Annual Report

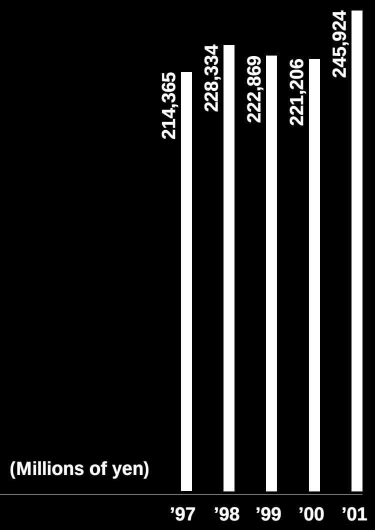
Year Ended February 28, 2001

ONWARD

Profile

Since its establishment in 1947, Onward Kashiyama Co., Ltd., has been a leader in the world of fashion. By leveraging its advanced capabilities in planning, technological development, information network management, and manufacturing, the Company continues to develop a wide range of brands that respond to the diverse tastes of consumers, who differ not only in age but in the values they hold. Onward's products are marketed through department stores, boutiques, and general retailers throughout Japan as well as through a global sales network that spans Europe, Asia, and North America.

Onward has earned a strong reputation for its ability to anticipate consumer needs and delight its customers by offering them new concepts that reflect those needs. As a leading company in the global apparel industry, Onward will strive to apply its skills and experience to develop appealing products for world markets.



Consolidated Net Sales

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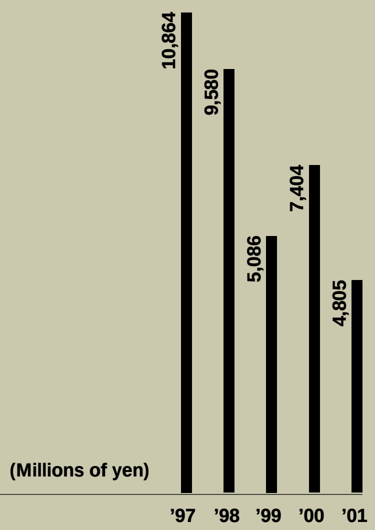
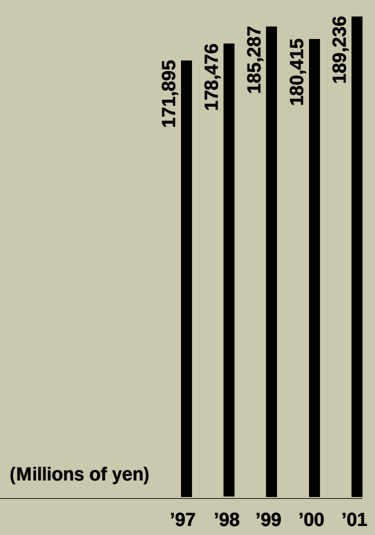


Consolidated Net Income



Consolidated Total Stockholders' Equity

■ The consolidated net sales of Onward Kashiyama Co., Ltd., for fiscal 2001, ended February 28, increased 11.2% compared with the previous fiscal year, to ¥245,924 million, with net income falling 35.1%, to ¥4,805 million. Net income per share amounted to ¥27.9, the return on equity (ROE) was 2.6%, and cash dividends applicable to the period totaled ¥16.5 per share.

■ Through joint efforts with overseas subsidiaries regarding planning, production, and sales, Onward developed the menswear brand ICB MEN. The brand lineup includes a full range of items targeting men in their 20s and 30s, including suits, casual wear, and accessories emphasizing quality and styling.

■ Onward has created NIJYUSANKU DEUX for career women in their 20s. Developers of the brand took into account recent trends in product planning and strove to offer good style at a reasonable price, thereby fully meeting the needs of career women.

■ In autumn 2000, Onward launched the JIYUKU brand, targeting women in their 40s. In the six months since debuting, the brand has rapidly expanded to include ladies' wear, children's clothes, and golf apparel, far exceeding initial sales targets. We believe the merchandise mix accurately reflects our target consumers' price range and needs.

■ In 2001, J. Press Inc. welcomes the 100th year since its founding. The relationship between the two companies began with the signing of a mens' licensing agreement in 1974. Since then, ties have expanded to encompass ladies' wear, children's clothing, and golf apparel. Onward acquired J. Press Inc. in 1986, and it is currently one of the Company's leading subsidiaries.

■ From autumn-winter 2001, Onward will be introducing the SHIJUSO brand for women in their late 40s to early 50s. The SHIJUSO brand is based on the concept of "Global Standard Quality." We aim to provide highly fashionable, high-quality apparel in a variety of sizes.

A Message to Our Stockholders

The Operating Environment in Fiscal 2001

Regarding economic conditions during the period under review, capital investment—centering primarily on information and telecommunications—picked up due to the impact of economic policy initiatives, but the employment and income environment remained harsh, with continuing sluggish personal consumption. A severe operating environment persists, as the impact of the downturn in the U.S. economy and the stock market slump have forced many large companies into bankruptcy and slowed the Japanese economy's recovery.

Against this backdrop, Onward stepped up sales activities for its major brands. For its apparel business, Onward devised a management strategy of leveraging its "Quick-Response System," furthering efforts to strengthen the sales structure and production, expand the distribution system, and raise efficiency. The aims of these efforts are to achieve success amid global competition, leverage brand recognition, and maximize brand value through brand-oriented management. With regard to the organization, we have created a business structure that combines distinctly separate business units and uses our product base and sales structure as the foundations upon which we can achieve a balance. Through this move, we aim to boost competitiveness and raise profitability, as well as strengthen management practices.

In the apparel division, the Company made aggressive marketing efforts to promote such major profit-making clothing items as the men's GOTAIRIKU brand, the ladies' KUMIKYOKU and NIJYUSANKU brands, and the international ICB brand. Consequently, consolidated net sales rose 11.2% from the previous fiscal year, to ¥245,924 million. Operating income declined 4.8%, to ¥18,544 million, and net income dropped 35.1%, to ¥4,805 million. In the interests of maintaining a stable return to stockholders, cash dividends applicable to the period will be sustained at ¥16.5 per share. Onward's basic policy is to make stable dividend payments while securing adequate internal capital resources to maintain a management foundation that is capable of supporting stable, long-term growth.

Going Forward

The current harsh operating environment is expected to continue through the coming fiscal year. Persistent anxieties about the future, owing to the protracted economic recession, have diminished chances of a recovery in consumer spending.

Faced with this operating environment, the Onward Group has decided on several courses of action: the implementation of policies emphasizing value-added brand creation from the consumers' perspective; the creation of internationally competitive products; the operation of shops that will appeal to consumers; and the installation and utilization of an IT infrastructure based on our concept of brand-oriented management. Our goals are to strengthen international competitiveness and further improve management efficiency, and, to this end, we will make every effort.

May 24, 2001

Akira Baba

Akira Baba, CHAIRMAN

Takeshi Hirouchi

Takeshi Hirouchi, PRESIDENT

Business Overview

Men's Fashions

During fiscal 2001, ended February 28, 2001, casual wear remained the dominant trend in men's fashion. Consequently, price wars continued in the formal-clothing market, centering on business suit sales. Although "no-necktie" business suits and low-price suit shops were popular, the market as a whole failed to realize growth in sales.

On the other hand, the department store market saw the prêt-a-porter zone putting in a relatively favorable performance. Prices became increasingly polarized, varying according to consumers' purchasing objectives. Onward's formal apparel product, ECO-J-SUITS, sold under the GOTAIRIKU brand and riding the "eco-friendly" trend, proved a big hit—fueling sales in the process.

In the casual wear market, the opening of a series of new commercial facilities and the trend toward low prices dealt a blow to department stores during the period under review. Onward's casual line for spring-summer 2001 features T-shirts and other shirts, slacks, and other apparel items. The autumn-winter line was to be focused on such items as a four-way coat and reversible jacket, but depressed demand for western-style clothing has led to a reconsideration of these items. Non-consolidated net sales by Onward Men's Fashions Business Group fell 9.5% year-on-year, to ¥62,395 million, and accounted for 38.7% of non-consolidated total net sales.

Women's Fashions

In fiscal 2001, female consumers departed from focusing exclusively on price, resulting in a widespread trend toward considering quality. In the department store market, young, career fashions sales remained sluggish. In contrast, the Missy-Misses segment showed a recovery thanks to the debut of a new brand featuring an expanded line of knitwear.

Sales of the spring-summer line of spring coats were weak, but were followed by strong sales of casual jackets, such as denim jackets. In the autumn-winter line, knitwear with patterns, as well as leather and suede sold extremely well, while woolen coats—fur or angora and alpaca blends—also sold well.

Sales of core brands NIJYUSANKU and KUMIKYOKU showed growth owing to the expansion of the product lines. JIYUKU got off to a good start after the implementation of a successful advertising campaign. The career-oriented ICB brand is enjoying good results in overseas markets. The Women's Fashion Business Group, on a non-consolidated basis, posted sales of ¥83,792 million during the term under review, increasing 4.1% from the previous fiscal year and comprising 52.0% of non-consolidated net sales.

Children's Fashions

The final push to open shopping centers under Japan's new Large-Scale Retailer Store Location Law is still under way, while the rapid entrance of retailers offering products targeting families with children is heating up the competition.

Large-scale outlets built around brands, including the GAP, COMME CA ISM, and other leading brands, which provide miscellaneous items, in addition to apparel, for all types of lifestyles. Retailers, building on this lifestyle concept, are opening stores as large as 900 square meters. With the arrival of the UNIQLO phenomenon, price has become an important factor in consumers' decisions to purchase clothes. Consequently, every retailer must find an appropriate balance between distinctiveness and price.

Against this backdrop, Onward opened 21 outlets of KUMIKYOKU FAM, each measuring 330 square meters, in urban, suburban, and local shopping centers nationwide. These shops are reporting strong sales. The shops target mothers aged 26 to 33 years old and children from birth to six years old. Regarding the composition of sales within these shops, ladies' apparel accounted for 42%, children's items, 53%, and sundry goods, 5%. Onward aims to strengthen the attractiveness of its lineup of ladies' apparel and improve retail outlet management. In fiscal 2001, Onward's Children's Business Group reported a 3.7% year-on-year decline in non-consolidated net sales, to ¥5,996 million, which represented 3.7% of non-consolidated net sales.

Kimonos

The overall downturn in consumption has led to a protracted decline in the demand for traditional Japanese clothing and forced large-scale fabric wholesalers into bankruptcy. In recent years, many retailers have also been driven out of business, and the situation is one that could not have been predicted. Despite such circumstances, *yukatas*—light summer kimonos—continue to sell well, carrying over strong sales from the previous year.

NIJYUSANKU and other "brand" *yukatas*, as well as KUMIKYOKU *furisode*—formal long-sleeved kimonos—are fueling the market as a whole. While other competitors have exhausted their management capabilities in the current inclement business environment, Onward is seeing growth in its share of sales at department stores. Although young people have greater freedom in the clothes they wear, demand from middle-aged and elderly consumers has declined sharply. Thus, the industry as a whole remains depressed. The performance of Onward's Kimono Business Group, on a non-consolidated basis, rose 7.6% from the previous fiscal year, to ¥3,786 million, accounting for 2.3% of non-consolidated net sales.

