Ryohin Keikaku Co., Ltd.

Annual Report 1998

Year Ended February 28, 1998

Since becoming independent from The Seiyu Ltd., in 1989, Ryohin Keikaku Co., Ltd., has promoted the reputation of the Muji brand by developing a range of apparel, household goods, and food featuring the functionality, simplicity, and quality that have become synonymous with the Muji name. The Company's products have received overwhelming support from consumers in Japan and overseas because they meet the needs associated with today's increasingly individual and diversified lifestyles.

Ryohin Keikaku will continue to emphasize the use of natural materials, simple product designs, and reasonable prices as it develops its manufacturing and retailing operations into the 21st century.

Contents

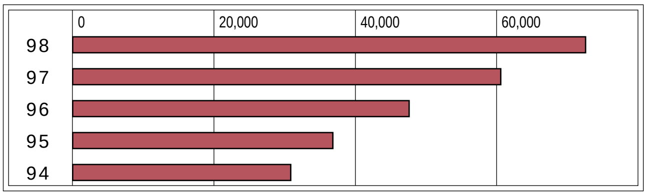
<Non-Consolidated Financial Highlights>

Ryohin Keikaku Co., Ltd. Years ended February 29, 1996, February 28, 1997 and February 28, 1998

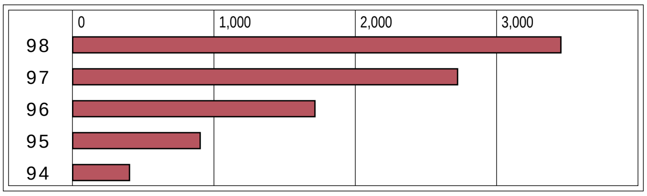
	Millions of yen			Thousands of U.S. dollars*
	1996	1997	1998	1998
For the Year:				
Net sales	¥47,606	¥60,574	¥72,573	$571,441
Operating income	4,377	5,837	7,599	59,835
Income before income taxes	3,904	5,848	7,493	59,000
Net income	1,714	2,723	3,454	27,197
Per Share (yen and dollars):				
Net income	¥ 139.9	¥ 199.6	¥ 246.0	$ 1.94
Cash dividends	15.0	24.0	35.0	0.28
At Year-End:				
Total assets	¥17,544	¥30,563	¥38,305	$301,614
Total stockholders' equity	10,655	22,414	25,440	200,315

*U.S. dollar amounts have been translated, for convenience only, at the rate of ¥127=US$1.

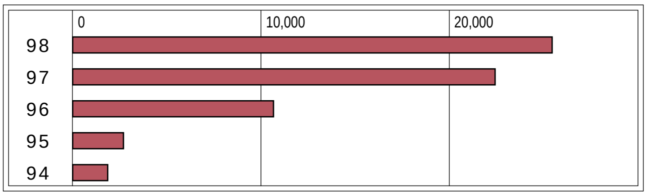
Net Sales (Millions of yen)*



Net Income (Millions of yen)*



Total Stockholders' Equity (Millions of yen) **



*Years ended February 28/29 **As of February 28/29

Kaoru Ariga, Representative Director and President

DISTINGUISHING THE MUJIRUSHI RYOHIN NAME

During fiscal 1997, ended February 28, 1998, the economic environment in Japan remained severe. The retail industry was confronted with the extremely difficult challenge of expanding sales, as the uncertainty of business prospects dampened consumers' propensity to spend. Intense competition from new market entrants, including overseas retailers, is expected to exacerbate this harsh business climate.

Amid this operating environment, Ryohin Keikaku Co., Ltd., faithfully worked to meet customer needs while continuing to distinguish itself through the unique character of its products and stores.

PROMOTING A TOTAL LIFESTYLE CONCEPT

During the year under review, Ryohin Keikaku strove to strengthen its global store network by implementing numerous scrap-and-build projects, enlarging store sales space, and introducing various measures to improve efficiency and promote standardization of in-store management. Furthermore, the Company's efforts to present a diverse product lineup, distinctive store environments, and innovative advertising campaigns all reflected its marketing strategy of creating a total lifestyle concept.

In product development, we continued to respond to customer needs by offering high-quality products boasting solid materials, attractive prices, and original Muji design simplicity. These activities were supported by ongoing work to shift production bases overseas and expand overseas procurement. Since launching our Price Reduction Campaign in autumn 1995, we have reduced the price of 1,165 products, or one-third our entire product lineup.

In Japan, Ryohin Keikaku was the first retailer to receive ISO 9001 certification for product quality systems, in December 1997. As both a manufacturer and retailer, we continually work to improve our technological infrastructure, accumulate know-how, and create systems that ensure the quality of products manufactured and sold in Japan and abroad. The ultimate aim of these activities is to establish the highest standards for our global operations, from product design and development through after-sales services.

PURSUING A THREE-YEAR MANAGEMENT PLAN

In fiscal 1998, Ryohin Keikaku will initiate a three-year management plan intended to strengthen and broaden its business base.

Regarding store development, while continuing to pursue standardization and increased efficiency, the Company plans to expand its total domestic sales floor space to 155,000 square meters by the end of fiscal 2000. This area is approximately double that of the level attained at the end of fiscal 1997. Furthermore, we are working to develop our product procurement activities as well as logistics and information systems to support more efficient global manufacturing and retailing operations.

On the international front, Ryohin Keikaku currently maintains a network comprising 12 stores: 5 in the United Kingdom, 4 in Hong Kong, and 3 in Singapore. The Company is preparing to open a store in France before the end of 1998 and another 3 stores in the United Kingdom by February 1999. We are also considering a plan to set up a retailing presence in North America. Our long-term overseas development plans call for the establishment of 10 stores in North America and 50 in Europe by 2003. In addition to increasing sales, our expansion policies emphasize localizing of all stages of operations. We believe this strategy will enable us to optimize procurement and production and develop products that respond to local consumer preferences.

Another priority on management's agenda is the rationalization of the Company's logistics system, which consists of many distribution centers throughout Japan. In 1996, we opened our first fully integrated regional inspection, repair, and logistics processing center, in Fukuoka. In 1998, similar centers in Kobe and Urayasu, in Chiba Prefecture, outfitted with advanced distribution equipment and systems, will commence operations. This distribution system will be linked to our overseas networks, starting with our operations in China, where the construction of an expansive production and warehouse network is under way. Integrated production centers covering southern, central, and northern China will be established in Guangdong, Shanghai, and Dalian, respectively. By February 2000, we aim to complete the installation and integration of a comprehensive logistics system that underpins efficient production, distribution, and sales on a global scale.

AIMING TO BECOME ONE OF THE TOP GLOBAL 10

Looking toward the next century, Ryohin Keikaku aims to become one of the top 10 global retailers. In pursuing this goal, we will continue to emphasize the importance of communicating with customers, stockholders, and employees, incorporating their input into plans to strengthen our corporate structure and improve profitability.

We look forward to your continued support and cooperation in fiscal 1998.

Kaoru Ariga

Kaoru Ariga
Representative Director and President

Understated Beauty There is a beauty in simplicity that transcends fashion, and the inherent simplicity of Muji brand products, demonstrated in their design and functionality, lends them this unique appeal. Creating this is the essence of the Company's product development activities.

PROCESSES

Ryohin Keikaku inspects all product processes comprehensively. Inspections are planned to optimize time and labor effectiveness, with processes that have no bearing on a product's quality. Items found to have no defects are sent out immediately for delivery, while those that do not meet size and appearance standards are recycled. The Company's emphasis on efficiency prevents material wastage and improves essential product quality.

MATERIALS

Tasty and healthy foods. Comfortable clothing. Household goods that are, above all, easy to use. For Ryohin Keikaku, the materials it uses to make such products are of the utmost importance; consequently, considerable attention is given to their selection. The Company searches worldwide for the most suitable raw materials. Ryohin Keikaku uses many industrial materials as well as materials discarded by others because of their appearance—items that can be acquired in bulk at low cost. The overriding selection criteria is always quality. These activities underpin the Company's ability to create low-priced, high-quality products.

PACKAGING

When packaging products, Ryohin Keikaku seeks not to adorn them but rather to highlight their natural colors and shapes. For this reason, we use bulk packaging and place products in plain, uniform containers. Faithful to our philosophy of simplicity, this approach also is in keeping with our policy of conserving resources and reducing waste. Thus, all Muji products appear on store shelves in simple packaging bearing only product-related information and a price tag.

Muji: The Company, Stores, and Products **The Muji brand** was first introduced in December 1980 as a private brand label of The Seiyu, Ltd. In June 1983, the first Muji store was opened in Aoyama, and in September 1985 an independent business division was established within the Seiyu corporate structure to manage Muji brand products. Marking its independence as a **nationwide retailer,** Ryohin Keikaku was officially incorporated as a subsidiary of Seiyu in June 1989. Subsequently, in 1990 Seiyu transferred all management responsibilities for the Muji brand and store network to Ryohin Keikaku. In August 1995, the Company went public by registering on the over-the-counter market. >On the **international front,** Ryohin Keikaku opened its first Muji store in London in July 1991 and another in Hong Kong in November of the same year. Both stores have enjoyed **significant customer support,** highlighting the possibilities for the Muji brand in overseas markets. >From its humble beginnings as an in-store brand offering only 40 items, Ryohin Keikaku has developed into a successful company that today boasts a **global network of stores** selling an impressive array of products.

1980 >

PRODUCT DEVELOPMENT

> Seiyu eliminates the excesses associated with name-brand products to create a new line of inexpensive, high-quality products.

BUSINESS DEVELOPMENT

> Muji is established as a private brand of Seiyu, with an original lineup of 9 household products and 31 food items.

> Muji sales corners are established in the food and daily items sections of Seiyu stores.

1981 >

Peanut Chocolate

PRODUCT DEVELOPMENT

> The importance of each product's fundamental design—in particular their functionality and simplicity—is re-emphasized. Apparel items make their debut in the Muji product lineup.

BUSINESS DEVELOPMENT

> Sales corners for apparel and undergarment sections are established in Seiyu stores.

1982 >

Stationery

PRODUCT DEVELOPMENT

> Three new product series—the Unique, Natural, and Industrial-Use series—are introduced to promote Muji's total lifestyle concept.

BUSINESS DEVELOPMENT

> Wholesale selling of Muji brand products to Seiyu affiliate stores commences.

1983 >

Mujirushi Ryohin Aoyama

PRODUCT DEVELOPMENT

> Individually assembled unit parts are introduced.

BUSINESS DEVELOPMENT

> The first Muji store, Mujirushi Ryohin Aoyama, is opened in Tokyo.

> Muji boutiques are opened in several department stores.

The Development of Muji Products

The name Muji, meaning “no brand” in Japanese, summarizes the **philosophy of simplicity** that is the hallmark of its product designs. Easily recognizable, the brand name has caught the attention of consumers since its introduction in 1980. The **original concept** of high-quality, reasonably priced products focused on paring down the gaudy decoration, fancy packaging, and other excesses that accompanied many products and **offering consumers value** for their money. While responding to the trends of the times, the Company has maintained a commitment to creating sound products, appealing because of their inornate style and functionality. This innovative development approach is manifest in a product lineup that encompasses such diverse items as apparel, household goods, and food. > To provide **top quality** at a reasonable price, Ryohin Keikaku turned to overseas markets to capitalize on excellent procurement opportunities. Today, the Company maintains 100 production bases in 25 countries, and 42% of its entire product lineup is **manufactured overseas.** Ryohin Keikaku intends to expand its overseas procurement and use its acquired know-how to further reduce operating costs.

1984 >

PRODUCT DEVELOPMENT

> The Relaxation and Natural Color series, featuring ecru-color designs, are introduced.

BUSINESS DEVELOPMENT

> The Muji network of in-store boutiques is expanded, particularly within large Seiyu department stores.

