Annual Report

Year Ended February 28, 2003

ONWARD

Profile

Since its establishment in 1947, ONWARD KASHIYAMA Co., Ltd., has been an active leader in the world of fashion. The Company has drawn on its sophisticated capabilities in planning, technological development, information network management, and production to develop a wide range of popular brands that appeal to the diverse tastes of consumers, who differ not only in age but also in the values they hold. Onward's products are marketed through department stores, direct merchants, shopping centers, and general retailers throughout Japan as well as via a global sales network that spans Europe, Asia, and North America.

Onward has earned a strong reputation in all quarters for its continued ability to anticipate consumer needs and offer new concepts that reflect those needs. As a leading retailer in the global apparel industry, Onward will continue to fully use its long experience in planning and development, technology, information, and production to more actively develop business in both domestic and overseas markets.

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A Message to Our Stockholders

The Operating Environment in Fiscal 2003

Japan's economy in fiscal 2003, ended February 28, 2003, continued to be hindered by a protracted deflationary slump, and the financial system struggled to dispose of a daunting amount of bad debt. In addition, the pace of global economic growth slowed amid an environment of international political uncertainty, and economic conditions were harsh overall. Numerous changes affected the apparel industry, including greater diversification in the consumer market, a rise in bankruptcies, modifications to distribution systems, the opening of new commercial buildings, an influx of upmarket brands into centrally located urban shops, an increasing number of large-scale direct merchants participating in the apparel industry, and an increase in collaboration between trading and apparel companies. Net sales at department and specialty stores were sluggish amid the severe economic environment. The battle among upscale brand retailers and general merchandise stores (GMSs) for market supremacy seems to be winding down, and the strengths and weaknesses of differing corporate strategies under unfavorable economic conditions are becoming apparent in light of corporate earnings.

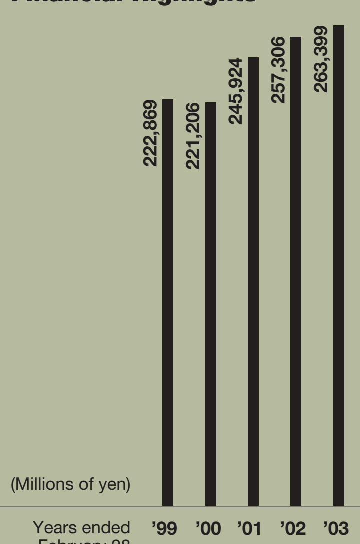
Overview of the Onward Group

Despite difficult economic conditions, Onward succeeded in increasing both sales and income during fiscal 2003. On a consolidated basis, net sales rose 2.4% from fiscal 2002, to ¥263.4 billion, operating income was up 8.2%, to ¥19.6 billion, and net income rose 88.3%, to ¥7.2 billion. Net income per share for fiscal 2003 was ¥41.55, and return on equity was 3.8%. In addition, Onward will pay cash dividends applicable to the period of ¥16.50 per share to stockholders.

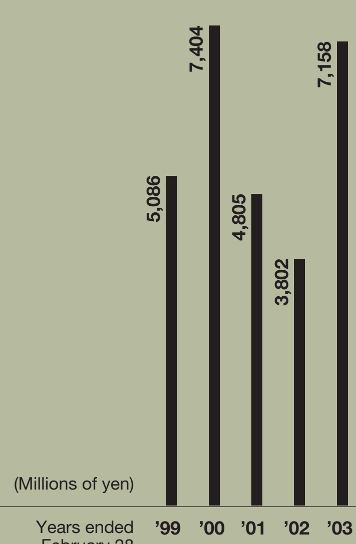
These impressive results for the year under review are attributable to our thorough reorganization of Group subsidiaries, which enabled us to dedicate corporate resources to more profitable businesses.

On March 1, 2003, we merged three of our consolidated subsidiaries—Impact 21 Co., Ltd., ACTY 21 Co., Ltd., and Partner 21 Co., Ltd.—that handle Polo Ralph Lauren Corporation clothing for men and women, jeans, and other apparel. During the year under review, Onward completed a 45% capital subscription in Polo Ralph Lauren Japan Co., Ltd., bringing into effect a master sublicense agreement that endows the Company with

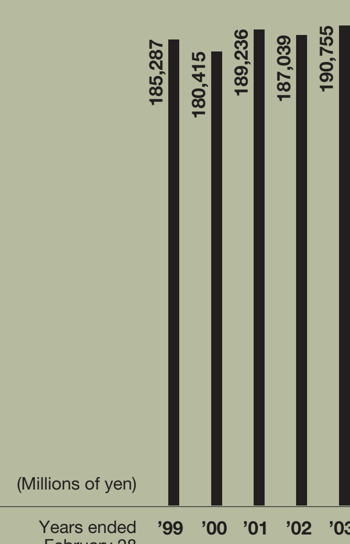
Financial Highlights



Consolidated Net Sales



Consolidated Net Income



Consolidated Total Stockholders' Equity

an exclusive marketing license for Polo Ralph Lauren products in Japan. In a reciprocal agreement, Onward transferred a portion of its equity shareholdings of Impact 21 and ACTY 21 to Polo Ralph Lauren in the United States, an arrangement that we are confident will strengthen our partnership. The merger will permit the rationalization of back-office operations, and the consolidation of men's and women's apparel into a single company will boost strength and competitiveness, particularly in opening new stores.

In another move, Oak Co., Ltd., was made a wholly owned subsidiary through a stock swap on April 1, 2003. We will strengthen cooperation with Oak in planning, production, human resources, and finance as a part of our restructuring.

In addition, we liquidated +A VIA BUS CO., LTD., Field Dream Co., Ltd., and Seagler Co., Ltd., bringing this phase of restructuring in our apparel subsidiaries to a close.

In our hotel business in Guam, we strengthened our profit base with the completion of a new 145-room building in fiscal 2003, for a total of 430 rooms. Revenues were dampened by threats of international terrorism and natural disasters, and initial targets were not achieved; however, Onward was applauded for its high safety standards, and net sales for the January to March quarter of 2003 jumped 35% from the same quarter in the previous fiscal year.

Looking at the operations of the parent company alone, we have responded to consumers' increasingly diverse tastes with a greater emphasis on our new business method we call Brand-leveraged Management. This new business method incorporates the eight management pillars of in-house planning capabilities, low-cost production, a system for meeting the demand for best-selling products, a flexible distribution system, attractive retail environments, topical advertising and PR activities, stronger sales capabilities, and state-of-the-art IT systems. These efforts have resulted in the steady improvement of business performance in recent years.

With regard to distribution, we actively developed new marketing channels centered on department stores, which are the engine of sales, in both urban and suburban areas and broadened the scope of our distribution activities. Through the creation of a supply chain management system responsive to consumer demand and comprehensive management of demand forecasts, planning, production, and distribution, Onward expanded net sales and strengthened its profit base.

To improve operational efficiency, Onward has put the highest priority on implementing Quick Response (QR), which is being developed for every brand throughout Japan by Onward's Brand Promotion Offices and Brand Promotion Officers responsible for developing QR. The system to support QR for all brands has been strengthened, and a 52-week merchandising (MD) system that immediately identifies products that are selling well to make product restocking faster and more efficient is in place. As a result, Onward can more accurately determine the timing and quantity for supplying popular products. This has smoothed the flow of production and sale of products, as well as improved the inventory turnover rate, thereby pushing up gross profit margins.

In our men's and women's fashion segments, we enhanced new product development through the creation of the position of division director responsible exclusively for the development of new products.

Going Forward

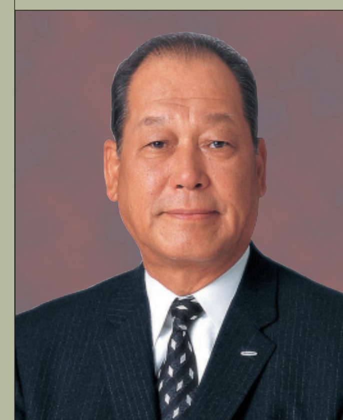
The economic outlook for fiscal 2004 is bleak. The stinging effects of continued deflation, flagging stock prices, the war in Iraq, the SARS crisis, corporate downsizing, and high unemployment is expected to largely stifle economic growth. These dismal economic conditions are likely to impede Onward's business as well.

To combat the sluggish economy, the Onward Group as a whole will quickly move to strengthen promising businesses and scale down or completely eliminate businesses with weak prospects. As a part of these efforts, we will expand and develop the new Impact 21 (formed by the aforementioned merger) and completely restructure Oak's business now that it is a wholly owned subsidiary. We will also work to ensure a steady cash flow from the Guam resort business. We are confident that these measures to reorganize and regulate subsidiaries will make the consolidated management base even more stable. In line with management strategy, the operations of new businesses identified as having uncertain potential will be evaluated in approximately two years, after which the Company will determine whether to continue or withdraw from operations.

The parent company will increase the degree of precision of its new business method, Brand-leveraged Management, and thus enable us to strengthen flagship brands. The parent company intends to devote a greater portion of corporate resources to the growth of its Luxury Brand Business Group and the development of new brands. Onward will also redouble efforts to increase efficiency by further expanding new distribution channels and establishing a QR system for all brands. In particular, we will strengthen our newly created 52-week MD system to accurately identify best-selling goods on a week-by-week basis to permit quick changes to production quantities as needed. To accelerate distribution and cut costs, Onward will work to resolve industrywide issues related to the use of AT nets, IC tags, and the elimination of price stickers. Onward will also seek to establish a supply chain and institute an electronic data interchange trade system.