Art and Jewelry

The art industry is struggling in the current austere operating climate, with dwindling corporate support prompting the closure of several private museums. In the fiscal year under review, we benefited from the discount sales of artwork held at department stores prior to their closing and strenuous efforts that were made by the mobilized labor force handling the art exhibitions at department stores. In the jewelry industry, as Louis Vuitton, Prada, Gucci, and other leading luxury brands expand into overseas markets, the average size of display areas continues to shrink. On the other hand, accessories and miscellaneous items that can be coordinated with apparel are expected to sell well. Sales by Onward's Art and Jewelry Business Group, on a non-consolidated basis, fell 8.2% from the previous fiscal year, to ¥2,515 million, representing 1.6% of non-consolidated net sales.

Other

Onward's main NIJYUSANKU and ICB brands of shoes and handbags have enjoyed consistent sales growth. However, the KUMIKYOKU brand for young career women and the Missy-Misses segment was held up by delays in the supply of products to new commercial facilities. The Other Operations Business Group, on a non-consolidated basis, posted a 2.4% rise, with sales of ¥2,796 million, comprising 1.7% of total non-consolidated net sales.

Onward Corporate Group

The Onward Corporate Group is decentralizing operations to raise brand awareness. Impact 21 Co., Ltd., handles domestic sales, as well as production and import, of the world-famous RALPH LAUREN brand of women's clothing. ACTY 21, Co., Ltd., oversees domestic sales, production, and importing of the RALPH LAUREN men's clothing brand. O.B.T. Co., Ltd., is responsible for the domestic sales, manufacture, and import of Calvin Klein brand men's and women's apparel. Donna Karan Japan K.K. undertakes the domestic sales, production, and import of the Donna Karan brand of men's and women's clothing. Chacott Co., Ltd., manages the sales, manufacture, and import of Chacott dance-related products.

Consolidated Six-Year Summary

Onward Kashiyama Co., Ltd.
Years ended February 28 or 29

	Millions of yen						Thousands of U.S. dollars
	1996	1997	1998	1999	2000	**2001**	**2001**
At year-end:							
Total current assets	¥132,551	¥112,873	¥117,382	¥119,138	¥120,922	**¥126,151**	**$1,083,771**
Total property, plant and equipment	84,213	86,509	91,517	90,820	92,956	**103,581**	**889,871**
Total assets	281,318	266,668	281,752	291,484	296,715	**312,258**	**2,682,629**
Total current liabilities	80,697	57,763	65,947	69,691	79,636	**78,985**	**678,565**
Total stockholders' equity	157,552	171,897	178,479	185,287	180,415	**189,236**	**1,625,739**
For the year:							
Net sales	¥203,017	¥214,365	¥228,334	¥222,869	¥221,206	**¥245,924**	**$2,112,749**
Cost of sales	114,920	121,041	131,476	132,360	130,058	**143,449**	**1,232,380**
Selling, general and administrative expenses	70,752	71,545	75,540	73,700	73,887	**85,731**	**736,520**
Operating income	17,344	21,777	21,317	16,809	17,261	**16,744**	**143,849**
Income taxes, current	9,382	11,601	10,471	9,599	9,306	**4,888**	**41,993**
Net income	8,723	10,864	9,580	5,086	7,404	**4,805**	**41,280**
	Yen						U.S. dollars
Per share (Yen and U.S. dollars):							
Net income	¥56.4	¥63.1	¥55.6	¥30.0	¥43.0	**¥27.9**	**$0.240**
Cash dividends	16.5	18.0	16.5	16.5	16.5	**16.5**	**0.142**

Note: Yen amounts have been translated, for convenience only, at ¥116.4=US$1, the approximate exchange rate on February 28, 2001.

Financial Review

Overview

During fiscal 2001, ended February 28, 2001, capital investment, centering primarily on IT and telecommunications, brightened the Japanese economic outlook. However, the combined effect of the slowdown in the U.S. economy and weakness in the stock market forced many large companies into bankruptcy and postponed the recovery of the Japanese economy, resulting in a persistent, harsh operating environment.

The industry in which Onward Kashiyama Co., Ltd., and its consolidated subsidiaries (together, the Onward Group) operate witnessed drastic changes during the fiscal year under review, namely, a polarization in consumption, a reorganization of distribution channels, and the entrance of new competitors into the market. Concerns over the lingering uncertainty regarding the future direction of the Japanese economy dampened consumer sentiment far beyond expectations. Consequently, consumer spending, which has a large impact on the economic condition of the apparel industry, remained weak.

Amid this operating environment, the Onward Group achieved consolidated net sales of ¥245.9 billion, up 11.2% from the previous fiscal year, owing to the inclusion in the financial statements of consolidated affiliates Oak Co., Ltd., and Chacott Co., Ltd. Consolidated net income dropped 35.1% from the previous fiscal year, to ¥4.8 billion. The Onward Group applied new accounting standards effective from fiscal 2001, which affect the reporting of consolidated taxes. Through the application of such new accounting standards, consolidated net income for the year under review increased ¥4.3 billion.

Results of Operations

Net Sales

Despite the harsh operating climate, the Onward Group, as a result of its implementation of aggressive marketing strategies, saw consolidated net sales rise 11.2%, from ¥221.2 billion in the previous fiscal year to ¥245.9 billion. The increase was attributable primarily to the apparel and textile products divisions. Sales by business segment were as follows:

Apparel and Textile Products Business Groups

The Onward Group, actively promoting brand-oriented management, implemented several new initiatives: a product policy that responds to diverse consumer needs, a sales structure developed around its Quick-Response System, and a strengthened production and distribution system to increase management efficiency. As a result, consolidated net sales of this division during fiscal 2001 rose 12.1%, to ¥237.2 billion, for a slightly higher year-on-year contribution to sales of 96.4%.

Non-consolidated net sales by Onward, the core of this business group, dropped 2.1%, to ¥161.3 billion—before the elimination of internal transactions between segments—accounting for 65.6% of consolidated net sales. Sales of women’s apparel rose 4.1% from the previous fiscal year, remaining strong. Onward’s mainstay brands, NIJYUSANKU and KUMIKYOKU, sold well due to an expanded product lineup. JIYUKU, a new brand introduced during the period under review, also got off to a good start thanks to an effective advertising campaign, contributing to the increase in sales. In contrast, mens’ apparel sales slipped 9.5% from the previous fiscal year—the largest factor contributing to the decrease in net sales on a non-consolidated basis. Sales of casual wear were sluggish, pushed down by the opening of a series of new commercial facilities and the trend toward low prices. However, ECO-J-SUITS, sold under Onward’s leading mens’ apparel brand, GOTAIRIKU, performed well.

Other Businesses

The harsh employment situation and earnings environment persisted, and against this background resort-related operations remain depressed. Net sales for this business declined 9.0%, to ¥8.7 billion, accounting for 3.6% of consolidated net sales.

Costs, Expenses, and Earnings

The cost of sales for the period under review totaled ¥143.4 billion, up 10.3% from the previous fiscal year. As this rate of increase was slower than that of the rise in net sales, the gross profit ratio rose only 0.5 percentage point, to 41.7%. Gross profit increased 12.4%, to ¥102.5 billion.

Selling, general and administrative (SG&A) expenses grew 16.0%, to ¥85.8 billion. The rise was due primarily to increases in the SG&A expenses of consolidated subsidiaries. SG&A expenses as a percentage of net sales increased slightly, from 33.4% in the previous fiscal year to 34.9% during the period under review. As a result, operating income fell 3.0%, to ¥16.7 billion. The ratio of operating income to net sales thus declined 1.0 percentage point, to 6.8%.

Other income (expenses), net, turned from income of ¥0.1 billion to a loss of ¥12.6 billion. The loss is attributable mainly to a ¥1.8 billion increase in loss on the disposal of property, including a ¥1.4 billion loss on disposal of land; a ¥5.7 billion retirement benefit expense, including ¥3.8 billion for payment of additional retirement benefits under the early retirement incentive program; and a ¥2.5 billion provision for doubtful accounts. The aforementioned retirement benefit expense includes a ¥1.9 billion adjustment provision for the accrued retirement allowance for two consolidated subsidiaries accompanying the recent changes in accounting standards. (See Note 1 of the consolidated financial statements.)

As a consequence of the aforementioned factors, income before income taxes and minority interests plunged, from ¥17.3 billion in the previous term, to ¥4.1 billion.

Income taxes declined, from ¥9.3 billion in fiscal 2000 to ¥0.6 billion in fiscal 2001. Income taxes as a percentage of income before income taxes and minority interests decreased from 53.7% in the previous fiscal year to 14.5% in the year under review. The income tax burden fell far below the statutory tax rate of 42.0% in fiscal 2001, due to the tax effect recognized on the loss incurred on financial support to subsidiaries during the period, as permitted by the new accounting standards introduced in the fiscal year under review. (See Note 8 of the consolidated financial statements.) Minority interests decreased from ¥0.6 billion in fiscal 2000 to a loss of ¥1.3 billion in fiscal 2001.

As a result, net income declined 35.1%, from ¥7.4 billion to ¥4.8 billion. The net income margin ratio declined 1.3 percentage points, from 3.3% to 2.0%, and the ROE dropped from 4.0% in fiscal 2000 to 2.6% in fiscal 2001.

Financial Position

The Onward Group's total assets rose ¥15.6 billion, or 5.2%, to ¥312.3 billion. The increase was due primarily to a ¥1.5 billion rise in trade receivables, a ¥3.0 billion increase in inventories, and ¥11.5 billion recorded as deferred tax assets in the current- and fixed-asset sections as a result of the initial adoption of tax effect accounting. The increase was also due to a ¥9.3 billion net increase following deductions for depreciation of buildings and structures. The turnover period for trade receivables was reduced slightly, from 52 days in the previous year to 49 days, while the turnover period for inventory assets—66 days in fiscal 2000—increased one day, to 67 days in the fiscal year under review. Both figures accurately reflect sales trends for the period. The increase in buildings and structures reflects the ¥10.7 billion spent on plant and equipment in fiscal 2001.

Decreases in assets included a ¥2.8 billion decline in cash and time deposits, as well as a ¥7.9 billion decline in other investments.

The Onward Group, aiming to respond to diverse consumer needs, invested a total of ¥10.7 billion during the period under review to expand its marketing, production, and distribution systems. Most of these investments were for its apparel business. In addition, Onward implemented a capital investment of ¥8.6 billion to construct a new building for its Nagoya branch and strengthen its sales structures through the renovation of sales counters at both directly operated and tenant operated stores within department stores.

The Onward Group's total liabilities declined ¥1.1 billion, or 1.1%, to ¥10.9 billion. An increase in liabilities was due primarily to a ¥4.5 billion increase in trade payables and a ¥2.7 billion rise in accrued retirement benefits. The turnover period for trade payables increased slightly, from 112 days in the previous fiscal year to 113 days in fiscal 2001, reflecting the sales and purchase situation during the period under review. The increase in accrued retirement benefits includes the adjustment provision for accrued retirement allowances resulting from changes in retirement benefit accounting made by the two subsidiaries previously mentioned.