1985 >

Prewashed cotton madras shirt

PRODUCT DEVELOPMENT

> The original Muji brand concept is revitalized through product development activities.

BUSINESS DEVELOPMENT

> An independent division is established within the Seiyu corporate structure to manage the Muji brand. A nationwide expansion program for Muji stores is undertaken and the My Muji Contest is inaugurated.

1986 >

Shrimp-flavored crackers

PRODUCT DEVELOPMENT

> Overseas, product development operations are initiated and construction of integrated regional production centers is begun.

BUSINESS DEVELOPMENT

> Muji fashion shows are held at Aoyama Manbows and Shibuya Prime.

1987 >

Down *futon*

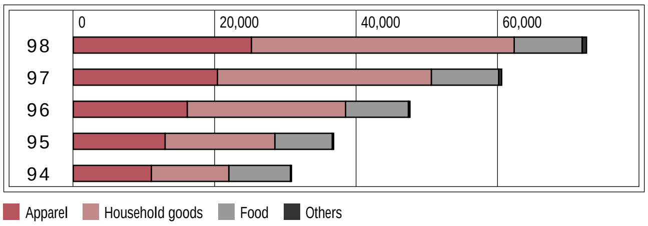
PRODUCT DEVELOPMENT

> Factory-direct ordering and individual distribution routes for Muji products are initiated in a drive to expand importation and international logistics operations.

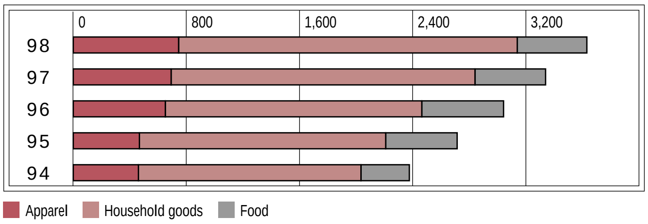
BUSINESS DEVELOPMENT

> Muji fashion shows are held at the Ebisu Sapporo Factory and Aoyama Manbows.

Net Sales by Product Category (Millions of yen)*



Number of Items per Category



*Years ended February 28/29

1988 > 1989 > 1990 > 1991 >

Mujirushi Ryohin Kichijoji

Wooden table and chairs

100% fruit juice

1988

PRODUCT DEVELOPMENT

> Material development activities are expanded on a global scale.

BUSINESS DEVELOPMENT

> *The Muji Book* is published.

> Muji fashion shows are held in the Harajuku Quest Hall and Harajuku Key West.

1989

PRODUCT DEVELOPMENT

> Measures are taken to improve the quality of stationery materials and leather goods.

BUSINESS DEVELOPMENT

> Ryohin Keikaku is established as a wholly owned subsidiary of Seiyu, with an initial capital of ¥100 million. Wholesale selling of Muji products commences.

> Mujirushi Ryohin Kichijoji, a large-scale Muji store, is opened in Tokyo.

1990

PRODUCT DEVELOPMENT

> Ryohin Keikaku initiates the Muji Comfort Campaign, promoting awareness of the natural environment and family values.

BUSINESS DEVELOPMENT

> The responsibility for Muji brand sales operations is transferred from Seiyu to Ryohin Keikaku, which begins constructing a network of directly managed stores. A product management system to trace individual items is introduced.

1991

PRODUCT DEVELOPMENT

> Ryohin Keikaku promotes the Muji Natural Philosophy.

BUSINESS DEVELOPMENT

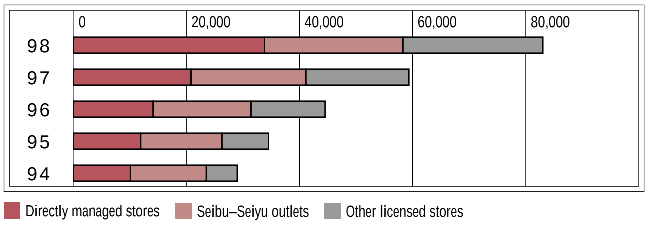
> Ryohin Keikaku opens the first overseas Muji store in London in partnership with Liberty plc, of the United Kingdom.

> A Muji store is opened in Hong Kong—a joint venture between Ryohin Keikaku and the Wing On Group, of Hong Kong.

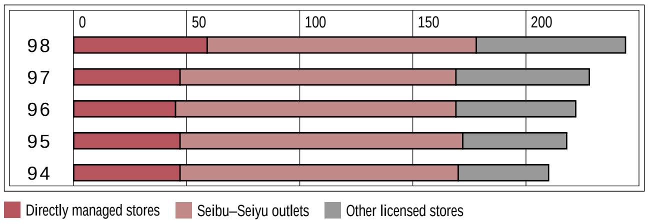
The Ryohin Store Concept

In June 1983, the Company opened **Mujirushi Ryohin Aoyama,** the first Muji retail outlet. The subdued store design, which attracted much attention from the very beginning, was used as a model for the 155 stores opened in the following year. > Early Muji stores typically had a floor space of between 100 and 130 square meters and offered just 200 to 300 items. At the end of 1997, Ryohin Keikaku was selling **3,631 items** through its domestic network. The increase in the number of products reflects the Company's marketing strategy of presenting a total lifestyle concept based on a philosophy of simplicity and practicality. The makeup of its product lineup carried in each outlet as well as the store designs are intended to reinforce this concept and **cater to**

Total Sales Floor Space (Square meters)*



Number of Stores



*Years ended February 28/29

1992 > 1993 > 1994 > 1995 >

Mujirushi Ryohin Aoyama 3-chome

PRODUCT DEVELOPMENT

> Focus shifts to the theme of coexistence with nature, emphasizing minimal environmental impact in material selection. The shaft-drive bicycle, designed in keeping with this theme, is introduced.

BUSINESS DEVELOPMENT

> Mujirushi Ryohin Aoyama 3-chome, a large-scale one-floor store, is opened in Tokyo.

Folding shaft-drive bicycle

PRODUCT DEVELOPMENT

> Ryohin Keikaku launches total-lifestyle concept presentations comprising apparel, household goods, and food products at its large stores in inner-city and suburban areas.

BUSINESS DEVELOPMENT

> R.K. Trucks Co., Ltd., an independent distribution subsidiary, is established.

Household electric appliances

PRODUCT DEVELOPMENT

> Ryohin Keikaku expands its range of household products, announcing the introduction of a line of household electric appliances.

BUSINESS DEVELOPMENT

> Large-scale store operations are standardized.

> R.K. Trucks establishes its Niigata Procurement Center.

Muji Tsunan Campground

PRODUCT DEVELOPMENT

> Ryohin Keikaku expands its outdoor and gardening product lineup and initiates a campaign to reevaluate product pricing.

BUSINESS DEVELOPMENT

> The Company's shares are registered on the over-the-counter market.

> The Ryohin Prize is introduced to recognize innovative product inventions.

> The Muji Tsunan Campground is opened.

diverse lifestyles. >The pursuit of this strategy has required an increase in selling space. At the end of fiscal 1997, the **average floor space** of directly managed stores had risen to 573 square meters. In addition to opening new stores, the Company is promoting scrap-and-build projects **to expand the size** of existing stores and currently classifies its stores into three standard categories: 500 square meters, 1,000 square meters, and 1,650 square meters.

>Ryohin Keikaku has recorded steady growth overseas since opening a Muji store in London in July 1991. As of the end of 1997, the Company's **overseas network** consisted of five stores in the United Kingdom, four in Hong Kong, and three in Singapore.

1996 > 1997

Inflatable furniture

PRODUCT DEVELOPMENT

> Ryohin Keikaku expands its apparel lineup, with lingerie and foundation garments making their debut.

> The Company launches its award-winning Field Cooker portable cooking equipment.

BUSINESS DEVELOPMENT

> The 1,650-square-meter Mujirushi Ryohin Canal City Hakata store is inaugurated.

> The Muji Minami Norikura Campground is opened.

> The Fukuoka Logistics Center is established.

PRODUCT DEVELOPMENT

> Ryohin Keikaku reaffirms its commitment to making high-quality, low-price products and expands its range of lifestyle products.

BUSINESS DEVELOPMENT

> Construction commences on the Urayasu and Kobe Logistics Centers.

> The Company is registered for ISO 9001 assessment.

> Work progresses on the expansion and standardization of stores.

Awards

1982 > Muji 22-inch bicycle received the 1982 Nikkei Fine Product Award and the 1982 Nikkei Ryutsu Shimbun Best Product Award

1984 > Received the sixth Senkensho Award

1989 > *The Muji Book* was awarded the Ministry of International Trade and Industry (MITI)'s Minister's Award

1990 > Received the 1989 Design Year Commemorative Promotion Award

1991 > Received the Chairman's Award in the 30th annual JAA Advertising Concours

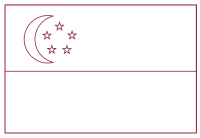
> Won the 42nd annual National Calendar Competition, sponsored by Insatsu Jiho Co., Ltd.

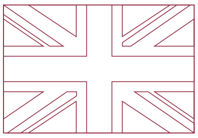
1993 > Received the 35th annual All Japan Catalogs and Posters Exhibition Printing and Publishing Research Institute Award

1994 > Folding shaft-drive bicycle won the 1994 Good Design Award from MITI

1996 > Received the PLMA prize for superior products

<International Operations>





Production bases **Europe** Italy, Portugal, Spain, France, Germany, Holland, United Kingdom, Denmark, Poland, Sweden **Asia** Vietnam, The Philippines, Thailand, Malaysia, Indonesia, India, South Korea, Taiwan, China, Turkey **Oceania** New Zealand **North America** United States **South America** Brazil, Peru, Chile

Ryohin Keikaku sales outlets Japan, United Kingdom, Hong Kong, Singapore

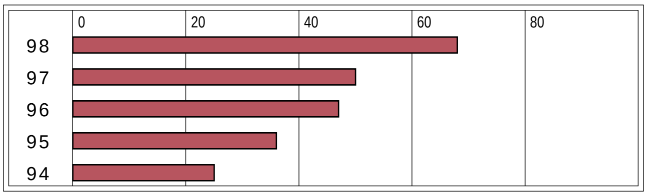
Chinese cotton shirt

Muji Oxford Street

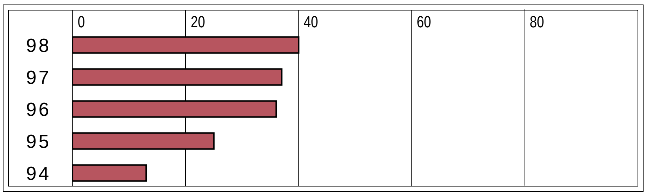
Ryohin Keikaku’s cotton processing factory in India

OVERSEAS PROCUREMENT RATIO

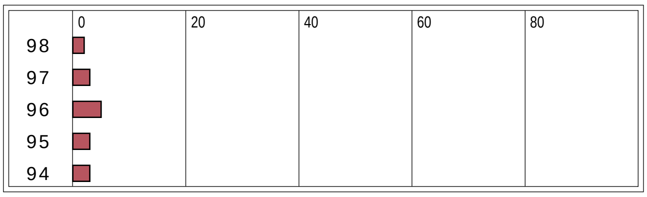
Apparel (%)*



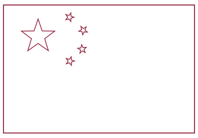
Household Goods (%)

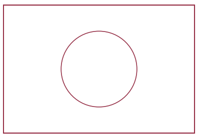


Food (%)



