

Notes to the Consolidated Financial Statements

THE SEIYU, LTD. AND SUBSIDIARIES

I. Basis of Presenting the Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from the accounts maintained by THE SEIYU, LTD. (the "Company") and its consolidated subsidiaries in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles generally accepted in Japan.

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

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥134.35=U.S.\$1, the rate of exchange on 28th February 2002 has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this or any other rate.

Consolidated statements of cash flows have been required to be prepared with effect from the year ended 28th February 2001, in accordance with a new accounting standard. This new standard specifies a format, which differs from that used in earlier years, under the previous accounting practice. The consolidated statement of cash flows for the year ended 29th February 2000 has therefore been presented separately from the consolidated statements of cash flows for the years ended 28th February 2002 and 2001.

Certain of the 2001 and 2000 accounts have been reclassified to conform to the 2002 financial statement presentation.

2. Summary of Significant Accounting Policies

(a) Scope of Consolidation

The Company had 39 (45 for 2001) majority-owned subsidiaries at 28th February 2002. The consolidated financial statements include the accounts of the Company and 37 (43 for 2001) of its subsidiaries (together referred to as the "Companies").

The major consolidated subsidiaries as at and for the year ended 28th February 2002 are listed below:

	Direct and indirect ownership percentage at 28th February 2002
Wakana Co., Ltd.	89.0 per cent.
Pacific Tour Systems Corp.	98.0 per cent.
Smile Corp.	77.6 per cent.
Seiyu Europa B.V. (*1)	100.0 per cent.
SSF Netherlands B.V. (*1)	100.0 per cent.
Seiyu International Finance B.V. (*1)	100.0 per cent.
Super Maruzen Co., Ltd.	100.0 per cent.
S.S.V. Inc.	50.8 per cent.
The SCC, Ltd.	100.0 per cent.
Sunny Co., Ltd. (*2)	47.7 per cent.
Martha Stewart Japan, Inc. (*2)	80.0 per cent.
Tokyo City Finance Co., Ltd. ("TCF")(*3)	46.0 per cent.

(*1) Has a fiscal year end of 31st December

(*2) Newly consolidated with effect from the year ended 28th February 2002

(*3) TCF continue to be included in the consolidation for the year ended 28th February 2002, as they have a significant effect on the consolidated financial statements.

Seiyu Foods Co., Ltd., L.L. Bean Japan Inc. and Tokyo City Finance (Asia) Ltd. were excluded due to liquidation. S.S. Landic Inc. was merged with The SCC, Ltd. and SS Communications was excluded due to a decrease of the interest.

All except for 8 of the consolidated subsidiaries, have the same fiscal

year end as that of the Company, which ends on the last day of February of each year. The accounts of these subsidiaries have been consolidated by using the account balances for this fiscal year end. Necessary adjustments for consolidation have been made with regard to significant transactions, which have taken place during the period between the closing dates of the financial years of the other 8 consolidated subsidiaries and that of the Company.

Yurakusya Inc. and Nicoh Inc. changed their year-end to 28th February from 31st January and 20th February, respectively.

The remaining unconsolidated subsidiaries whose combined assets, net sales, net income and retained earnings in aggregate are not significant compared with those in the consolidated financial statements of the Companies, therefore, have not been included in the accounts of the Company.

(b) Elimination of Inter-Company Accounts

For the purposes of preparing the consolidated financial statements, all significant inter-company transactions, account balances and unrealized profits among the Companies, after adjustment for minority interests, have been eliminated.

Any difference between the cost of an investment in a subsidiary and the amount of underlying equity in net assets of the subsidiary, which may arise in connection with the elimination of the investment, is treated as an asset or a liability, as the case may be, and is amortized over a period of five years on a straight-line basis.

(c) Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The Company had 2 (2 for 2001) unconsolidated subsidiaries and 12 (9 for 2001) affiliates (meaning companies where the share capital is 20 per cent to 50 per cent directly or indirectly owned by the Company) at 28th February 2002. The equity method is applied to investments in 11 (8 for 2001) affiliates.

The major affiliates which have been accounted for by the equity method are listed below:

	Direct and indirect ownership percentage at 28th February 2002
Ryubo Industry, Ltd.	50.0 per cent.
Ryubo Store, Ltd.	50.0 per cent.
MUJI (Hong Kong) Company Limited. (*1)	49.0 per cent.
Kokubu System Gift Corp. (*1)	50.0 per cent.
SS Communications, Inc. (*1)	20.0 per cent.

(*1) New affiliates with effect from the year ended 28th February 2002

The investments in the remaining unconsolidated subsidiaries and affiliates are stated at cost, as they do not have a material effect on the consolidated financial statements.

(d) Foreign Currency Transactions

Until the year ended 28th February 2001, translations of assets and liabilities and revenues and expenses were made at the current rate, while the translations of capital stock were made using the historical rates. Effective from the year ended 28th February 2002, the Company and its subsidiaries adopted the new Japanese accounting standard for foreign currency translation, which is effective for periods beginning on or after 1st April 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.

As a result of adoption of the new standard, loss from consolidated operations before income taxes decreased by ¥1,400 million (\$10,422 thousand) as compared with the amount which would have been reported if the previous standard had been applied consistently.

**(e) Translation of Foreign Currency Financial Statements
(Accounts of an Overseas Subsidiary and an Affiliate)**

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese Yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate.

Until the year ended 28th February 2001, differences arising from such translations were shown as "Adjustment on Foreign Currency Statement Translation" as either asset or liability in the consolidated balance sheet.

Effective from the year ended 28th February 2002, such differences are shown as "Foreign Currency Translation Adjustment" as a separate component of shareholders' equity in accordance with the revised accounting standard for foreign currency transactions.

(f) 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 fluctuations in value.

(g) Inventories

Inventories are stated at cost, which is determined principally by the retail cost method for merchandise, by the last purchase invoice price method for fresh food and by the last purchase invoice price method (approximating to market value) for supplies.

The cost of merchandise held by certain consolidated subsidiaries, however, is determined by using the individual cost method.

