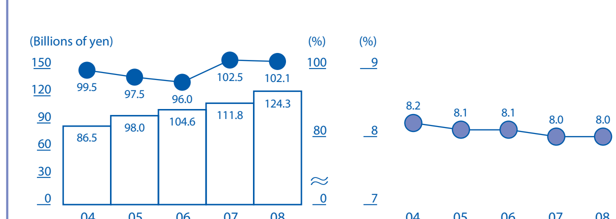
Foods

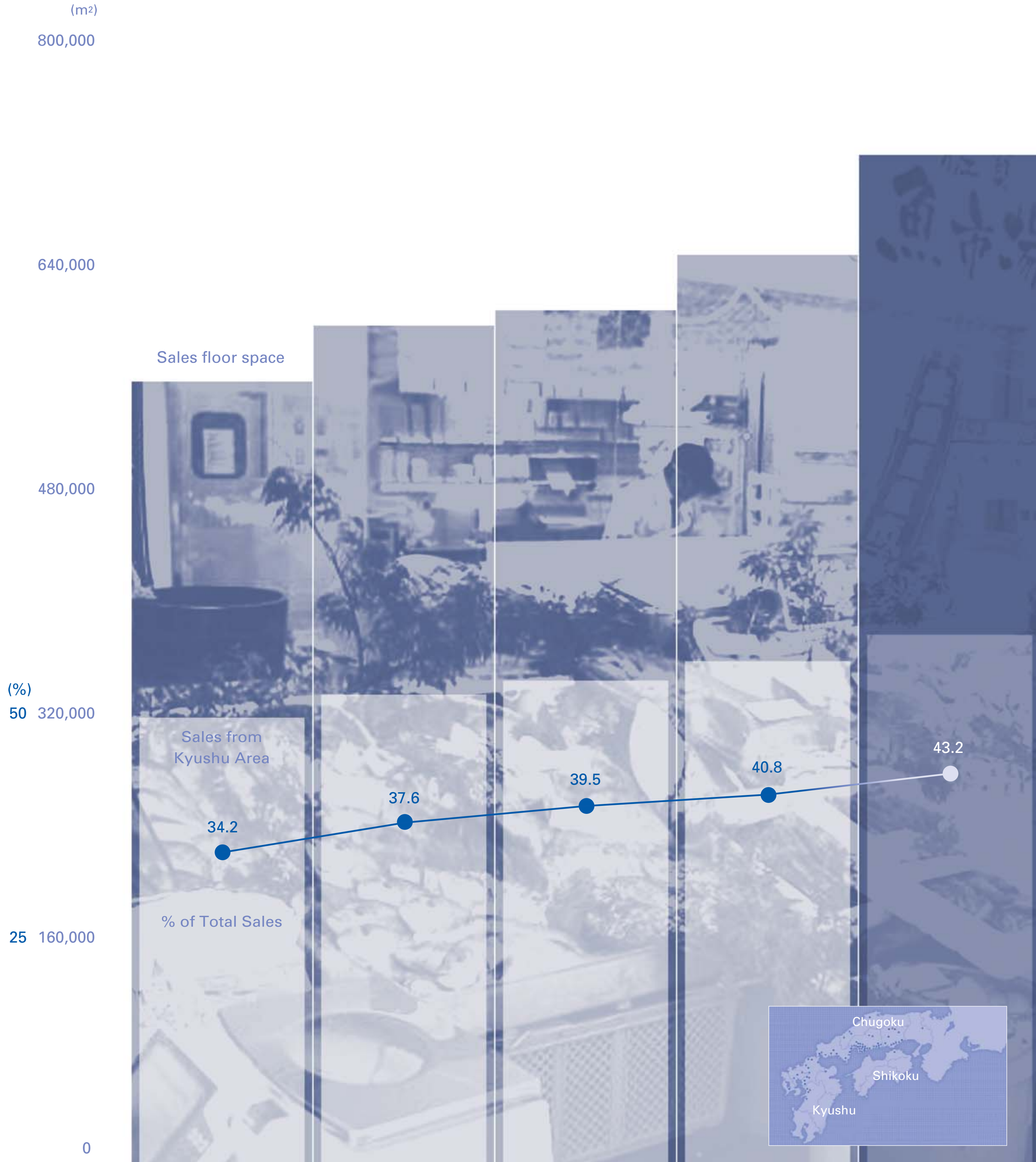


Household Goods



Tenants





	2004	2005	2006	2007	2008
Sales floor space	556,093m^2	595,367m^2	606,098m^2	644,929m^2	715,089m^2
Sales from Kyushu Area	¥109,362	¥125,939	¥137,219	¥146,730	¥163,754
% of Total Sales	34.2%	37.6%	39.5%	40.8%	43.2%

Q.3 How will you undertake store creation, the source of Izumi's growth?

A.3

Having expanded You Me Town outlets since 1990, the Company has accumulated a wealth of expertise in adapting to a wide variety of locations and market areas. Aiming to be the number one store in a given area, You Me Town outlets create a shopping space that is convenient, comfortable and liberating through the placement of a mixture of stores that enable one-stop service. In recognition of these efforts, Izumi has worked in concert to increase store openings that stimulate demand in various regions in response to requests from governments and local communities concerned with reductions in population and purchasing power. An example of this can be seen in the opening of You Me Town Beppu in November 2007, which is contributing to local purchasing power and the revitalization of the Beppu area, a destination for international tourism.

Izumi has limited new store openings to the Chugoku, Shikoku and Kyushu areas, and in recent years has achieved growth stemming from intensified efforts to open stores in Kyushu. Looking ahead, we are aiming to become the dominant retailer in the Chugoku and Shikoku areas. Turing to new store openings during the current fiscal year, the Company opened the San'in region's largest and most impressive shopping center in Izumo, which features a wide variety of stores and attractions including a cinema complex. Two additional store openings are being planned for Kagawa Prefecture during the latter half of fiscal 2009, bringing the total number of You Me Town outlets in that area to three. These efforts should secure our dominance there.

You Me Town Izumo

In a market of 400,000 people, the You Me Town Izumo Shopping Town, the largest and most impressive shopping center in the San'in region, features a 3,100-vehicle parking lot and 10 million visitors per year. In addition to attracting customers from a wide area, we are proud to say that the You Me Town Izumo provides unparalleled convenience. In addition to Izumi's commercial space, this shopping center boasts the San'in region's first fashion trend zone, featuring the hottest brands, an amusement spot, and the San'in region's largest cinema complex, with 10 screens and a seating capacity of 1,800.