*Years ended February 28/29





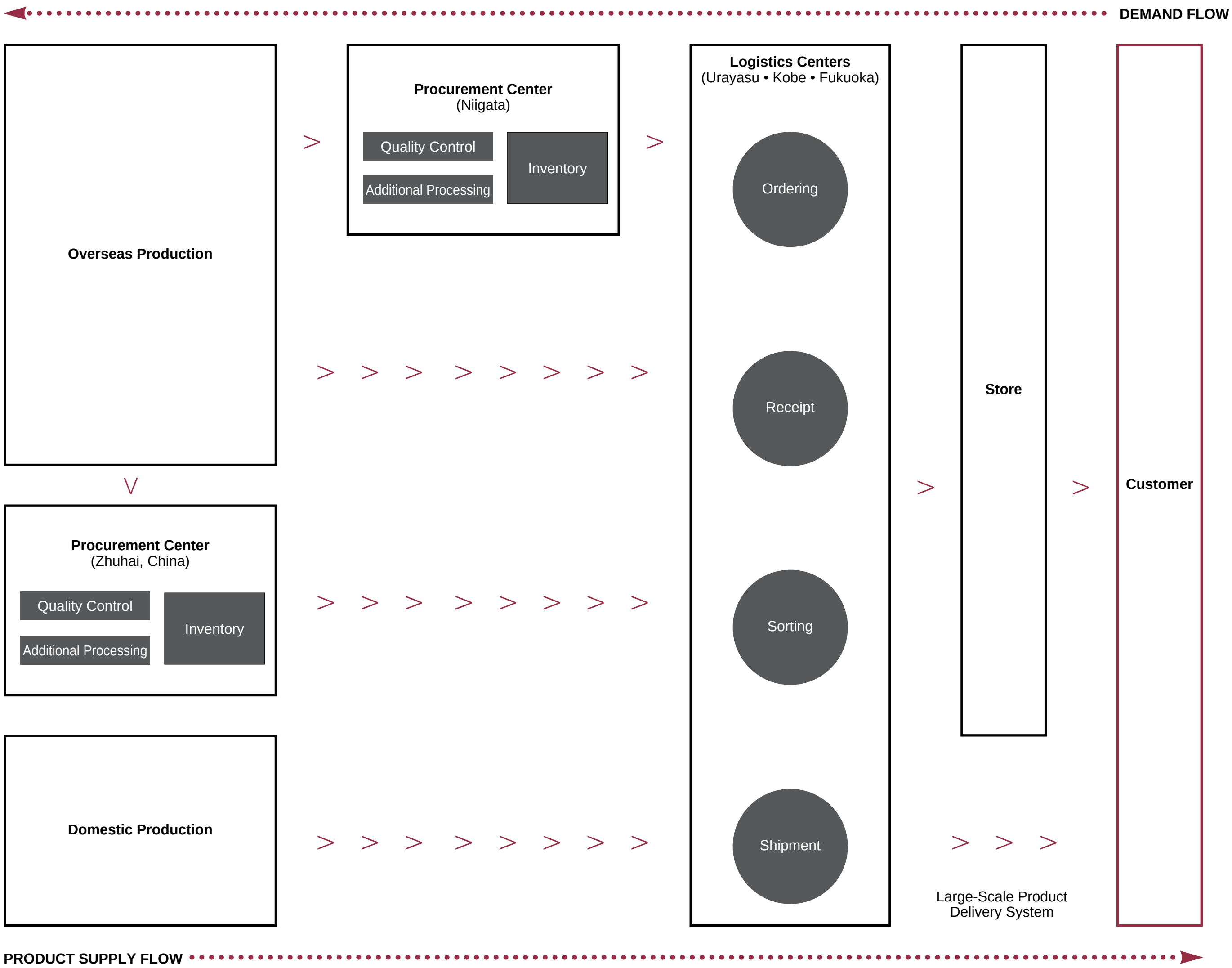
The appeal of the total lifestyle concept embodied in Muji products has spread from Japan into the international arena. Following the success of the first overseas Muji store, opened in the West Soho district of London in July 1991, Ryohin Keikaku's international network has expanded to include 12 stores in the United Kingdom, Hong Kong, and Singapore.

The United Kingdom was again the site of a great deal of activity in fiscal 1997. In May, Ryohin Keikaku Europe Ltd., a local subsidiary, was established to manage all aspects of our operations in the United Kingdom. Subsequently, in October 1997, the company opened a fifth store on Oxford Street, in London, with a sales floor twice the size of any other Muji store in the United Kingdom. In fiscal 1998, we plan to open three new stores in the United Kingdom and establish a presence in France. Looking further ahead, we are evaluating the possibility of opening stores in North America and, by 2003, aim to build an overseas network comprising 10 stores there and 50 throughout Europe. These plans underscore the importance development abroad has in our long-term business strategy. In promoting this drive, Ryohin Keikaku will continue to adopt the policies of tailoring product designs to meet local consumer preferences and of localizing management.

In addition to increasing the number of Muji stores and expanding sales, our strategies aim to create product planning, procurement, and production activities that facilitate the development of products and supply structures most suitable for local markets. The Company has already begun shipping apparel and other products made for overseas markets directly from production bases, thereby lowering costs and shortening delivery times. Further measures to improve integrated management of logistics systems, including overseas warehouses and distribution routes, are also planned.

<Product Logistics>

DISTRIBUTION SYSTEM



Fukuoka Logistics Center

Kobe Logistics Center

Urayasu Logistics Center

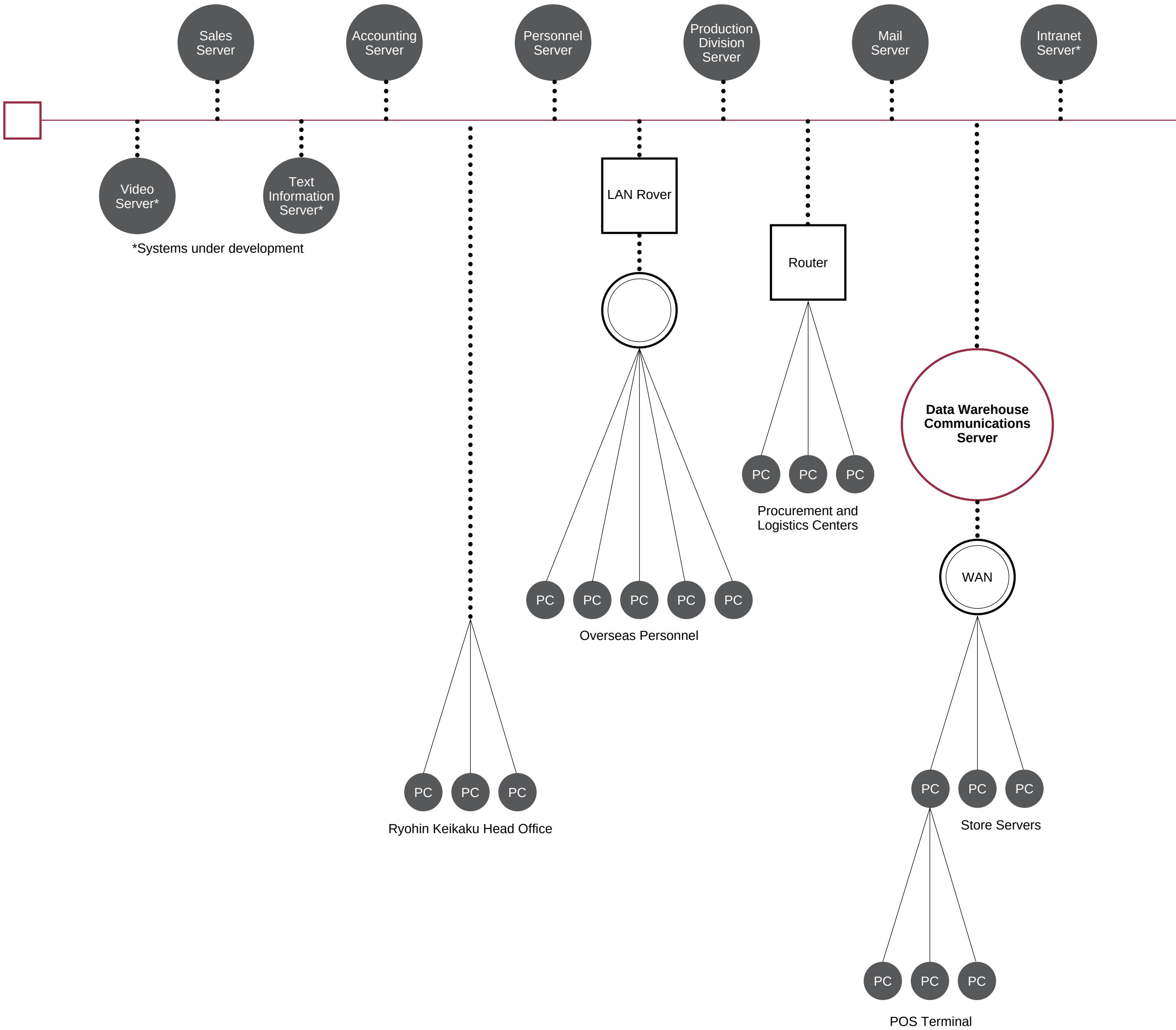
As a manufacturer and retailer whose operations span from product planning through production and sales, Ryohin Keikaku has found that the construction of a flexible, speedy, and highly efficient distribution system is essential to the success and globalization of the Company. To this end, the Company is proceeding with the establishment of a global logistics network centered on distribution hubs.

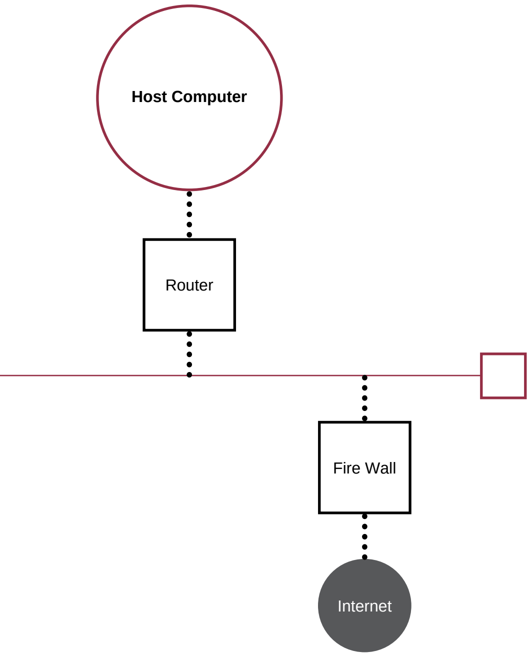
In 1994, the Company opened a distribution processing center in Niigata to handle product inspection and repair and, in 1996, established the Fukuoka Logistics Center. The Company will move closer to completing a totally independent infrastructure when operations commence at large-scale logistics centers in Kobe and Urayasu in 1998.

These centers will feature advanced distribution-related equipment. Other efforts to upgrade and integrate our 17 domestic distribution facilities will contribute to increased store productivity by providing comprehensive product information; lowering distribution costs; and supporting stable, efficient supplies.

Moreover, as part of a continuing effort to bolster its overseas production, the Company has constructed a storage warehouse and processing center in Zhuhai, China. By coordinating the operations of this facility with those of its domestic logistics centers, the Company will add flexibility to its overall infrastructure.

SYSTEM STRUCTURE






Muji POS system

Looking toward the 21st century, Ryohin Keikaku is making great strides in upgrading its information systems.

In 1990, just one year after setting up operations independent from those of Seiyu, the Company introduced a point-of-sale (POS) system—a highly accurate product management system capable of tracing individual items. In managing operations that straddle manufacturing and retailing activities, Ryohin Keikaku is constantly exposed to diverse risks, making close control of inventory, distribution, and profit margins essential.

Underpinning this system is a comprehensive information infrastructure. In 1995, a new POS system was installed in all directly managed stores, linking them to the Company's network database, and by 1996, it was in use at all Muji outlets in Japan. Having set out to develop a system that could track the movement of a single pencil from production through sale, Ryohin Keikaku has now accomplished its goal.