(h) Marketable of Securities and Investment in Securities

Until the year ended 28th February 2001, marketable securities (current portfolio) and investments in securities (non-current portfolio), both quoted and unquoted, are valued at cost except for those held by certain subsidiaries which are valued on the lower of cost or market value basis.

Effective from the year ended 28th February 2002, the Company and its subsidiaries adopted the new Japanese accounting standard for financial instruments, which is effective for periods beginning on or after 1st April 2000.

The standard requires all applicable securities to be classified and accounted for, depending on management's intent as follows:

i) Trading securities, which are held for the purpose of generating profits on short-term differences in prices, are stated at fair value, valued at market prices at balance sheet date.

ii) Held-to-maturity debt securities, that the Company and its subsidiaries have intent to hold to maturity, are determined by the amortized cost method.

iii) Available-for-sale securities, which are not classified as either of aforementioned securities, are reported at cost.

Available-for-sale and hedging activities securities for which market quotations are unavailable are stated at cost.

As a result of the adoption of the accounting standards, marketable securities at the beginning of the fiscal year decreased and investment in securities increased by ¥10,344 million (\$ 76,993 thousand), respectively.

(i) Derivatives and Hedging Activities

The Companies use derivative financial instruments in order to manage their exposures to interest and foreign exchange rate fluctuation. The Companies utilize interest swaps and forward exchange contracts to the risk of interest and foreign exchange rate fluctuation. The Companies do not enter into derivatives for trading purposes or speculative purposes.

Effective 1st March 2001, the Companies adopted a new accounting standard for financial instruments and a revised accounting standard for foreign currency transactions. These standards require that a) all derivatives be recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income and b) for derivatives used for hedging purposes, if derivative qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until the maturity of the hedged transactions.

As a result of the adoption of the new accounting standards for financial instruments, ordinary income decreased and loss before income tax increased by ¥459 million (\$3,415 thousand), when compared with the amounts based on the accounting standards applied until the previous period, respectively.

(j) Property and Equipment

Depreciation is computed generally by the declining-balance method, at rates based on the estimated useful lives of assets. The range of useful lives is principally from 6 to 39 years for buildings and structures and from 3 to 17 years for machinery, equipment, furniture and tools. Property and equipment held by certain consolidated subsidiaries is depreciated by the straight-line method over the estimated useful lives.

(k) Repairs and Maintenance

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

(l) Deferred Charges and Other Assets

The amortization of intangible assets is computed on the straight-line basis, principally over 10 or 15 years.

Expenditure relating to computer software developed for internal use is charged to income as incurred, except if it contributes to the generation of income or to future cost savings, in which case it is capitalized and amortized using the straight-line method over its estimated useful life (5 years).

(m) Accounting for Store Leases

In connection with the leasing of a store, the Companies generally enter into an agreement whereby the Companies advance to the lessor the amount of the construction costs of the building and, upon completion of construction, lease the land and building for 20 years for rental fees, which are renegotiated every 3 years. The Companies account for such leases on an operating-lease basis.

After a period usually of about one-half of the lease term, the Companies are entitled to use the loans previously made to the owners as rental payments in installments over the remaining life of the lease.

(n) Accounting for Finance Leases

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

(o) Allowance for Doubtful Accounts

An allowance for doubtful accounts against normal receivables, which is receivables from debtors who are not at risk of defaulting on loans, is estimated by applying the historical credit loss rates. An allowance for doubtful receivables, which is receivables from debtors who are, or would be at risk of defaulting on loans, is estimated individually as the recorded receivables less cash inflows from foreclosures or guarantors.

(p) Accrued Bonuses for Employees

The Company and some consolidated subsidiaries changed their calculation period for bonus payment during the fiscal year ended 28th February 2002.

As a result of the revision, operating and ordinary income increased and loss before income tax decreased by ¥2,826 million (\$21,038 thousand) respectively, as compared with the conventional accounting method.

(q) Accrued Employees' Severance Indemnities

Until the year ended 28th February 2001, the Companies accrued for severance indemnity costs at an amount equal to 40 per cent of the liabilities that the Companies would be required to pay if all eligible employees voluntarily terminated their employment at the relevant balance sheet dates. The reserve in respect of accrued severance indemnities was not funded (See Note 8).

Effective from the year ended 28th February 2002, the Company and its subsidiaries adopted the new Japanese accounting standard for retirement benefits, which is effective for periods beginning on or after 1st April 2000. In accordance with the new standard, the reserve for retirement benefits as of 28th February 2002 represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets except that, as permitted under the new standard, the unrecognized transition amount arising from adopting the new standard of ¥32,230 million (\$239,896 thousand) at 1st March 2001 (the beginning of the year) has been amortized on a straight-line basis over 5 years, and unrecognized actuarial differences are amortized on a straight-line basis over a period of 9 years.

As a result of adopting the new standard, the net periodic pension expense for the year ended 28th February 2002 decreased by ¥894 million (\$6,652 thousand) and loss from consolidated operations before income taxes increased by ¥5,402 million (\$40,211 thousand), as compared with the amounts that would have been reported if the previous standard had been applied consistently.

(r) Accrued Retirement Benefits for Directors and Corporate Auditors

The Company has provided for the accrued retirement benefits for directors and corporate auditors at an amount equivalent to 100% of such benefits the Company would be required to pay, had all eligible directors and corporate auditors retired at the balance sheet date.

(s) Income Taxes

Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitants taxes and enterprise taxes. In the year ended 28th February 2001, the Company and its subsidiaries adopted deferred tax accounting in accordance with the amended

regulation for preparation of consolidated financial statements. Income taxes were determined using the assets and liabilities approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements. The cumulative effect of adopting deferred tax accounting at 1st March 2000 was charged to 'Deficit'.

In the year ended 29th February 2000, income taxes of the Company and its domestic subsidiaries were provided for at the amount currently payable based on tax returns filed with the tax authorities.