The decrease in liabilities is attributable to a ¥3.1 billion fall in accrued income taxes, which reflects the decline in net income. Short-term bank loans and long-term debt decreased ¥6.6 billion, through repayments made with surplus funds. As a result, the debt-to-equity ratio improved, from 21.3% in fiscal 2000 to 16.8%. Minority interests rose, from ¥6.2 billion at the previous fiscal year-end to ¥14.1 billion. The increase in minority interests was due to the effect of newly consolidated subsidiaries in which Onward held a minority share.

The Onward Group’s total stockholders’ equity rose ¥8.8 billion, or 4.9%, to ¥189.2 billion. This rise was due primarily to the increase in retained earnings as a result of the recognition of Parent Company equity in retained earnings and net income. Other increases are attributable to the prior years’ deferred tax adjustment of ¥6.8 billion following the introduction of tax effect accounting. As a result, the stockholders’ equity ratio declined slightly, to 60.6%, owing to the increase in minority stockholders’ equity.

Cash Flows

The cash flows generated by the Onward Group’s operating activities are the primary source of funds for financing operating needs, equipment investment, and the payment of dividends to stockholders. Cash and cash equivalents at the end of the year totaled ¥53.8 billion, down ¥3.4 billion from the previous year-end. The decrease is due to the effect of net outflows of ¥9.8 billion in cash as a result of the activities below, offset by the inclusion of a ¥6.4 billion cash increase in the opening balance of cash and cash equivalents of Onward’s two newly consolidated subsidiaries.

As this is the first year in which a consolidated cash flow sheet has been prepared, we are unable to draw a comparison with the previous fiscal year in our analysis.

Net cash provided by operating activities amounted to ¥11.1 billion. Cash inflow was due primarily to: 1) income before income taxes and minority interests of ¥4.1 billion; 2) ¥7.2 billion for depreciation, provision for doubtful accounts and provision for retirement benefits as a noncash item; 3) ¥5.1 billion of net loss on sales or devaluation of property, equipment and investment securities to be transferred to the category of cash flow resulting from investment activities; and 4) a ¥3.4 billion improvement in the operating fund for trade receivables, inventories, and trade payables. The primary cash outflow was the payment of ¥8.3 billion worth of income taxes.

Net cash used in investing activities amounted to ¥12.0 billion. Net outflows for the acquisition of property, plant and equipment—reflecting capital investment—totaled ¥4.0 billion, net outflows for the purchase of investment securities, net, amounted to ¥1.5 billion, and the net increase in deferred charges amounted to ¥2.3 billion.

Net cash used in financing activities totaled ¥8.9 billion. The primary cash outflow was the repayment of short- and long-term debt, amounting to ¥6.7 billion, covered by surplus cash flow, and an outflow of ¥3.0 billion for the payment of dividends.

The Company’s management has long recognized the allocation of a portion of net income to stockholders as one of its top priorities. We will strive to make stable dividend payments while securing adequate internal capital resources to strengthen the financial base and actively expand operations. As performance improves, we intend to raise the portion of net income allocated to stockholders. The Company has declared an annual dividend of ¥16.50 per share, on a par with the dividend applicable to the previous fiscal year.

Forward-Looking Statement

The recession is predicted to continue throughout fiscal 2002, reflecting uncertainty regarding the prospects for the Japanese economy and suggesting that a full recovery in consumer spending is improbable. Consequently, we expect the current harsh operating environment to continue. Based on our concept of brand-oriented management, the Onward Group is implementing policies emphasizing value-added brand creation from the consumer’s perspective, the creation of internationally competitive products, the operation of attractive shops, and the installation and utilization of an IT infrastructure. Through these efforts, we are committed to strengthening international competitiveness and improving management efficiency further.

For fiscal 2002, we expect a 2.1% rise in consolidated net sales, to ¥251.0 billion, and 4.1% growth in consolidated net income, to ¥5.0 billion. These forecasts, based on information possessed by the Onward Group at this point in time, include the possibility of latent risks and uncertainties. Please be aware that a variety of factors may affect the Group’s forecasts and cause the actual results to differ largely from projections.

Consolidated Statements of Income

Onward Kashiyama Co., Ltd. and Subsidiaries
For the years ended February 28/29/28, 1999, 2000 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 1)
	1999	2000	**2001**	**2001**
Net sales	¥222,869	¥221,206	**¥245,924**	**$2,112,749**
Cost of sales	132,360	130,058	**143,449**	**1,232,380**
Gross profit	90,509	91,148	**102,475**	**880,369**
Selling, general and administrative expenses	73,700	73,887	**85,731**	**736,520**
Operating income	16,809	17,261	**16,744**	**143,849**
Other income/(expenses):				
Interest income	498	369	**374**	**3,213**
Interest expenses	(239)	(202)	**(268)**	**(2,302)**
Loss on disposal of property	(184)	(90)	**(1,850)**	**(15,893)**
Loss on sale of investments in securities, net	—	(23)	**(519)**	**(4,459)**
Loss on write-down of investments in securities	(1,868)	(1,651)	**(175)**	**(1,503)**
Royalty income	725	1,221	**1,136**	**9,759**
Loss on backup for subsidiaries and affiliates	—	—	**(820)**	**(7,045)**
Loss on liquidation of subsidiaries and affiliates	—	(227)	**(445)**	**(3,823)**
Additional retirement payment	—	—	**(3,823)**	**(32,844)**
Adjustment provision for accrued retirement benefit allowance (Note 1)	—	—	**(1,879)**	**(16,143)**
Provision for doubtful accounts	—	—	**(2,477)**	**(21,280)**
Reversal of prior year's evaluation loss on investments in securities	—	—	**1,156**	**9,931**
Evaluation loss on investment in venture fund	—	—	**(1,928)**	**(16,563)**
Other, net	(269)	687	**(1,090)**	**(9,364)**
Income before income taxes and minority interests	15,472	17,345	**4,136**	**35,533**
Income taxes:				
Current	9,599	9,306	**4,888**	**41,993**
Deferred	—	—	**(4,288)**	**(36,838)**
Income before minority interests	5,873	8,039	**3,536**	**30,378**
Minority interests in subsidiaries	(787)	(635)	**1,269**	**10,902**
Net income	¥ 5,086	¥ 7,404	**¥ 4,805**	**$ 41,280**

	Yen			U.S. dollars (Note 1)
Per share:				
Net income	¥30.0	¥43.0	**¥27.9**	**$0.240**
Cash dividends	16.5	16.5	**16.5**	**0.142**

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

Onward Kashiyama Co., Ltd. and Subsidiaries
February 29/28, 2000 and 2001

ASSETS	Millions of yen 2000	Millions of yen 2001	Thousands of U.S. dollars (Note 1) 2001
Current assets:			
Cash and time deposits	¥ 63,333	**¥ 60,510**	**$ 519,845**
Trade receivables	31,349	**32,851**	**282,225**
Less: Allowance for bad debts	(254)	**(216)**	**(1,855)**
	31,095	**32,635**	**280,370**
Inventories	23,517	**26,471**	**227,414**
Deferred tax assets—current (Note 8)	—	**2,980**	**25,601**
Other current assets	2,977	**3,555**	**30,541**
Total current assets	120,922	**126,151**	**1,083,771**
Investments and advances:			
Investments in securities (Note 3)	37,825	**37,736**	**324,192**
Long-term loans	1,132	**2,226**	**19,124**
Deferred tax assets—noncurrent (Note 8)	—	**8,493**	**72,964**
Other investments	24,792	**16,852**	**144,777**
Total investments and advances	63,749	**65,307**	**561,057**
Property, plant and equipment (Note 5):			
Buildings and structures	53,785	**65,814**	**565,412**
Other depreciable property	13,521	**16,008**	**137,526**
Less: Accumulated depreciation	(34,796)	**(39,125)**	**(336,125)**
	32,510	**42,697**	**336,813**
Land	60,446	**60,884**	**523,058**
Total property, plant and equipment	92,956	**103,581**	**889,871**
Deferred charges and other assets	18,308	**16,448**	**141,306**
Excess investment costs over net assets of subsidiaries	206	**139**	**1,194**
Foreign currency translation adjustment	574	**632**	**5,430**
	¥296,715	**¥312,258**	**$2,682,629**

The accompanying notes are an integral part of these statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of yen 2000	2001	Thousands of U.S. dollars (Note 1) 2001
Current liabilities:			
Short-term bank loans	¥ 20,875	**¥ 17,501**	**$ 150,352**
Trade payables	40,014	**44,515**	**382,431**
Accrued expenses	4,444	**5,745**	**49,356**
Accrued income taxes	5,158	**2,042**	**17,543**
Consumption tax payable	1,127	**733**	**6,297**
Accrued bonuses to employees	2,499	**2,840**	**24,399**
Allowance for sales returns	2,281	**1,726**	**14,828**
Other current liabilities	3,238	**3,883**	**33,359**
Total current liabilities	79,636	**78,985**	**678,565**
Long-term liabilities:			
Long-term debt	17,534	**14,338**	**123,178**
Accrued retirement benefits (Note 6)	12,951	**15,632**	**134,296**
Total long-term liabilities	30,485	**29,970**	**257,474**
Minority interests in consolidated subsidiaries	6,179	**14,067**	**120,851**
Contingent liabilities (Note 9)			
Stockholders' equity:			
Common stock, par value ¥50 per share:			
Authorized—400,000,000 shares			
Issued—172,292,587 shares			
at February 29/28, 2000 and 2001	30,080	**30,080**	**258,419**
Additional paid-in capital	49,135	**49,135**	**422,122**
Retained earnings	101,201	**110,022**	**945,206**
	180,416	**189,237**	**1,625,747**
Less: Treasury stock, at cost	(1)	**(1)**	**(8)**
Total stockholders' equity	180,415	**189,236**	**1,625,739**
	¥296,715	**¥312,258**	**$2,682,629**

Consolidated Statements of Stockholders' Equity

Onward Kashiyama Co., Ltd. and Subsidiaries
For the years ended February 28/29/28, 1999, 2000 and 2001

	Number of shares of common stock (thousands)	Millions of yen			
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock
Balance at February 28, 1998:	172,291	¥30,079	¥49,134	¥ 99,267	¥(3)
Cash dividends	—	—	—	(2,842)	—
Directors' bonuses	—	—	—	(434)	—
Conversion of convertible bonds	2	1	1	—	—
Decrease due to consolidation of additional subsidiaries	—	—	—	(23)	—
Increase due to adoption of equity method	—	—	—	(5,020)	—
Selling of treasury stock, net	—	—	—	—	2
Net income for the year ended February 28, 1999	—	—	—	5,086	—
Balance at February 28, 1999:	172,293	30,080	49,135	106,074	(1)
Cash dividends	—	—	—	(2,843)	—
Directors' bonuses	—	—	—	(386)	—
Decrease due to consolidation of additional subsidiaries	—	—	—	(9,048)	—
Selling of treasury stock, net	—	—	—	—	0
Net income for the year ended February 29, 2000	—	—	—	7,404	—
Balance at February 29, 2000:	172,293	30,080	49,135	101,201	(1)
Cash dividends	**—**	**—**	**—**	**(2,843)**	**—**
Directors' bonuses	**—**	**—**	**—**	**(303)**	**—**
Selling of treasury stock, net	**—**	**—**	**—**	**—**	**(0)**
Increase due to consolidation of additional subsidiaries	**—**	**—**	**—**	**322**	**—**
Prior years' deferred tax adjustment	**—**	**—**	**—**	**6,840**	**—**
Net income for the year ended February 28, 2001	**—**	**—**	**—**	**4,805**	**—**
Balance at February 28, 2001	**172,293**	**¥30,080**	**¥49,135**	**¥110,022**	**¥(1)**