These strategies will give Onward the wherewithal to move swiftly in allocating corporate resources to key areas and increase sales and profitability.

May 23, 2003



Akira Baba

Akira Baba, Chairman

Takeshi Hirouchi

Takeshi Hirouchi, President

Business Overview
and Strategy for the Current Fiscal Year

JIYUKU

GOTAIRIKU

General Overview

In fiscal 2003, the Onward parent company and apparel-related subsidiaries banded together to promote Brand-leveraged Management, and these efforts are steadily improving corporate performance. Onward's business is also doing well in terms of both products and distribution.

With regard to products, sales of our flagship brands, NIJYUSANKU for people in their 30s and early 40s, KUMIKYOKU for people in their 20s, and ICB for people in their late 20s are growing steadily. NIJYUSANKU and KUMIKYOKU have both developed into powerhouse brands, each with a retail base of over ¥50 billion. ICB's retail base grew more than 10%, to ¥13 billion, and the retail base of our JIYUKU brand for ladies in their mid-40s and mid-50s grew more than 30%, to ¥10 billion, making this a highly profitable major brand for the Company, despite it only having been launched in autumn 2000.

Distribution also improved in the fiscal year under review. Despite lackluster sales at department stores, which compose the bulk of our sales channels, net sales increased 2.4%, thanks to the steady expansion of shop floor space through the development of shops specializing in one or more of Onward's leading brands and moves to relocate to prime retail locations. Onward has set up new sales channels by aggressively opening new branches of MIX-O, which targets young professionals, KUMIKYOKU FAM, for mothers and children, and other stores. This aggressive expansion has increased floor space and pushed up non-department store sales 40%. As a result, non-department store net sales increased to account for more than 10% of net sales.

Men's Fashions

In fiscal 2003, competition in business suits and coats was fierce, but consumers flocked to such highly versatile clothing items as jackets, trousers, and half-coats that can be worn as either business or casual wear. Despite the continued popularity of low-priced suits, the market expanded for prestigious and fashionable high-end brands. Customers also responded well to such personalized products as semi-custom made clothing and products made from functional fabrics.

ICB

Children's Fashion (KUMIKYOKU)

In business wear, pattern-made suits increased steadily, and sales increased of such high-end brands as GOTAIRIKU and CERRUTI 1881. In fiscal 2003, ECO J suits, conceived of as a midsummer strategy, proved popular, and this helped secure firm net sales in the middle of summer when sales tend to slump. Sales of jackets, pants, and half-coats grew, but this growth was not large enough to offset declines in other areas. In casual wear, sales were strong. Onward began intensive marketing of seasonal and holiday motif products in fiscal 2003, and this boosted sales. Our flagship brand NIJYUSANKU HOMME grew steadily in part thanks to QR.

Consolidated net sales in the Men's Fashion Business Group were ¥79.7 billion for fiscal 2003, down 3.5% from fiscal 2002, and accounted for 30.2% of net sales.

Women's Fashions

Fiscal 2003 was punctuated by sales promotional events held ahead of season, shortened trend cycles, and an increase in minor hits in the women's clothing market.

Regarding sales trends for Onward products, the Company boosted sales by strengthening planning activities to precisely grasp market trends and its brand-oriented sales structure to promote brand value. In particular, such leading brands as NIJYUSANKU, KUMIKYOKU, ICB, JIYUKU, and SONIA RYKIEL performed well. Also showing growth were sales of KUMIKYOKU FAM and KUMIKYOKU SIS via new sales channels that include suburban and urban shopping centers.

Consolidated sales in the Women's Fashion Business Group rose 5.3%, to ¥134.9 billion, and comprised 51.2% of net sales.

Children's Fashions

The trend toward polarization in the children's clothing market became more pronounced amid the stagnant market. Price-conscious family brands sold well in the suburbs, and urban department store brands of children's wear also saw firm returns, but sales of long-established retail brands and brands at independent sales areas of department stores were subject to fierce competition.

As stores are generally shrinking, the focus has been on increasing sales by building and strengthening production systems that are responsive to periods of actual demand and enhancing sales areas and storefront visual merchandising. In suburban areas, KUMIKYOKU FAM is selling well in preexisting shops, and the number of newly opened stores has also increased.

Consolidated sales in Onward's Children's Fashion Business Group climbed 16.5%, to ¥8.0 billion, which represented 3.1% of net sales.

Kimonos

The market for kimonos continued to shrink due to stagnant personal consumption, weakened demand for kimonos, and heightened price competition. *Yukata*—cotton summer kimonos—have become fashionable among young women, but typhoons during the peak sales period in June and July and stiff market competition pushed down sales in fiscal 2003.

Yukata (NIJYUSANKU)

Fashion Jewelry (KUMIKYOKU)

VANILLA CONFUSION

Sales of *honkagayuzen*-type kimonos were strong thanks to off-site sales activities. Demand for such traditional Japanese goods as kimonos for the "Shichi-Go-San" festival for children aged seven, five, and three years, kimono sandals and bags, and our WA-brand casual kimonos boosted sales levels, but bargain goods did not sell well and business was hurt by overly strong competition. Onward had anticipated a large increase in sales of *yukata* in the first half of the fiscal year, but sales only climbed to approximately 108% of the fiscal 2002 level, and the weak market prevented the Company from meeting its sales goals.

Consolidated sales in Onward's Kimono Business Group edged down 0.6%, to ¥3.8 billion, making up 1.4% of the Company's net sales.

Other

• Fashion Jewelry

Overall, the market in this sector was lackluster, reflecting Japan's protracted economic malaise; however, there was an upturn in sales of fashion jewelry that is individualistic and has brand appeal.

High public awareness of Onward's brands along with the Company tying sales activities to seasonal events and limiting the marketing of certain goods to specific seasons led to growth in jewelry sales.

• Bags, Objets d'Art, and Other Goods

Sales to department stores continued to fall, although such everyday goods as bags, accessories, and shoes sold well, largely buttressed by luxury brand items. Nevertheless, sales started to falter in summer 2002, and consumer spending showed a clear line between the luxury brand products that they favored and those they did not.

The Other Operations Business Group posted consolidated sales of ¥37.0 billion, up 3.1% from fiscal 2002, which represented 14.1% of net sales on a consolidated basis.

Fiscal 2004 Business Plans

In fiscal 2004, Onward is seeking to augment growth by continuing to promote Brand-leveraged Management to actively expand the scope of its business. We will not be held captive to conventional thinking and will rebuild all areas of business from scratch to attain the ideal sales environment.

Specifically, Onward established the Luxury Brand Business Group in March 2003 to consolidate imported brands. In autumn 2003, we will be proud to add GIBO to the broad line of international brands we carry, which includes MICHAEL KORS, SONIA RYKIEL, MISSONI, and GIANFRANCO FERRE. We expect these changes to lift net sales from the targeted ¥10.0 billion in fiscal 2004 to ¥13.0 billion in fiscal 2007.

In men's fashions, we have made GOTAIRIKU, NIJYUSANKU HOMME, and J. PRESS flagship brands. Onward has selected the English designer Peter Johnston to design our popular GOTAIRIKU brand and will begin sales of the popular U.S. designer brand JOHN VARVATOS now that we have obtained exclusive marketing rights in Japan.

With regards to women's fashion, we will start selling the popular English brand ANTONI & ALISON in the Japanese market, and, having conducted a scrupulous market survey, we will commence sales of VANILLA CONFUSION for women in their late 20s. The marketing of VANILLA CONFUSION brand products is to be centered in department stores, and this brand will be cultivated as one of our leading products, with a target of ¥3.0 billion in sales on an annual retail basis in fiscal 2004.

We will make maximum use of our product planning abilities and enlist the services of famous designers while investing in new brands that capitalize on the name recognition of popular brands to aggressively develop business and ensure that we are able to carry out our growth strategies.

Consolidated Six-Year Summary

ONWARD KASHIYAMA Co., Ltd.
Years ended February 28 or 29

	Millions of yen						Thousands of U.S. dollars
	1998	1999	2000	2001	2002	**2003**	**2003**
At year-end:							
Total current assets	¥117,382	¥119,138	¥120,922	¥126,151	¥146,080	**¥141,468**	**$1,201,423**
Total property, plant and equipment	91,517	90,820	92,956	103,581	99,274	**101,188**	**859,346**
Total assets	281,752	291,484	296,715	312,258	312,443	**302,188**	**2,566,351**
Total current liabilities	65,947	69,691	79,636	78,985	99,673	**80,147**	**680,656**
Total stockholders' equity	178,476	185,287	180,415	189,236	187,039	**190,755**	**1,619,998**
For the year:							
Net sales	¥228,334	¥222,869	¥221,206	¥245,924	¥257,306	**¥263,399**	**$2,236,933**
Cost of sales	131,476	132,360	130,058	143,449	145,687	**143,234**	**1,216,421**
Selling, general and administrative expenses	75,540	73,700	73,887	85,731	93,499	**100,558**	**853,996**
Operating income	21,317	16,809	17,261	16,744	18,120	**19,607**	**166,516**
Income taxes, current	10,471	9,599	9,306	4,888	11,176	**6,166**	**52,367**
Net income	9,580	5,086	7,404	4,805	3,802	**7,158**	**60,788**
	Yen						U.S. dollars
Per share (Yen and U.S. dollars):							
Net income	¥55.6	¥30.0	¥43.0	¥27.9	¥22.1	**¥41.6**	**$0.353**
Cash dividends	16.5	16.5	16.5	16.5	16.5	**16.5**	**0.140**

Note: Yen amounts have been translated, for convenience only, at ¥117.75=US$1, the approximate exchange rate on February 28, 2003.