(t) Dividends and Appropriation of Retained Earnings

Under the Japanese Commercial Code and the Articles of Incorporation of the Companies, the plan for the appropriation of retained earnings (primarily for cash dividend payments) is proposed by the Board of Directors and is required to be approved at a shareholders' meeting which must be held within three months after the end of each fiscal year. The appropriation of retained earnings reflected in the accompanying consolidated financial statements represents the result of such appropriations applicable to the immediately preceding fiscal year, which were approved at the shareholders' meeting and disposed of during the following year.

Dividends are paid to shareholders on the register at the end of the fiscal year, after the approval by shareholders of the appropriation.

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 appropriation previously cited.

(u) Net Income (Loss) and Dividends per Share

Net income (loss) per share is based upon the weighted average number of shares outstanding during each year. The fully diluted net income per share calculation assumes conversion of all convertible bonds outstanding with the related reduction in interest expenses.

(v) Accounting for Consumption Tax

Consumption tax is imposed at the flat rate of 5 per cent on all domestic consumption of goods and services (with certain exemptions). The consumption tax imposed on the Company's sales to customers is withheld by the Company at the time of sale and is subsequently paid to the national government. Consumption tax withheld upon sale is not included in "Net sales" and consumption tax payable by the Company on the purchases of goods and services from vendors is not included in "Costs and Expenses" in the accompanying consolidated statements of income. The net balance of consumption tax withheld and payable is included in "Other current liabilities" in the accompanying consolidated balance sheets.

3. Cash and Cash Equivalents

Cash and cash equivalents as at 28th/29th February 2002, 2001 and 2000 consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	28th/29th February		28th February	
	2002	2001	2000	2002
Cash and time deposits	¥42,347	¥67,317	¥58,285	\$315,205
Marketable securities	—	2,499	11,366	—
Sub total (*1)	42,347	69,816	69,651	315,205
Time deposits with deposit term of over 3 months	(4,180)	(985)	(13,137)	(31,115)
Cash and cash equivalents	¥38,167	¥68,831	¥56,514	\$284,090

(*1) Cash and cash equivalent on the consolidated statement of cash flow for the year ended 29th February 2000 included the amount of the time deposits with deposit term over 3 months.

4. Supplemental Cash Flow Information

The following shows the details of the net cash flows for subsidiaries, which became consolidated subsidiaries, due to additional acquisitions of stocks, during 2002.

	Millions of Yen 28th February 2002	Thousands of U.S. Dollars 28th February 2002
Current assets	¥ 6,335	\$ 47,153
Non-current assets	24,383	181,492
Excess of cost of investment over equity in net assets acquired	416	3,098
Current liabilities	(16,654)	(123,965)
Non-current liabilities	(6,974)	(51,912)
Minority interest in consolidated subsidiaries	(3,705)	(27,582)
Cost of acquisition of newly consolidated subsidiaries	3,800	28,284
Cash and cash equivalents of newly consolidated subsidiaries	(3,602)	(26,814)
Excess of payment for acquisition	¥ 197	\$ 1,470

The following shows the details of the net cash flows for subsidiaries, which became non-consolidated subsidiaries, due to sales of stocks, during 2002.

	Millions of Yen 28th February 2002	Thousands of U.S. Dollars 28th February 2002
Current assets	¥2,754	\$20,501
Non-current assets	351	2,615
Total assets	¥3,105	\$23,116
Current liabilities	¥1,295	\$ 9,643
Non-current liabilities	162	1,207
Total liabilities	¥1,457	\$10,850

5. Marketable Securities and Investments in Securities

Marketable securities and investments in securities are determined by the moving average method.

(1) Trading securities

Trading securities, which were revaluated with the fair value, as at 28th February 2002 were as follows:

	Millions of Yen 28th February 2002	Thousands of U.S. Dollars 28th February 2002
Fair value of trading securities stated on consolidated balance sheet	¥164	\$1,222
Gain on revaluation of trading securities	25	186

(2) Available-for-sale securities and held-to maturity securities

Balance sheet amount and market value of available-for-sale securities, which were stated at cost, based on regulation Article 9-3 of the Ministry of Finance were as follows:

	Millions of Yen 28th February 2002	Thousands of U.S. Dollars 28th February 2002
Balance sheet amount	¥26,263	\$195,482
Market value	23,291	173,359
Assumed valuation loss	(2,969)	(22,101)
Assumed deferred tax liabilities	8	59
Assumed minority interest	(11)	(81)

Available-for-sale securities sold during current fiscal year

Millions of Yen 2002			Thousands of U.S. Dollars 2002		
Amount for sale	Total gains on sale	Total losses on sale	Amount for sale	Total gains on sale	Total losses on sale
¥10,251	¥4,443	¥105	\$76,301	\$33,069	\$781

Available-for-sale securities whose fair value is not readily determinable as of 28th February 2002 were as follows:

	Millions of Yen 28th February 2002	Thousands of U.S. Dollars 28th February 2002
Available-for-sale securities		
Unlisted stocks (excluding stocks traded over the counter)	¥43,980	\$327,354
Other	20	149

Prospected amount for redemption of available-for-sale securities with maturity date and held-to-maturity securities subsequent to the consolidated balance sheet date as of 28th February 2002 were as follows:

	Millions of yen 2002			
	<1 year	1<5 years	5<10 years	10<years
Debt securities:				
Government bond and municipal bond	¥14	¥ 10	¥ -	¥13,435
Corporate bonds	1	176	-	-
Other	20	-	-	-
Total	¥35	¥186	¥ -	¥13,435

	Thousands of U.S. dollars 2002			
	<1 year	1<5 years	5<10 years	10<years
Debt securities:				
Government bond and municipal bond	\$104	\$ 74	\$ -	\$100,000
Corporate bonds	7	1,307	-	-
Other	149	-	-	-
Total	\$261	\$1,382	\$ -	\$100,000

(3) Available-for-sale securities revaluated with the fair value

For the current fiscal year, S.S.V. Inc., Wakana Corp. and Nicho Corp., which are the consolidated subsidiaries, have valued their available-for-sale securities at market value if any. The carrying amount and aggregate fair value of the securities classified as available-for-sale and held-to-maturity as at 28th February 2002 were as follows:

	Millions of yen 2002			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Listed equity securities	¥ 284	¥318	¥(16)	¥ 586
Held-to-maturity debt securities	¥4,713	¥529	¥ 0	¥5,242

	Thousands of U.S. dollars 2002			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Listed equity securities	\$35,082	\$3,934	\$ (0)	\$39,016
Held-to-maturity debt securities	\$ 2,110	\$2,370	\$(122)	\$ 4,358

6. Investments in and Advances to Unconsolidated Subsidiaries and Affiliates

Investments in and advances to unconsolidated subsidiaries and affiliates at 28th February 2001 and 28th February 2002 were as follows:

	28th February 2002		28th February 2001	
	Percentage Ownership	Amount (Millions of Yen)	Amount (Millions of Yen)	Amount (Thousands of U.S. Dollars)
Seiyo Investment(S) Pte. Ltd.	33.3	¥2,922	¥2,478	\$21,752
Other	-	3,135	2,125	23,337
		¥6,058	¥4,603	\$45,090

7. Property and Equipment

Property and equipment at 28th February 2001 and 28th February 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	28th February 2002	2001	28th February 2002	2001
Buildings and structures	¥334,742	¥320,005	\$2,491,570	
Furniture, tools and other	71,567	79,588	532,693	
	406,310	399,593	3,024,263	
Less: Accumulated depreciation	(224,367)	(214,151)	(1,670,021)	
	181,942	185,442	1,354,242	
Land	137,524	140,795	1,023,627	
	¥319,467	¥326,237	\$2,377,869	

8. Short-Term Borrowings and Long-Term Debt

The annual average interest rates applicable to short-term borrowing at 28th February 2001 and 28th February 2002 were 2.0% and 2.0%, respectively.

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

	Millions of Yen		Thousands of U.S. Dollars	
	28th February 2002	2001	28th February 2002	2001
Loans from banks and other financial institutions, with mortgages or other collateral and/or guarantees by other banks, due from 2002 to 2018 with interest rates shown below (*1)	¥160,050	¥119,343	\$1,191,293	
0.8 per cent convertible bonds due 2003 in yen	28,969	28,969	215,623	
4.85 per cent bonds due December 2001 in yen	-	10,000	-	
1.80 per cent bonds due March 2001 in yen	-	1,800	-	
2.50 per cent bonds due September 2002 in yen	1,300	-	9,676	
Notes issued by SIF under the Euro Medium-Term Note Programme (*2)	9,333	15,232	69,466	
Guaranteed deposits received from tenants refundable when the lease is terminated and other	32,870	32,962	244,663	
	232,522	208,306	1,730,721	
Less: Portion due within one year	(58,269)	(71,693)	(433,715)	
	¥174,253	¥136,613	\$1,297,006	

(*1) Interest rates ranged from 1.8 per cent to 7.1 per cent at 28th February 2001 and at 28th February 2002.

(*2) Seiyo International Finance B.V. ("SIF") entered into the Euro Medium-Term Note Programme with financial institutions on 3rd February 1995. Under this programme, SIF may from time to time issue notes (the "Notes") denominated in any currency, which will not be subject to any maximum maturity but will have a minimum maturity of one month. The maximum aggregate nominal amount of all Notes from time to time outstanding will not exceed U.S.\$800 million. The balances shown in the above table represent the outstanding balances of such Notes issued by SIF under the programme at 31st December 1999 and 2000.

The terms and conditions of the Companies' convertible bonds outstanding at 28th February 2002, can be summarized as follows:

Description of the convertible bonds	Issue date and principal amount at issue	28th February 2002		
		Balance of convertible bonds (Millions of Yen)	Conversion prices *	Maximum number of additional shares issuable upon full conversion (thousands)
0.8 per cent convertible bonds due 2003	2th September, 1996 (¥30,000 million)	¥28,969	¥1,080.50	26,811

*Conversion prices are subject to adjustments for subsequent stock splits and other factors.

The Companies' assets pledged mainly as fixed collateral for unspecified debts with banks and other financial institutions at 28th February 2002 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Time deposits	¥ 613	\$ 4,563
Net book value of property:		
Buildings	60,334	449,084
Land	97,300	724,230
Investment securities	20,136	149,875
Other	4,038	30,056
	¥182,421	\$1,357,808

The aggregate annual maturities of loans from banks and financial institutions at 28th February 2002 were as follows:

Year ending the last day of February,	Millions of Yen	Thousands of U.S. Dollars
2003	¥50,146	\$373,246
2004	55,567	413,598
2005 and thereafter	40,969	304,942

9. Retirement Plan

The Company and domestic consolidated subsidiaries have a defined benefit pension plan covering substantially all employees.

Employees (excluding directors and corporate auditors) with more than five years of service are generally entitled to lump-sum severance indemnities determined by reference to their rates of pay and length of service at the termination of their employment and the conditions under which the terminations occur.

In addition, together with Saison Group companies, the Companies (except for some consolidated subsidiaries) have a funded retirement plan, which covers employees (excluding directors and corporate auditors) with more than five years of service. Benefits under this retirement plan are based on average basic salaries during the period of service and length of service. The plan provides for a lump-sum payment to retiring employees with less than 20 years of participation in the plan. For those employees with participation of 20 years or more, either a lump-sum payment or pension payments for life are made at

the election of the retiring employee. The beneficiaries of any retired employee who dies before receiving pension payments in full for a specified number of years are entitled to the remaining benefits in a lump sum. The costs of the pension plan, including amortization of past service costs, if any, are funded currently.

As is customary practice in Japan, the Company provides for lump-sum payments to retiring directors and corporate auditors, the amount of which is determined by reference to the Company's internal rules. The amounts of such retirement payments are subject to approval by the shareholders at the time of an individual director's or corporate auditor's resignation or retirement.

The Company has provided a reserve for directors' and corporate auditors' retirement benefits at an amount equal to the amount the Company would be required to pay if all eligible directors and corporate auditors retired at the respective balance sheet date.

Effective 1st March 2001, the Companies adopted the new accounting standard for employees' retirement benefit.