Apart from being focused on responding to the rushed expansion associated with the Town and Country Planning Act, Izumi—the region's number one retailer—is redoubling its efforts at its existing stores. The Company is offering increased sales floor space and highly competitive specialty stores at its shopping centers to add value and we are endeavoring to increase the Company's dominance by collaborating with regional supermarkets. In April 2008, we formed a business alliance with Marumiya, which having expanded to 34 outlets, is rapidly opening small retail outlets in Kyushu that appeal to customers seeking greater value. We believe that such an alliance will be beneficial in terms of commodity supply, and the common use of credit and point cards. Furthermore, the sharing of specific product selection and know-how can be used to expand "You Me Mart," Izumi's own supermarkets.

山西泰明

Yasuaki Yamanishi
President

Store Name	Planned Opening	Site Area (approx.)	Store Area (approx.)	No. of Parking Spaces (approx.)
You Me Town Beppu	Winter 2007	21,400 m^2	21,000 m^2	1,300
You Me Town Hiroshima	Spring 2008	50,000 m^2	38,750 m^2	2,600
You Me Town Izumo	Summer 2008	106,000 m^2	33,500 m^2	3,100
You Me Town Mitoyo	Fall 2008	67,900 m^2	22,000 m^2	2,000
You Me Town Marugame	Fall 2008	43,000 m^2	32,000 m^2	2,000

GROUP DEVELOPMENT

Positioned at the hub of the general merchandising industry, Izumi maintains a streamlined, efficient group structure and benefits from synergies with such business segments as credit and finance. You Me Town Kumamoto Co., Ltd., Youme Card Co., Ltd., X-Sell Inc., Izumi Food Service Co., Ltd., and Izumi Techno Co., Ltd. are the Company's key consolidated subsidiaries. Of these, the decision was taken to restructure You Me Town Kumamoto Co., Ltd. and X-Sell Inc.

You Me Town Kumamoto Co., Ltd. was established through the acquisition of large-scale outlets from the now defunct NIKONIKODO Co., Ltd., a company undergoing corporate rehabilitation. Being the region's top-performing retailers, these four converted You Me Town outlets have enjoyed growth in business performance. By integrating purchases, sales, distribution and other business operations, we are accelerating the growth of these outlets.

By contrast, X-Sell Inc. performed below par as a result of efforts made by competitors, despite being engaged in sales of overseas brands, an indispensible part of any You Me Town's array of products. Efforts to continue business operations of this consolidated subsidiary depend on effective counter-measures based on its amalgamation into Izumi.

Youme Card Co., Ltd. has expanded its operations by focusing on credit card-based shopping. As operators of restaurants and other dining establishments, Izumi Food Service Co. Ltd. established a platform of profitability by focusing on its niche, reducing accumulated losses. In addition, Izumi Techno Co., Ltd., specialists in store security, achieved higher sales revenue but suffered decreases in earnings as result of restructuring in the division of operations by Izumi.

CONSOLIDATED STATEMENTS OF INCOME

Izumi Co., Ltd. and its subsidiaries
For the years ended February 29, 2008 and February 28, 2007

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	**2008**
REVENUES:			
Net sales	**¥449,214**	¥426,830	**$4,286,802**
Other operating revenues	**21,485**	19,991	**205,029**
	470,699	446,821	**4,491,831**
COST OF SALES	**348,775**	330,456	**3,328,323**
Gross profit	**121,924**	116,365	**1,163,508**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12)	**97,126**	92,221	**926,863**
Operating income	**24,798**	24,144	**236,645**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**472**	305	**4,504**
Interest expense	**(1,611)**	(1,424)	**(15,374)**
Purchase discounts	**467**	442	**4,457**
Gain on sale of investments in securities	**4**	1	**38**
Gain on sale of property and equipment	**981**	5	**9,362**
Loss on sale or disposal of property and equipment	**(470)**	(326)	**(4,485)**
Foreign exchange gains	**114**	169	**1,088**
Impairment loss (Note 5)	**(1,134)**	(4,011)	**(10,822)**
Other, net	**(212)**	432	**(2,023)**
	(1,389)	(4,407)	**(13,255)**
Income before income taxes and minority interests	**23,409**	19,737	**223,390**
INCOME TAXES (Note 13):			
Current	**9,874**	9,501	**94,227**
Deferred	**317**	(3,043)	**3,025**
	10,191	6,458	**97,252**
Income before minority interests	**13,218**	13,279	**126,138**
MINORITY INTERESTS	**(447)**	121	**(4,266)**
Net income	**¥113,665**	¥ 13,158	**$ 130,404**

	Yen		U.S. dollars (Note 3)
PER SHARE:			
Net income (Note 2 (22)):			
Basic	**¥135.10**	¥251.80	**$1.29**
Diluted	**120.14**	223.88	**1.15**
Cash dividends applicable to the year	**16.00**	32.00	**0.15**

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

Izumi Co., Ltd. and its subsidiaries
As of February 29, 2008 and February 28, 2007