Financial Review

Overview

In fiscal 2003, ended February 28, 2003, the overall operating environment was characterized by such challenges as the Japanese economy's protracted deflationary slump and financial system instability due to non-performing loans, the slowdown in the U.S. and global economies, and uncertainties in the international political situation.

The apparel market was characterized by increased diversification in consumption patterns. Competition intensified as various industry participants developed new hit products and implemented sales strategies to counteract the trend of market contraction.

Consumer spending, which exerts a strong influence over apparel sales, showed encouraging signs amid the increase in exports in the first half of fiscal 2003. However, overall, such factors as high unemployment and a worsened income environment heightened uncertainty regarding the future and dampened consumer sentiment more than had been expected.

In this management environment, for several years, Onward has focused on its policy of Brand-leveraged Management to address diversification of consumption patterns. As a part of this initiative, we launched a two-pronged strategy to establish NIJYUSANKU, KUMIKYOKU, ICB, and GOTAIRIKU as large-scale flagship brands, and also expanded JIYUKU into a major brand. As a result, Onward has steadily boosted its business performance amid sluggish market conditions on the whole.

Turning to sales channel strategy, we focused on business expansion via the opening of new sales channels to serve department stores, which are the mainstay of our sales, including both urban shopping areas and suburban shopping centers.

Furthermore, we both drove sales expansion and strengthened our earnings base through the use of a consumer-focused supply chain management system, providing total solutions spanning supply and demand forecasting, planning, production, and distribution.

As a result, we achieved gains in both net sales and earnings, with net sales increasing 2.4% compared with fiscal 2002, to ¥263.4 billion, and operating income rising 8.2%, to ¥19.6 billion. Net income jumped a full 88.3%, to ¥7.2 billion in fiscal 2003, thanks to the clearance of accumulated extraordinary loss associated with severance expenses in the preceding fiscal year.

Results of Operations

Net Sales

Net sales for the period rose 2.4%, to ¥263.4 billion, pulled up by strong demand for women's and children's clothing. Sales by business segment are as follows.

Apparel and Textile Products Business Group

As for our Brand-leveraged Management approach, we deployed growth strategies in the product and distribution areas, and recorded favourable progress in both fields. On the products front, such core brands as NIJYUSANKU, KUMIKYOKU, and ICB recorded healthy gains, with NIJYUSANKU and KUMIKYOKU alone attaining more than ¥50.0 billion in retail sales to reach major brand status. Sales of ICB expanded at an annual rate of over 10.0%, to more than ¥13.0 billion, and JIYUKU LADIES has grown more than 30.0% since its autumn 2000 launch, to ¥10.0 billion, to become a highly profitable major brand in just its third year of sales.

While distribution via department stores is the core focus of our distribution strategy, we significantly expanded stores specializing in our leading brands, relocated stores to choice locations, and steadily increased retail floor space. As a result, clothing segment sales for the period rose 2.3%, to ¥251.2 billion, accounting for 95.4% of total net sales, which was equivalent to the level of the prior fiscal year. In contrast, according to the Japan Department Stores Association, sales of clothing at department stores dropped 2.2% on average between March 2002 and February 2003.

Looking at major product types, sales of men's apparel declined 3.5% and made up 30.2% of segment sales, down 1.8 percentage points from fiscal 2002. Even as sales of GOTAIRIKU, CERRUTI 1881, and other prestigious high-end men's apparel increased, and sales of mid-summer clothing items were hits, the results were insufficient to offset the overall downswing in the business wear market.

Sales of women's apparel increased 5.3% to account for 51.2% of segment sales, up 1.4 percentage points from the previous fiscal year. In the face of shortened trend cycles and fragmentation of core products, Onward increased Group sales by strengthening its sales system to focus on major brands and boosting brand value backed by accurate assessments of market trends. Sales of children's apparel leaped 16.5% and accounted for 3.1% of segment sales, up 0.4 percentage point from fiscal 2002. The increase in sales was largely tied to measures to strengthen our production system to better respond to the peak demand period, particularly as regards KUMIKYOKU and KUMIKYOKU FAM. Sales of kimonos decreased 0.6% and made up 1.4% of segment sales, down 0.1 percentage point from fiscal 2002.

Other Division

The market for jewelry, bags, and other products was adversely affected by weakness in the economy overall. Our bag business has been slowed by intense market competition, but in fashion jewelry, we expanded sales growth by leveraging high brand recognition to expand floor space, as well as investments in sales promotions linked to seasonal events and goods offered at specific times of the year. Sales in the Other Division overall increased 3.0% and accounted for 4.6% of total net sales, unchanged from the prior fiscal term.

Costs, Expenses, and Earnings

The cost of sales fell 1.7%, to ¥143.2 billion. The increase in net sales combined with the decline in the cost of sales improved gross profit 7.7%, to ¥120.2 billion, and boosted the gross profit margin 2.2 percentage points to 45.6%.

Selling, general, and administrative (SG&A) expenses rose 7.5%, to ¥100.6 billion. SG&A expenses as a percentage of net sales increased 1.9 percentage points from the previous fiscal year, to 38.2%. Contributing factors behind the increase were higher rent and additional amortization and depreciation expenses related to the expansion of new sales channels, as well as a rise in retirement benefit expenses resulting from the adoption of new accounting standards. Operating income increased 8.2%, to ¥19.6 billion, and the ratio of operating income to net sales improved 0.4 percentage point to 7.4%.

Other income (expenses) improved by ¥4.6 billion, going from ¥6.8 billion in expenses in fiscal 2002 to ¥2.2 billion in expenses in fiscal 2003, principally due to the recording in fiscal 2002 of a one-time expense arising from the adoption of a new accounting standard for retirement benefits. In the consolidated statement of income, costs related to the additional retirement payments also declined, to ¥1.0 billion, having accounted for ¥3.9 billion in the previous term, but loss on write-down of investments in securities grew ¥0.8 billion.

These factors helped lead to a 54.0% increase in income before income taxes and minority interests to ¥17.4 billion. Net income soared 88.3%, to ¥7.2 billion, which lifted the profit margin 1.2 percentage points to 2.7%. The return on equity (ROE) rose 1.8 percentage points, to 3.8%.

Financial Condition

The Onward Group's total assets as of the year-end were down 3.3%, to ¥302.2 billion. Of the ¥10.3 billion decline in assets, ¥4.6 billion was in current assets. The chief factors for the decline in current assets were falls in trade receivables of ¥2.5 billion and inventory assets of ¥1.8 billion, due to the shortening in the cycle for collecting accounts receivable. In investments and advances, investments in securities increased 28.3%, or ¥3.5 billion, mainly owing to the acquisition of shares of Polo Ralph Lauren Japan. On the other hand, a ¥2.7 billion decrease of deferred tax assets—noncurrent partially offset this increase, and overall investments and advances increased ¥1.0 billion, to ¥49.1 billion. Total property, plant and equipment increased ¥1.9 billion and deferred charges and other assets decreased ¥8.5 billion, to ¥10.5 billion.

Looking at liabilities, total current liabilities declined ¥19.5 billion from the fiscal 2002 year-end. Short-term bank loans decreased ¥8.3 billion and accrued income taxes fell ¥8.6 billion on account of loan repayments made after consolidated subsidiaries sold equity shareholdings as well as debt repayment for consolidated subsidiaries that were liquidated. In shareholders' equity, retained earnings contributed to an increase of ¥3.8 billion and our already commendable shareholders' equity ratio improved further from 59.9% to 63.1%. The broad decline in current liabilities bolstered the current ratio from 146.6% to 176.5%, further improving the liquidity of assets. Interest-bearing debt dropped from ¥33.5 billion to ¥24.9 billion, which contributed to the significant decline in the interest-bearing debt to equity ratio from 17.9% to 13.0%. An overall view shows a clear trend toward an increase in the liquidity of assets, improvement in financial stability, and decrease in financial risk.

Cash Flows

Net cash provided by operating activities totaled an inflow of ¥15.5 billion, down ¥7.3 billion from fiscal 2002. Although income before income taxes and minority interests rose, deductions from corporate income tax payments and other paid expenses were also up.

Net cash used in investing activities resulted in a ¥6.6 billion outflow. Compared with the ¥3.0 billion inflow in fiscal 2002, this represents a worsening of cash flow balance that was mainly due to aggressive investment in stores and sales floors.

Net cash used in financing activities amounted to an ¥11.5 billion outflow, a strong increase compared with the ¥305 million outflow in fiscal 2002, largely due to the repayment of long- and short-term debt.

As a result of the aforementioned factors, the balance of cash and cash equivalents at end of year under review was ¥76.9 billion, down ¥2.6 billion from the beginning of the period.