(1) The liability for employees' retirement benefits as at 28th February 2002 consisted of the following:

	Millions of Yen 2002	Thousands of U.S. dollars 2002
Projected benefit obligations	¥155,630	\$1,158,391
Fair value of plan assets	(103,586)	(771,015)
	52,044	387,376
Unrecognized transitional obligation	(25,722)	(191,453)
Unrecognized actuarial loss	(13,311)	(99,076)
	13,011	96,846
Prepaid pension cost	(84)	(627)
Net liability for retirement benefits	¥ 13,095	\$ 97,473

Note 1: The above table includes the amounts related to substituting portion of welfare pension fund.
Note 2: Some subsidiaries adopt a simplified method for calculation of projected benefit obligations.

(2) The component of net periodic pension costs for the year ended 28th February 2002 were as follows:

	Millions of Yen 2002	Thousands of U.S. dollars 2002
Service cost	¥ 5,604	\$ 41,714
Interest cost	4,998	37,204
Expected return on plan assets	(4,288)	(31,920)
Amortization of transitional obligation	6,509	48,444
Recognized actuarial loss	90	670
Net periodic pension costs	¥12,913	\$ 96,113

Note 1: The above table excludes the amounts related to the contribution from employees subject to the Japanese Welfare Pension Insurance Law.

Note 2: Service cost includes pension costs of subsidiaries under simplified method.

(3) Basis for calculation of projected benefit obligations were as follows:

Attribution method	Straight-line
Discount rate	Primarily 3.5%
Expected rate of return on plan assets	Primarily 4.0%
Recognition period of actuarial gain/loss	Primarily 9 years
Amortization period of transitional obligation	5 years

10. Income Taxes

The Company and its consolidated subsidiaries are subject to a number of different taxes based on income which, in aggregate, indicate a statutory effective tax rate in Japan of approximately 41.7% for the year ended 28th February 2002.

At 28th February 2002, significant components of deferred tax assets and liabilities were as follows:

	Millions of Yen For the year ended 28th February 2002	Thousands of U.S. Dollars (Note 1) For the year ended 28th February 2001	Thousands of U.S. Dollars (Note 1) For the year ended 28th February 2002
Deferred tax assets:			
Excess of allowance for doubtful accounts	¥ 2,081	¥ 3,591	\$ 15,493
Excess of depreciation expenses	983	752	7,314
Loss on write-down of securities	4,052	410	30,159
Tax loss carry forward	25,660	22,683	190,995
Unrealized inter-company profit	822	2,190	6,119
Excess of accrued severance indemnities	3,870	—	28,802
Excess of allowance for loss on debt guarantees	3,168	—	23,584
Other	3,662	2,944	27,260
Allowance for deferred tax assets	(21,947)	(29,646)	(163,359)
Total deferred tax assets	22,351	2,924	166,367
Deferred tax liabilities:			
Special tax-purpose reserve	(186)	(153)	(1,386)
Valuation gain of investment securities after tax-effect	(127)	—	(943)
Net deferred tax assets	¥ 22,038	¥ 2,771	\$ 164,038
Deferred tax liabilities:			
Special tax-purpose reserve	¥ 64	¥ 67	\$ 480
Valuation gain of investment securities after tax-effect	2,403	—	17,889
Other	56	21	419
Elimination of deferred tax assets (non-current)	(1,065)	—	(7,926)
Net deferred tax liabilities	¥ 1,459	¥ 89	\$ 10,862

As the Companies recorded net loss before income tax, the Companies did not provide the breakdown of the difference between the statutory tax rate and the effective income tax rate at 28th February 2002. A breakdown of the difference between the statutory tax rate and the effective income tax rate at 28th February 2001 is as follows:

Statutory tax rate	41.7 %
Increase in tax rate resulting from:	
Per capita (inhabitant tax)	47.9
Effect of excess of cost of investment over equity in net assets acquired	18.5
Minority interest in earnings of consolidated subsidiaries	(5.3)
Expenses not deductible for income tax purposes	19.0
Tax losses carried forward incurred by the Company and subsidiaries, the tax effect of which has not been recognized	(418.1)
Net loss of consolidated subsidiaries	221.1
Other	154.3
Effective income tax rate	79.1

11. Accounting for Leases

	Millions of Yen		Thousands of
	2002	2001	U.S. Dollars 2002
Finance Lease Contracts:			
As a lessee:			
The scheduled maturity of future lease rental payments on such lease contracts were as follows:			
Due within one year	¥ 2,669	¥ 1,914	\$ 19,868
Due after more than one year . . .	5,549	4,426	41,306
	<u>¥ 8,219</u>	<u>¥ 6,340</u>	<u>\$ 61,174</u>
Lease rental expenses for the year . . .	¥ 2,490	¥ 1,721	\$ 18,536
Leased assets			
(Furniture, tools and other):			
Assumed acquisition cost	¥16,343	¥11,951	\$121,646
Assumed accumulated depreciation . .	(8,124)	(5,611)	(60,470)
Assumed net book value	<u>¥ 8,219</u>	<u>¥ 6,340</u>	<u>\$ 61,174</u>
Assumed depreciation*	<u>¥ 2,490</u>	<u>¥ 1,721</u>	<u>\$ 18,537</u>
* Depreciation is based on the straight-line method over the lease term of the leased assets.			
As a lessor:			
The scheduled maturity of future lease rental income on such lease contracts were as follows:			
Due within one year	¥ 1,691	¥ 2,048	\$12,588
Due after more than one year . . .	342	1,722	2,548
	<u>¥ 2,033</u>	<u>¥ 3,770</u>	<u>\$15,135</u>
Lease rental income for the year . . .	¥ 357	¥ 941	\$ 2,660
Leased assets			
(Furniture, tools and other):			
Assumed acquisition cost	¥10,561	¥12,469	\$78,611
Assumed accumulated depreciation	(9,453)	(10,986)	(70,359)
Assumed net book value	<u>¥ 1,109</u>	<u>¥ 1,483</u>	<u>\$ 8,252</u>
Assumed depreciation	<u>¥ 82</u>	<u>¥ 599</u>	<u>\$ 608</u>
	Millions of Yen		Thousands of
	2002	2001	U.S. Dollars 2002
Operating Lease Contracts:			
As a lessee:			
The scheduled maturity of future lease rental payments on such lease contracts were as follows:			
Due within one year	¥ 13,570	¥ 12,518	\$101,002
Due after more than one year . . .	106,996	108,870	796,395
	<u>¥120,565</u>	<u>¥121,388</u>	<u>\$897,397</u>

12. Contingent Liabilities

The Companies were contingently liable for guarantees (including guarantee forward commitments and letters of awareness) for loans (primarily of unconsolidated subsidiaries and affiliates and employees of the Companies) in the amount of ¥19,159 million (\$142,611 thousand) at 28th February 2002.