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	**2008**
ASSETS			
CURRENT ASSETS:			
Cash and bank deposits (Note 15)	**¥ 9,430**	¥ 11,614	**$ 89,990**
Short-term loans receivable	**12,560**	12,889	**119,859**
Notes and accounts receivable:			
Trade	**12,245**	10,814	**116,853**
Other	**3,239**	2,705	**30,909**
	15,484	13,519	**147,762**
Less-allowance for doubtful accounts	**(1,744)**	(1,685)	**(16,643)**
	13,740	11,834	**131,119**
Inventories	**26,219**	24,872	**250,205**
Deferred income taxes (Note 13)	**2,124**	2,757	**20,269**
Other current assets	**3,141**	3,190	**29,974**
Total current assets	**67,214**	67,156	**641,416**
INVESTMENTS AND ADVANCES:			
Investments in non-consolidated subsidiaries and affiliates	**1,728**	1,696	**16,490**
Investments in securities (Notes 4 and 7)	**6,091**	8,182	**58,126**
Other investments and advances	**2,026**	1,647	**19,334**
	9,845	11,525	**93,950**
PROPERTY AND EQUIPMENT (Notes 5, 6 and 7):			
Buildings and structures	**237,814**	223,842	**2,269,434**
Machinery, equipment, vehicles and other	**39,058**	37,044	**372,727**
	276,872	260,886	**2,642,161**
Less-accumulated depreciation	**(141,946)**	(132,738)	**(1,354,576)**
	134,926	128,148	**1,287,585**
Land	**106,766**	99,707	**1,018,856**
Construction in progress	**4,072**	2,604	**38,859**
	245,764	230,459	**2,345,300**
OTHER ASSETS:			
Fixed leasehold deposits	**19,038**	13,314	**181,678**
Deferred income taxes (Note 13)	**5,187**	4,159	**49,499**
Other	**8,540**	8,932	**81,496**
	32,765	26,405	**312,673**
	¥ 355,588	¥ 335,545	**$ 3,393,339**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	**2008**
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Short-term borrowings (Note 7)	**¥ 41,410**	¥ 43,585	**$ 395,171**
Current portion of long-term debt (Note 7)	**15,261**	24,060	**145,634**
Notes and accounts payable:			
Trade	**19,859**	16,865	**189,512**
Other	**15,121**	11,260	**144,298**
	34,980	28,125	**333,810**
Income taxes payable	**5,007**	5,136	**47,781**
Accrued bonuses to employees	**1,492**	1,452	**14,238**
Accrued bonuses to directors and corporate auditors	**12**	39	**115**
Allowance for point discounts	**700**	698	**6,680**
Allowance for loss on refund of interest received	**42**	—	**401**
Other current liabilities	**6,765**	7,046	**64,558**
Total current liabilities	**105,669**	110,141	**1,008,388**
LONG-TERM DEBT (Note 7)	**107,801**	79,537	**1,028,734**
ACCRUED SEVERANCE INDEMNITIES (Note 8)	**5,744**	5,672	**54,814**
LEASE DEPOSITS RECEIVED	**25,363**	23,416	**242,037**
DEFERRED INCOME TAXES (Note 13)	**1,010**	1,063	**9,638**
ALLOWANCE FOR LOSS ON GUARANTEES	**1,100**	1,100	**10,497**
OTHER LIABILITIES	**3,254**	9,611	**31,053**
Total liabilities	**249,941**	230,540	**2,385,161**
COMMITMENTS AND CONTINGENT LIABILITIES (Note 9)			
NET ASSETS (Note 11):			
Common stock, no par value:			
Authorized:			
February 29, 2008—195,243,000 shares			
February 28, 2007—195,243,000 shares			
Issued:			
February 29, 2008—123,117,420 shares	**19,614**	—	**187,174**
February 28, 2007— 61,558,710 shares	**—**	19,614	**—**
Additional paid-in capital	**22,078**	22,491	**210,688**
Retained earnings	**88,841**	76,888	**847,800**
Less–treasury stock at cost:			
February 29, 2008—28,443,812 shares	**(33,410)**	—	**(318,828)**
February 28, 2007—9,652,302 shares	**—**	(21,761)	**—**
Net unrealized gains on securities	**1,247**	2,334	**11,900**
Unrealized gains/losses on hedging derivatives, net of taxes	**(51)**	66	**(487)**
Less–foreign currency translation adjustments	**(83)**	(25)	**(792)**
Minority interests in consolidated subsidiaries	**7,411**	5,398	**70,723**
Total net assets	**105,647**	105,005	**1,008,178**
	¥355,588	¥335,545	**$3,393,339**

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Izumi Co., Ltd. and its subsidiaries
For the years ended February 29, 2008
and February 28, 2007 and 2006

		Millions of yen							
		Stockholders' equity				Revaluation and translation adjustments			
	Number of shares of common stock (thousands)	Common stock	Additional paid-in capital	Retained earnings	Treasury stock at cost	Net unrealized gains on securities	Unrealized gains/losses on hedging derivatives, net of taxes	Foreign currency translation adjustments	Minority interests in consolidated subsidiaries
BALANCE AT FEBRUARY 28, 2005	61,559	¥19,614	¥22,315	¥54,018	¥(11,404)	¥ 980	¥ —	¥ (4)	¥ —
Net income for the year				11,583					
Cash dividends				(1,361)					
Directors' and corporate auditors' bonuses				(12)					
Gain on appropriation of treasury stock			5		17				
Net unrealized gains on securities						1,047			
Foreign currency translation adjustments								0	
Increase in treasury stock, net					(8,266)				
Other increase				10					
BALANCE AT FEBRUARY 28, 2006	61,559	¥19,614	¥22,320	¥64,238	¥(19,653)	¥ 2,027	¥ —	¥ (4)	¥5,472
Net income for the year				13,158					
Cash dividends				(1,622)					
Directors' and corporate auditors' bonuses				(71)					
Gain on appropriation of treasury stock			171		617				
Increase in treasury stock, net					(2,725)				
Net adjustment to retained earnings due to change in scope of consolidation (Note 2 (1))				1,185					
Items other than changes in stockholders' equity						307	66	(21)	(74)
BALANCE AT FEBRUARY 28, 2007	61,559	¥19,614	¥22,491	¥76,888	¥(21,761)	¥ 2,334	¥ 66	¥(25)	¥5,398
Net income for the year				**13,665**					
Cash dividends				**(1,717)**					
Gain on appropriation of treasury stock			**22**		**91**				
Increase in treasury stock, net					**(11,740)**				
Net adjustment to retained earnings due to change in scope of consolidation (Note 2(1))				**5**					
Decrease due to purchase of treasury stock from consolidated subsidiaries			**(435)**						
Stock split	**61,558**								
Items other than changes in stockholders' equity						**(1,087)**	**(117)**	**(58)**	**2,013**
BALANCE AT FEBRUARY 29, 2008	**123,117**	**¥19,614**	**¥22,078**	**¥88,841**	**¥(33,410)**	**¥ 1,247**	**¥ (51)**	**¥(83)**	**¥7,411**

	Thousands of U.S. dollars (Note 3)							
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock at cost	Net unrealized gains on securities	Unrealized gains/losses on hedging derivatives, net of taxes	Foreign currency translation adjustments	Minority interests in consolidated subsidiaries
BALANCE AT FEBRUARY 28, 2007	$187,174	$214,629	$733,734	$(207,663)	$ 22,273	$ 630	$(239)	$51,513
Net income for the year			**130,404**					
Cash dividends			**(16,385)**					
Gain on appropriation of treasury stock		**210**		**868**				
Increase in treasury stock, net				**(112,033)**				
Net adjustment to retained earnings due to change in scope of consolidation (Note 2(1))			**47**					
Decrease due to purchase of treasury stock from consolidated subsidiaries		**(4,151)**						
Items other than changes in stockholders' equity					**(10,373)**	**(1,117)**	**(553)**	**19,210**
BALANCE AT FEBRUARY 29, 2008	**$187,174**	**$210,688**	**$847,800**	**$(318,828)**	**$ 11,900**	**$ (487)**	**$(792)**	**$70,723**