In an effort to strengthen its ability to reengineer business processes, making them suitable for a new era, the Company continues to enhance its information systems. The central pillar of these will be a data warehouse that stores comprehensive information on subjects ranging from product design to sales. This will facilitate faster and more accurate decision making by providing individuals responsible for product design, production, and procurement with access to detailed and up-to-date information. The Company aims to have the system up and running in fiscal 1999. Also, with a view to improving customer services, the Company is establishing a new customer information system that will allow customers to offer direct feedback.

To further integrate and promote the Muji global network, Ryohin Keikaku is currently constructing a three-layer information network—based on the Internet, extranet, and intranet—in which both domestic and overseas stores can freely access such information as specific product data and inventory levels at distribution centers around the world.

Human Communication

At Ryohin Keikaku, the importance we place on **human communication** is apparent in all our operations, for sharing and the accumulation of individual ideas have made the Company the success it is today. This communication will continue to be the **key to our success** in the 21st century. >As the Company pursues its business goals, it continually focuses on two important markets. The first is the **consumer market**—customers who purchase Mujirushi Ryohin products. The second is the **financial market**—stockholders who purchase the Company's shares. It is our goal at Ryohin Keikaku to earn the support of both markets by providing excellent products and services and **full disclosure of business dealings.** >At Ryohin Keikaku, product development efforts are based on customer needs and opinions gleaned through the open, two-way communication the Company maintains. Every month, more than **1,000 customer suggestions** for new products are received via

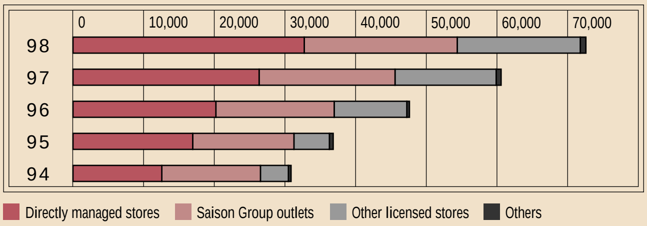
Understanding the View

Key to Our Success

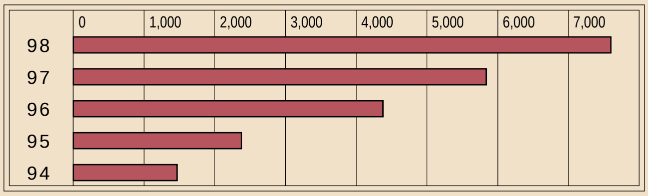
letter, telephone, and E-mail. These suggestions are gathered and analyzed in the Customer Relations Office, which reports directly to the president, and valuable ideas are then passed along to appropriate departments within the Company. Replies are sent to all customers who offer suggestions. In fact, the Company actively **encourages customer feedback** and prominently display “Listening to Our Customers” posters throughout its stores. >From the very beginning, Ryohin Keikaku has focused its merchandising efforts on the use of **environment-friendly materials.** By examining the quality of our products and viewing the simplicity of displays in our stores, any visitor would soon understand that concern for the environment is the foundation of our business. >Placing considerable importance on communication with its customers, the Company continually strives to understand their viewpoint and **gain their trust**.

Customer’s point

Net Sales by Channel (Millions of yen)



Operating Income (Millions of yen)



OPERATING REVENUE

In fiscal 1997, ended February 28, 1998, the moribund condition of the Japanese economy adversely affected consumer spending, resulting in a difficult environment for retailers. Against this background, Ryohin Keikaku increased the selling space of its store network and expanded its product lineup in response to diversifying consumer needs. Due to the effectiveness of these measures, non-consolidated net sales climbed to ¥72,573 million, up 19.8% from the previous fiscal year.

Ryohin Keikaku sells Muji brand products through the following channels: directly managed stores and wholesale supplies. In fiscal 1997, Ryohin Keikaku conducted scrap-and-build projects to increase the selling space of its store network and standardize the range of products offered at outlets of similar sizes. The Company opened 15 stores during the year, starting with the Mujirushi Ryohin Sagamiono More's store in Kanagawa Prefecture. On the other hand, after reviewing the relative performance of all stores, the Company closed three stores, including the Mujirushi Ryohin Yokohama Landmark store.

As a result of these activities, during fiscal 1997, the average floor space of directly managed stores increased 131 square meters, or 29.6%, to 573 square meters. In fiscal 1998, the Company intends to further strengthen its store network based on the themes of enlargement and standardization.

The following table shows the breakdown of net sales by sales channel for the last three fiscal years.

(Millions of yen)

	FY 96	97	98	% of net sales (98)	98/97 %
Directly managed stores	¥20,218	¥26,333	¥32,719	45.1%	124.3%
Wholesale	27,371	34,069	39,846	54.9	117.0
Others	17	172	8	0.0	4.7
Net sales	¥47,606	¥60,574	¥72,573	100.0%	119.8%

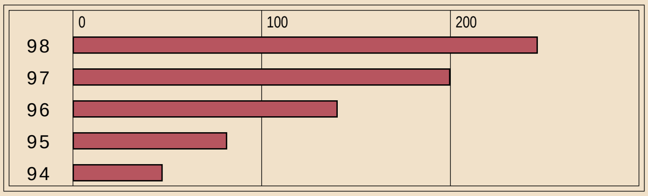
As illustrated in the table below, Ryohin Keikaku has responded to the diversifying needs of consumers by steadily expanding its product range during the last three fiscal years.

(Number of items per category)

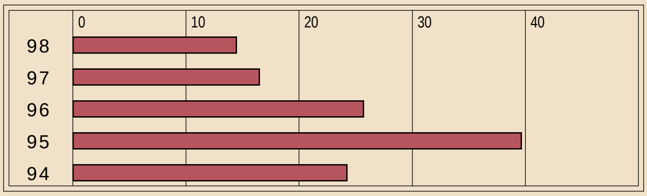
	FY 96	97	98
Apparel	651	692	745
Household goods	1,813	2,148	2,394
Food	578	499	492
Total	3,042	3,339	3,631

As regards net sales by product category, sales of apparel jumped 23.5%, to ¥25,187 million, while sales of household goods leapt 22.9%, to ¥37,157 million. These two categories accounted for 97.6% of the total increase in net sales. Food sales rose 0.9%, to ¥9,602 million, with growth restricted by efforts to streamline the product lineup in line with a more focused marketing strategy. Sales of other items jumped 45.5%, to ¥627 million.

Net Income per Share (Yen)



Return on Average Stockholders' Equity (%)



(Millions of yen)

	FY 96	97	98	% of net sales (98)	98/97 %
Apparel	¥16,114	¥20,388	¥25,187	34.7%	123.5%
Household goods	22,390	30,241	37,157	51.2	122.9
Food	8,874	9,514	9,602	13.2	100.9
Others	228	431	627	0.9	145.5
Net sales	¥47,606	¥60,574	¥72,573	100.0%	119.8%

In October 1997, the Company's U.K. subsidiary, Ryohin Keikaku Europe Ltd., opened the biggest overseas Muji outlet, the Muji Oxford Street store, in London. The floor space of this store is more than twice as large as that of the Company's next largest store in the United Kingdom. At the fiscal year-end, Ryohin Keikaku's overseas network comprised 12 stores in the United Kingdom, Hong Kong, and Singapore.

COST OF SALES

The cost of sales increased ¥6,866 million, or 18.0%, to ¥45,036 million, reflecting higher sales of a greater range of products during the fiscal year. However, the continuing shift toward overseas manufacturing resulted in the overseas procurement ratio rising to 42%. Moreover, by increasing purchase lot sizes, Ryohin Keikaku reduced the unit purchase prices of 265 items and effectively responded to consumers' demand for greater value for their money. Consequently, the cost of sales ratio declined to 62.1%, 0.9 percentage point lower than that of the previous fiscal year.

OTHER OPERATING REVENUE

In fiscal 1997, the amount of other operating revenue increased ¥263 million, to ¥475 million.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative (SG&A) expenses rose ¥3,634 million, or 21.7%, to ¥20,413 million. Despite vigorous efforts to improve efficiency and to cut costs, this increase exceeded that of net sales by 1.9 percentage points. This increase was primarily attributable to higher personnel and distribution expenses as well as higher lease rentals for land and buildings, reflecting sales network expansion. Also, depreciation costs rose 28.0%, to ¥813 million, due to new store openings.

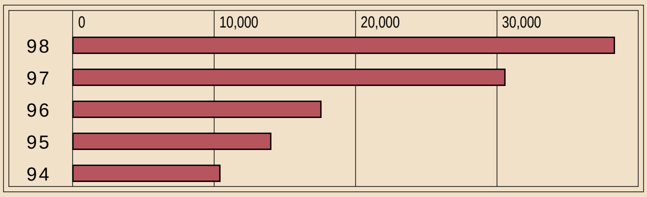
SG&A expenses as a percentage of net sales rose a marginal 0.4 percentage point, to 28.1%.

As a result, Ryohin Keikaku recorded operating income of ¥7,599 million, up ¥1,762 million, or 30.2%, from the amount recorded in fiscal 1996. As a percentage of net sales, operating income advanced from 9.6% to 10.5%.

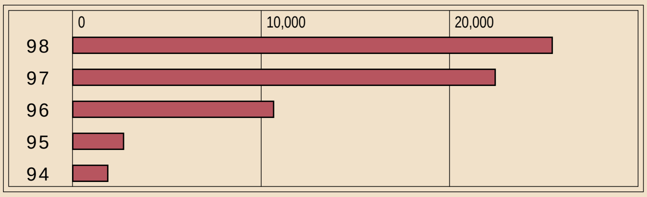
OTHER REVENUE AND EXPENSES

Gain on sale of investment in securities amounted to ¥132 million. However, the closure of several smaller stores in the Company's network, combined with expenses associated with scrap-and-build projects, resulted in a ¥116 million loss on disposal of property, plant and equipment and a ¥63 million loss on cancellation of rent contracts of stores. Also, Ryohin Keikaku wound up its partnership in the United Kingdom with Liberty plc, and transferred management responsibility of its U.K. operations to a new subsidiary, Ryohin Keikaku Europe Ltd. A ¥215 million loss on cancellation of partnership was incurred.

Total Assets (Millions of yen)



Total Stockholders' Equity (Millions of yen)



Thus, Ryohin Keikaku recorded net income of ¥3,454 million, up ¥731 million, or 26.8%, from the figure posted in fiscal 1996. The Company's return on average stockholders' equity was 14.4%, down from 16.5% in the previous fiscal year. An increase in capital led to this decline.

The Company paid annual cash dividends of ¥35.0 per share, compared with ¥24.0 per share in the previous fiscal year. The payout ratio rose 2.2 percentage points, to 14.2%.

FINANCIAL POSITION

As of February 28, 1998, total assets amounted to ¥38,305 million, up ¥7,742 million, or 25.3% from the previous fiscal year-end.

Total current assets contracted ¥109 million, to ¥18,808 million. Although notes and accounts receivable increased in line with higher sales during the year, money management funds were sold and investment in securities declined as a part of the Company's plans to improve the profitability of its asset portfolio.

Property, plant and equipment grew ¥3,055 million during the year, to stand at ¥6,817 million at the fiscal year-end. The amount of construction in progress rose considerably, owing to work on the Company's large-scale logistics centers in Kobe and Urayasu, which are scheduled to come on line in fiscal 1998.

Total current liabilities advanced ¥4,709 million, to ¥12,655 million, reflecting increases in notes and accounts payable that accompanied robust selling activities, higher income taxes payable, and other factors.

Total stockholders' equity rose ¥3,026 million, to ¥25,440 million. However, as a result of the expansion in the Company's asset base to support business growth, the stockholders' equity ratio fell to 66.4%, from 73.3%.