	Number of shares of common stock (thousands)	Thousands of U.S. dollars (Note 1)			
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock
Balance at February 29, 2000:	172,293	$253,419	$422,122	$869,424	$(8)
Cash dividends	**—**	**—**	**—**	**(24,424)**	**—**
Directors' bonuses	**—**	**—**	**—**	**(2,603)**	**—**
Selling of treasury stock, net	**—**	**—**	**—**	**—**	**(0)**
Increase due to consolidation of additional subsidiaries	**—**	**—**	**—**	**2,766**	**—**
Prior years' deferred tax adjustment	**—**	**—**	**—**	**58,763**	**—**
Net income for the year ended February 28, 2001	**—**	**—**	**—**	**41,280**	**—**
Balance at February 28, 2001	**172,293**	**$253,419**	**$422,122**	**$945,206**	**$(8)**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Cash Flows

Onward Kashiyama Co., Ltd.
For the year ended February 28, 2001

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2001	2001
Cash Flows from Operating Activities:		
Income before income taxes and minority interests	¥ 4,136	$ 35,533
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,245	53,651
Provisions for allowance for doubtful accounts	259	2,225
Provisions for accrued retirement benefit allowance	733	6,297
Net interest and dividend income	(449)	(3,857)
Write-down of fixed assets	1,850	15,893
Gain on sale of investment in securities	(186)	(1,598)
Equity in earnings of affiliates	(334)	(2,869)
Evaluation loss on investments in securities	(980)	(8,419)
Evaluation loss on fixed assets	4,429	38,050
Increase in trade receivables	4,938	42,422
Decrease in inventories	(283)	(2,431)
Decrease in trade payables	(1,270)	(10,911)
Other, net	(137)	(1,177)
Subtotal	18,951	162,809
Interest and dividends received	745	6,400
Interest paid	(260)	(2,234)
Income taxes paid	(8,330)	(71,564)
Net cash provided by operating activities	11,106	95,411
Cash Flows from Investing Activities:		
Increase in time deposits	(6,651)	(57,139)
Decrease in time deposits	6,151	52,844
Acquisition of property, plant and equipment	(5,455)	(46,864)
Proceeds from sale of property, plant and equipment	1,494	12,835
Acquisition of investments in securities	(1,912)	(16,426)
Proceeds from sale of investments in securities	402	3,454
Net increase in deferred charges	(2,335)	(20,060)
Payments for deposit	(943)	(8,101)
Proceeds from deposit	1,186	10,189
Other, net	(3,994)	(34,313)
Net cash used in investing activities	(12,057)	(103,581)
Cash Flows from Financing Activities:		
Proceeds from short-term loans	6,132	52,680
Repayments of short-term loans	(4,906)	(42,148)
Net repayments of long-term debt	(7,905)	(67,912)
Proceeds from stock subscription from minority stockholders	803	6,899
Net proceeds from treasury stock	1	9
Dividends paid	(2,843)	(24,424)
Dividends paid to minority stockholders	(164)	(1,410)
Net cash used in financing activities	(8,882)	(76,306)
Effect of exchange rate changes on cash and cash equivalents	16	137
Increase in cash and cash equivalents	(9,817)	(84,339)
Cash and cash equivalents at the beginning of the year	57,210	491,495
Increase in cash and cash equivalents due to changes in the scope of consolidation	6,426	55,207
Cash and cash equivalents at the end of year	¥53,819	$462,363

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

Onward Kashiyama Co., Ltd. and Subsidiaries

1. Basis of Presentation of the Consolidated Financial Statements

(1) Accounting Principles

The accompanying consolidated financial statements have been prepared from the accounts maintained by Onward Kashiyama Co., Ltd. (the “Company”) and its consolidated subsidiaries in accordance with the provisions set forth in the Japanese Commercial Code (the “Code”) and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards.

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

The accompanying consolidated financial statements are not intended to present the consolidated financial position, results of operations or cash flows of the Company and its consolidated subsidiaries in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

For the year ended February 28, 2001, the consolidated statements of cash flows were required to be included in the consolidated financial statements in accordance with a new accounting standard.

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥116.4=US$1, the rate of exchange as of February 28, 2001, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at that rate or any other rate.

(2) Change of Accounting Policy

Previously, in connection with the retirement plan and retirement benefits, the consolidated subsidiaries, Impact 21 Co., Ltd., and Oak Co., Ltd., have adopted a policy to provide for accrued benefits in an amount equivalent to 100% of the liabilities payable to all eligible for such benefit upon their voluntary retirement at the balance sheet date, less the accumulated balance of fund assets for the pension plan.

Effective from this fiscal year, accrued retirement benefits have been made at an amount equivalent to the present value of the projected benefit obligation, less the fair value of plan assets.

The purpose of this accounting change is to properly record the full potential liability and to help establish a sounder financial basis for the pension plan, against a background of sluggish economic conditions which have led to several successive years of unfavorable financial returns from plan assets.

This change was recorded as adjustment provision for accrued retirement benefit allowance of ¥1,879 million ($16,143 thousand) and, accordingly, decreased income before income taxes and minority interests by ¥1,879 million ($16,143 thousand).

In connection with the retirement benefit plan, the consolidated subsidiary Acty 21 Co., Ltd., adopted “Options on Setting Accounting Standards for Retirement Benefits,” issued by the Business Accounting Deliberation Council on June 16, 1998, effective from the beginning of this fiscal year. Following this adoption, a transitional adjustment of pension accounting of ¥202 million ($1,735 thousand) was recorded and charged to the loss and gain account.

(3) Additional Information

Under the amended consolidated financial statements regulations in Japan, deferred tax accounting was adopted with effect from the beginning of this fiscal year. Following its adoption, deferred tax assets of ¥11,473 million (current: ¥2,980 million, noncurrent: ¥8,493 million) were newly recorded. Also, net income for the year and retained earnings at the year-end increased by ¥4,287 million and ¥11,127 million, respectively.

The method of accounting for software developed for internal use has not changed for the year ended February 28, 2001, in accordance with transitional provisions in the “Guidelines for Accounting for Research and Development Expenses and Software” (Report Bi, 12, dated March 31, 1999 from the Accounting System Committee of the Japanese Institute of Certified Public Accountants). Software costs for internal use are amortized over their expected useful lives (less than 5 years) on a straight-line method.

2. Summary of Significant Accounting Policies

(1) Scope of Consolidation

The Company had 56 subsidiaries (majority-owned companies) as at February 28, 2001 (53 as at February 29, 2000). The consolidated financial statements include the accounts of the Company and its 21 consolidated subsidiaries (19 for 2000). The 21 subsidiaries which have been consolidated with the Company are listed below (the Company and these consolidated subsidiaries are together referred to as the "Companies").

Name of subsidiary	Equity ownership percentage	Closing date
Impact 21 Co., Ltd.	56.1%	February 29/28
Acty 21 Co., Ltd.	67.5	March 31/ February 28
Partner 21 Co., Ltd.	80.0	February 29/28
Onward Life Design Network Co., Ltd.	100.0	February 29/28
Freed of London Ltd.	100.0	December 31
Onward Resort Creation Co., Ltd.	100.0	February 29/28
O & K Co., Ltd.	100.0	February 29/28
Onward Beach Resort Co., Ltd.	100.0	December 31
Donna Karan Japan K.K.	100.0	December 31
Onward Creative Center Co., Ltd.	100.0	February 29/28
Excel Co., Ltd.	100.0	March 31
Across Transport Co., Ltd.	100.0	February 29/28
O.B.T. Co., Ltd.	90.3	February 29/28
Across Service Co., Ltd.	100.0	February 29/28
Onward Marine Co., Ltd.	100.0	February 29/28
Personal Order Japan Co., Ltd.	100.0	February 29/28
Onward Beach Resort Guam, Inc.	100.0	December 31
Bus Stop Co., Ltd.	100.0	February 29/28
Seagler Co., Ltd.	95.2	February 29/28
Oak Co., Ltd.	28.6	February 28
Chacott Co., Ltd.	60.5	March 31

Pursuant to the amended consolidated financial statements regulations in Japan effective on April 1, 1999, the Company is required to include minority-owned companies in the consolidation if they are controlled directly or indirectly by the reporting entity. Accordingly, the scope of consolidation of the Company changed in the year ended February 28, 2001. This change resulted in Oak Co., Ltd., and Chacott Co., Ltd., being included in the consolidation.

Although the original closing date of Excel Co., Ltd., and Chacott Co., Ltd., is March 31, the consolidated subsidiaries provisionally close their accounts at February 29/28 solely in order to provide consolidated information for the Company.

In the accompanying consolidated financial statements, the accounts of the consolidated subsidiaries at their respective closing dates were consolidated with the accounts of the Company at February 28, 2001.

The remaining 35 subsidiaries (34 for 2000) were not consolidated because their combined assets, net sales, net income and retained earnings in the aggregate were not material compared with those of the consolidated financial statements of the Company.

(2) Consolidation and Elimination

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

The difference between the cost of investments in consolidated subsidiaries and the equity in their net assets at dates of acquisition is amortized equally over a 5-year period. In case the amount of the difference is immaterial, it is credited/charged to income in the year it incurred.

(3) Investments in Unconsolidated Subsidiaries and Affiliates

Although the Company had 35 unconsolidated subsidiaries (34 in 2000) and 4 affiliates (6 in 2000) as at February 28, 2001, the equity method has not been applied to any of those subsidiaries and affiliates. This was because investment in the unconsolidated subsidiaries and affiliates would not have had a material effect on the consolidated financial statements.

(4) Translation of Foreign Currency Financial Statements (Accounts of Overseas Subsidiaries)

The financial statements of the consolidated overseas subsidiaries are translated into Japanese yen at the current rate at the balance sheet date in conformity with the amended accounting standards with respect to foreign currency transactions and accounts which were promulgated by the Business Accounting Deliberation Council in Japan.

Revenue and expense items are translated into Japanese yen at the current rate at the balance sheet date.

(5) Inventories

Inventories are stated at cost, cost being determined generally by the last purchase invoice price method which approximates the first-in, first-out cost method. Merchandise held at retail stores is valued at the retail cost method.

When the net realizable value of certain classes of inventories (consisting primarily of seasonal merchandise which remains unsold after the end of such seasons) is substantially less than the carrying value (cost), and the decline of value is not expected to be recovered in the near future, appropriate write-downs are recorded on such inventory items. The amount of write-down is determined based on the experience of sales of merchandise similar to those unsold items during the immediately preceding three years. At February 28, 2001, the recorded write-down is ¥8,232 million ($70,722 thousand).