13. Breakdown of Selling, General and Administrative Expenses

The Companies' selling, general and administrative expenses for the years ended 29th February 2000, 28th February 2001 and 28th February 2002 were as follows:

	Millions of Yen		Thousands of
	For the year ended 28th/29th February	2001	U.S. Dollars For the year ended 28th February 2002
Employees' salaries and bonuses	¥103,484	¥102,516	¥ 98,468 \$ 770,260
Rent for land and buildings . . .	52,025	49,510	54,250 387,235
Amortization of excess cost of investment over equity in net assets acquired	714	804	693 5,317
Other	138,496	131,772	122,446 1,030,856
	<u>¥294,719</u>	<u>¥284,602</u>	<u>¥275,857 \$2,193,668</u>

14. Derivatives Information

(1) Company's Policy and Purpose in respect of Derivative Transactions

The Company uses derivative financial instruments, which comprise principally interest swap transactions as a means of asset/liability management, and to reduce the exposure on financial assets and liabilities of the Company to market risks from fluctuations in interest rates.

The Company does not hold or issue derivative financial instruments for trading or speculative purposes.

(2) Risk of Transactions

The derivative transactions have market risk associated with market price volatility and credit risk related to the possibility of a counterparty's default.

The Company uses derivative transactions as a hedge against a reduction in the value of assets held by the Company and does not anticipate that the Company will incur significant losses from the derivative arrangements, due to the event of non-performance by counter-parties.

(3) Risk Management

The Board of Directors must approve all derivative contracts before the Company enters into the contracts. Finance Department staff carries out recording them in the books, and the payment and receipt of money.

(4) Information on Financial Derivatives held by the Company at 28th February 2002 2001 is as follows:

Interest Related Transactions

	Millions of Yen							
	2002				2001			
	Contractual value or notional principal amount		Fair value	Valuation gain (loss)	Contractual value or notional principal amount		Fair value	Valuation gain (loss)
Total	Over one year	Total			Over one year			
Option Transactions								
Interest rate cap contracts	¥33,863	¥33,863	¥14	¥(458)	¥ -	¥ -	¥ -	¥ -
Interest Related Transactions								
Receiving floating rates and paying fixed rates	¥ -	¥ -	¥ -	¥ -	¥12,147	¥4,147	¥(206)	¥(206)

	Thousands of U.S. Dollars				
	28th February				
	2002				
Contractual value or notional principal amount		Fair value	Valuation gain (loss)		
Total	Over one year			Total	Over one year
Option Transactions					
Interest rate cap contracts	\$252,051	\$252,051	\$109	\$(3,415)	
Interest Related Transactions					
Receiving floating rates and paying fixed rates	\$ -	\$ -	\$ -	\$ -	

Note 1. Fair value of the financial instruments is based on the price provided by the corresponding financial institution.

Note 2. Excluding derivative transactions where hedge accounting is applied.

15. Land Revaluation

Pursuant to the Law Concerning Land Revaluation, the Company revalued land used for business activities on 28th February 2001. The excess of the revalued carrying amount over the book value before valuation was recorded as "Excess of land revaluation" in shareholders' equity in the accompanying consolidated balance sheet. The land prices used for the revaluation were determined based on the prices in the official notice published by the Commissioner of the National Tax Agency in accordance with Article 2, Paragraph 4 and 5 of the Enforcement Ordinance Concerning Land Revaluation, after making reasonable adjustments. Revaluation is permitted only one time. The excess of revalued carrying amount over the book value as of 28th February 2002 was 3,784 million yen.

The above-mentioned revaluation of land had no impact on the Company's consolidated statement of cash flows.

16. Segment Information

(1) Industry Segment Information

The Company and its subsidiaries operate principally in 3 industrial segments as follows:

- i) Retail business: Retail sales at supermarkets, department stores, general merchandise stores and specialty shops
- ii) Finance and real estate business: Finance, factoring, sale and purchase of real estate and leases and rental business
- iii) Other business: Publication of magazines, cultural information and amusement activities including market research, travel agency business, trading business, wholesale of newly developed products, etc.

	Millions of Yen					
	For the year ended 29th February 2000					
	Retail	Finance and Real Estate	Other	Total	Elimination of Inter-segment Transactions	Consolidated Total
Sales:						
Sales to outside customers	¥961,362	¥12,609	¥46,048	¥1,020,019	¥ -	¥1,020,019
Inter-segment sales/transfers	3,477	7,246	28,480	39,203	(39,203)	-
	964,839	19,855	74,528	1,059,222	(39,203)	1,020,019
Operating expenses	952,361	20,757	73,824	1,046,942	(38,362)	1,008,580
Operating income	¥12,478	¥(902)	¥704	¥12,280	¥(841)	¥11,439
Assets	¥490,488	¥410,570	¥24,820	¥925,878	¥(121,353)	¥804,525
Depreciation	14,497	4,692	113	19,302	-	19,302
Capital expenditure	37,798	4,772	122	42,692	(0)	42,692