CASH FLOWS

Net cash provided by operating activities amounted to ¥1,184 million, compared with ¥2,211 million in fiscal 1996. The main reason for this fall was increases in the amounts of receivables, inventories and supplies, and deferred charges and intangibles, which more than offset the ¥731 million rise in net income.

Net cash used for investing activities totaled ¥7,197 million. The majority of this amount was used to fund store network expansion. Net cash used for financing activities amounted to ¥262 million.

Therefore, cash and cash equivalents at the end of the fiscal year amounted to ¥3,182 million, down from ¥9,457 million in fiscal 1996. Working capital at the end of the year amounted to ¥6,153 million, and the current ratio fell to 148.6%.

<Non-Consolidated Five-Year Summary>

Ryohin Keikaku Co., Ltd.   Years ended February 28/29

	Millions of yen					Thousands of U.S. dollars (Note 3)
	1994	1995	1996	1997	1998	1998
For the Year:						
Net sales	¥30,854	¥36,815	¥47,606	¥60,574	¥72,573	$571,441
Cost of sales	20,860	23,750	30,328	38,170	45,036	354,614
Gross profit	9,994	13,065	17,278	22,404	27,537	216,827
Other operating revenue	113	119	256	212	475	3,740
Selling, general and administrative expenses	8,642	10,807	13,157	16,779	20,413	160,732
Operating income	1,465	2,377	4,377	5,837	7,599	59,835
Other revenue (expenses):						
Interest and dividend income	8	6	13	39	74	583
Interest expenses	(242)	(186)	(134)	(2)	(1)	(8)
Gain on sale of investment in securities	—	0	3	3	132	1,039
Loss on cancellation of partnership	—	—	—	—	(215)	(1,693)
New share issue expenses	—	—	(248)	(43)	—	—
Loss on disposal of property, plant and equipment	—	(139)	(171)	(69)	(116)	(913)
Loss on cancellation of rent contracts of stores	—	—	(19)	(79)	(63)	(496)
Other, net	(100)	(69)	83	162	83	653
Income before income taxes	1,131	1,989	3,904	5,848	7,493	59,000
Net income	402	902	1,714	2,723	3,454	27,197
At Year-End:						
Total assets	¥10,399	¥13,995	¥17,544	¥30,563	¥38,305	$301,614
Total stockholders' equity	1,857	2,694	10,655	22,414	25,440	200,315
	Yen					U.S. dollars (Note 3)
Per Share:						
Net income	¥47.1	¥81.3	¥139.9	¥199.6	¥246.0	$1.94
Cash dividends	5.0	5.0	15.0	24.0	35.0	0.28

<Non-Consolidated Balance Sheets>

Ryohin Keikaku Co., Ltd.   As of February 28, 1997 and February 28, 1998

	Millions of yen		Thousands of U.S. dollars (Note 3)
ASSETS	1997	1998	1998
Current Assets:			
Cash on hand and in banks	¥ 2,498	¥ 1,974	$ 15,543
Marketable securities (Note 5)	6,959	1,208	9,512
Treasury stock (Note 5)	131	—	—
Notes and accounts receivable:			
Outside customers	2,923	5,226	41,150
Subsidiaries and affiliates	328	164	1,291
Non-trade accounts	851	1,750	13,780
	4,102	7,140	56,221
Less: allowance for doubtful accounts	(38)	(57)	(449)
	4,064	7,083	55,772
Inventories (Note 4)	4,645	7,688	60,535
Prepaid expenses	245	265	2,087
Other current assets	375	590	4,646
Total current assets	18,917	18,808	148,095
Investments and Advances:			
Investments in securities (Note 5)	426	424	3,339
Investments in non-stock equity interests	104	—	—
Investments in and advances to subsidiaries and affiliates (Note 6)	209	396	3,118
Other investments	926	2,701	21,267
	1,665	3,521	27,724
Property, Plant and Equipment:			
Buildings and structures	3,189	4,099	32,276
Machinery and equipment	501	501	3,945
Tools and furniture	1,320	2,157	16,984
	5,010	6,757	53,205
Less: accumulated depreciation	(1,905)	(2,576)	(20,284)
	3,105	4,181	32,921
Construction in progress	10	1,989	15,661
Land	647	647	5,095
	3,762	6,817	53,677
Fixed Leasehold Deposits (Note 7)	5,362	6,729	52,984
Deferred Charges and Intangibles	857	2,430	19,134
	¥30,563	¥38,305	$301,614

The accompanying notes are an integral part of the statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of yen 1997	Millions of yen 1998	Thousands of U.S. dollars (Note 3) 1998
Current Liabilities:			
Notes and accounts payable:			
Outside suppliers	¥ 3,329	¥ 5,468	$ 43,055
Subsidiaries and affiliates	76	913	7,189
Acquisition of property, plant and equipment	376	564	4,441
Other	352	770	6,063
	4,133	7,715	60,748
Consumption tax withheld (Note 1 (c))	99	206	1,622
Accrued expenses	1,399	1,896	14,929
Accrued bonuses	187	169	1,331
Income taxes payable (Note 8)	2,102	2,606	20,520
Other current liabilities	26	63	496
Total current liabilities	7,946	12,655	99,646
Accrued Retirement Benefits (Note 9)	110	117	921
Other Long-Term Liabilities	93	93	732
Contingent Liabilities (Note 11)			
Stockholders' Equity:			
Common stock, par value ¥50 per share:			
Authorized: 52,156,000 shares at February 28, 1997 and 1998			
Issued: 14,039,000 shares at February 28, 1997 and 1998	6,766	6,766	53,276
Additional paid-in capital	10,076	10,076	79,339
Legal reserve (Note 12)	59	102	803
General reserve (Note 12)	2,700	5,000	39,370
Retained earnings (Notes 12 and 15)	2,813	3,496	27,527
Total stockholders' equity	22,414	25,440	200,315
	¥30,563	¥38,305	$301,614

<Non-Consolidated Statements of Income>

Ryohin Keikaku Co., Ltd. For the years ended February 29, 1996, February 28, 1997 and February 28, 1998

	Millions of yen			Thousands of U.S. dollars (Note 3)
	1996	1997	1998	1998
Net Sales (Note 13)	¥47,606	¥60,574	¥72,573	$571,441
Cost of Sales	30,328	38,170	45,036	354,614
Gross profit	17,278	22,404	27,537	216,827
Other Operating Revenue	256	212	475	3,740
	17,534	22,616	28,012	220,567
Selling, General and Administrative Expenses (Note 14)	13,157	16,779	20,413	160,732
Operating income	4,377	5,837	7,599	59,835
Other Revenue (Expenses):				
Interest and dividend income	13	39	74	583
Interest expenses	(134)	(2)	(1)	(8)
Gain on sale of investment in securities	3	3	132	1,039
Loss on cancellation of partnership	—	—	(215)	(1,693)
New share issue expenses	(248)	(43)	—	—
Loss on disposal of property, plant and equipment	(171)	(69)	(116)	(913)
Loss on cancellation of rent contracts of stores	(19)	(79)	(63)	(496)
Other, net	83	162	83	653
Income before income taxes	3,904	5,848	7,493	59,000
Income Taxes (Note 8)	2,190	3,125	4,039	31,803
Net income	¥ 1,714	¥ 2,723	¥ 3,454	$ 27,197

	Yen			U.S. dollars (Note 3)
Per Share (Note 2 (l)):				
Net income	¥139.9	¥199.6	¥246.0	$1.94
Cash dividends	15.0	24.0	35.0	0.28
Weighted average number of shares	12,251,984	13,644,479	14,039,000	

The accompanying notes are an integral part of the statements.

<Non-Consolidated Statements of Stockholders' Equity>

Ryohin Keikaku Co., Ltd. For the years ended February 29, 1996, February 28, 1997 and February 28, 1998

	Number of shares of common stock	Millions of yen: Common stock	Additional paid-in capital	Legal reserve	General reserve	Retained earnings
Balance at February 28, 1995	8,530,000	¥ 622	¥ 511	¥ 15	¥ 600	¥ 946
Net income for the year ended February 29, 1996	—	—	—	—	—	1,714
Cash dividends	—	—	—	—	—	(92)
Transfer to legal reserve	—	—	—	13	—	(13)
Directors' and statutory auditors' bonuses	—	—	—	—	—	(37)
Transfer to general reserve	—	—	—	—	800	(800)
New share issue in public offering on August 1, 1995	1,500,000	1,477	4,899	—	—	—
Balance at February 29, 1996	10,030,000	2,099	5,410	28	1,400	1,718
Net income for the year ended February 28, 1997	—	—	—	—	—	2,723
Cash dividends	—	—	—	—	—	(255)
Transfer to legal reserve	—	—	—	31	—	(31)
Directors' and statutory auditors' bonuses	—	—	—	—	—	(42)
Transfer to general reserve	—	—	—	—	1,300	(1,300)
Stock split on April 19, 1996 (1 into 1.3)	3,009,000	—	—	—	—	—
New share issue in public offering on July 23, 1996	1,000,000	4,667	4,666	—	—	—
Balance at February 28, 1997	14,039,000	6,766	10,076	59	2,700	2,813
Net income for the year ended February 28, 1998	—	—	—	—	—	3,454
Cash dividends	—	—	—	—	—	(393)
Transfer to legal reserve	—	—	—	43	—	(43)
Directors' and statutory auditors' bonuses	—	—	—	—	—	(35)
Transfer to general reserve	—	—	—	—	2,300	(2,300)
Balance at February 28, 1998	14,039,000	¥6,766	¥10,076	¥102	¥5,000	¥3,496

	Thousands of U.S. dollars (Note 3): Common stock	Additional paid-in capital	Legal reserve	General reserve	Retained earnings
Balance at February 28, 1997	$53,276	$79,339	$464	$21,260	$22,150
Net income for the year ended February 28, 1998	—	—	—	—	27,197
Cash dividends	—	—	—	—	(3,095)
Transfer to legal reserve	—	—	339	—	(339)
Directors' and statutory auditors' bonuses	—	—	—	—	(276)
Transfer to general reserve	—	—	—	18,110	(18,110)
Balance at February 28, 1998	$53,276	$79,339	$803	$39,370	$27,527

The accompanying notes are an integral part of the statements.

<Non-Consolidated Statements of Cash Flows>

Ryohin Keikaku Co., Ltd. For the years ended February 29, 1996, February 28, 1997 and February 28, 1998

	Millions of yen			Thousands of U.S. dollars (Note 3)
	1996	1997	1998	1998
Cash Flows from Operating Activities:				
Net income	¥1,714	¥2,723	¥3,454	$27,197
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	531	625	803	6,323
Loss on disposal of property, plant and equipment	171	69	116	913
Changes in assets and liabilities:				
Receivables	(760)	(928)	(3,019)	(23,772)
Inventories and supplies	(976)	(1,142)	(3,043)	(23,961)
Prepaid expenses and other	(104)	(25)	(235)	(1,850)
Deferred charges and intangibles	(259)	(330)	(1,573)	(12,386)
Payables	1,175	530	3,582	28,205
Income taxes payable	942	274	504	3,969
Accrued expenses and other	310	457	630	4,961
Other payments	(37)	(42)	(35)	(276)
Net cash provided by operating activities	2,707	2,211	1,184	9,323
Cash Flows from Investing Activities:				
Acquisition of property, plant and equipment	(879)	(1,436)	(3,975)	(31,299)
Increase in fixed leasehold deposits	(377)	(475)	(1,367)	(10,764)
Increase (decrease) in investments in securities	(148)	150	2	16
Increase (decrease) in investments in non-stock equity interests	31	(37)	104	819
Increase in investments in and advances to subsidiaries and affiliates	—	(114)	(187)	(1,473)
Decrease in other investments	(323)	(545)	(1,775)	(13,976)
Proceeds from sales of property, plant and equipment	39	32	1	8
Net cash used for investing activities	(1,657)	(2,425)	(7,197)	(56,669)
Cash Flows from Financing Activities:				
Proceeds from new share issue	6,376	9,332	—	—
Decrease in long-term bank loans	(4,740)	—	—	—
Decrease in short-term bank loans	(2,100)	—	—	—
Payment to acquire proceeds from sales of treasury stock	—	(131)	131	1,031
Cash dividends	(92)	(255)	(393)	(3,094)
Net cash provided by (used for) financing activities	(556)	8,946	(262)	(2,063)
Net Increase (Decrease) in Cash and Cash Equivalents	494	8,732	(6,275)	(49,409)
Cash and Cash Equivalents at Beginning of Year	231	725	9,457	74,464
Cash and Cash Equivalents at End of Year	¥ 725	¥9,457	¥3,182	$25,055

The accompanying notes are an integral part of the statements.