(6) Investments in Securities

Securities with market quotations are valued at the lower of cost or market and securities without market quotation are valued at cost, cost being determined by the moving-average method.

(7) Property, Plant and Equipment

Depreciation is computed using the declining-balance method, at rates based on the estimate useful lives of assets which are prescribed by Japanese income tax laws.

The Company computes depreciation expenses for buildings (other than improvements) acquired on and after April 1998 by the straight-line method pursuant to the amendments to the Japanese income tax laws.

(8) Amortization

Intangible assets and long-term prepaid expenses are amortized on a straight-line method basis over the period regulated by the Japanese Commercial Code and tax laws.

Software costs for internal use are amortized over their expected useful lives (less than 5 years) on a straight-line method basis.

(9) Income Taxes

Income taxes of the Company and its consolidated subsidiaries consist of corporate income taxes, local inhabitants' taxes and enterprise taxes.

In the fiscal year ended February 28, 2001, the Company and its domestic consolidated subsidiaries adopted deferred tax accounting in accordance with the amended consolidated financial statements regulations in Japan. Income taxes were determined using the asset and liability approach whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the Consolidated Financial Statements. The cumulative effect of adopting deferred tax accounting at March 1, 2000 was charged to retained earnings.

In the fiscal years ended February 29, 2000 and February 28, 1999, income taxes of the Company were provided for as amounts currently payable based on the tax returns filed with tax authorities.

(10) Allowances

Allowance for doubtful accounts is provided at the amount equivalent to the limit deductible for tax purposes as prescribed by the tax laws.

Allowance for bonus payable to employees at the annual expected to be paid in respect of the calculation period ended on the balance sheet date.

Allowance for accrued sales returns is provided on the basis of the allowable deductions under Japanese tax laws.

(11) Accounting for Leases

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

(12) Accounting for Consumption Tax

The consumption tax withheld upon sale and the consumption tax paid by the Companies on the purchase of goods and services are not included in the accompanying consolidated statements of income.

(13) Dividends

Dividends are declared by the Board of Directors and approved by the stockholders at meetings held subsequent to the fiscal year to which the dividends are applicable, and stockholders of record as at the end of such fiscal year are entitled to the subsequently declared dividends. Dividends charged to retained earnings represent dividends approved by the stockholders and paid during the respective years.

(14) Net Income and Dividends per Share

Net income per share is based upon the weighted average number of shares outstanding during each year. Cash dividends per share shown for each year in the accompanying Consolidated Statements of Income represent dividends declared as applicable to the respective years rather than those paid during the years.

(15) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statement of cash flows are composed of cash on hand, bank deposits which are able to the withdrawn on demand and short-term investments which are readily convertible into cash and fall due within three months of acquisition and thus are not exposed to significant market risk.

3. Investments in Securities

The cost, estimated market value and unrealized gain of investments in securities (non current assets) as of February 28, 2001 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	Book value	Estimated market value	Unrealized gain, net	Book value	Estimated market value	Unrealized gain, net
Investments in securities:						
Marketable equity securities	¥28,866	¥42,276	¥13,410	$247,990	$363,196	$115,206
Bonds	—	—	—	—	—	—
Other securities	—	—	—	—	—	—
Total	¥28,866	¥42,276	¥13,410	$247,990	$363,196	$115,206

(1) Stock of Market Value

Listed securities: Principally based on the last price on the Tokyo stock exchange.

Over-the-counter securities: Based on trading prices issued by the Japan Securities Industry Association, etc.

(2) The book value of major securities that are excluded from the above presentation as of February 28, 2001 is as follows:

	Millions of yen	Thousands of U.S. dollars
Investments in securities:		
Unlisted securities (excluding over-the-counter securities)	¥4,470	$38,402
Unlisted foreign bonds	4,400	37,801

4. Derivative Transactions

Derivative transactions are used in order to manage exchange risks and risks of market rate fluctuations which occur in the normal course of business. Derivatives are not used for speculative purposes or for highly leveraged transactions.

The contracted amounts of market values and valuation gains or losses for derivative transactions as of February 28, 2001 were as follows:

	Millions of yen			
	Contract amount, etc.			Valuation
	Total	Over one year	Fair value	gain or loss
Forward exchange contract:				
Buying contract				
USD	¥2,484	¥—	¥2,845	¥361
GBP	8	—	8	0
EURO	102	—	101	(1)
Italian lira	14	—	16	2
DM	5	—	4	(1)
	¥2,613	¥—	¥2,974	¥361

5. Property, Plant and Equipment

The Japanese tax regulations allow a company to defer capital gains on the sale of real property if the Company intends to offset such gains against the cost of newly acquired fixed assets. When such accounting is followed, the cost of the new fixed assets is reduced to the extent of the deferred capital gains, thereby affecting related depreciation charges and accumulated depreciation.

Property, plant and equipment at February 28, 2001, was reduced ¥8,966 million ($77,027 thousand), representing accumulated deferred gains from historic sales.

6. Retirement Plan and Retirement Benefits

Employees with more than 2 years of service with the Company are entitled to lump-sum retirement benefits determined by reference to the current rate of pay, length of service and conditions under which the termination occurs. The Company has a funded pension plan which covers 55% of retirement benefits payable to employees who retire at the mandatory retirement age.

In connection with the funded pension plan, the Company has adopted a policy to provide for accrued retirement benefits (unfunded) in an amount equivalent to 100% of the liabilities payable to all employees eligible for such benefits upon their voluntary retirement at the balance sheet date, less the accumulated balance of fund assets for the pension plan.

As at February 28, 2001, fund assets aggregated ¥7,339 million ($63,050 thousand) with the past service liabilities being amortized over a 6-year period.

With respect to directors and statutory auditors, the Company provides for lump-sum severance benefits on a basis which is similar to that used for employees. While the Company has no legal obligation, it is the customary practice in Japan to make lump-sum payments to a director or statutory auditor upon retirement with the approval of the general meeting of stockholders. Annual provisions are made in the accounts for the estimated costs of this unfunded termination plan in both the reporting company and consolidated subsidiaries as follows: Impact 21 Co., Ltd., O.B.T. Co., Ltd., Acty 21 Co., Ltd., Donna Karan Japan K.K., Oak Co., Ltd., and Chacott Co., Ltd.

7. Lease Transactions

The Company's finance lease contracts which are not deemed to transfer the ownership of the leased assets are not capitalized under Japanese accounting principles. Certain key information on such lease contracts of the Company for the year ended February 28, 2001, is as follows:

(Lessee)

Assumed data as to acquisition cost, accumulated depreciation, net book value and depreciation expense of the leased assets, which included the portion of interest thereon, is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	Tools, furniture, and fixtures	Other	Total	Tools, furniture, and fixtures	Other	Total
Acquisition cost	¥2,804	¥986	¥3,790	$24,089	$8,471	$32,560
Accumulated depreciation	(1,346)	(490)	(1,836)	(11,563)	(4,210)	(15,773)
Net book value	¥1,458	¥496	¥1,954	$12,526	$4,261	$16,787

The scheduled maturities of future lease rental payments on such lease contracts as of February 28, 2001, are as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	¥ 715	$ 6,142
Due over one year	1,238	10,636
	¥1,953	$16,778

	Millions of yen		Thousands of U.S. dollars
	2000	**2001**	**2001**
Lease rental expenses for the year	¥571	**¥854**	**$7,337**

(Lessor)

Assumed data as to acquisition cost, accumulated depreciation, net book value and depreciation expense of the leased assets, which included the portion of interest thereon, is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	Tools, furniture, and fixtures	Other	Total	Tools, furniture, and fixtures	Other	Total
Acquisition cost	¥355	¥157	¥512	$3,050	$1,349	$4,399
Accumulated depreciation	(273)	(129)	(402)	(2,345)	(1,108)	(3,453)
Net book value	¥ 82	¥ 28	¥110	$ 705	$ 241	$ 946

The scheduled maturities of future lease rental income on such lease contracts as of February 28, 2001, are as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	¥ 53	$ 455
Due over one year	85	730
	¥138	$1,185

	Millions of yen		Thousands of U.S. dollars
	2000	**2001**	**2001**
Lease rental income for the year	¥133	**¥106**	**$911**

8. Income Taxes

Deferred tax assets and liabilities as at February 28, 2001 consisted of the following elements:

	Millions of yen	Thousands of U.S. dollars
Deferred Tax Assets:		
Valuation loss on inventories	¥ 2,717	$ 23,342
Evaluation loss on unconsolidated subsidiaries' stock	754	6,478
Excess amount of tax deductible for bonus allowance	401	3,445
Excess amount of tax deductible for retirement allowance to employees	3,683	31,641
Allowance for directors' retirement	708	6,082
Tax loss carried forward	9,991	85,833
Others	2,088	17,938
Subtotal	20,342	174,759
Valuation allowance	(8,844)	(75,979)
Total deferred tax assets	11,498	98,780
Deferred Tax Liabilities:		
Reversal amount of reserve for advanced depreciation of replacement by purchase	(25)	(215)
Total deferred tax liabilities	(25)	(215)
Net deferred tax assets	¥11,473	$ 98,565

Reconciliation between statutory tax rate and effective tax rate as at February 28, 2001:

	%
Statutory tax rate	42.0%
(Reconciliation)	
Non-deductible items (entertainment, etc.)	15.8
Losses by consolidated subsidiaries not utilizing deferred tax accounting	89.2
Unrecorded effective deferred tax amount on non-realizable loss	14.0
Recorded effective deferred tax amount on backup for consolidated subsidiaries	(145.6)
Other	(0.9)
Effective tax rate	14.5%

9. Contingent Liabilities

The Company was contingently liable as a guarantor of bank loans made by certain affiliates of the Company. The outstanding guarantees as at February 28, 2001, aggregated ¥3,547 million ($30,473 thousand).

10. Legal Reserve and Appropriation of Retained Earnings

Under the Japanese Commercial Code and the Company's Articles of Incorporation, the plan for appropriation of retained earnings proposed by the Board of Directors must be approved at the stockholders' meeting which must be held in May following the end of each fiscal year.

The appropriation of retained earnings reflected in the accompanying Consolidated Statements of Income represents the result of such an appropriation applicable to the preceding fiscal period which was approved by the stockholders' meeting and disposed of during the fiscal period immediately following.

Under Japanese accounting practices, bonuses to directors and statutory auditors are paid out of retained earnings instead of being charged to income of the year, and constitute a part of the appropriation explained above.

The Japanese Commercial Code requires that an amount equal to at least 10% of any payment by way of appropriation of retained earnings be set aside as a legal reserve until such reserve equalled 25% of paid-in capital. This reserve may be transferred to common stock by a resolution of the Board of Directors or used to reduce a deficit by a resolution of 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, the accumulated balance of which is presented as "retained earnings" in the accompanying consolidated financial statements. Any disposition of such appropriations is at the discretion of the Board of Directors and stockholders.

11. Subsequent Event

Subsequent to February 28, 2001, the Board of Directors proposed a plan for the appropriation of retained earnings applicable to the year ended February 28, 2001 which was approved at the general meeting of stockholders held on May 24, 2001.