Consolidated statement of changes in net assets for the year ended February 28, 2006 is appended as a reference.
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 29, 2008 and February 28, 2007

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	**2008**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥ 23,409**	¥ 19,737	**$223,390**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**11,846**	11,200	**113,045**
Amortization on goodwill or negative goodwill	**(130)**	26	**(1,241)**
Provision for allowance for doubtful accounts	**352**	(860)	**3,359**
Interest and dividend income	**(472)**	(305)	**(4,504)**
Interest expense	**1,611**	1,424	**15,374**
Gain on sale of property and equipment	**(981)**	(5)	**(9,362)**
Loss on sale or disposal of property and equipment	**470**	326	**4,485**
Gain on sale or revaluation of investments in securities	**(4)**	(1)	**(38)**
Impairment loss	**1,134**	4,011	**10,822**
Increase in notes and accounts receivable	**(1,934)**	(1,999)	**(18,456)**
Increase in inventories	**(710)**	(1,200)	**(6,775)**
Increase in trade notes and accounts payable	**2,536**	931	**24,201**
Other, net	**(334)**	(1,225)	**(3,188)**
Sub-total	**36,793**	32,057	**351,112**
Interest and divided income received	**468**	306	**4,466**
Interest expense paid	**(1,603)**	(1,452)	**(15,297)**
Income taxes paid	**(10,410)**	(10,216)	**(99,342)**
Net cash provided by operating activities	**25,248**	20,695	**240,939**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for purchases of property and equipment	**(21,320)**	(16,273)	**(203,455)**
Payments for purchases of intangible assets	**(894)**	(725)	**(8,531)**
Payments for purchases of investments in securities	**(392)**	(578)	**(3,741)**
Proceeds from sale of property and equipment	**1,034**	369	**9,867**
Proceeds from sale of investments in securities	**5**	86	**48**
Acquisition, net of cash acquired	**275**	—	**2,624**
Other, net	**(6,125)**	1,909	**(58,450)**
Net cash used in investing activities	**(27,417)**	(15,212)	**(261,638)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase in short-term borrowings	**(2,475)**	10,081	**(23,619)**
Increase in long-term debts	**42,461**	5,700	**405,201**
Repayment of long-term debts	**(22,975)**	(18,625)	**(219,248)**
Payment for purchases of treasury stock	**(8,790)**	(2,725)	**(83,882)**
Dividends paid	**(1,737)**	(1,692)	**(16,576)**
Other, net	**(6,441)**	—	**(61,465)**
Net cash provided by (used in) financing activities	**43**	(7,261)	**411**
Effect of exchange rate changes on cash and cash equivalents	**(58)**	(18)	**(553)**
Net decrease in cash and cash equivalents	**(2,184)**	(1,796)	**(20,841)**
Cash and cash equivalents at beginning of year	**11,614**	12,251	**110,831**
Cash and cash equivalents of newly consolidated subsidiaries	**—**	1,159	**—**
Cash and cash equivalents at end of year	**¥ 9,430**	¥ 11,614	**$ 89,990**

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Izumi Co., Ltd. and its subsidiaries
For the years ended February 29, 2008 and February 28, 2007

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

As at February 29, 2008, the accompanying consolidated financial statements included the accounts of the Company and 21 of its all subsidiaries, of which four subsidiaries were newly consolidated due to acquisition, and four subsidiaries were excluded due to liquidation or merger. As at February 28, 2007, 21subsidiaries were consolidated.

Investments in all affiliates (20%-to-50% owned companies) are accounted for using the equity method. As at February 29, 2008, the Company had seven affiliates, of which one affiliate was included as a consolidated subsidiary due to acquisition. As at February 28, 2007, the Company had eight affiliates.

(2) Elimination and consolidation

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

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

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

(3) Cash and cash equivalents

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

(4) Translation of foreign currencies

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

Assets and liabilities of 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 net assets.

(5) Investments in securities

Available-for-sale securities with available fair market value are stated at fair value. Unrealized gains on these securities are reported as "Net unrealized gains on securities" in net assets at a net-of-tax amount, and unrealized losses on these securities are included in net profit or loss for the period. Available-for-sale securities with no available fair market value are stated at 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 and charged to the income statement.

(6) Derivatives

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

(7) Inventories

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

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

(8) Depreciation of property and equipment

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

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

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

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

In accordance with the amendment of Japanese corporate tax law ((Partial Amendment of the Income Tax Law etc., March 30,2007,Law No.6) and (Partial Amendment of the Corporation Tax Enforcement Ordinance, March 30, 2007,Ordinance No.83)),effective from the year ended February 29, 2008, the Company and its domestic consolidated subsidiaries have changed the depreciation method for the property and equipment acquired on and after April 1, 2007 to the method based on the amended Japanese corporate tax law. The impact of this change on the consolidated statements of income is immaterial.

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

(9) Intangible assets

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

(10) Impairment of fixed assets

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

The Companies applied this standard with effect from the year ended February 28, 2007. As a result of this application, income before income taxes and minority interests decreased by ¥4,011 million for the year ended February 28, 2007. Further details of the impairment loss is shown in Note 5.

(11) Allowance for doubtful accounts

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

(12) Accrued bonuses to employees

An allowance is made for bonuses to employees and is provided for based on the amount estimated to be payable to employees at the balance sheet date.

(13) Accrued bonuses to directors and corporate auditors

An allowance is made for bonuses to directors and corporate auditors and is provided based on the amount estimated to be payable to directors and corporate auditors at the balance sheet date.

Effective from the year ended February 28, 2007, the Company applied "Accounting standard for directors' bonus" (Accounting Standard Board of Japan Statement No.4 issued on November 29, 2005 by the Accounting Standards Board of Japan).

As a result of the application of this standard, operating income, income before income taxes and minority interests for the year ended February 28, 2007 decreased by ¥39 million.

(14) Allowance for point discounts

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

(15) Allowance for loss on refund of interest received

The allowance for loss on refund of interest received (the amount of interest that exceeds the ceiling rate imposed by the Interest Rate Restriction Law) is provided by the consolidated financial service subsidiary, Yume Card Co., Ltd. and is stated in amounts considered to be appropriate based on the subsidiary past refund experiences.

In October, 2006, "Application of auditing for provision of allowance for loss for reclaimed refund of interest in the accounting of consumer finance companies" of the industry audit practice committee report No.37 by the Japanese Institute of Certified Public Accounts was issued and was applied at the beginning of the year ended February 29, 2008.