1. BASIS OF PRESENTING THE NON-CONSOLIDATED FINANCIAL STATEMENTS

(a) Accounting Principles

The accompanying non-consolidated financial statements have been prepared from accounts and records maintained by Ryohin Keikaku Co., Ltd. (the "Company") in accordance with the provisions set out in the Japanese Commercial Code and in conformity with accounting principles generally accepted in Japan.

Relevant notes have been added, and certain reclassifications of account balances, as disclosed in the non-consolidated financial statements in Japan, have been made so as to present them in a form which is more familiar to readers outside Japan.

(b) The Seiyu, Ltd. ("Seiyu")

The Company was a subsidiary of Seiyu, as Seiyu owned 7,268,800 shares of common stock of the Company at February 28, 1997, which represented 51.8% of the total outstanding shares at that date. On February 23, 1998, Seiyu sold 980,000 shares of common stock of the Company. Accordingly, the percentage of equity ownership owned by Seiyu was reduced to 44.79%.

(c) Accounting for the Consumption Tax

Consumption tax in Japan has been imposed at the flat rate of 5% since April 1, 1997 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 paid to the national government subsequently. The consumption tax withheld upon sale is not included in the amount of "Net Sales" in the accompanying non-consolidated statements of income but is recorded as a liability, "Consumption tax withheld". The consumption tax paid by the Company on its purchases of goods and services is not included either in the amounts of costs and expenses in the accompanying non-consolidated statements of income, and the net balance is shown as "Consumption tax withheld" in the accompanying non-consolidated balance sheets. The consumption tax rate was 3% until March 31, 1997.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Inventory Valuation

Merchandise is stated at cost, determined by the individually identified cost method. Supplies are valued by the last purchase price method.

(b) Valuation of Securities

Securities listed on stock exchanges are valued at the lower of cost or market, cost being determined by the moving average method. All other securities are valued at cost determined by the moving average method.

(c) Investments in Subsidiaries and Affiliates

Investments in subsidiaries (majority-owned companies) and affiliates (20% to 50% owned companies) are valued at cost. The equity method is not applied to accounting for investments in common stock of the subsidiaries and affiliates in the accompanying non-consolidated financial statements. Accordingly, income from subsidiaries and affiliates is recognized only when the Company receives dividends therefrom.

(d) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is computed on the declining-balance method at rates based on the estimated useful lives of assets which are prescribed by the Japanese income tax laws.

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

(e) Accounting for Leases

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

(f) New Share Issue Expenses

New share issue expenses of the Company are charged to income as incurred.

(g) Income Taxes

Income taxes are provided for based on the amounts required by the tax returns for the fiscal year. No tax effect is recorded for timing differences in the recognition of certain expenses between tax and financial reporting.

(h) Amortization

Amortization of deferred charges and intangibles is computed on the straight-line method.

(i) Allowance for Doubtful Accounts

The balance of allowance for doubtful accounts represents the amount of the limit established by Japanese tax laws for allowing deduction (a certain prescribed percentage is applied to the balance of receivables) plus an amount deemed necessary to cover possible losses estimated on an individual account basis.

(j) Accrued Bonuses to Employees

Accrued bonuses to employees are provided by the method prescribed by the tax laws under which the accrual of bonuses is made in an amount determined based on the actual amounts of semi-annual payments in the previous year and the semi-annual periods to which respective bonus payments twice a year relate.

(k) Appropriation of Retained Earnings

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, the plan for appropriation of retained earnings (including cash dividend payments) proposed by the Board of Directors should be approved at the stockholders' meeting which must be held within 3 months after the end of each fiscal year. The appropriation of retained earnings reflected in the accompanying financial statements represents the results of such appropriations applicable to the immediately preceding fiscal year which was approved at the stockholders' meeting and disposed of during that year. Dividends are paid to stockholders on the stockholders' register at the end of each fiscal year. As it is a customary practice in Japan, the payment of bonuses to directors and statutory auditors is made out of retained earnings instead of being charged to income of the year, which constitute a part of the appropriations cited above.

The Japanese Commercial Code provides that interim cash dividends may be distributed upon approval of the Board of Directors.

(l) Net Income and Dividends per Share

Net income per share of common stock is based upon the weighted average number of shares outstanding during each year, appropriately adjusted for subsequent stock splits. Cash dividends per share shown for each period in the accompanying non-consolidated statements of income represent dividends declared as applicable to each year after retroactive adjustments for subsequent stock splits.

3. UNITED STATES DOLLAR AMOUNTS

The Company maintains its accounting records in yen. The U.S. dollar amounts included in the non-consolidated financial statements and notes thereto represent the arithmetical results of translating yen to U.S. dollars on a basis of ¥127=US$1. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in U.S. dollars at ¥127=US$1 or at any other rate.

4. INVENTORIES

Inventories at February 28, 1997 and 1998 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1997	1998	1998
Apparel	¥1,777	¥3,775	$29,724
Household goods	2,668	3,713	29,236
Food and others	191	183	1,441
Supplies	9	17	134
	¥4,645	¥7,688	$60,535

5. MARKETABLE SECURITIES AND INVESTMENTS IN SECURITIES

Marketable securities (short-term investment portfolio) and investments in securities (long-term investment portfolio) at February 28, 1997 and 1998 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1997	1998	1998
Marketable securities:			
Listed corporate shares	¥ 145	¥ —	$ —
Unlisted corporate shares	6,814	1,208	9,512
	¥6,959	¥1,208	$9,512
Investments in securities:			
Listed corporate shares	¥ 119	¥ 242	$1,906
Unlisted corporate shares	307	182	1,433
	¥ 426	¥ 424	$3,339

Market value information of listed corporate shares in the above table at February 28, 1997 and 1998 is as follows:

	Millions of yen		
	1997		
	Book value	Market value	Unrealized gain
Marketable securities	¥145	¥275	¥130
Treasury stock	131	116	(15)
	¥276	¥391	¥115
Investments in securities	¥119	¥149	¥30

	Millions of yen			Thousands of U.S. dollars
	1998			1998
	Book value	Market value	Unrealized gain	Unrealized gain
Investments in securities	¥242	¥312	¥70	$551

6. INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES AND AFFILIATES

Investment in stock of subsidiaries at February 28, 1998 represents the Company's investment in R.K. Trucks Co., Ltd. and Ryohin Keikaku Europe Ltd., which are wholly owned by the Company.

Investment in the stock of an affiliate at February 28, 1998 represents the Company's investment in Mujirushi Ryohin (Bermuda) Ltd.

7. FIXED LEASEHOLD DEPOSITS

Fixed leasehold deposits as of February 28, 1997 and 1998 are those paid to the lessors in connection with the leases of buildings and facilities for office space, computers and related equipment. Lessors in Japan require large amounts of leasehold deposits equivalent to several months' lease rental payments. Such leasehold deposits do not bear interest and are generally returnable only when the lease is terminated.

8. INCOME TAXES

Income taxes in Japan applicable to the Company for each of the 3 years in the period ended February 28, 1998 consisted of corporate income tax (national), enterprise tax (local) and resident income tax (local) at the approximate rates indicated below:

	Rates on taxable income		
	1996	1997	1998
Corporate income tax	37.5%	37.5%	37.5%
Enterprise tax	12.6	12.6	12.6
Resident income tax	7.5	7.5	7.5
	57.6%	57.6%	57.6%
Statutory tax rate in effect to reflect the deductibility of enterprise tax when paid	51.2%	51.2%	51.2%

Unlike other income taxes, the enterprise tax is deductible for tax purposes when it is paid. Although the enterprise tax is presented as selling, general and administrative expenses in the basic financial statements disclosed in Japan, a reclassification has been made to present income taxes in their entirety in the accompanying non-consolidated financial statements.

Income tax rates shown in the accompanying non-consolidated statements of income are higher than the aforementioned statutory tax rate. The principal reason such differences arise is that no tax effects have been recognized on certain timing differences between financial accounting and tax reporting. Such differences primarily relate to accrued severance indemnities provided in excess of the limit established by the tax laws for allowable deductions and accrued enterprise tax not deductible until paid. In addition, the difference arises because essentially domestic dividend income earned is not taxable, and entertainment expenses are not allowable tax deductions.

9. RETIREMENT BENEFITS TO EMPLOYEES

The employees of the Company (excluding directors and statutory auditors) with more than 3 years but less than 5 years of service are generally covered by a retirement benefit plan under which the retiring employees are entitled to a lump-sum payment determined by reference to the current rate of pay, length of service and conditions under which the terminations occur.

The balance of accrued employees' retirement benefits in the accompanying non-consolidated balance sheets represents the amount equivalent to 100% of such retirement payments the Company would have been required to pay if all eligible employees had retired at the respective year-end dates.

The Company and other Saison Group companies (together, referred to as the "Group") have a non-contributory pension plan under which all employees of the Group with more than 5 years of service are covered. The plan provides for a lump-sum payment to retiring employees with less than 20 years of participation in the plan. The plan entitles the employees with 20 years or more participation to either a lump-sum payment or pension payments for life at the election of the retiring employee. The balance of accumulated fund assets of the Group at the most recent valuation date of March 31, 1997 aggregated ¥268,077 million.

At March 31, 1997, the number of eligible employees of the Company accounted for 0.094% of the total employees of the Group covered by the pension fund.

As it is customary in Japan, the Company pays lump-sum retirement benefits to directors and statutory auditors upon their retirement. The Company has provided for accrual for such retirement benefits. The balance of accrued retirement benefits to directors and statutory auditors in the non-consolidated balance sheets represents 100% of the benefits payable by the Company upon retirement of all directors and statutory auditors in an amount which is determined by the Company's internal rule.

10. LEASE TRANSACTIONS

Acquisition cost, accumulated depreciation, net book value at February 28, 1998 and depreciation expense of the leased assets for the year then ended, which included the portion of interest thereon, were summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Acquisition cost	¥22	$174
Accumulated depreciation	11	87
Net book value	¥11	$ 87
Depreciation	¥ 4	$ 31

Depreciation is based on the straight-line method over the lease term of the leased assets, and the residual values of which are zero. Lease rental expenses on finance lease contracts without transfer of ownership for the years ended February 28, 1997 and 1998 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	1997	1998	1998
Lease rental expenses	¥9	¥5	$39

The amounts of outstanding future lease payments under finance lease contracts due at February 28, 1997 and 1998, which included the portion of interest thereon, were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	1997	1998	1998
Future lease payments:			
Within one year	¥ 9	¥ 5	$39
Over one year	14	6	48
Total	¥23	¥11	$87

The amounts of outstanding future lease rental payments payable under operating lease contracts due at February 28, 1998 were summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Future lease rental payments payable:		
Within one year	¥3	$24
Over one year	3	24
Total	¥6	$48

The amount of outstanding future lease rental payments payable under operating lease contracts due at February 28, 1997 were included in those payments under finance lease contracts disclosed above, as a transitional treatment.