The proposed appropriation of retained earnings is shown below:

	Millions of yen	Thousands of U.S. dollars
Retained earnings at February 28, 2001	¥3,611	$31,022
Reversal amount of reserve for advanced depreciation of replacement by purchase	37	318
Appropriations:		
Cash dividends (¥16.5 per share)	2,843	24,424
Transfer to legal reserve	285	2,449
	3,128	26,873
Retained earnings to be carried forward	¥ 520	$ 4,467

12. Segment Information

(1) Industry Segment Information

The Company and its subsidiaries operate principally in two industrial segments: Clothing and Other.

The Clothing Division produces and sells a wide range of women's and men's clothing, including: dresses, suits, shirts, skirts, sweaters, trousers, and casual wear.

The Other Division operates logistics, sports facilities, resort facilities, etc.

Segment information classified by industry segment of the Company for the two years ended February 29/28, 2000 and 2001, is as follows:

Year ended February 29, 2000	Millions of yen				
	Industry segment			Elimination of intersegment sales	Consolidated total
	Clothing	Other	Total		
Sales to outside customers	¥211,591	¥ 9,615	¥221,206	¥ —	¥221,206
Intersegment sales	8	10,547	10,555	(10,555)	—
Total	211,599	20,162	231,761	(10,555)	221,206
Costs and expenses	194,561	19,943	214,504	(10,559)	203,945
Operating income	¥ 17,038	¥ 219	¥ 17,257	¥ 4	¥ 17,261
Assets	¥283,133	¥53,218	¥336,351	¥(39,636)	¥296,715
Depreciation	5,219	941	6,160	(56)	6,104
Capital expenditures	8,351	594	8,945	(64)	8,881

Year ended February 28, 2001	Millions of yen				
	Industry segment			Elimination of intersegment sales	Consolidated total
	Clothing	Other	Total		
Sales to outside customers	**¥237,177**	**¥ 8,747**	**¥245,924**	**¥ —**	**¥245,924**
Intersegment sales	**18**	**11,657**	**11,675**	**(11,675)**	**—**
Total	**237,195**	**20,404**	**257,599**	**(11,675)**	**245,924**
Costs and expenses	**220,325**	**20,410**	**240,735**	**(11,555)**	**229,180**
Operating income	**¥ 16,870**	**¥ (6)**	**¥ 16,864**	**¥ (120)**	**¥ 16,744**
Assets	**¥285,390**	**¥46,221**	**¥331,611**	**¥(19,353)**	**¥312,258**
Depreciation	**5,458**	**862**	**6,320**	**(59)**	**6,261**
Capital expenditures	**8,725**	**2,086**	**10,811**	**(79)**	**10,732**

Year ended February 28, 2001	Thousands of U.S. dollars				
	Industry segment			Elimination of intersegment sales	Consolidated total
	Clothing	Other	Total		
Sales to outside customers	**$2,037,603**	**$ 75,146**	**$2,112,749**	**$ —**	**$2,112,749**
Intersegment sales	**155**	**100,146**	**100,301**	**(100,301)**	**—**
Total	**2,037,758**	**175,292**	**2,213,050**	**(100,301)**	**2,112,749**
Costs and expenses	**1,892,827**	**175,344**	**2,068,171**	**(99,271)**	**1,968,900**
Operating income	**$ 144,931**	**$ (52)**	**$ 144,879**	**$ (1,030)**	**$ 143,849**
Assets	**$2,451,804**	**$397,088**	**$2,848,892**	**$(166,263)**	**$2,682,629**
Depreciation	**46,890**	**7,405**	**54,295**	**(507)**	**53,788**
Capital expenditures	**74,957**	**17,921**	**92,878**	**(679)**	**92,199**

(2) Geographic Segment Information

Geographic segment information is omitted because over 90 percent of total sales and total assets relate to only the domestic segment.

(3) Overseas Sales

Overseas sales information is omitted because the amount of total overseas sales of the Company and its consolidated subsidiaries is under 10 percent of consolidated sales amount.

Report of Independent Accountants

To the Board of Directors of ONWARD KASHIYAMA Co., Ltd.:

We have audited the consolidated balance sheets of ONWARD KASHIYAMA Co., Ltd. and its subsidiaries as of February 29/28, 2000 and 2001, the related consolidated statements of income and stockholders' equity for each of the three years in the period ended February 28, 2001, and the statement of cash flows for the period ended February 28, 2001, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ONWARD KASHIYAMA Co., Ltd. and its consolidated subsidiaries as of February 29/28, 2000 and 2001, the results of their operations for each of the three years in the period ended February 28, 2001, and their cash flows for the period ended February 28, 2001, in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis.

The amounts expressed in U.S. dollars, provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation

Tokyo, Japan
May 24, 2001

Non-Consolidated Statements of Income and Retained Earnings

Onward Kashiyama Co., Ltd.
For the years ended February 28/29/28, 1999, 2000 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 1)
	1999	2000	**2001**	**2001**
Net sales	¥169,167	¥164,685	**¥161,281**	**$1,385,576**
Cost of sales	97,576	91,609	**88,486**	**760,189**
	71,591	73,076	**72,795**	**625,387**
Reversal of allowance for sales returns, net	483	248	**511**	**4,390**
Gross profit	72,074	73,324	**73,306**	**629,777**
Selling, general and administrative expenses	61,050	60,946	**61,709**	**530,146**
Operating income	11,024	12,378	**11,597**	**99,631**
Other income/(expenses):				
Interest and dividend income	949	932	**850**	**7,302**
Loss on disposal of property	(151)	(17)	**(60)**	**(515)**
Reversal of gain on investment in securities	—	—	**1,156**	**9,931**
Loss on write-down of investments in securities	(1,837)	(1,643)	**(146)**	**(1,254)**
Royalty income	724	695	**750**	**6,443**
Loss on backup for subsidiaries and affiliates	—	—	**(12,131)**	**(104,218)**
Loss on liquidation of subsidiaries and affiliates	—	(2,266)	**(4,898)**	**(42,079)**
Provisions for allowance for doubtful accounts	—	—	**(2,657)**	**(22,826)**
Additional retirement payment	—	—	**(3,075)**	**(26,418)**
Other, net	1,240	3,097	**32**	**274**
	925	798	**(20,179)**	**(173,360)**
(Loss) income before income taxes	11,949	13,176	**(8,582)**	**(73,729)**
Income taxes (Note 2. (5)):				
Current	6,122	7,200	**2,049**	**17,603**
Deferred	—	—	**(4,351)**	**(37,380)**
	6,122	7,200	**(2,302)**	**(19,777)**
Net (loss) income	5,827	5,976	**(6,280)**	**(53,952)**
Retained earnings:				
Balance at beginning of year	12,203	9,501	**9,495**	**81,572**
Cumulative effect of adopting deferred tax accounting	—	—	**6,224**	**53,470**
Reversal of amount of advance depreciation due to adopting of deferred tax accounting	—	—	**32**	**275**
Appropriations (Note 11):				
Cash dividends	(2,842)	(2,843)	**(2,843)**	**(24,424)**
Transfer to legal reserve	(321)	(317)	**(307)**	**(2,637)**
Transfer to general reserve	(5,000)	(2,500)	**(2,500)**	**(21,478)**
Directors' bonuses	(366)	(322)	**(210)**	**(1,804)**
	(8,529)	(5,982)	**(5,860)**	**(50,343)**
Balance at end of year	¥ 9,501	¥ 9,495	**¥ 3,611**	**$ 31,022**

	Yen			U.S. dollars (Note 1)
Per share:				
Net (loss) income	¥33.8	¥34.7	**¥(36.5)**	**$(0.314)**
Cash dividends	16.5	16.5	**16.5**	**0.142**

The accompanying notes are an integral part of these statements.

Non-Consolidated Balance Sheets

Onward Kashiyama Co., Ltd.
February 29/28, 2000 and 2001

ASSETS	Millions of yen 2000	Millions of yen 2001	Thousands of U.S. dollars (Note 1) 2001
Current assets:			
Cash	¥ 6,607	**¥ 8,790**	**$ 75,515**
Time deposits	44,011	**32,106**	**275,825**
Trade receivables:			
Notes	7,448	**4,627**	**39,751**
Accounts	17,838	**16,306**	**140,086**
	25,286	**20,933**	**179,837**
Less: Allowance for bad debts	(161)	**(102)**	**(876)**
	25,125	**20,831**	**178,961**
Inventories (Note 3)	18,025	**18,570**	**159,536**
Advance payments	376	**950**	**8,161**
Deferred tax assets—current	—	**2,011**	**17,277**
Other current assets	1,315	**1,210**	**10,395**
Total current assets	95,459	**84,468**	**725,670**
Investments and advances:			
Investments in securities (Note 2. (2))	30,815	**32,824**	**281,993**
Investments in and advances to subsidiaries and affiliates	34,592	**22,145**	**190,249**
Long-term loans to employees	394	**376**	**3,230**
Deferred tax assets—noncurrent	—	**8,564**	**73,574**
Other investments	8,014	**8,511**	**73,119**
	73,815	**72,420**	**622,165**
Property, plant, and equipment (Note 4):			
Buildings and structures	37,405	**47,984**	**412,234**
Machinery and equipment	2,041	**2,034**	**17,474**
Tools, furniture and fixtures	4,975	**5,870**	**50,430**
	44,421	**55,888**	**480,138**
Less: Accumulated depreciation	(24,359)	**(25,619)**	**(220,095)**
	20,062	**30,269**	**260,043**
Land	45,075	**47,553**	**408,531**
Construction in progress	3,217	**—**	**—**
	68,354	**77,822**	**668,574**
Deferred charges and other assets	6,027	**5,733**	**49,253**
	¥243,655	**¥240,443**	**$2,065,662**

The accompanying notes are an integral part of these statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of yen 2000	Millions of yen 2001	Thousands of U.S. dollars (Note 1) 2001
Current liabilities:			
Trade payables:			
Notes	¥ 24,219	**¥ 24,356**	**$ 209,244**
Accounts	6,727	**6,247**	**53,668**
	30,946	**30,603**	**262,912**
Non-trade payables	856	**2,391**	**20,541**
Accrued expenses	5,251	**4,352**	**37,389**
Accrued income taxes (Note 2. (5))	3,976	**846**	**7,268**
Consumption tax payable	681	**261**	**2,242**
Accrued bonuses to employees	2,053	**1,888**	**16,220**
Allowance for sales returns	1,985	**1,474**	**12,663**
Other current liabilities	251	**1,178**	**10,121**
Total current liabilities	45,999	**42,993**	**369,356**
Long-term liabilities:			
Long-term guarantee money deposited	2,088	**2,105**	**18,084**
Accrued retirement benefits (Note 5)	11,654	**10,670**	**91,667**
Provisions for loss of guarantee obligations	—	**3,870**	**33,248**
Total long-term liabilities	13,742	**16,645**	**142,999**
Contingent liabilities (Note 8)			
Stockholders' equity:			
Common stock, par value ¥50 per share:			
Authorized—400,000,000 shares			
Outstanding—172,292,587 shares at February 29/28, 2000 and 2001	30,080	**30,080**	**258,419**
Additional paid-in capital	49,135	**49,135**	**422,122**
Legal reserve (Note 9)	4,891	**5,198**	**44,656**
General reserves (Note 9)	90,209	**92,709**	**796,469**
Special reserves	104	**72**	**619**
Retained earnings (Note 9)	9,495	**3,611**	**31,022**
Total stockholders' equity	183,914	**180,805**	**1,553,307**
	¥243,655	**¥240,443**	**$2,065,662**