As a result of the application of this report, operating income and income before income taxes and minority interests for the year ended February 29, 2008 decreased by ¥42 million ($401 thousand).

(16) Accrued severance indemnities

Accrued retirement indemnities to employees represent the estimated present value of projected benefit obligations in excess of the fair value of the plan assets except that, as permitted under Japanese accounting standards, unrecognized actuarial differences are amortized on a straight-line basis over 6 to 11 years from the next year in which they arise and unrecognized past service costs are amortized on a straight-line basis over 6 to 11 years from the year in which they arise.

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

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

(17) Allowance for loss on guarantees

The Company provides an allowance for potential loss on guarantees of loans from financial institutions taken by affiliates and others.

(18) Leases

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

(19) 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.

(20) Income taxes

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

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

(21) Accounting standard for presentation of net assets in the balance sheet

Effective from the year ended February 28, 2007, the Companies have applied "Accounting standards for presentation of net assets in the balance sheet (Accounting Standards Board of Japan Statement No.5)", and "Implementation guidance for Accounting standards for presentation of net assets in the balance sheet (Accounting Standards of Japan Guidance No.8)" both issued by the Accounting Standard Board of Japan on December 9, 2005.

"Net assets" in the balance sheets for this year is presented according to the revision of "Regulations concerning the Terminology, Form and Presentation Methods of Consolidated Financial Statements" dated on April 25, 2006.

Total stockholders' equity as at February 28, 2007, as presented previously incurred have accounted for ¥99,541 million.

(22) Net income and cash dividends per share

Basic earnings per share of common stock are based on the weighted average number of shares of common stock outstanding during each period. On March 1, 2007, the Company made a stock split (2 for 1). The net assets and net income per share for the years ended February 28, 2007, are as follows, on the assumption that this stock split took place at the beginning of this year:

	Yen
Per share:	2007
Net assets	¥959.49
Net income–basic	¥125.90
Net income–diluted	¥111.94

Net income-diluted reflects the potential dilution that could occur if securities were exercised. Net income-diluted per share of common stock assumes full conversion of the outstanding convertible bonds at the beginning of the year.

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

(23) Reclassification

Certain reclassifications of the accompanying consolidated financial statements as of and for the year ended February 28, 2007 have been made to conform to the 2008 presentation.

3. U.S. DOLLAR AMOUNTS

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥104.79= U.S. $1, the rate of exchange on February, 29, 2008 has been used in translation. The inclusion of such amounts is not intended to imply that the Japanese yen has been or could be readily converted, realized or settled in U.S. dollars at this rate or any other rate.

4. INVESTMENTS IN SECURITIES

(1) Available-for-sale securities at February 29, 2008 and February 28, 2007 which have readily determinable fair value are summarized as follows:

	Millions of yen					
	2008			2007		
	Acquisition cost	Carrying value	Gross unrealized gains (losses)	Acquisition cost	Carrying value	Gross unrealized gains (losses)
Securities with unrealized gains:						
Equity securities	**¥3,652**	**¥5,638**	**¥1,986**	¥3,757	¥7,637	¥3,880
Securities with unrealized losses:						
Equity securities	**550**	**308**	**(242)**	438	393	(45)
Total	**¥4,202**	**¥5,946**	**¥1,744**	¥4,195	¥8,030	¥3,835

	Thousands of U.S. dollars (Note 3)		
	2008		
Securities with unrealized gains:			
Equity securities	**$34,851**	**$53,803**	**$18,952**
Securities with unrealized losses:			
Equity securities	**5,248**	**2,939**	**(2,309)**
Total	**$40,099**	**$56,742**	**$16,643**

(2) Available-for-sale securities at February 29, 2008 and February 28, 2007, which have no readily determinable fair value, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	**2008**
Available-for-sale securities			
Non-listed equity securities	**¥145**	¥152	**$1,384**

(3) Total sales of available-for-sale securities for the years ended February 29, 2008 and February 28, 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	**2008**
Sales	**¥ 5**	¥86	**$48**
Gross realized gains	**4**	1	**38**
Gross realized losses	**—**	14	**—**

5. IMPAIRMENT LOSS

For the years ended February 29, 2008 and February 28, 2007, the Companies recognized impairment loss for the following group of assets.

2008		2007	
Description	Location (Prefecture)	Description	Location (Prefecture)
Operating stores (19 groups)	Hiroshima, Okayama, Fukuoka, Others	Operating stores (42 groups)	Hiroshima, Okayama, Fukuoka, Others
Rental assets (1 groups)	Hiroshima	Rental assets (2 groups)	Hiroshima, Yamaguchi
Assets for common use (1 group)	Hiroshima	Idle assets (1 group)	Kagawa
Idle assets (1 group)	Kagawa		

Classification	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	**2008**
Land	**¥ 323**	¥2,020	**$ 3,082**
Buildings and structures	**486**	1,710	**4,638**
Others	**325**	281	**3,102**
Total	**¥1,134**	¥4,011	**$10,822**

The Companies group their fixed assets by the minimum cash-generating unit ("CGU"), such as stores, rental assets and idle assets by individual. Impairment loss was recognized and recorded in "Other income (expenses)" in accordance with new "Accounting Standard for Impairment of Fixed Assets." An impairment loss is recognized when the carrying amount of assets in a CGU exceeds the recoverable value of the assets. This may be triggered by land that has significantly depreciated in value, CGUs that will be closed in the near future or which have made consecutive operating losses.

Recoverable value of the group of assets is the higher amount of net selling price or value in use. Net selling price was primarily calculated based on independent appraisals, and value in use was calculated by discounting estimated future cash flows to which 4.07% to 4.36% and 4.07% to 4.21% discount rate was applied at February 29, 2008 and February 28, 2007.