Policy on the Distribution of Profits

The Company's management has long recognized as one of its top priorities the distribution of profit to stockholders. We will strive to continue to make stable dividend payments while securing adequate internal capital resources to strengthen our financial base and actively expand operations. Despite the current unfavorable operating environment, the Company managed to increase both sales and income, although the outlook for the future is unclear. Onward paid an annual dividend of ¥16.50 per share, on par with the dividend applicable to the previous fiscal year. As a result, the payout ratio for fiscal 2003 was 39.3% and the ratio of dividends on stockholders' equity was 1.5%.

Forward-Looking Statement

We expect the challenging business environment to continue and an autonomous economic recovery to take time as capital investment will likely stay at low levels, and lackluster personal consumption continues due to the severe conditions surrounding the job market and personal incomes. In response, the Company will move forward with Brand-leveraged Management and establish a predominant market position by strengthening our product development ability. In addition, Onward will develop and cultivate international brands and expand the scale of the retail markets of each global operating unit to develop a global fashion business platform. We will coordinate our domestic and international businesses to proactively advance as a corporation capable of competing in the global marketplace. Onward is dedicated to carrying out all measures necessary to achieve these goals.

For fiscal 2004, we anticipate an increase in consolidated net sales of 3.3%, to ¥272.0 billion, and a 25.8% increase in consolidated net income, to ¥9.0 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 significantly from projections.

Consolidated Statements of Income

ONWARD KASHIYAMA Co., Ltd. and Subsidiaries
For the years ended February 28, 2001, 2002 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2001	2002	**2003**	**2003**
Net sales	¥245,924	¥257,306	**¥263,399**	**$2,236,933**
Cost of sales	143,449	145,687	**143,234**	**1,216,421**
Gross profit	102,475	111,619	**120,165**	**1,020,512**
Selling, general and administrative expenses	85,731	93,499	**100,558**	**853,996**
Operating income	16,744	18,120	**19,607**	**166,516**
Other income (expenses):				
Interest income	374	297	**160**	**1,358**
Interest expenses	(268)	(185)	**(149)**	**(1,267)**
Loss on disposal of property	(1,850)	(436)	**(911)**	**(7,734)**
Gain (loss) on sale of investments in securities, net	(519)	2,444	**1,338**	**11,367**
Loss on write-down of investments in securities	(175)	(1,771)	**(2,549)**	**(21,648)**
Royalty income	1,136	1,106	**1,030**	**8,748**
Loss on backup for subsidiaries and affiliates	(820)	—	**—**	**—**
Loss on liquidation of subsidiaries and affiliates	(445)	(617)	**(72)**	**(615)**
Additional retirement payments	(3,823)	(3,902)	**(993)**	**(8,435)**
Adjustment provision for accrued retirement benefit allowance	(1,879)	—	**—**	**—**
Provision for doubtful accounts	(2,477)	(611)	**—**	**—**
Reversal of revaluation allowance for investments in securities	1,156	—	**—**	**—**
Evaluation loss on investment in venture fund	(1,928)	—	**—**	**—**
Gain on securities contributed to employee retirement benefit trust (Note 1. (2))	—	8,542	**—**	**—**
Transition adjustment arising from adoption of the new accounting standard for retirement benefits (Notes 1. (2), 2. (11) and 6)	—	(14,430)	**—**	**—**
Foreign currency exchange gain (loss)	71	1,991	**(665)**	**(5,648)**
Other, net	(1,161)	782	**649**	**5,507**
Income before income taxes and minority interests	4,136	11,330	**17,445**	**148,149**
Income taxes (Note 8):				
Current	4,888	11,176	**6,166**	**52,367**
Deferred	(4,288)	(4,884)	**3,605**	**30,618**
Prior-year income taxes	—	1,287	**—**	**—**
Income before minority interests	3,536	3,751	**7,674**	**65,164**
Minority interests in subsidiaries	1,269	51	**(516)**	**(4,376)**
Net income	¥ 4,805	¥ 3,802	**¥ 7,158**	**$ 60,788**

	Yen			U.S. dollars (Note 1)
Per share:				
Net income	¥27.9	¥22.1	**¥41.6**	**$0.353**
Cash dividends	16.5	16.5	**16.5**	**0.140**

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

ONWARD KASHIYAMA Co., Ltd. and Subsidiaries
February 28, 2002 and 2003

ASSETS	Millions of yen 2002	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2003
Current assets:			
Cash and time deposits	¥ 79,943	**¥ 79,191**	**$ 672,538**
Trade receivables	31,592	**29,049**	**246,705**
Less: Allowance for bad debts	(289)	**(213)**	**(1,814)**
	31,303	**28,836**	**244,891**
Inventories	26,884	**25,133**	**213,444**
Deferred tax assets—current (Note 8)	4,044	**3,116**	**26,459**
Other current assets	3,906	**5,192**	**44,091**
Total current assets	146,080	**141,468**	**1,201,423**
Investments and advances:			
Investments in securities (Note 3)	12,332	**15,820**	**134,353**
Long-term loans	2,716	**2,833**	**24,061**
Deferred tax assets—noncurrent (Note 8)	12,520	**9,776**	**83,020**
Deferred tax assets—revaluation of land (Note 9)	1,702	**1,701**	**14,443**
Other investments	18,824	**18,934**	**160,802**
Total investments and advances	48,094	**49,064**	**416,679**
Property, plant and equipment (Note 5):			
Buildings and structures	67,046	**67,464**	**572,946**
Other depreciable property	17,127	**18,052**	**153,309**
Less: Accumulated depreciation	(41,792)	**(41,164)**	**(349,595)**
	42,381	**44,352**	**376,660**
Land (Note 9)	56,893	**56,836**	**482,686**
Total property, plant and equipment	99,274	**101,188**	**859,346**
Deferred charges and other assets	18,923	**10,467**	**88,892**
Excess investment costs over net assets of subsidiaries	72	**1**	**11**
	¥312,443	**¥302,188**	**$2,566,351**

The accompanying notes are an integral part of these statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of yen 2002	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2003
Current liabilities:			
Short-term bank loans (Note 14)	¥ 28,186	**¥ 19,930**	**$ 169,253**
Trade payables	45,757	**43,000**	**365,176**
Accrued expenses	5,793	**6,863**	**58,288**
Accrued income taxes	10,561	**1,996**	**16,951**
Consumption tax payable	1,513	**1,504**	**12,776**
Accrued bonuses to employees	3,012	**2,807**	**23,841**
Allowance for sales returns	1,563	**1,409**	**11,964**
Other current liabilities	3,288	**2,638**	**22,407**
Total current liabilities	99,673	**80,147**	**680,656**
Long-term liabilities:			
Long-term debt	5,271	**4,957**	**42,094**
Accrued retirement benefits (Note 6)	6,710	**8,088**	**68,687**
Total long-term liabilities	11,981	**13,045**	**110,781**
Minority interests in consolidated subsidiaries	13,750	**18,241**	**154,916**
Commitment and contingent liabilities (Note 10)			
Stockholders' equity:			
Common stock, without par value:			
Authorized—400,000,000 shares			
Issued—172,292,587 shares	30,080	**30,080**	**255,454**
Additional paid-in capital	49,135	**49,135**	**417,282**
Net revaluation loss of land (Note 9)	(2,348)	**(2,347)**	**(19,928)**
Retained earnings	110,942	**114,791**	**974,869**
Net unrealized losses on available-for-sale securities (Note 2. (5))	(278)	**(175)**	**(1,488)**
Foreign currency translation adjustment (Note 1. (2))	(475)	**(637)**	**(5,412)**
	187,056	**190,847**	**1,620,777**
Less: Treasury stock, at cost, 13,000 shares and 87,006 shares at February 28, 2002 and 2003, respectively	(17)	**(92)**	**(779)**
Total stockholders' equity	187,039	**190,755**	**1,619,998**
	¥312,443	**¥302,188**	**$2,566,351**

Consolidated Statements of Stockholders' Equity

ONWARD KASHIYAMA Co., Ltd. and Subsidiaries
For the years ended February 28, 2001, 2002 and 2003

		Millions of yen						
	Number of shares of common stock (thousands)	Common stock	Additional paid-in capital	Net revaluation loss of land	Retained earnings	Net unrealized loss on securities	Foreign currency translation adjustment	Treasury stock
Balance as 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)
Adjustment of retained earnings for newly consolidated subsidiaries	—	—	—	—	322	—	—	—
Cumulative effect of adopting deferred tax accounting (Note 2. (10))	—	—	—	—	6,840	—	—	—
Net income for the year ended February 28, 2001	—	—	—	—	4,805	—	—	—
Balance as at February 28, 2001:	172,293	30,080	49,135	—	110,022	—	—	(1)
Cash dividends	—	—	—	—	(2,843)	—	—	—
Directors' bonuses	—	—	—	—	(51)	—	—	—
Selling of treasury stock, net	—	—	—	—	—	—	—	(16)
Adjustment of retained earnings for newly consolidated subsidiaries	—	—	—	—	12	—	—	—
Net income for the year ended February 28, 2002	—	—	—	—	3,802	—	—	—
Net revaluation loss of land (Note 9)	—	—	—	(2,348)	—	—	—	—
Net unrealized losses on available-for-sale securities (Note 2. (5))	—	—	—	—	—	(278)	—	—
Foreign currency translation adjustment (Note 1. (2))	—	—	—	—	—	—	(475)	—
Balance as at February 28, 2002:	172,293	30,080	49,135	(2,348)	110,942	(278)	(475)	(17)
Cash dividends	—	—	—	—	**(2,843)**	—	—	—
Directors' bonuses	—	—	—	—	**(466)**	—	—	—
Selling of treasury stock, net	—	—	—	—	—	—	—	**(75)**
Net income for the year ended February 28, 2003	—	—	—	—	**7,158**	—	—	—
Reversal of reserve for land revaluation	—	—	—	**1**	—	—	—	—
Net unrealized gain on available-for-sale securities	—	—	—	—	—	**103**	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	**(162)**	—
Balance as at February 28, 2003	**172,293**	**¥30,080**	**¥49,135**	**¥(2,347)**	**¥114,791**	**¥(175)**	**¥(637)**	**¥(92)**