Non-Consolidated Statements of Stockholders' Equity

Onward Kashiyama Co., Ltd.
For the years ended February 28/29/28, 1999, 2000 and 2001

	Number of shares of common stock (thousands)	Millions of yen					
		Common stock	Additional paid-in capital	Legal reserve	General reserves	Special reserves	Retained earnings
Balance as at February 28, 1998:	172,291	¥30,079	¥49,134	¥4,253	¥82,709	¥104	¥12,203
Cash dividends	—	—	—	—	—	—	(2,842)
Transfer to legal reserve	—	—	—	321	—	—	(321)
Transfer to general reserves	—	—	—	—	5,000	—	(5,000)
Directors' bonuses	—	—	—	—	—	—	(366)
Conversion of convertible bonds	2	1	1	—	—	—	—
Net income for the year ended February 28, 1999	—	—	—	—	—	—	5,827
Balance as at February 28, 1999:	172,293	30,080	49,135	4,574	87,709	104	9,501
Cash dividends	—	—	—	—	—	—	(2,843)
Transfer to legal reserve	—	—	—	317	—	—	(317)
Transfer to general reserves	—	—	—	—	2,500	—	(2,500)
Directors' bonuses	—	—	—	—	—	—	(322)
Net income for the year ended February 29, 2000	—	—	—	—	—	—	5,976
Balance as at February 29, 2000:	172,293	30,080	49,135	4,891	90,209	104	9,495
Cumulative effect of adopting deferred tax accounting	**—**	**—**	**—**	**—**	**—**	**—**	**6,224**
Reversal amount of advance depreciation due to adopting deferred tax accounting	**—**	**—**	**—**	**—**	**—**	**(32)**	**32**
Cash dividends	**—**	**—**	**—**	**—**	**—**	**—**	**(2,843)**
Transfer to legal reserve	**—**	**—**	**—**	**307**	**—**	**—**	**(307)**
Transfer to general reserves	**—**	**—**	**—**	**—**	**2,500**	**—**	**(2,500)**
Directors' bonuses	**—**	**—**	**—**	**—**	**—**	**—**	**(210)**
Net loss for the year ended February 28, 2001	**—**	**—**	**—**	**—**	**—**	**—**	**(6,280)**
Balance as at February 28, 2001	**172,293**	**¥30,080**	**¥49,135**	**¥5,198**	**¥92,709**	**¥ 72**	**¥ 3,611**

	Number of shares of common stock (thousands)	Thousands of U.S. dollars (Note 1)					
		Common stock	Additional paid-in capital	Legal reserve	General reserves	Special reserves	Retained earnings
Balance as at February 29, 2000:	172,293	$258,419	$422,122	$42,019	$774,991	$894	$81,572
Cumulative effect of adopting deferred tax accounting	**—**	**—**	**—**	**—**	**—**	**—**	**53,470**
Reversal amount of advance depreciation due to adopting deferred tax accounting	**—**	**—**	**—**	**—**	**—**	**(275)**	**275**
Cash dividends	**—**	**—**	**—**	**—**	**—**	**—**	**(24,424)**
Transfer to legal reserve	**—**	**—**	**—**	**2,637**	**—**	**—**	**(2,637)**
Transfer to general reserves	**—**	**—**	**—**	**—**	**21,478**	**—**	**(21,478)**
Directors' bonuses	**—**	**—**	**—**	**—**	**—**	**—**	**(1,804)**
Net loss for the year ended February 28, 2001	**—**	**—**	**—**	**—**	**—**	**—**	**(53,952)**
Balance as at February 28, 2001	**172,293**	**$258,419**	**$422,122**	**$44,656**	**$796,469**	**$619**	**$31,022**

The accompanying notes are an integral part of these statements.

Notes to Non-Consolidated Financial Statements

Onward Kashiyama Co., Ltd.

1. Basis of Presentation of the Non-Consolidated Financial Statements

(1) Accounting Principles

The accompanying non-consolidated financial statements have been prepared from accounts maintained by ONWARD KASHIYAMA Co., Ltd. (the "Company"), in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards.

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

The accompanying non-consolidated financial statements are not intended to present the financial position or results of operations of the Company in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥116.40=US$1, the rate of exchange as of February 28, 2001, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at that rate or any other rate.

(2) Additional Information

•Accounting for software developed for internal use

Refer to Note 1. (3) to the consolidated financial statements.

•Adoption of deferred tax accounting

Under the amended consolidated financial statements regulations in Japan, deferred tax accounting was adopted with effect from the beginning of this fiscal year. Following its adoption, deferred tax assets of ¥10,575 million (current: ¥2,011 million, noncurrent: ¥8,564 million) were newly recorded. Also, the net loss for the year decreased by increased by ¥4,350 million and the retained earnings at the year-end increased by ¥10,606 million.

2. Summary of Significant Accounting Policies

(1) Inventories

Inventories are stated at cost, cost being determined generally by the last purchase-invoice price method which approximates the first-in, first-out cost method. Merchandise held at retail stores is valued at the retail cost method.

When the net realizable value of certain classes of inventories (consisting primarily of seasonal merchandise which remains unsold after the end of such seasons) is substantially less than the carrying value (cost) and the decline of value is not expected to be recovered in the near future, appropriate write-downs are recorded on such inventory items. The amount of write-down is determined based on the experience of sales of merchandise similar to those unsold items during the immediately preceding three years. At February 28, 2001, the recorded write-down is ¥5,120 million ($43,986 thousand).

(2) Investments in Securities

Refer to Note 2. (6) to the consolidated financial statements.

(3) Property, Plant, and Equipment

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

Buildings and structures .... 3–50 years

Machinery and equipment .... 3–20 years

According to a recent amendment of Japanese income tax laws, depreciation for buildings (excluding leasehold improvements and auxiliary facilities attached to buildings), which were acquired on or after April 1998, has been computed by the straight-line method.

(4) Amortization

Refer to Note 2. (8) to the consolidated statements.

(5) Income Taxes

Refer to Note 2. (9) to the consolidated statements.

(6) Allowances

The provisions for loss of guarantee obligations is provided in case the Company is obliged to pay for the guaranteed subsidiaries. In estimating the allowance, the Company considers the financial condition of each subsidiary.

Please also refer to Note 2. (10) to the consolidated financial statements.

(7) Lease Transactions

Refer to Note 2. (11) to the consolidated financial statements.

(8) Accounting for Consumption Tax

Refer to Note 2. (12) to the consolidated financial statements.

(9) Dividends

Refer to Note 2. (13) to the consolidated financial statements.

(10) Net Income and Dividends per Share

Refer to Note 2. (14) to the consolidated statements.

3. Inventories

Inventories at February 29/28, 2000 and 2001, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	**2001**	**2001**
Merchandise and finished goods	¥14,840	**¥15,016**	**$129,003**
Raw materials	2,141	**1,852**	**15,911**
Work-in-process	855	**1,561**	**13,411**
Supplies	189	**141**	**1,211**
	¥18,025	**¥18,570**	**$159,536**

Write-downs of finished goods and merchandise to net realizable value are charged to cost of sales. Such write-downs for the years ended February 29/28, 2000 and 2001, amounted to ¥5,759 million and ¥5,121 million ($43,995 thousand), respectively.

4. Property, Plant, and Equipment

The Japanese tax regulations allow a company to defer capital gains on the sales of real property if the company intends to offset such gains against the cost of newly acquired fixed assets. When such accounting is followed, the cost of the new fixed assets is reduced to the extent of the deferred capital gains thereby affecting related depreciation charges and accumulated depreciation.

Property, plant, and equipment at February 28, 2001, was reduced by ¥8,966 million ($77,027 thousand), representing accumulated deferred gains from historic sales.

5. Retirement Plan and Retirement Benefits

Employees with more than 2 years of service with the Company are generally entitled to lump-sum retirement benefits determined by reference to the current rate of pay, length of service and conditions under which termination occurs. The Company has a funded pension plan which covers 55% of retirement benefits payable to employees who retire at the mandatory retirement age. In connection with the funded pension plan, the Company has adopted a policy to provide for accrued retirement benefits (unfunded) in an amount equivalent to 100% of the liabilities payable to all employees eligible for such benefits upon their voluntary retirement at the balance sheet date, less the accumulated balance of fund assets for the pension plan.

As at February 28, 2001, fund assets aggregated ¥6,813 million ($58,531 thousand), with the past service liabilities being amortized over a 6-year period.

With respect to directors and statutory auditors, the Company provides for lump-sum severance benefits on a basis similar to that used for employees. While the Company has no legal obligation, it is the customary practice in Japan to make lump-sum payments to a director or statutory auditor upon retirement with the approval of the general meeting of stockholders. Annual provisions are made in the accounts for the estimated costs of this termination plan, which is not funded.

6. Lease Transactions

The Company's finance lease contracts which are not deemed to transfer the ownership of the leased assets are not capitalized under Japanese accounting principles. Certain key information on such lease contracts of the Company for the years ended February 29/28, 2000 and 2001, is as follows.

Assumed data as to acquisition cost, accumulated depreciation, net book value and depreciation expense of the leased assets, which included the portion of interest thereon, are summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2000			**2001**			**2001**		
	Tools, furniture, and fixtures	Other	Total	Tools, furniture, and fixtures	Other	Total	Tools, furniture, and fixtures	Other	Total
Acquisition cost	¥1,137	¥184	¥1,321	**¥1,083**	**¥224**	**¥1,307**	**$9,304**	**$1,925**	**$11,229**
Accumulated depreciation	(647)	(102)	(749)	**(583)**	**(126)**	**(709)**	**(5,009)**	**(1,082)**	**(6,091)**
Net book value	¥ 490	¥ 82	¥ 572	**¥ 500**	**¥ 98**	**¥ 598**	**$4,295**	**$ 843**	**$ 5,138**

The scheduled maturities of future lease rental payments on such lease contracts as of February 29/28, 2000 and 2001, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	**2001**	**2001**
Due within one year	¥270	**¥252**	**$2,165**
Due over one year	302	**346**	**2,973**
	¥572	**¥598**	**$5,138**

	Millions of yen		Thousands of U.S. dollars
	2000	**2001**	**2001**
Lease rental expenses for the year	¥314	**¥281**	**$2,414**
Depreciation	314	**281**	**2,414**

7. Income Taxes

Deferred tax assets and liabilities as at February 28, 2001 consisted of the following elements:

	Millions of yen	Thousands of U.S. dollars
Deferred Tax Assets:		
Valuation loss on inventories	¥ 1,201	$10,318
Evaluation loss on unconsolidated subsidiaries' stock	3,006	25,825
Excess amount of tax deductible for retirement allowance to employees	2,155	18,514
Allowance for directors' retirement	595	5,112
Provisions for guarantee obligations	1,626	13,969
Others	2,017	17,328
Total deferred tax assets	10,600	91,066
Deferred Tax Liabilities:		
Reversal amount of reserve for advanced depreciation of replacement by purchase	(25)	(215)
Total deferred tax liabilities	(25)	(215)
Net deferred tax assets	¥10,575	$90,851

Reconciliation between statutory tax rate and effective tax rate as at February 28, 2001:

	%
Statutory tax rate	42.0%
(Reconciliation)	
Non-deductible items (entertainment, etc.)	16.6
Non taxable items (dividend income, etc.)	(1.9)
Inhabitant tax per capita basis	0.5
Effective tax rate	26.8%

Please also refer to Note 8 to the consolidated financial statements.