6. LEASES

(1) As lessee:

a) The acquisition cost, accumulated depreciation, accumulated impairment loss and net book value of leased assets at February 29, 2008 and February 28, 2007, if capitalized, are summarized as follows:

	Millions of yen					
	2008			2007		
	Equipment and vehicles	Other	Total	Equipment and vehicles	Other	Total
Amount to:						
Acquisition cost	**¥ 666**	**¥ 1,896**	**¥ 2,562**	¥ 2,665	¥ 3,623	¥ 6,288
Accumulated depreciation	**(634)**	**(1,535)**	**(2,169)**	(2,470)	(2,996)	(5,466)
Accumulated impairment loss	**—**	**(7)**	**(7)**	—	(15)	(15)
Net book value	**¥ 32**	**¥ 354**	**¥ 386**	¥ 195	¥ 612	¥ 807

	Thousands of U.S. dollars (Note 3)		
	2008		
Amount to:			
Acquisition cost	**$ 6,356**	**$ 18,093**	**$ 24,449**
Accumulated depreciation	**(6,050)**	**(14,648)**	**(20,698)**
Accumulated impairment loss	**—**	**(67)**	**(67)**
Net book value	**$ 306**	**$ 3,378**	**$ 3,684**

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

b) Amounts of outstanding future lease payments and allowance for impairment loss at February 29, 2008 and February 28, 2007, which include the interest portion, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	**2008**
Due within one year	**¥241**	¥548	**$2,300**
Due after one year	**145**	259	**1,384**
Total	**386**	¥807	**3,684**
Allowance for impairment loss	**¥ 7**	¥ 15	**$ 67**

c) Lease payments, reversal of allowance for impairment loss on leased property, depreciation expense and impairment loss for the years ended February 29, 2008 and February 28, 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	**2008**
Lease payments	**¥430**	¥924	**$4,103**
Reversal of allowance for impairment loss on leased property	**10**	13	**95**
Depreciation expense	**430**	924	**4,103**
Impairment loss	**1**	28	**10**

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

(2) As lessor:

a) The acquisition cost, accumulated depreciation and net book value of leased assets at February 29, 2008 and February 28, 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	**2008**
	Equipment and vehicles	Equipment and vehicles	Equipment and vehicles
Amount to:			
Acquisition cost	**¥ 89**	¥210	**$ 849**
Accumulated depreciation	**(40)**	(39)	**(381)**
Net book value	**¥ 49**	¥171	**$ 468**

b) Amounts of outstanding future income at February 29, 2008 and February 28, 2007, which include the interest portion, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	**2008**
Due within one year	**¥ 16**	¥ 39	**$153**
Due after one year	**38**	147	**362**
Total	**¥ 54**	¥186	**$515**

c) Lease income and depreciation expense for the years ended February 29, 2008 and February 28, 2007 are as follows.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	**2008**
Lease income	**¥16**	¥22	**$153**
Depreciation expense amount	**15**	21	**143**

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings are primarily represented by bank overdrafts, bearing interest at the weighted average interest rates of 1.05% and 0.98% at February 29, 2008 and February 28, 2007, respectively.

Long-term debt at February 29, 2008 and February 28, 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	**2008**
Loans from banks and insurance companies, due from March 2008 to February 2018 with weighted average interest rates of 1.53% and 1.42% at February 29, 2008 and February 28, 2007, respectively.			
Secured	**¥ 53,508**	¥ 51,630	**$ 510,621**
Unsecured	**50,477**	32,777	**481,697**
	103,985	84,407	**992,318**
0.00% Japanese yen unsecured convertible bonds due July 2009	**19,077**	19,190	**182,050**
	123,062	103,597	**1,174,368**
Less, portion due within one year	**(15,261)**	(24,060)	**(145,634)**
	¥107,801	¥ 79,537	**$1,028,734**

The aggregate annual maturities of long-term debt outstanding at February 29, 2008 are as follows:

Years ending the last day of February:	Millions of yen	Thousands of U.S. dollars (Note 3)
2010	**¥ 28,324**	**$ 270,293**
2011	**11,587**	**110,574**
2012	**11,548**	**110,201**
2013	**12,206**	**116,481**
2014 and thereafter	**44,136**	**421,185**
Total	**¥107,801**	**$1,028,734**

Assets pledged as collateral and related secured debt at February 29, 2008 and February 28, 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	**2008**
Assets pledged as collateral:			
Land	**¥ 76,372**	¥ 65,567	**$ 728,810**
Buildings	**73,628**	71,175	**702,624**
Investments in securities	**911**	1,328	**8,694**
Total	**¥150,911**	¥138,070	**$1,440,128**
Debt secured by the above:			
Short-term borrowings	**¥ 5,255**	¥ 10,050	**$ 50,148**
Other current liabilities	**1,919**	1,002	**18,313**
Long-term debt	**53,508**	51,630	**510,621**
Other liabilities	**1,161**	10,354	**11,079**
Total	**¥ 61,843**	¥ 73,036	**$ 590,161**

8. RETIREMENT BENEFIT PLANS

Employees of the Companies with more than one year's service are entitled to receive lump-sum indemnities upon retirement. The amount of the benefits is determined by reference to current basic rate of pay, length of service and conditions under which retirement occurs.

The funded status of the Companies at February 29, 2008 and February 28, 2007 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	**2008**
Projected benefit obligation	**¥4,657**	¥4,556	**$44,442**
Unrecognized net actuarial differences	**76**	(34)	**725**
Unrecognized past service costs	**201**	262	**1,918**
Accrued severance indemnities	**¥4,934**	¥4,784	**$47,085**

Pension and severance costs of the Companies included the following components for the years ended February 29, 2008 and February 28, 2007:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	**2008**
Service costs	**¥382**	¥399	**$3,645**
Interest costs	**82**	80	**783**
Realized net actuarial losses/(gains)	**(6)**	17	**(57)**
Amortization of unrecognized past service costs	**(61)**	(61)	**(582)**
Other	**190**	130	**1,813**
Net periodic pension costs	**¥587**	¥565	**$5,602**

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

Assumptions used in the accounting for the defined benefit plans for the years ended February 29, 2008 and February 28, 2007 are as follows:

	2008	2007
Discount rate	**1.5%–2.0%**	1.5%–2.0%

9. COMMITMENTS AND CONTINGENT LIABILITIES

The Company was contingently liable for guarantees of loans from financial institutions taken out by affiliates and others, totaling ¥2,360 million ($22,524 thousand) and ¥2,641 million at February 29, 2008 and February 28, 2007, respectively.

10. DERIVATIVE FINANCIAL INSTRUMENTS

(1) Status of transactions

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 to interest rate fluctuation and to adapt the long-term fixed interest rate to the current rate in line with changes in the market rate. The Companies do not use derivative instruments for speculative trading purposes.

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

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

(2) Market value of transactions

The Companies had the following derivative contracts outstanding at February 28, 2007:

	Millions of yen		
	2007		
	Contract amount	Fair market value	Unrealized gains
Currency option contracts	¥1,732	¥91	¥91

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

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

The table for 2008 is not listed due to derivative transaction with hedge accounting applied.

11. NET ASSETS

Through May 1, 2006, the Company and its domestic subsidiaries are subject to the Commercial Code of Japan (the "Code"). Under the Code, the entire amount of the issue price of new shares issued is required to be capitalized as stated common stock, although the Company may, by resolution of its Board of Directors, capitalize an amount not exceeding one half of the issue price of the new shares as additional paid-in capital.