		Thousands of U.S. dollars (Note 1)						
	Number of shares of common stock (thousands)	Common stock	Additional paid-in capital	Net revaluation loss of land	Retained earnings	Net unrealized loss on securities	Foreign currency translation adjustment	Treasury stock
Balance as at February 28, 2002:	172,293	$255,454	$417,282	$(19,939)	$942,172	$(2,361)	$(4,031)	$(142)
Cash dividends	—	—	—	—	**(24,141)**	—	—	—
Directors' bonuses	—	—	—	—	**(3,950)**	—	—	—
Selling of treasury stock, net	—	—	—	—	—	—	—	**(637)**
Net income for the year ended February 28, 2003	—	—	—	—	**60,788**	—	—	—
Reversal of reserve for land revaluation	—	—	—	**11**	—	—	—	—
Net unrealized gain on available-for-sale securities	—	—	—	—	—	**873**	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	**(1,381)**	—
Balance as at February 28, 2003	**172,293**	**$255,454**	**$417,282**	**$(19,928)**	**$974,869**	**$(1,488)**	**$(5,412)**	**$(779)**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

ONWARD KASHIYAMA Co., Ltd. and Subsidiaries
For the years ended February 28, 2001, 2002 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2001	2002	**2003**	**2003**
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 4,136	¥11,330	**¥17,445**	**$148,149**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	6,245	7,179	**7,890**	**67,005**
(Reversal of) provisions for allowance for doubtful accounts	259	421	**(658)**	**(5,588)**
Provisions for accrued retirement benefit allowance, net of payments	733	14,220	**996**	**8,460**
Gain on securities contributed to employee retirement benefit trust	—	(8,542)	**—**	**—**
Net interest and dividend income	(449)	(272)	**(43)**	**(362)**
Loss on disposal of fixed assets	1,850	436	**911**	**7,734**
Gain on sale of investments in securities, net	(186)	(2,444)	**(1,338)**	**(11,367)**
Gain on change in equity in affiliates	(334)	—	**—**	**—**
(Reversal of) evaluation loss on investments in securities	(980)	1,771	**2,549**	**21,648**
Evaluation loss on fixed assets	4,429	—	**—**	**—**
Decrease in trade receivables	4,938	830	**2,363**	**20,065**
(Increase) decrease in inventories	(283)	(89)	**1,750**	**14,863**
(Decrease) increase in trade payables	(1,270)	2,292	**(2,396)**	**(20,352)**
Other, net	(137)	(591)	**1,492**	**12,683**
Subtotal	18,951	26,541	**30,961**	**262,938**
Interest and dividends received	745	456	**190**	**1,614**
Interest paid	(260)	(185)	**(156)**	**(1,327)**
Income taxes paid	(8,330)	(3,992)	**(15,494)**	**(131,580)**
Net cash provided by operating activities	11,106	22,820	**15,501**	**131,645**
Cash flows from investing activities:				
Increase in time deposits	(6,651)	(6,017)	**(2,283)**	**(19,389)**
Decrease in time deposits	6,151	12,265	**445**	**3,779**
Acquisition of property, plant and equipment	(5,455)	(7,155)	**(4,170)**	**(35,414)**
Proceeds from sale of property, plant and equipment	1,494	231	**316**	**2,683**
Acquisition of investments in securities	(1,912)	(433)	**(6,324)**	**(53,707)**
Proceeds from sale of investments in securities	402	11,448	**5,554**	**47,168**
Net (increase) decrease in deferred charges	(2,335)	(4,096)	**220**	**1,870**
Payments for deposit	(943)	(2,279)	**(2,182)**	**(18,527)**
Proceeds from deposit	1,186	1,331	**2,370**	**20,123**
Other, net	(3,994)	(2,254)	**(553)**	**(4,696)**
Net cash provided by (used in) investing activities	(12,057)	3,041	**(6,607)**	**(56,110)**
Cash flows from financing activities:				
Proceeds from short-term loans	6,132	6,349	**3,156**	**26,804**
Repayments of short-term loans	(4,906)	(3,631)	**(9,449)**	**(80,244)**
Net repayments of long-term debt	(7,905)	—	**(2,060)**	**(17,499)**
Proceeds from stock subscription by minority stockholders	803	—	**—**	**—**
Net proceeds from (payment for) treasury stock	1	(16)	**(75)**	**(637)**
Dividends paid	(2,843)	(2,843)	**(2,843)**	**(24,141)**
Dividends paid to minority stockholders	(164)	(164)	**(196)**	**(1,662)**
Net cash used in financing activities	(8,882)	(305)	**(11,467)**	**(97,379)**
Effect of exchange rate changes on cash and cash equivalents	16	52	**(18)**	**(153)**
(Decrease) increase in cash and cash equivalents	(9,817)	25,608	**(2,591)**	**(21,997)**
Cash and cash equivalents at beginning of year	57,210	53,819	**79,499**	**675,146**
Increase in cash and cash equivalents due to changes in the scope of consolidation	6,426	72	**—**	**—**
Cash and cash equivalents at end of year	¥53,819	¥79,499	**¥76,908**	**$653,149**

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 the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Accounting Standards.

Certain items presented in the consolidated financial statements submitted to the Director of 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.

Amounts in U.S. dollars are included solely for the convenience of readers outside of Japan. The rate of ¥117.75=US$1, the rate of exchange at February 28, 2003, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized, or settled in U.S. dollars at that rate or any other rate.

(2) Effect of Adoption of New Accounting Standards

Retirement Benefits

Effective from the year ended February 28, 2002, the Company and its consolidated subsidiaries adopted the "New Accounting Standard for Retirement Benefits" (issued on June 16, 1998 by the Business Accounting Deliberation Council). The Company contributed securities to an employee retirement benefit trust in order to fund the transition amount arising from adopting the new standard of ¥14,430 million at the beginning of the period, and a gain on securities contributed to the trust of ¥8,542 million, which is calculated as the difference between the market value and the book value, is credited to income. As a result of adopting the new standard, net pension expense for the year ended February 28, 2003, increased by ¥14,607 million, operating income decreased by ¥178 million and income before income taxes and minority interests decreased by ¥6,066 million. Please refer to Note 13 (segment information) for the impact on the segment information of adopting the new standard.

Financial Instruments

Effective from the year ended February 28, 2002, the Company and its consolidated subsidiaries adopted the new Japanese accounting standard for financial instruments. Following this adoption, the valuation method of securities changed and income before income taxes and minority interests for the year ended February 28, 2002, increased by ¥623 million compared with the amount which would have been reported if the previous standard had been applied consistently. Please refer to Note 13 (segment information) for the impact on the segment information of adopting the new standard.

Foreign Currency Translation

Effective from the year ended February 28, 2002, the Company and its consolidated subsidiaries adopted the "Revised Accounting Standard for Foreign Currency Translation" (issued on October 22, 1999 by the Business Accounting Deliberation Council). The adoption of the new standard had no material impact on the accompanying consolidated financial statements, except that differences in yen amounts arising from translating foreign currency financial statements of foreign subsidiaries and affiliates into Japanese yen were presented as "Foreign currency translation adjustments" in the stockholders' equity at February 28, 2002, while they were presented as assets before the adoption of the new standard.

2. Summary of Significant Accounting Policies

(1) Scope of Consolidation

The Company had 53 subsidiaries as at February 28, 2003 (55 as at February 28, 2002, 56 as at February 28, 2001). The consolidated financial statements include the accounts of the Company and its 23 consolidated subsidiaries (23 for 2002, 21 for 2001). The 23 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.	40.7%	February 28
Acty 21 Co., Ltd.	40.0	February 28
Partner 21 Co., Ltd.	100.0	February 28
Onward Life Design Network Co., Ltd.	100.0	February 28
Freed of London Ltd.	100.0	December 31
O & K Co., Ltd.	100.0	February 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 28
Excel Co., Ltd.	100.0	March 31/February 28
Across Transport Co., Ltd.	100.0	February 28
On Business Trend Co., Ltd.	90.3	February 28
Across Service Co., Ltd.	100.0	February 28
Onward Marine Co., Ltd.	100.0	February 28
Personal Order Japan Co., Ltd.	100.0	February 28
Onward Beach Resort Guam, Inc.	100.0	December 31
Bus Stop Co., Ltd.	100.0	February 28
Oak Co., Ltd.	28.6	February 28
Chacott Co., Ltd.	60.5	March 31/February 28
+A VIA BUS CO., LTD.	100.0	February 28
Field Dream Co., Ltd.	100.0	February 28
BOOKLET CORP.	100.0	February 28

As a result of an increase in their materiality to the consolidated accounts, BOOKLET CORP. and Field Dream Co., Ltd. have been consolidated for the first time in the year ended February 28, 2002. +A VIA BUS CO., LTD., which was established in 2002, has been included in consolidation for the first time in the year ended February 28, 2002. On the contrary, Onward Resort Creation Inc. and Seagler Co., Ltd. were liquidated in 2002 and 2003, respectively. +A VIA BUS CO., LTD. and Field Dream Co., Ltd. are under liquidation as of February 28, 2003. By exchange of stock, O & K Co., Ltd. became a 100% owned subsidiary on April 1, 2003.