11. CONTINGENT LIABILITIES

The Company was contingently liable for guarantees of loans borrowed by Mujirushi Ryohin (Hong Kong) Ltd., Ryohin Keikaku Europe Ltd. and Mujirushi Ryohin (Singapore) Pte. Ltd. in the amounts of ¥112 million ($882 thousand), ¥77 million ($606 thousand) and ¥16 million ($126 thousand), respectively, at February 28, 1998.

12. LEGAL RESERVE AND APPROPRIATION OF RETAINED EARNINGS

The Japanese Commercial Code provides that an amount equal to at least 10% of cash outlay from retained earnings being paid out by means of appropriations of retained earnings with respect to each fiscal period should be appropriated to the legal reserve until such reserve equals 25% of the common stock account. This reserve may be transferred to the common stock account by a resolution of the Board of Directors or used to reduce a deficit by a resolution at the stockholders' meeting, but is not available for dividend payments.

The Company's Board of Directors, with subsequent approval by stockholders, has made annual appropriations of retained earnings for various purposes, of which the accumulated balance is presented as "General reserve" in the accompanying non-consolidated financial statements. Any disposition of such appropriations shall be made at the discretion of the Board of Directors and stockholders.

13. RELATED PARTY TRANSACTIONS

The Company's transactions with its subsidiaries and affiliates during the years ended February 28, 1997 and 1998 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	1997	1998	1998
Sales to Seiyu	¥7,466	¥8,625	$67,913
Sales to subsidiaries	130	343	2,701
Purchases from Seiyu	6	1	8
Expenses paid to Seiyu	3,635	3,342	26,315
Expenses paid to subsidiaries	1,097	547	4,307

14. BREAKDOWN OF SELLING, GENERAL AND AND ADMINISTRATIVE EXPENSES

The breakdown of selling, general and administrative expenses for each of the 3 years in the period ended February 28, 1998 was summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	1996	1997	1998	1998
Advertising expenses	¥ 1,548	¥ 1,490	¥ 1,839	$ 14,480
Salaries, bonuses and other payroll benefits	3,062	4,158	5,024	39,559
Lease rentals for leasing land and buildings	2,061	2,767	3,918	30,850
Depreciation	440	635	813	6,402
Transportation, distribution and delivery costs	3,020	4,131	4,639	36,527
Other	3,026	3,598	4,180	32,914
	¥13,157	¥16,779	¥20,413	$160,732

15. SUBSEQUENT EVENT

The appropriations of retained earnings for the year ended February 28, 1998 approved at the stockholders' meeting held on May 20, 1998 are as follows:

	Millions of yen	Thousands of U.S. dollars
Retained earnings at February 28, 1998	¥3,496	$27,527
Appropriations:		
Cash dividends (¥20.0 per share)	(281)	(2,213)
Transfer to legal reserve	(32)	(252)
Directors' and statutory auditors' bonuses	(38)	(299)
Transfer to general reserve	(2,500)	(19,685)
Retained earnings to be carried forward	¥ 645	$ 5,078

<Consolidated Balance Sheets>

Ryohin Keikaku Co., Ltd. and consolidated subsidiaries As of February 28, 1997 and February 28, 1998

	Millions of yen		Thousands of U.S. dollars (Note 3)
ASSETS	1997	1998	1998
Current Assets:			
Cash on hand and in banks	¥ 2,679	¥ 2,238	$ 17,622
Marketable securities	6,959	1,208	9,512
Notes and accounts receivable:			
Unconsolidated subsidiary and affiliate	316	164	1,291
Other	3,210	5,501	43,315
Less: allowance for doubtful accounts	(40)	(59)	(464)
	3,486	5,606	44,142
Inventories	5,175	8,607	67,771
Other current assets	1,634	2,612	20,567
Total current assets	19,933	20,271	159,614
Investments and Advances:			
Investments in securities	445	428	3,370
Investments in and advances to an unconsolidated subsidiary and an affiliate (Note 2 (c))	104	—	—
Other investments	927	2,700	21,260
Total investments and advances	1,476	3,128	24,630
Property, Plant and Equipment:			
Buildings and structures	3,192	4,278	33,685
Machinery and equipment	542	591	4,654
Tools and furniture	1,296	2,257	17,772
Less: accumulated depreciation	(1,910)	(2,639)	(20,780)
	3,120	4,487	35,331
Construction in progress	9	1,989	15,661
Land	647	647	5,095
Total property, plant and equipment	3,776	7,123	56,087
Fixed Leasehold Deposits	5,365	6,747	53,126
Deferred Charges and Intangibles	874	2,561	20,165
	¥31,424	¥39,830	$313,622

The accompanying notes are an integral part of the statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of yen 1997	Millions of yen 1998	Thousands of U.S. dollars (Note 3) 1998
Current Liabilities:			
Short-term bank loans	¥ 900	¥ 1,752	$ 13,795
Notes and accounts payable	3,564	6,258	49,276
Income taxes payable	2,123	2,607	20,528
Accrued expenses	1,413	1,868	14,708
Other current liabilities	1,072	1,878	14,787
Total current liabilities	9,072	14,363	113,094
Accrued Retirement Benefits	110	117	921
Other Long-Term Liabilities	93	93	732
Equity in Earnings of an Unconsolidated Subsidiary and an Affiliate	85	112	882
Adjustment on Foreign Currency Statement Translation	8	33	260
Stockholders' Equity:			
Common stock, par value ¥50 per share:			
Authorized: 52,156,000 shares at February 28, 1997 and 1998			
Issued: 14,039,000 shares at February 28, 1997 and 1998	6,766	6,766	53,276
Additional paid-in capital	10,076	10,076	79,339
Legal reserve	59	102	803
Retained earnings	5,286	8,168	64,315
Less: treasury stock	(131)	—	—
Total stockholders' equity	22,056	25,112	197,733
Total liabilities and stockholders' equity	¥31,424	¥39,830	$313,622

<Consolidated Statements of Income>

Ryohin Keikaku Co., Ltd. and consolidated subsidiaries — For the years ended February 29, 1996, February 28, 1997 and February 28, 1998

	Millions of yen			Thousands of U.S. dollars (Note 3)
	1996	1997	1998	1998
Net Sales (Note 5 (c))	¥48,907	¥62,429	¥75,445	$594,055
Cost of Sales	31,174	39,494	46,580	366,772
Gross profit	17,733	22,935	28,865	227,283
Other Operating Revenue	228	196	271	2,134
	17,961	23,131	29,136	229,417
Selling, General and Administrative Expenses	13,608	17,308	21,583	169,945
Operating income	4,353	5,823	7,553	59,472
Other Revenue (Expenses):				
Interest and dividend income	12	37	55	433
Income from investment in partnership	—	38	5	39
Interest expenses	(142)	(22)	(19)	(150)
New share issue expenses	(248)	(43)	—	—
Loss on disposal of property, plant and equipment	(171)	(69)	(118)	(929)
Loss on cancellation of rent contracts of stores	—	(79)	(63)	(496)
Write-down of investments in securities	—	(5)	(4)	(31)
Foreign exchange gain	40	67	57	449
Other, net	20	77	(47)	(370)
Income before income taxes	3,864	5,824	7,419	58,417
Income Taxes (Note 2 (e))	2,190	3,145	4,039	31,803
Equity in Earnings of an Affiliate	26	35	27	212
Net income	1,648	2,644	3,353	26,402
Retained Earnings:				
Balance at beginning of year	1,464	2,969	5,286	41,622
Appropriations:				
Cash dividends	(93)	(254)	(393)	(3,094)
Transfer to legal reserve	(13)	(31)	(43)	(339)
Directors' and statutory auditors' bonuses	(37)	(42)	(35)	(276)
Adjustment on foreign currency statement translation	0	—	—	—
Balance at end of year	¥ 2,969	¥ 5,286	¥ 8,168	$ 64,315

	Yen			U.S. dollars (Note 3)
Per Share:				
Net income	¥134.51	¥193.78	¥245.80	$1.94
Cash dividends	15.00	24.00	35.00	0.28
Weighted average number of shares	12,251,984	13,644,479	13,641,740	

The accompanying notes are an integral part of the statements.

<Consolidated Statements of Stockholders' Equity>

Ryohin Keikaku Co., Ltd. and consolidated subsidiaries   For the years ended February 29, 1996, February 28, 1997 and February 28, 1998

		Millions of yen			
	Number of shares of common stock	Common stock	Additional paid-in capital	Legal reserve	Retained earnings
Balance at February 28, 1995	8,530,000	¥ 622	¥ 511	¥ 15	¥1,464
Net income for the year ended February 29, 1996	—	—	—	—	1,648
Cash dividends	—	—	—	—	(93)
Transfer to legal reserve	—	—	—	13	(13)
Directors' and statutory auditors' bonuses	—	—	—	—	(37)
New share issue in public offering on August 1, 1995	1,500,000	1,477	4,899	—	—
Balance at February 29, 1996	10,030,000	2,099	5,410	28	2,969
Net income for the year ended February 28, 1997	—	—	—	—	2,644
Cash dividends	—	—	—	—	(254)
Transfer to legal reserve	—	—	—	31	(31)
Directors' and statutory auditors' bonuses	—	—	—	—	(42)
Stock split on April 19, 1996 (1 into 1.3)	3,009,000	—	—	—	—
New share issue in public offering on July 23, 1996	1,000,000	4,667	4,666	—	—
Balance at February 28, 1997	14,039,000	6,766	10,076	59	5,286
Net income for the year ended February 28, 1998	—	—	—	—	3,353
Cash dividends	—	—	—	—	(393)
Transfer to legal reserve	—	—	—	43	(43)
Directors' and statutory auditors' bonuses	—	—	—	—	(35)
Balance at February 28, 1998	14,039,000	¥6,766	¥10,076	¥102	¥8,168

	Thousands of U.S. dollars (Note 3)			
	Common stock	Additional paid-in capital	Legal reserve	Retained earnings
Balance at February 28, 1997	$53,276	$79,339	$464	$41,622
Net income for the year ended February 28, 1998	—	—	—	26,402
Cash dividends	—	—	—	(3,094)
Transfer to legal reserve	—	—	339	(339)
Directors' and statutory auditors' bonuses	—	—	—	(276)
Balance at February 28, 1998	$53,276	$79,339	$803	$64,315

The accompanying notes are an integral part of the statements.

<Consolidated Statements of Cash Flows>

Ryohin Keikaku Co., Ltd. and consolidated subsidiaries   For the years ended February 29, 1996, February 28, 1997 and February 28, 1998

	Millions of yen			Thousands of U.S. dollars (Note 3)
	1996	1997	1998	1998
Cash Flows from Operating Activities:				
Net income	¥1,648	¥2,644	¥3,353	$26,402
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	431	629	862	6,787
Loss on disposal of property, plant and equipment	171	69	118	929
Equity in earnings of an unconsolidated subsidiary	26	35	27	212
Changes in assets and liabilities:				
Receivables	(690)	(890)	(2,120)	(16,693)
Inventories and supplies	(1,048)	(1,360)	(3,432)	(27,023)
Other current assets	(58)	(470)	(978)	(7,701)
Deferred charges and intangibles	(161)	(343)	(1,687)	(13,283)
Payables	642	576	2,694	21,213
Income taxes payable	942	448	484	3,811
Accrued expenses and other	706	340	1,268	9,984
Other payments	(34)	(36)	(10)	(79)
Net cash provided by operating activities	2,575	1,642	579	4,559
Cash Flows from Investing Activities:				
Acquisition of property, plant and equipment	(908)	(2,028)	(4,337)	(34,150)
Increase in fixed leasehold deposits	(377)	(478)	(1,382)	(10,882)
Increase (decrease) in investments in securities	(147)	134	17	134
Increase (decrease) in investments in and advances to subsidiaries and affiliates	31	(38)	104	819
Decrease in other investments	(325)	(543)	(1,773)	(13,961)
Proceeds from sales of property, plant and equipment	65	610	10	79
Net cash used for investing activities	(1,661)	(2,343)	(7,361)	(57,961)
Cash Flows from Financing Activities:				
Proceeds from new share issue	6,376	9,333	—	—
Decrease in long-term bank loans	(600)	—	—	—
Increase (decrease) in short-term bank loans	(6,182)	567	852	6,709
Payment to acquire proceeds from sales of treasury stock	—	(131)	131	1,031
Cash dividends	(92)	(255)	(393)	(3,094)
Net cash provided by (used for) financing activities	(498)	9,514	590	4,646
Net Increase (Decrease) in Cash and Cash Equivalents	416	8,813	(6,192)	(48,756)
Cash and Cash Equivalents at Beginning of Year	409	825	9,638	75,890
Cash and Cash Equivalents at End of Year	¥ 825	¥9,638	¥3,446	$27,134

The accompanying notes are an integral part of the statements.