8. Contingent Liabilities

The Company was contingently liable as a guarantor of bank loans made by certain subsidiaries and affiliates of the Company. The outstanding guarantees as at February 28, 2001 aggregated ¥17,255 million ($148,239 thousand).

9. Legal Reserve and Appropriation of Retained Earnings

Refer to Note 10 to the consolidated financial statements.

10. Subsequent Event

Refer to Note 11 to the consolidated financial statements.

Report of Independent Accountants

To the Board of Directors of Onward Kashiyama Co., Ltd.:

We have audited the accompanying non-consolidated balance sheets of ONWARD KASHIYAMA Co., Ltd. as of February 29/28, 2000 and 2001, and the related non-consolidated statements of income, retained earnings and stockholders' equity for each of the three years in the period ended February 28, 2001, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of ONWARD KASHIYAMA Co., Ltd. as of February 29/28, 2000 and 2001, and the results of its operations for each of the three years in the period ended February 28, 2001, in conformity with accounting principles generally accepted in Japan (see Note 1) applied on a consistent basis.

The amounts expressed in U.S. dollars, provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying non-consolidated financial statements.

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation

Tokyo, Japan
May 24, 2001

Board of Directors

CHAIRMAN

Akira Baba*

VICE CHAIRMAN

Sadajiro Gion*

PRESIDENT

Takeshi Hirouchi*

VICE PRESIDENT

Kenji Takada*

*Representative Director

SENIOR MANAGING DIRECTORS

Kinshi Kurihara

Tenji Tanaka

MANAGING DIRECTOR

Masao Ohno

DIRECTORS

Takaharu Torikoshi

Ohtsuka Yuji

SENIOR EXECUTIVE OFFICERS

Takashi Nakamura

Fumiyasu Yamashita

Masaru Kusaki

Yoshiaki Hanada

Ryuji Horie

Tetsuji Wada

Kentaro Mizuno

Uemura Shigeru

EXECUTIVE OFFICERS

Kazuya Baba

Akio Date

Isao Yamane

Nobutake Matsuo

Hideo Hisamichi

Susumu Maeda

Masaaki Yoshizawa

Kisaku Uragami

Hiroshi Imai

Masabumi Kiyohara

Tadayoshi Kobayashi

STANDING AUDITORS

Katsutoshi Kashiyama

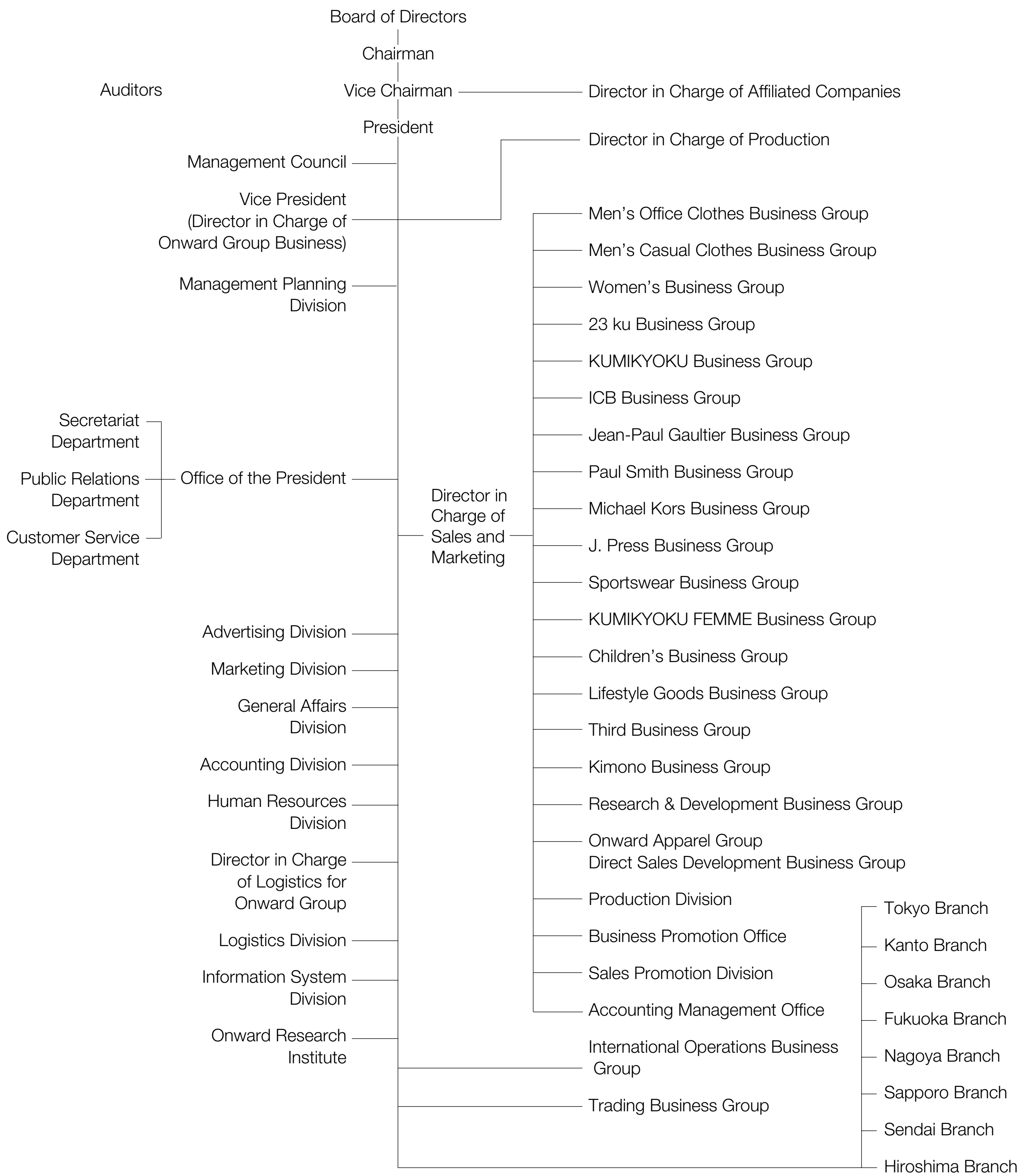
Yukio Sugimoto

Yasumitsu Miyamoto

Kusunoki Masao

As of May 24, 2001

Organization Chart



Principal Subsidiaries

OVERSEAS SUBSIDIARIES

J. PRESS INC.
262 York Street,
New Haven, CT 06511, U.S.A.
Tel: (1) 203-772-1310

ONWARD KASHIYAMA FRANCE S.A.
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Tel: (33) 1-5504-8787

ONWARD KASHIYAMA U.S.A. INC.
499 Seventh Avenue,
7th & 8th Floors, South Tower,
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ONWARD KASHIYAMA HONG KONG LTD.
UNIT 1208-9, Lippo Sun Plaza,
28 Canton Road, T.S.T.,
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Tel: (852) 2367-2055, 2721-7068

ONWARD KASHIYAMA U.K. LTD.
47, Conduit Street,
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ONWARD KASHIYAMA CANADA INC.
Suit 3600,
Toronto Dominion Bank Tower,
Toronto-Dominion Centre,
Toronto, Ontario, Canada M5K ING6

GIBO CO. S.p.A.
Via Cassia 69, 50029 Tavarnuzze,
Firenze, Italy
Tel: (39) 055-237-2020

ONWARD ITALIA S.p.A.
Via Della Spiga 9, 20121 Milano, Italy
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ACROSS SERVICE CO., LTD.

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+A VIA BUS CO., LTD.

As of May 24, 2001

Corporate Data and Offices

Head Office	3-10-5, Nihonbashi, Chuo-ku, Tokyo 103-8239 Tel: (03) 3272-2317 Fax: (03) 3272-2314 URL: http://www.onward.co.jp
Established	September 1947
Paid-in Capital	¥30,080 million
Common Stock	Authorized—400,000,000 shares Issued—172,292,587 shares
Stock Listings	Tokyo, Osaka, and Nagoya stock exchanges
Transfer Agent	The Toyo Trust & Banking Co., Ltd.
Number of Employees	2,107

OFFICES

Head Office
3-10-5, Nihonbashi,
Chuo-ku, Tokyo
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Tokyo Shibaura Bldg. No. 1
3-9-32, Kaigan,
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Tel: (03) 5476-5102

Tokyo Shibaura Bldg. No. 2
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Minato-ku, Tokyo
Tel: (03) 5476-5102

Tokyo Shibaura Bldg. No. 3
3-14-11, Kaigan,
Minato-ku, Tokyo
Tel: (03) 5476-5102

Tokyo Shibaura Bldg. No. 4
3-14-21, Kaigan,
Minato-ku, Tokyo
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Atsugi Distribution Center
1434, Aikokatamachi,
Atsugi, Kanagawa
Tel: (046) 230-2520

Osaka Regional Office
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Chuo-ku, Osaka
Tel: (06) 6252-1010

Miyakojima Operations Center
5-10-7, Takadono,
Asahi-ku, Osaka
Tel: (06) 6952-3211

Osaka Plant
2-10, Kusunekitamachi,
Neyagawa, Osaka
Tel: (0720) 24-3311

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3-11-6, Kaigan,
Minato-ku, Tokyo
Tel: (03) 5476-5102

Fukuoka Regional Office
2-6-43, Daimyo,
Chuo-ku, Fukuoka
Tel: (092) 712-2111

Sapporo Regional Office
16-1, Kitaichijonishi,
Chuo-ku, Sapporo
Tel: (011) 644-4440

Sendai Regional Office
1-6-8, Kamisugi,
Aoba-ku, Sendai
Tel: (022) 262-8411

Sendai Regional Office
Ayashi Building
2-2-22, Ochiai,
Aoba-ku, Sendai
Tel: (022) 392-8585

Nagoya Regional Office
4-11-31, Meiekiminami,
Nakamura-ku, Nagoya
Tel: (052) 563-2311

Nagoya Inazawa Operation Center
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Inazawa, Aichi
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Nishi-ku, Hiroshima
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28-7, Sarugaku-cho,
Shibuya-ku, Tokyo
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Institute Onward Sōken
3-9-3, Ushikubo,
Tsuzuki-ku, Yokohama
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As of February 28, 2001

Onward Kashiyama Co., Ltd.
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Tel: (03) 3272-2317

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