Financial statements of Donna Karan Japan K.K., Onward Beach Resort Co., Ltd., Onward Beach Resort Guam Inc., and Freed of London Ltd., which have a fiscal year-end of December 31, have been used for consolidation. Significant transactions between January 1 and February 28 are reflected in the consolidated financial statements. Chacott Co., Ltd. and Excel Co., Ltd. changed their fiscal year-end from March 31 to February 28 in 2002.

The remaining 30 subsidiaries (32 for 2002, 35 for 2001) 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 Companies.

(2) Consolidation and Elimination

For the purposes of preparing the consolidated financial statements of the Companies, 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 assets and liabilities of consolidated subsidiaries are incorporated into the financial statements at fair value at the time of acquisition, and 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.

(3) Investments in Unconsolidated Subsidiaries and Affiliates

Although the Company had 30 unconsolidated subsidiaries (32 in 2002, 35 in 2001) and 3 affiliates (4 in 2002 and 2001) as at February 28, 2003, the equity method was not 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) 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 the 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, 2002 and 2003, recorded write-downs were ¥10,247 million and ¥9,347 million ($79,379 thousand), respectively.

(5) Investments in Securities

Until the year ended February 28, 2001, marketable securities listed at stock exchanges were stated at the lower of cost or market value. Unlisted marketable and other securities were stated at cost. The cost of securities sold was based on the moving-average method.

Effective from the year ended February 28, 2002, the Companies adopted the new Japanese accounting standard for financial instruments, which addresses the accounting and reporting requirements for certain investments in debt and equity securities, and derivatives.

Under the new standard, securities are classified into four categories: trading securities, held-to-maturity debt securities, equity securities of unconsolidated subsidiaries and affiliates, and available-for-sale securities ("Other securities"). At February 28, 2002 and 2003, the Companies did not have trading securities or held-to-maturity debt securities.

Debt securities and equity securities designated as other securities, whose fair values are readily determinable, are carried at the fair value prevailing at the fiscal year-end date with unrealized gains or losses included as a component of stockholders' equity, net of applicable taxes.

Other securities, whose fair values can not readily be determined, are stated principally at cost. In cases where declines in the fair value of individual securities are assessed to be other than temporary, the cost of the security is reduced to net realizable value and the loss is charged to income. Realized gains and losses are determined using the moving-average method and are reflected in income.

Unconsolidated subsidiaries and affiliates are stated at the cost determined by the moving-average method.

(6) Derivative Transactions

Under the new standards, all derivatives are stated at fair value, and changes in fair value are included in income for the period in which they arise, except for derivatives that are designated as "hedging instruments" (see (7) Hedge Accounting below).

(7) Hedge Accounting

Under the new standard, all gains or losses arising from changes in the fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognized. For foreign exchange forward contracts, if they meet conditions for hedge accounting, the difference between contract rate and spot rate at the date of the contract is recognized over the period from the contract date to the settlement date.

The derivatives designated as hedging instruments by the Company are principally foreign exchange forward contracts. The related hedged items are trade accounts payable denominated in foreign currencies, and scheduled transactions.

The Company has a policy to utilize the above hedging instruments in order to reduce the exposure to the risk of foreign currency exchange rate fluctuation, and to fix the cash disbursement of the trade account payable denominated in foreign currencies by domestic currency.

(8) 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 regulations.

The Companies compute depreciation expense for buildings (other than improvements) acquired on and after April 1998 by the straight-line method pursuant to the amendment to the Japanese income tax law.

(9) Amortization

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

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

(10) Income Taxes

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

In the fiscal year ended February 28, 2001, the Company and its domestic consolidated subsidiaries adopted deferred tax accounting in accordance with the new accounting standard for deferred tax accounting. 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 credited to retained earnings.

(11) Allowances

An allowance for bad debts is provided for estimated losses on known bad debts and doubtful accounts at the balance sheet date.

Accrued bonuses to employees are provided for at an amount determined based on the estimated bonuses to employees which was incurred at the balance sheet date.

An allowance for sales returns is provided for the estimated losses on sales returns calculated under the Japanese tax regulations.

Accrued retirement benefits are provided for at the present value of the projected benefit obligation less the estimated fair value of plan assets and deferred gains or losses at the balance sheet date. Until the year ended February 28, 2001, the Company provided for accrued retirement benefits (unfounded) 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 with the past service liabilities being amortized over a 6-year period.

Effective from the year ended February 28, 2002, the Company and its consolidated subsidiaries adopted the “New Accounting Standard for Retirement Benefits.” The unrecognized difference of ¥14,430 million arising from adopting the new standard (the “transition adjustment”) has been fully amortized for the year ended February 28, 2002. Unrecognized prior service costs are amortized and charged/credited to income on a straight-line basis over the employees’ average remaining service years (from 5 to 10 year periods). Unrecognized actuarial differences are amortized on a straight-line basis over the employees’ average remaining service years (from 5 to 10 year periods) from the year following the one in which they arise.

Accrued retirement benefits for directors and statutory auditors is provided for at the amount required at the balance sheet dates in accordance with the Company’s internal rules of the Company, Impact 21 Co., Ltd., On Business Trend Co., Ltd., Acty 21 Co., Ltd., Donna Karan Japan K.K., Oak Co., Ltd. and Chacott Co., Ltd.

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.

(12) 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.

(13) Accounting for Consumption Tax

The consumption tax withheld upon sales 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.

(14) 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 years are entitled to the subsequently declared dividends. Dividends charged to retained earnings represent dividends approved by the stockholders and paid during the respective years.

(15) 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.

(16) 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 be withdrawn on demand, and short-term investments which are readily convertible into cash or with an original maturity of three months or less, which represent insignificant risk of changes in value.

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

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Cash and time deposits	¥79,943	**¥79,191**	**$672,538**
Time deposits with a maturity of more than three months	(444)	**(2,283)**	**(19,389)**
Cash and cash equivalents	¥79,499	**¥76,908**	**$653,149**

3. Investments in Securities

(1) Information as of and for the Year Ended February 28, 2003:

(a) Available-for-sale securities (other securities) with fair value:

Investments in securities included equity and debt securities whose fair values were available at February 28, 2003, are analyzed as follows:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Fair value (Carrying value)	Difference	Acquisition cost	Fair value (Carrying value)	Difference
Securities with unrealized gain:						
Equity securities	**¥ 298**	**¥ 376**	**¥ 78**	**$ 2,532**	**$ 3,197**	**$ 665**
Total	**298**	**376**	**78**	**2,532**	**3,197**	**665**
Securities with unrealized loss:						
Equity securities	**2,624**	**2,246**	**(378)**	**22,286**	**19,072**	**(3,214)**
Total	**2,624**	**2,246**	**(378)**	**22,286**	**19,072**	**(3,214)**
Total	**¥2,922**	**¥2,622**	**¥(300)**	**$24,818**	**$22,269**	**$(2,549)**

An impairment loss of ¥2,513 million ($21,346 thousand) was recognized for the decline of fair value of the available-for-sale equity securities.

(b) Other securities sold during the year ended February 28, 2003:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Proceeds from sale of other securities	**¥3**	**$21**
Gross realized gain on sale of other securities	**—**	**—**
Gross realized loss on sale of other securities	**1**	**9**

(c) Major securities which are not stated at fair values as of February 28, 2003:

	Millions of yen	Thousands of U.S. dollars
Other securities:		
Non-listed equity securities	**¥ 775**	**$ 6,578**
Non-listed foreign bonds	**4,400**	**37,368**
Subtotal	**5,175**	**43,946**
Investments in equity securities of unconsolidated subsidiaries and affiliates	**8,023**	**68,138**
Total	**¥13,198**	**$112,084**

(d) Redemption and maturity schedule of debt securities classified as other securities:

	Millions of yen				Thousands of U.S. dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Non-listed foreign bonds	**¥—**	**¥—**	**¥4,400**	**¥—**	**$—**	**$—**	**$37,367**	**$—**

(2) Information as of and for the Year Ended February 28, 2002:

(a) Available-for-sale securities (other securities) with fair value:

Investments in securities whose fair values were available at February 28, 2002 are analyzed as follows:

	Millions of yen		
	Acquisition cost	Fair value (carrying value)	Difference
Securities with unrealized gain:			
Equity securities	¥ 307	¥ 425	¥ 118
Total	307	425	118
Securities with unrealized loss:			
Equity securities	3,294	2,661	(633)
Total	3,294	2,661	(633)
Total	¥3,601	¥3,086	¥(515)

An impairment loss of ¥1,734 million was recognized for the decline of fair value of the available-for-sale equity securities.