1. BASIS OF PRESENTING THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared from accounts and records maintained by Ryohin Keikaku Co., Ltd. (the "Company") and its consolidated subsidiaries in accordance with the provisions set out in the Japanese Commercial Code and in conformity with accounting principles generally accepted in Japan.

Relevant notes have been added and certain account balances, as disclosed in the basic consolidated financial statements in Japan, have been reclassified to the extent deemed necessary to enable presentation in a form which is more familiar to readers outside Japan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Scope of Consolidation

The Company had 2 wholly owned subsidiaries at February 28, 1998 (3 at February 28, 1997). The consolidated financial statements as at and for the years ended February 29/28, 1996, 1997 and 1998 include the accounts of the Company and 2 of its subsidiaries (together, referred to as the "Companies"), of which these 2 are listed below:

	Equity ownership percentage February 28, 1997 and 1998
R.K. Trucks Co., Ltd.	100%
Ryohin Keikaku Europe Ltd.	100%

The remaining unconsolidated subsidiary whose combined assets, net sales, net income and net assets in the aggregate are not significant compared to those of the consolidated financial statements of the Companies, therefore, has not been consolidated with the Company as at and for the year ended February 28, 1998.

(b) Consolidation Principles

R.K. Trucks Co., Ltd. uses a fiscal year ending February 28/29 of each year which is in agreement with the fiscal year of the Company. Ryohin Keikaku Europe Ltd. uses a fiscal year ending January 31 of each year. The consolidation of the subsidiary has been made by using the financial statements as of January 31 and for the period then ended. Necessary adjustments for consolidation have been made with regard to significant intercompany transactions which have taken place during the period between the closing dates of the fiscal years of the consolidated subsidiary and of the Company.

For the purposes of preparing the consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits among the Companies have been eliminated, and the portion thereof attributable to minority interests is charged to minority interests.

Any differences which may arise in elimination of 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 an investment, are treated as an asset or a liability, as the case may be, and amortized over a period of 5 years on a straight-line basis.

(c) Accounting for Investments in an Affiliate

The equity method is applied to the investment in an affiliate listed below.

Name of company	Equity ownership percentage	Capital stock (Thousands of yen)
Mujirushi Ryohin (Bermuda) Ltd.	20%	¥313

The affiliate uses a fiscal year ending on different dates from those of the Company. The equity method is applied by using the consolidated financial statements which include 2 consolidated subsidiaries for the fiscal years ending the closing date of the affiliate.

Loss on the investments is provided in respect to the liabilities in excess of assets of the affiliate, taking guarantees to the affiliate into consideration.

(d) Translation of Foreign Currency Financial Statements

The translation of foreign currency financial statements of an overseas subsidiary and an affiliate into yen for consolidation purposes is made by using the exchange rate prevailing at the balance sheet dates, as permitted by the statement issued by the Business Accounting Deliberation Council (BADC) of Japan.

The translation of assets and liabilities and revenues and expenses are made at the current rate, while the translation of capital stock is made by using the historical rates.

In this connection, a certain adjusting account has been set up for the reconciliation of the account balances. Such an adjusting account is shown as "Adjustment on Foreign Currency Statement Translation" in the accompanying consolidated financial statements.

(e) Income Taxes

The tax effects of items that are included in the determination of consolidated net income for the year, but are deductible or taxable in different years (timing differences), are not reflected in the accompanying consolidated financial statements.

(f) Other Accounting Principles and Practices Employed by the Companies

Accounting principles and practices employed by the Company and its consolidated subsidiaries in preparing the accompanying consolidated financial statements, which have significant effects thereon, are explained in Note 2 of the Notes to the Non-Consolidated Financial Statements. Therefore, the accompanying consolidated financial statements should be read in conjunction with such notes.

3. UNITED STATES DOLLAR AMOUNTS

The Company maintains its accounting records in yen. The U.S. dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to U.S. dollars on a basis of ¥127=US$1. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in U.S. dollars at ¥127=US$1 or at any other rate.

4. RELATED PARTY TRANSACTIONS (UNAUDITED)

Material transactions of the Company with its related companies for the years ended February 28, 1997 and 1998 were as follows:

				Millions of yen (Thousands of U.S. dollars)					
				Transaction			Outstanding Balance		
					For the years ended February 28,			As of February 28,	
Name of related company or individual	Paid-in capital (Millions of yen)	Principal business	Percentage of equity ownership owned directly or indirectly (%)	Description of transactions	1997	1998	Account	1997	1998
The Seiyu, Ltd.	¥11,705	Retail trade	46.20	Sales	¥7,466	¥8,625 ($67,913)	Accounts receivable	¥305	¥624 ($4,913)
				Commission of physical distribution	¥3,165	¥2,848 ($22,425)	Accrued expenses	¥601	¥582 ($4,583)
FamilyMart Co., Ltd.	¥16,538	Franchiser of convenience stores	1.85	Sales	¥6,096	¥4,408 ($34,709)	Accounts receivable	¥579	¥ — ($ —)
Smile Corp.	¥ 1,321	Import trading	1.33	Purchase	¥1,434	¥1,879 ($14,795)	Accounts payable	¥195	¥336 ($2,646)

5. SEGMENT INFORMATION

(a) Business Segment

The Companies operate in the following business segments: sale of own brand merchandise, logistics with final inspection and processing, and camping operations and sale of other merchandise. Segment information classified by business segment has not been prepared or disclosed, since consolidated net sales and operating income in business segments other than “sale of own brand merchandise” are not significant in relation to those of the Companies (less than 10%) pursuant to the accounting standards with respect to consolidated financial statements in Japan.

(b) Geographic Area

Segment information classified by geographic area has not been prepared or disclosed, since sales of the consolidated overseas subsidiaries in the aggregate are not significant in relation to those of the Companies (less than 10%) pursuant to the accounting standards with respect to consolidated financial statements in Japan.

(c) Net Sales to Overseas Customers

Net sales to overseas customers have not been prepared or disclosed, since sales to overseas customers are not significant in relation to those of the Companies (less than 10%) pursuant to the accounting standards with respect to consolidated financial statements in Japan.

<Report of the Independent Certified Public Accountants on the Non-Consolidated and Consolidated Financial Statements>

To: The Board of Directors of
Ryohin Keikaku Co., Ltd.

We have audited the non-consolidated balance sheets of Ryohin Keikaku Co., Ltd. (the “Company”) and consolidated balance sheets of Ryohin Keikaku Co., Ltd. and its consolidated subsidiaries (together, the “Companies”) as of February 28, 1997 and 1998, and the related non-consolidated and consolidated statements of income, stockholders’ equity and cash flows for each of the three years in the period ended February 28, 1998, all expressed in yen. These non-consolidated and consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these non-consolidated and consolidated financial statements based on our audit.

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

In our opinion, the non-consolidated and consolidated financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of Ryohin Keikaku Co., Ltd. and consolidated balance sheets of Ryohin Keikaku Co., Ltd. and its consolidated subsidiaries as of February 28, 1997 and 1998, and the non-consolidated and consolidated results of its operations and cash flows for each of the three years in the period ended February 28, 1998, in conformity with generally accepted accounting principles in Japan applied on a consistent basis.

May 20, 1998
Tokyo, Japan

Chuo Audit Corporation
CHUO AUDIT CORPORATION

<Board of Directors>

CHAIRMAN OF THE BOARD
MASAO KIUCHI

REPRESENTATIVE DIRECTOR AND PRESIDENT
KAORU ARIGA

MANAGING DIRECTOR
TADAMITSU MATSUI

DIRECTORS
SHIGEYOSHI OIKAWA
JUNICHI TOKUE
HIDEO YANAGISAWA
HITOSHI TANAKA
KOHEI MAEYAMA
ARITOMO MIKAMI
SEIJI TSUTSUMI

AUDITORS
TOSHIHIRO NITTA
HISAJI TAMURA
RYUHEI MURAYAMA
TAKASHI OKAMURA

<Advisory Board>

CHIEF ADVISOR
IKKO TANAKA

ADVISORS
KAZUKO KOIKE
HIROSHI KOJITANI
TAKASHI SUGIMOTO
MASARU AMANO

<Corporate Data>

CORPORATE NAME	Ryohin Keikaku Co., Ltd.
ADDRESS	Nikko Ikebukuro Bldg., 26-3, Higashi-Ikebukuro 4-chome, Toshima-ku, Tokyo 170-8424, Japan
TELEPHONE	03-3989-4403
FACSIMILE	03-5954-7022
INTERNET HOME PAGE	http://www.muji.co.jp
DATE OF ESTABLISHMENT	May 18, 1979
PAID-IN CAPITAL	¥6,766 million (as of February 28, 1998)
FISCAL YEAR-END	Last day of February
NET SALES	¥72,573 million (fiscal 1997)
NUMBER OF EMPLOYEES	449 (average age: 31.0)
NUMBER OF RETAIL OUTLETS	Directly managed: 59 Licensed: 185

DISTRIBUTION OF THE SHARES

	Number of stockholders	Number of shares held	% of shares in issue
Financial institutions	42	1,714,600	12.21
Securities companies	12	16,100	0.12
Other corporations	107	7,812,600	55.65
Foreign companies and individuals	175	3,380,400	24.08
Individuals and others	2,173	1,115,300	7.94
Total	2,509	14,039,000	100.00

PRIMARY BUSINESS

Operation of Muji retail outlets; product planning, development, manufacture, and sales

The Ryohin Vision

At Ryohin Keikaku, we believe that an open and inquisitive mind is essential to ensuring future success. It is in this spirit that we have developed The Ryohin Vision, a set of values and objectives designed to guide us in exploring the road ahead.

CORPORATE PHILOSOPHY

A QUEST FOR VALUE To continuously strive to understand what true value means to our customers and to create products that embody this value in every detail

A QUEST FOR GROWTH To conduct our business in a transparent and socially responsible manner on a global scale, thereby creating an upward spiral of international growth

A QUEST FOR PARTNERSHIP To seek partners with whom we can build strong, lasting relationships based on trust, respect, and a shared commitment to growth

ONGOING OBJECTIVES

To strengthen customer response channels

To think and act on a global scale

To foster local community growth

To be honest and straightforward

To strive for improved communication at every level

MEDIUM-TERM OBJECTIVE

FROM SHOPS TO SHOPPING ENVIRONMENTS

As a medium-term growth objective, we will work to transform our retail outlets into shopping environments that take maximum advantage of chain-store-operation responsiveness and efficiency.

Ryohin Keikaku Co., Ltd.

Nikko Ikebukuro Bldg., 26-3, Higashi-Ikebukuro 4-chome,
Toshima-ku, Tokyo 170-8424, Japan

Printed in Japan