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

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

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

On May 1, 2006, a new corporate law (the "Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the years ending on or after May 1, 2006. The significant changes in the Law that affect financial and accounting matters are summarized below.

a) ***Dividends:*** The Law allows Japanese companies to pay dividends at any time during the year in addition to the year-end dividend upon resolution at the stockholders' meeting. For Japanese companies that meet certain criteria such as, having the Board of Directors, having independent auditors, having the Board of Corporate Auditors, and the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation. The Law permits Japanese companies
to distribute dividends-in-kind (non-cash assets) to stockholders subject to certain limitations and additional requirements. The Law continues to provide certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the stockholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b) ***Increase/decrease and transfer of common stock, reserve and surplus:*** The Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (of retained earnings) or as additional paid-in capital (of capital surplus) depending on the equity account charged upon the payment of such dividends until the total aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of threshold that the Code provided. The Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the stockholders.

c) ***Treasury stock:*** The Law continues to provide for Japanese companies to repurchase/dispose of treasury stock just as the Code did. The amount of treasury stock purchased cannot exceed the amount available for distribution to the stockholders which is determined by specific formula.

(1) Type and number of issued shares

Type of stock	Number of shares as of February 28, 2007	Number of shares increased	Number of shares decreased	Number of shares as of February 29, 2008
Common stock	61,558,710	61,558,710	—	**123,117,420**

The increase of issued shares is due to stock split.

Type of stock	Number of shares as of February 28, 2006	Number of shares increased	Number of shares decreased	Number of shares as of February 28, 2007
Common stock	61,558,710	—	—	61,558,710

(2) Type and number of shares of treasury stock

Type of stock	Number of shares as of February 28, 2007	Number of shares increased	Number of shares decreased	Number of shares as of February 29, 2008
Common stock	9,652,302	18,866,068	74,558	**28,443,812**

The increase in treasury stock of 9,652,302 shares is due to stock split. The increase in treasury stock of 5,165,800 shares and 4,403,089 shares is from purchases in the open market and from consolidated subsidiaries, respectively. The increase in treasury stock of 4,877 shares is from purchases of non-full unit stocks. The decrease in treasury stock is from distribution of treasury stock when exercising stock warrants.

Type of stock	Number of shares as of February 28, 2006	Number of shares increased	Number of shares decreased	Number of shares as of February 28, 2007
Common stock	9,255,077	657,184	259,959	9,652,302

The increase in treasury stock is from purchases in the open market and purchases of non-full unit stocks. The decrease in treasury stock is from distribution of treasury stock when exercising stock warrants.

(3) Stock warrants

		Number of shares subject to stock warrants			
Type of stock warrants	Type of stock	Number of shares as of February 28, 2007	Number of shares increased	Number of shares decreased	Number of shares as of February 29, 2008
Unsecured convertible bonds	Common stock	6,331,243	6,331,243	74,562	**12,587,924**

The balance of stock warrants as of February 29, 2008 is ¥19,077 million ($182,050 thousand). The amount payable on the stock warrant exercise date is ¥1,515.5 ($14.46). The increase in stock warrants is due to stock split. The decrease in stock warrants is due to exercise.

		Number of shares subject to stock warrants			
Type of stock warrants	Type of stock	Number of shares as of February 28, 2006	Number of shares increased	Number of shares decreased	Number of shares as of February 28, 2007
Unsecured convertible bonds	Common stock	6,591,224	—	259,981	6,331,243

The balance of stock warrants as of February 28, 2007 is ¥19,190 million. The amount payable on the stock warrant exercise date is ¥3,301. However, on March 1, 2007, a stock split (2 for 1) was made, resulting in an amount payable on the stock warrant exercise date of ¥1,515.5.

(4) Matters related to dividends

a) Dividend payments

Resolution	Type	Millions of yen: Total amount of cash dividends	Yen: Dividend per share	Record date	Effective date	Thousands of U.S dollars (Note 3): Total amount of cash dividends	U.S dollars (Note 3): Dividend per share
May 24, 2007 Stockholders' meeting	Common stock	¥858	¥16.00	February 28, 2007	May 25, 2007	$8,188	$0.15
October 11, 2007, Board of directors' meeting	Common stock	¥858	¥ 8.00	August 31, 2007	October 26, 2007	$8,188	$0.08

Resolution	Type	Millions of yen: Total amount of cash dividends	Yen: Dividend per share	Record date	Effective date
May 25, 2006 Stockholders' meeting	Common stock	¥757	¥14.00	February 28, 2006	May 26, 2006
October 11, 2006, Board of directors' meeting	Common stock	¥865	¥16.00	August 31, 2006	October 26, 2006

b) Dividends whose record date is within the year ended February 29, 2008, but effective after the year-end

Resolution	Type	Millions of yen: Total amount of cash dividends	Yen: Dividend per share	Record date	Effective date	Thousands of U.S dollars (Note 3): Total amount of cash dividends	U.S dollars (Note 3): Dividend per share
May 22, 2008 Stockholders' meeting	Common stock	¥757	¥8.00	February 29, 2008	May 23, 2008	$7,228	$0.08

Resolution	Type	Millions of yen: Total amount of cash dividends	Yen: Dividend per share	Record date	Effective date
May 24, 2007 Stockholders' meeting	Common stock	¥858	¥16.00	February 28, 2007	May 25, 2007

12. DETAILS OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The following are the major elements of "operating expenses" for the years ended February 29, 2008 and February 28, 2007.

	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 3) 2008
Advertising and promotion	**¥ 6,095**	¥ 5,896	**$ 58,164**
Shipping expense	**4,703**	4,095	**44,880**
Allowance for doubtful accounts	**865**	776	**8,255**
Salaries and bonus expense	**33,887**	32,595	**323,380**
Accrued bonus	**1,501**	1,544	**14,324**
Welfare expense	**5,612**	5,673	**53,555**
Pension costs	**554**	541	**5,287**
Real estate rental fees	**9,031**	9,268	**86,182**
Utilities expense	**5,804**	5,269	**55,387**
Depreciation expense	**10,927**	10,326	**104,275**

13. 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 40.4% for the years ended February 29, 2008 and February 28, 2007.