(b) Other securities sold during the year ended February 28, 2002:

	Millions of yen
Proceeds from sale of other securities	¥8,998
Gross realized gain on sale of other securities	2,560
Gross realized loss on sale of other securities	116

(c) Major securities which are not stated at fair values as of February 28, 2002:

	Millions of yen
Other securities:	
Non-listed equity securities	¥ 768
Non-listed foreign bonds	4,400
Subtotal	5,168
Investments in equity securities of unconsolidated subsidiaries and affiliates	4,072
Total	¥9,240

(d) Redemption and maturity schedule of debt securities classified as other securities:

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Non-listed foreign bonds	¥—	¥—	¥4,400	¥—

4. Derivative Transactions

Derivatives are used in order to hedge foreign exchange market risk on the transactions and balances which occur in the normal course of business. Derivatives are not used for speculative purposes or for highly leveraged transactions. Derivatives are executed with creditworthy financial institutions, and the Company does not anticipate significant losses due to the nature of its counterparties.

The Company and its consolidated subsidiaries applied hedge accounting for all derivative transactions as of February 28, 2002 and 2003, therefore, no market value information is disclosed.

5. Property, Plant and Equipment

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

Property, plant and equipment at February 28, 2002 and 2003, were reduced by ¥8,854 million and ¥8,752 million ($74,331 thousand), respectively, representing accumulated deferred gains from eligible prior sales.

6. Retirement Plan and Retirement Benefits

The Company and its subsidiaries have defined benefit retirement plans covering substantially all employees. Defined benefit retirement plans include a plan which is governed by the regulations of the Japanese Welfare Pension Insurance Law (“welfare benefit plan”), tax qualified pension plans, and plans for lump sum retirement benefits.

The reserve for retirement benefits as of February 28, 2003, is analyzed as follows:

	Millions of yen	Thousands of U.S. dollars
Projected benefit obligations	**¥(73,099)**	**$(620,805)**
Plan assets (including employee retirement benefit trust)	**48,006**	**407,698**
Funded status	**(25,093)**	**(213,107)**
Unrecognized prior service costs	**(1,349)**	**(11,460)**
Unrecognized actuarial differences	**21,840**	**185,482**
Subtotal	**(4,602)**	**(39,085)**
Prepaid pension cost	**1,388**	**11,788**
Accrued pension and severance costs	**¥ (5,990)**	**$ (50,873)**

Net pension expense for the year ended February 28, 2003, was as follows:

	Millions of yen	Thousands of U.S. dollars
Service cost	**¥2,520**	**$21,398**
Interest cost	**1,907**	**16,193**
Expected return on plan assets	**(997)**	**(8,464)**
Amortization of unrecognized prior service costs	**(165)**	**(1,403)**
Amortization of unrecognized actuarial differences	**1,211**	**10,286**
Net pension expense	**¥4,476**	**$38,010**

Assumptions used in the calculation of the aforementioned information were as follows:

	As of February 28, 2003
Method of attributing the projected benefits to periods of service	**Straight-line basis**
Discount rate	**2.0 to 2.5% (2.0 to 3.0% at the beginning)**
Expected rate of return on plan assets	
Welfare benefit plan	**2.0 to 2.7%**
Tax qualified pension plans	**1.1 to 1.5%**
Amortization of unrecognized prior service costs	**5 to 10 years**
Amortization of unrecognized actuarial differences	**5 to 10 years**

The reserve for retirement benefits as of February 28, 2002, is analyzed as follows:

	Millions of yen
Projected benefit obligations	¥(67,815)
Plan assets (including employee retirement benefit trust)	52,745
Funded status	(15,070)
Unrecognized actuarial differences	11,347
Subtotal	(3,723)
Prepaid pension cost	1,271
Accrued pension and severance costs	¥ (4,994)

Net pension expense for the year ended February 28, 2002 was as follows:

	Millions of yen
Service cost	¥ 2,217
Interest cost	2,043
Expected return on plan assets	(1,246)
Amortization of transition adjustment	14,430
Amortization of unrecognized actuarial differences	33
Net pension expense	¥17,477

Assumptions used in the calculation of the aforementioned information were as follows:

	As of February 28, 2002
Method of attributing the projected benefits to periods of service	Straight-line basis
Discount rate	2.0 to 3.0% (3.5% at the beginning)
Expected rate of return on plan assets	
Welfare benefit plan	2.8 to 4.0%
Tax qualified pension plans	1.1 to 1.5%
Amortization of unrecognized actuarial differences	5 to 10 years

7. Lease Transactions

The Company's finance lease contracts which are not deemed to transfer the ownership of the leased assets to lessees are not capitalized, which is permitted by the Japanese accounting principles. Certain key information on such lease contracts of the Companies for the years ended February 28, 2002 and 2003, are 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, are summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	2003			**2003**		
	Tools, furniture, and fixtures	Other	Total	Tools, furniture, and fixtures	Other	Total
Acquisition cost	**¥2,745**	**¥1,101**	**¥3,846**	**$23,310**	**$9,353**	**$32,663**
Accumulated depreciation	**(1,358)**	**(516)**	**(1,874)**	**(11,533)**	**(4,386)**	**(15,919)**
Net book value	**¥1,387**	**¥ 585**	**¥1,972**	**$11,777**	**$4,967**	**$16,744**

	Millions of yen		
	2002		
	Tools, furniture, and fixtures	Other	Total
Acquisition cost	¥2,943	¥1,236	¥4,179
Accumulated depreciation	(1,405)	(558)	(1,963
Net book value	¥1,538	¥ 678	¥2,216

The scheduled maturities of future lease payments on such lease contracts as of February 28, 2002 and 2003, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Scheduled maturities of future lease payments:			
Due within one year	¥ 817	**¥ 817**	**$ 6,938**
Due over one year	1,458	**1,213**	**10,301**
	¥2,275	**¥2,030**	**$17,239**

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Lease expenses for the year	¥828	**¥958**	**$8,141**
Depreciation	¥828	**¥958**	**$8,141**

(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, are summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	2003			**2003**		
	Tools, furniture and fixtures	Other	Total	Tools, furniture and fixtures	Other	Total
Acquisition cost	**¥ 7**	**¥71**	**¥78**	**$62**	**$601**	**$663**
Accumulated depreciation	**(5)**	**(47)**	**(52)**	**(47)**	**(395)**	**(442)**
Net book value	**¥ 2**	**¥24**	**¥26**	**$15**	**$206**	**$221**

	Millions of yen		
	2002		
	Tools, furniture and fixtures	Other	Total
Acquisition cost	¥85	¥48	¥133
Accumulated depreciation	(56)	(26)	(82)
Net book value	¥29	¥22	¥ 51

The scheduled maturities of future lease income on such lease contracts as of February 28, 2002 and 2003, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Scheduled maturities of future lease income:			
Due within one year	¥ 34	**¥ 33**	**$279**
Due over one year	79	**74**	**629**
	¥113	**¥107**	**$907**

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Lease income for the year	¥27	**¥20**	**$172**

8. Income Taxes

Deferred tax assets and liabilities as at February 28, 2002 and 2003, consisted of the following elements:

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Deferred tax assets:			
Valuation loss on inventories	¥ 3,156	**¥ 2,801**	**$ 23,789**
Evaluation loss on investments in unconsolidated subsidiaries	738	**475**	**4,034**
Excess amount of tax-deductible accrued bonuses to employees	705	**698**	**5,929**
Excess amount of tax-deductible accrued employees' retirement benefits	9,904	**10,411**	**88,416**
Allowance for directors' retirement benefits	721	**882**	**7,488**
Tax losses carried forward	12,216	**13,170**	**111,846**
Others	4,536	**3,441**	**29,223**
Subtotal	31,976	**31,878**	**270,725**
Valuation allowance	(11,798)	**(15,240)**	**(129,426)**
Total deferred tax assets	20,178	**16,638**	**141,299**
Deferred tax liabilities:			
Gain on securities contributed to an employee retirement benefit trust	(3,589)	**(3,589)**	**(30,482)**
Provision for deferred capital gains on real property	(25)	**(25)**	**(209)**
Other	—	**(132)**	**(1,129)**
Total deferred tax liabilities	(3,614)	**(3,746)**	**(31,820)**
Net deferred tax assets	¥16,564	**¥12,892**	**$109,479**

Reconciliation between statutory tax rate and effective tax rate as at February 28, 2002 and 2003:

	%	
	2002	**2003**
Statutory tax rate	42.0%	**42.0%**
Reconciliation:		
Nondeductible items (entertainment expense, etc.)	3.2	**2.1**
Losses of consolidated subsidiaries to which deferred tax assets are not recognized	20.3	**11.3**
Tax recognition on liquidation of consolidated subsidiaries	—	**(5.6)**
Eliminated gains on sale of equities of consolidated subsidiaries	—	**4.5**
Other	1.4	**1.7**
Effective tax rate	66.9%	**56.0%**

With the implementation of the Revision of the Local Tax Law on March 31, 2003, the effective statutory tax rates of the Company and its domestic subsidiaries will decrease from the fiscal years beginning after March 31, 2004. As a result, deferred tax assets, net of deferred tax liabilities, as of February 28, 2003 decreased by ¥311 million ($2,645 thousand), income taxes expense—deferred for the year then ended increased by ¥311 million ($2,645 thousand), and net revaluation loss of land decreased by ¥55 million ($464 thousand).