Millions of Yen						
For the year ended 28th February 2001						
	Retail	Finance and Real estate	Other	Total	Elimination of Inter-segment Transactions	Consolidated Total
Sales:						
Sales to outside customers	¥992,708	¥ 15,704	¥62,761	¥1,071,173	¥ –	¥1,071,173
Inter-segment sales/transfers	4,540	12,153	42,089	58,782	(58,782)	–
	997,248	27,857	104,850	1,129,955	(58,782)	1,071,173
Operating expenses	985,817	23,702	103,798	1,113,317	(57,836)	1,055,481
Operating income	¥ 11,431	¥ 4,155	¥ 1,052	¥ 16,638	¥ (946)	¥ 15,692
Assets	¥539,732	¥366,358	¥29,476	¥ 935,566	¥(112,127)	¥ 823,439
Depreciation	15,996	6,345	564	22,905	–	22,905
Capital expenditure	30,237	15,830	833	46,900	(8,651)	38,249

Millions of Yen						
For the year ended 28th February 2002						
	Retail	Finance and Real estate	Other	Total	Elimination of Inter-segment Transactions	Consolidated Total
Sales:						
Sales to outside customers	¥1,039,002	¥ 14,891	¥54,904	¥1,108,797	¥ –	¥1,108,797
Inter-segment sales/transfers	3,856	10,276	43,411	57,543	(57,543)	–
	1,042,858	25,167	98,315	1,166,340	(57,543)	1,108,797
Operating expenses	1,026,313	21,099	97,999	1,145,411	(56,701)	1,088,710
Operating income	¥ 16,546	¥ 4,068	¥ 316	¥ 20,930	¥ (842)	¥ 20,088
Assets	¥ 552,361	¥347,752	¥21,436	¥ 921,549	¥(104,435)	¥ 817,114
Depreciation	16,334	5,846	664	22,844	–	22,844
Capital expenditure	21,797	6,308	677	28,782	(2,475)	26,308

Thousands of U.S. Dollars						
For the year ended 28th February 2002						
	Retail	Finance and Real estate	Other	Total	Elimination of Inter-segment Transactions	Consolidated Total
Sales:						
Sales to outside customers	\$7,733,549	\$ 110,838	\$408,664	\$8,253,051	\$ –	\$8,253,051
Inter-segment sales/transfers	28,700	76,484	323,120	428,304	(428,304)	–
	7,762,249	187,322	731,784	8,681,355	(428,304)	8,253,051
Operating expenses	7,639,096	157,047	729,429	8,525,571	(422,040)	8,103,532
Operating income	\$ 123,153	\$ 30,276	\$ 2,355	\$ 155,784	\$ (6,264)	\$ 149,519
Assets	\$4,111,359	\$2,588,403	\$159,553	\$6,859,316	\$(777,335)	\$6,081,980
Depreciation	121,578	43,511	4,945	170,033	–	170,033
Capital expenditure	162,242	46,951	5,041	214,234	(18,418)	195,815

(2) Geographic Segment Information

Millions of Yen						
For the year ended 29th February 2000						
	Japan	Asia	Europe	Total	Elimination of Inter-segment Transactions	Consolidated Total
Sales:						
Sales to outside customers	¥1,005,191	¥14,650	¥ 178	¥1,020,019	¥ –	¥1,020,019
Inter-segment sales/transfers	86	1,094	805	1,985	(1,985)	–
	1,005,277	15,744	983	1,022,004	(1,985)	1,020,019
Operating expenses	991,960	15,479	2,331	1,009,770	(1,190)	1,008,580
Operating income	¥ 13,317	¥ 265	¥ (1,348)	¥ 12,234	¥ (795)	¥ 11,439
Assets	¥ 755,173	¥11,434	¥54,983	¥ 821,590	¥(17,065)	¥ 804,525

Millions of Yen						
For the year ended 28th February 2001						
	Japan	Asia	Europe	Total	Elimination of Inter-segment Transactions	Consolidated Total
Sales:						
Sales to outside customers	¥1,052,815	¥18,233	¥ 125	¥1,071,173	¥ -	¥1,071,173
Inter-segment sales/transfers	223	1,107	1,053	2,383	(2,383)	-
	1,053,038	19,340	1,178	1,073,556	(2,383)	1,071,173
Operating expenses	1,036,568	18,761	1,533	1,056,862	(1,381)	1,055,481
Operating income	¥ 16,470	¥ 579	¥ (355)	¥ 16,694	¥(1,002)	¥ 15,692
Assets	¥ 784,457	¥10,371	¥35,933	¥ 830,761	¥(7,322)	¥ 823,439

Millions of Yen						
For the year ended 28th February 2002						
	Japan	Asia	Europe	Total	Elimination of Inter-segment Transactions	Consolidated Total
Sales:						
Sales to outside customers	¥1,092,716	¥15,912	¥ 169	¥1,108,797	¥ -	¥1,108,797
Inter-segment sales/transfers	277	3,035	739	4,051	(4,051)	-
	1,092,993	18,947	908	1,112,848	(4,051)	1,108,797
Operating expenses	1,073,075	18,062	920	1,092,056	(3,347)	1,088,710
Operating income	¥ 19,918	¥ 885	¥ (11)	¥ 20,792	¥ (704)	¥ 20,088
Assets	¥759,851	¥ 7,763	¥22,430	¥ 790,044	¥27,070	¥ 817,114

Thousands of U.S. Dollars						
For the year ended 28th February 2002						
	Japan	Asia	Europe	Total	Elimination of Inter-segment Transactions	Consolidated Total
Sales:						
Sales to outside customers	\$8,133,353	\$118,438	\$1,260	\$8,253,051	\$ -	\$ 8,253,051
Inter-segment sales/transfers	2,062	22,587	5,502	30,151	(30,151)	-
	8,135,415	141,025	6,762	8,283,203	(30,151)	8,253,051
Operating expenses	7,987,159	134,440	6,845	8,128,443	(24,912)	8,103,532
Operating income	\$ 148,256	\$ 6,586	\$ (83)	\$ 154,759	\$ (5,240)	\$ 149,519
Assets	\$5,655,755	\$ 57,782	\$166,950	\$5,880,488	\$201,492	\$6,081,980

17. Related Party Transactions (Unaudited)

Material transactions of the Company with its related companies for the years ended 29th February 2000, 28th February 2001 and 28th February 2002 were as follows:

Millions of Yen / Thousands of U.S. Dollars										
Name of related Company	Paid-in Capital	Principal Business	Equity Ownership Percentage	Description of Transactions	Transactions			Resulting Account Balance		
					For the year ended			Account	28th February,	
					2002	2001	2000		2002	2001
Sumitomo Co., Ltd.	¥169,431	General Trading	11.8	Issuance of new share allocation to third party	-	¥8,680	-	Common stock	-	¥4,360
						(\$74,570)				(\$37,457)
Ryohin Keikaku Co., Ltd. (*1)	¥6,766(*2)	Manufacture and sale of goods	6.4(*2)	Purchase of Goods	-	¥276	-	Additional paid-in capital	-	¥4,320
						(\$2,368)				(\$37,113)
				Purchase of Goods	-		-	Accounts payable	-	¥8
				Purchase of Goods	-		¥9,469	Accounts payable	-	(\$75)
							(\$86,082)		-	-

The terms and conditions of the above transactions are the same as those of other arm's-length transactions.

(*1)Ryohin Keikaku Co., Ltd. is no longer an affiliate of the Company because of a decrease in the ownership percentage, due to sale of common stock shares of this company in December 1999.

(*2)Figures given are those of the fiscal year ended February 28, 2000.

18. Subsequent Event

The Board of Directors adopted resolutions on 14th March 2002 that the Company and Wal-Mart Stores, Inc. make an agreement on a comprehensive business alliance and allocate new stocks to a third party.

(I) Comprehensive business tie-up and allocation of new stocks

1) Details of the comprehensive business alliance

Business Alliance

- ① The Company and Wal-Mart will conduct feasibility studies on sales approach, product procurement systems, IT strategy and a joint development strategy for new stores, etc., to enhance mutual collaboration, and to build a strategic business plan to secure a strong position in the Japanese market.
- ② Wal-Mart will provide co-operation to reform the profit structure and improve the sales power of the Seiyu Group.

Capital Alliance

- ① Allocate part of the capital raised from issuance of new stock to a third party to a subsidiary of Wal-Mart Stores, Inc.

Number of new shares issued:	23,165,000 shares of common stock
Issue price:	¥259 per share This issue price is calculated at 95% of the weighted-average yield of The Seiyu, Ltd. common stock traded at Tokyo Stock Exchange during 14th December 2001 through 13th March 2002. (rounded down to the nearest ¥1)
Resolution date of issuance of stock:	14th March 2002
Subscription period:	26th March 2002 through 28th March 2002
Date to be paid in:	30th May 30, 2002

- ② Grant common stock preemptive right to subsidiary of Wal-Mart Stores, Inc., which will provide the right to gradually exercise ownership at up to 66.7% of the total outstanding stock of The Seiyu, Ltd.

Method of allocation:	Allocate preemptive rights based on the revised Commercial Law, effective 1st April 2002.
1st preemptive rights on new issued stock:	Up to 33.4% of total rights to be exercised by the end of December, 2002
2nd preemptive rights on new issued stock:	Up to 50.1% of total rights to be exercised by the end of December, 2005
3rd preemptive rights on new issued stock:	Up to 66.7% of total rights to be exercised by the end of December, 2007

Exercise price = ¥270. This exercise price is subject to a 5% compounded raise starting January 2003.

The General Shareholders' Meeting held on 23rd May 2002 adopted a special resolution to a) increase the number of authorized stocks and b) issue advantageous warrant rights.

2) Allocation of new stock to a third party

Capital increase by allocation of new stock to a third party (paid-in in May)

Number of new shares issued:	42,470,000 shares of common stock
Issue price:	¥259 per share This issue price is calculated at 95% of the weighted-average yield of The Seiyu, Ltd. common stock traded at Tokyo Stock Exchange during 14th December 2001 through 13th March 2002. (rounded down to the nearest ¥1)
Total amount of capitalization:	¥10,999,730,000
Recapitalization amount:	¥130 per share
Subscription period:	26th March 2002 to 28th March 2002
Date to be paid in:	30th May 2002
Record date of dividend:	1st March 2002
Allocation to:	Wyoming GmbH: 23,165,000 shares Sumitomo Corporation: 19,305,000 shares
Terms and condition of payment:	Payment will only be accepted if the issuance of preemptive rights to Wyoming GmbH is approved by the Board Meeting in April 2002 and if the increase of authorized capital and issuance of interest-bearing preemptive rights are approved at the General Shareholders Meeting in May 2002.

Capital increase by allocation of new stock to a third party (paid-in in July)

Number of new shares issued:	Common stock 77,530,000 shares
Issue price:	Unknown Issue price will be determined on any day during the period from 24th May 2002 to 25th June 2002. This issue price is calculated at 90% on the weighted-average trading price for the 6 months preceding the date of determination. (Determination of the issue price will only be conducted during 24th May 2002 through 24th June 2002 for the petition from the parties to be assigned.)
Total amount of capitalization:	To be determined
Recapitalization amount:	To be determined
Subscription period:	27th June 2002
Date to be paid in:	25th July 2002
Record date of dividend:	1st March 2002
Allocation to:	Wyoming GmbH: 77,530,000 shares
Subscription condition:	Subscription is subject to the approval of the issuance of preemptive rights to Wyoming GmbH at the Board Meeting in April 2002, and approval on the increase of authorized capital and the issuance of interest-bearing preemptive rights at the General Shareholders' Meeting in May 2002. The assignee's subscription is uncertain under these circumstances.

(2) Reimbursement of substitution portion of Welfare Pension Fund

On 14th February 2002, the Board of Representatives of the Saison Group Employees' Welfare Pension Fund passed a resolution to reimburse a part of the fund to the government. The Seiyu Group is a member of the Saison Group Employees' Welfare Pension Fund and accordingly the labor union also approved this resolution during a general union meeting held on 25th February 2002. Three quarters of the participants of our company had also approved the resolution by the end of March 2002.

As a result, the Saison Group Employees' Welfare Pension Fund filed in 15th April 2002 to return the substitution portion over to the Ministry of Health, Labor and Welfare. The effect on the Statement of Income at the time of approval has not been determined at this time.