The reconciliation of the difference between the statutory income tax rates and the effective income tax rates for the year ended February 29, 2008 and February 28, 2007 is as follows:

	2008	2007
Statutory income tax rate	**40.4%**	40.4%
Increase (decrease) in tax resulting from:		
Entertainment expenses and other which are permanently non-tax-deductible	**0.1%**	0.1%
Dividend income and other income which is permanently non-taxable	**(0.1%)**	(0.2%)
Per capita inhabitant taxes and other	**0.9%**	1.1%
Valuation allowance	**0.1%**	(8.8%)
Amortization of goodwill	**(0.3%)**	—
Equity in earnings of affiliates	**(0.3%)**	—
Tax expense from acquiring parent company's shares from consolidated subsidiaries	**2.9%**	—
Other	**(0.2%)**	(0.1%)
Effective income tax rate	**43.5%**	32.7%

The significant components of deferred tax assets and liabilities at February 29, 2008 and February 28, 2007 are as follows:

	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 3) 2008
Deferred tax assets:			
Allowance for doubtful accounts	**¥ 338**	¥ 222	**$ 3,225**
Property and equipment	**67**	237	**639**
Intangible assets	**291**	276	**2,777**
Investments in securities	**255**	88	**2,433**
Accrued enterprise tax	**417**	378	**3,979**
Accrued bonus	**815**	1,091	**7,777**
Accrued severance indemnities	**2,320**	2,299	**22,140**
Fair value adjustments of consolidated subsidiaries	**355**	355	**3,388**
Evaluation losses on investments in consolidated subsidiaries	**36**	1,901	**344**
Tax loss carried forward	**3,769**	3,109	**35,967**
Excess depreciation and amortization	**478**	407	**4,562**
Allowance for point discounts	**283**	283	**2,701**
Impairment loss	**1,561**	1,334	**14,896**
Provision for loss on guarantees	**459**	459	**4,380**
Other	**1,274**	426	**12,159**
Total	**12,718**	12,865	**121,367**
Valuation allowance	**(4,103)**	(4,082)	**(39,155)**
Total	**8,615**	8,783	**82,212**
Deferred tax liabilities:			
Reserve for special depreciation	**(156)**	(176)	**(1,489)**
Reserve for advanced depreciation of fixed assets	**(203)**	(210)	**(1,937)**
Fair value adjustments of consolidated subsidiaries	**(985)**	(985)	**(9,400)**
Unrealized gains on available-for-sale securities	**(799)**	(1,549)	**(7,625)**
Unrealized gains on property and equipment	**(10)**	(10)	**(95)**
Other	**(161)**	(0)	**(1,536)**
Total	**(2,314)**	(2,930)	**(22,082)**
Net deferred tax assets	**¥ 6,301**	¥ 5,853	**$ 60,130**

14. RELATED PARTY TRANSACTIONS

For the years ended February 29, 2008 and February 28, 2007, the Company purchased ¥11,757 million ($112,197 thousand) and ¥12,030 million of merchandise from Japan Logistics Industry Co., Ltd. ("JLI"), respectively. Representative Director and Vice President of JLI, Mr. Yasuaki Yamanishi, is also a representative director and the President of the Company and owns 2.13% of the Company's voting stock. At February 29, 2008 and February 28, 2007, the Company had accounts payable of ¥1,360 million ($12,974 thousand) and ¥1,176 million, and deposit guarantee money of ¥50 million and ¥50 million ($477 thousand) to JLI, respectively.

For the year ended February 28, 2007, the Company purchased the Company's subsidiary stocks from Mr. Hiromasa Takanishi's relatives for ¥57 million. Mr. Hiromasa Takanishi is a Representative Director and the Vice President of the Company and owns 0.03% of the Company's voting stock. The purchase price was based on the latest selling price.

For the years ended February 29, 2008 and February 28, 2007, the Company leased the Higashi-Hiroshima shop building from Izumi Kosan K.K. ("Izumi") with lease payments of ¥341 million ($3,254 thousand). Izumi is a majority-owned subsidiary of a company which is wholly owned by Mr. Yasuaki Yamanishi and his relatives and owns 4.23% of the Company's voting stock. The lease terms are the same as those for third parties. At February 29, 2008 and February 28, 2007, the Company paid guarantee money of ¥1,269 million ($12,108 thousand) and ¥1,745 million respectively, to Izumi. These amounts were determined based on area occupied by the Company relative to the total area of the building.

15. SUPPLEMENTARY CASH FLOW INFORMATION

Cash and cash equivalents at February 29, 2008 and February 28, 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	**2008**
Cash and bank deposits	**¥9,430**	¥11,614	**$89,990**

16. Subsequent Event

(Mergers with consolidated subsidiaries)

The Company at its Board of Directors meeting held on April 11, 2008, reached a resolution to merge through absorption with X-sell Co., Ltd. and Yume Town Kumamoto Co., Ltd.

1. Merger method

The Company remains as a surviving company and X-sell Co., Ltd. and Yume Town Kumamoto Co., Ltd. are dissolved. In accordance with the provisions on simplified organizational restructuring set out in the Corporate Law, the Company and Yume Town Kumamoto Co., Ltd. conduct the merger without formal approval of the merger agreement by resolution of the stockholders meeting. X-sell Co., Ltd. obtains approval for the merger agreement by resolution of the stockholders meeting in August, 2008.

2. Merger schedule

Merger agreement	July, 2008
Board of directors	July, 2008
Stockholders meeting	August, 2008
Effective date	September, 2008

3. Merger ratio

Yume Town Kumamoto Co., Ltd is a wholly owned subsidiary of the Company, no issuance of new stock are made under the merger. The merger ratio of X-sell Co., Ltd. would be estimated by an accounting office as a third party.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Izumi Co., Ltd. and consolidated subsidiaries as of February 29, 2008, and the related consolidated statements of income, changes in net assets and cash flows for the year then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Izumi Co., Ltd. and consolidated subsidiaries as of February 29, 2008, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended February 29, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

KPMG AZSA & Co.

Hiroshima, Japan
May 22, 2008

DIRECTORS AND CORPORATE AUDITORS

CHAIRMAN

Yoshimasa Yamanishi

PRESIDENT

Yasuaki Yamanishi

MANAGING DIRECTOR

Tsunehiko Yoshida

DIRECTOR

Yuichiro Kajiwara

FULL-TIME CORPORATE AUDITOR

Kuniaki Kawamoto

CORPORATE AUDITORS

Jiro Matsubara
Yasuyuki Tudo

(as of May 22, 2008)

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, 2008)

SECURITIES TRADED

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

TRANSFER AGENT AND REGISTRAR

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

ANNUAL MEETING OF STOCKHOLDERS

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

AUDITORS

KPMG AZSA & Co.

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