9. Revaluation of Land

In the year ended February 28, 2002, the Company revaluated land for its business use at a market value as a result of application of the law, which permits a one-time revaluation of land for business use. The revaluation loss amounted to ¥4,050 million, the related deferred tax asset recognized was ¥1,702 million, and the net revaluation loss of ¥2,348 million was presented as a separate component of stockholders' equity as a "net revaluation loss of land".

The difference between the market value of land subject to the revaluation and the book value was ¥2,478 million ($21,045 thousand) as at February 28, 2003.

10. Commitment and Contingent Liabilities

The Company was contingently liable as a guarantor for certain affiliates' bank loans and for customers. The outstanding balance guaranteed as at February 28, 2002 and 2003 aggregated ¥4,930 million and ¥5,026 million ($42,684 thousand), respectively.

11. Legal Reserve and Appropriation of Retained Earnings

Under the Code and the Company's Articles of Incorporation, a proposal for appropriation of retained earnings must be submitted by the Board of Directors to the stockholders' meeting held within three months following the fiscal year-end for shareholders' approval.

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.

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 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 the total additional paid-in capital and a legal reserve equals 25% of paid-in capital. Additional paid-in capital and/or a legal reserve in excess of 25% of stated capital in total may be reduced by resolution of the stockholders, and may be available for distribution to stockholders.

12. Subsequent Events

Subsequent to February 28, 2003, the Board of Directors proposed a plan for the appropriation of retained earnings applicable to the year ended February 28, 2003, which was approved at the general meeting of stockholders held on May 22, 2003.

The approved appropriation of retained earnings is shown below:

	Millions of yen	Thousands of U.S. dollars
Reversal of a reserve for deferred capital gains on real property	¥ 0	$ 6
Appropriations:		
Cash dividends (¥16.5 per share)	2,842	24,131
Directors' bonuses	348	2,955
Arbitrary reserve:		
General reserve	3,500	29,724
	¥6,690	$56,804

13. 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 casualwear.

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

Segment information classified by industry segment of the Company for each of the two years ended February 28, 2001 and 2002, is as follows:

Year ended February 28, 2002	Millions of yen				
	Industry segment			Elimination of	Consolidated
	Clothing	Other	Total	intersegment sales	total
Sales to outside customers	¥245,469	¥11,837	¥257,306	¥ —	¥257,306
Intersegment sales	721	13,480	14,201	(14,201)	—
Total	246,190	25,317	271,507	(14,201)	257,306
Costs and expenses	228,088	25,300	253,388	(14,202)	239,186
Operating income	¥ 18,102	¥ 17	¥ 18,119	¥ 1	¥ 18,120
Assets	¥291,263	¥42,848	¥334,111	¥(21,668)	¥312,443
Depreciation	6,274	933	7,207	(77)	7,130
Capital expenditures	8,202	2,069	10,271	(122)	10,149

Year ended February 28, 2003	Millions of yen				
	Industry segment			Elimination of	Consolidated
	Clothing	Other	Total	intersegment sales	total
Sales to outside customers	**¥251,207**	**¥12,192**	**¥263,399**	**¥ —**	**¥263,399**
Intersegment sales	**117**	**13,332**	**13,449**	**(13,449)**	**—**
Total	**251,324**	**25,524**	**276,848**	**(13,449)**	**263,399**
Costs and expenses	**231,654**	**25,562**	**257,216**	**(13,424)**	**243,792**
Operating income	**¥ 19,670**	**¥ (38)**	**¥ 19,632**	**¥ (25)**	**¥ 19,607**
Assets	**¥281,164**	**¥42,314**	**¥323,478**	**¥(21,290)**	**¥302,188**
Depreciation	**6,950**	**1,031**	**7,981**	**(91)**	**7,890**
Capital expenditures	**7,733**	**1,345**	**9,078**	**(130)**	**8,948**

Notes: 1. As explained in Note 1. (2), the Companies adopted the new accounting standard for retirement benefits for the year ended February 28, 2002. As a result of the adoption, operating income of Clothing decreased by ¥178 million, and assets of Clothing and Other increased by ¥1,251 million and ¥20 million, respectively, compared with the prior accounting.

2. As explained in Note 1. (2), the Companies adopted the new accounting standard for financial instruments for the year ended February 28, 2002. As a result of adoption, assets of Clothing increased by ¥107 million ($796 thousand), as compared with the prior accounting, but operating income of industry segment was not significantly affected.

Year ended February 28, 2003	Thousands of U.S. dollars				
	Industry segment			Elimination of intersegment sales	Consolidated total
	Clothing	Other	Total		
Sales to outside customers	**$2,133,394**	**$103,539**	**$2,236,933**	**$ —**	**$2,236,933**
Intersegment sales	**990**	**113,224**	**114,214**	**(114,214)**	**—**
Total	**2,134,384**	**216,763**	**2,351,147**	**(114,214)**	**2,236,933**
Costs and expenses	**1,967,341**	**217,079**	**2,184,420**	**(114,003)**	**2,070,417**
Operating income	**$ 167,043**	**$ (314)**	**$ 166,727**	**$ (211)**	**$ 166,516**
Assets	**$2,387,798**	**$359,359**	**$2,747,157**	**$(180,806)**	**$2,566,351**
Depreciation	**59,026**	**8,752**	**67,778**	**(773)**	**67,005**
Capital expenditures	**65,672**	**11,421**	**77,093**	**(1,107)**	**75,986**

(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 total overseas sales of the Companies is under 10 percent of consolidated sales amount.

14. Loans

Short-term loans at February 28, 2002 and 2003 represented loans, principally from banks. The weighted average interest rates on these loans were 0.5% in 2002 and 0.6% in 2003, respectively.

Long-term loans at February 28, 2002 and 2003 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Loans, principally from banks with a weighted-average interest rate of 0.7% at February 28, 2002	¥(2,113)	**¥—**	**$—**
Less—Portion due within one year	(2,113)	**—**	**—**
	¥ —	**¥—**	**$—**

Report of Independent Accountants

The Board of Directors of ONWARD KASHIYAMA Co., Ltd.:

We have audited the accompanying consolidated balance sheets of ONWARD KASHIYAMA Co., Ltd. and its consolidated subsidiaries as of February 28, 2002 and 2003, and the related consolidated statements of income and stockholders' equity, and cash flows for each of the three years in the period ended February 28, 2003, 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 28, 2002 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended February 28, 2003, 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 22, 2003

Non-Consolidated Balance Sheets

Onward Kashiyama Co., Ltd.
February 28, 2002 and 2003

ASSETS	Millions of yen 2002	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2003
Current assets:			
Cash	¥ 15,065	**¥ 18,036**	**$ 153,172**
Time deposits	44,104	**30,993**	**263,210**
Trade receivables:			
Notes	3,165	**2,543**	**21,597**
Accounts	16,809	**16,316**	**138,565**
	19,974	**18,859**	**160,162**
Less: Allowance for bad debts	(142)	**(120)**	**(1,019)**
	19,832	**18,739**	**159,143**
Inventories (Note 3)	17,767	**16,892**	**143,453**
Advance payments	275	**408**	**3,470**
Deferred tax assets—current (Note 8)	3,080	**1,998**	**16,967**
Other current assets	2,263	**2,974**	**25,255**
Total current assets	102,386	**90,040**	**764,670**
Investments and advances:			
Investments in securities	7,177	**6,772**	**57,510**
Investments in and advances to subsidiaries and affiliates	26,112	**31,590**	**268,281**
Long-term loans to employees	313	**267**	**2,270**
Deferred tax assets—noncurrent (Note 8)	12,726	**10,855**	**92,184**
Deferred tax assets—revaluation of land (Note 5)	1,702	**1,701**	**14,443**
Other investments	10,215	**11,881**	**100,900**
Less: Allowance for bad debts	—	**(1,959)**	**(16,637)**
Total investments and advances	58,245	**61,107**	**518,951**
Property, plant and equipment (Note 4):			
Buildings and structures	48,331	**48,759**	**414,090**
Machinery and equipment	2,024	**1,469**	**12,479**
Tools, furniture and fixtures	7,038	**8,032**	**68,208**
	57,393	**58,260**	**494,777**
Less: Accumulated depreciation	(27,733)	**(29,020)**	**(246,456)**
	29,660	**29,240**	**248,321**
Land: (Note 5)	43,488	**43,483**	**369,283**
Total property, plant and equipment	73,148	**72,723**	**617,604**
Deferred charges and other assets	6,098	**7,268**	**61,727**
Total assets	¥239,877	**¥231,138**	**$1,962,952**

The accompanying notes are an integral part of these statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of yen 2002	2003	Thousands of U.S. dollars (Note 1) 2003
Current liabilities:			
Trade payables:			
Notes	¥ 24,594	**¥ 24,279**	**$ 206,188**
Accounts	6,200	**6,258**	**53,147**
	30,794	**30,537**	**259,335**
Non-trade payables	1,712	**1,406**	**11,936**
Accrued expenses	3,853	**4,250**	**36,092**
Accrued income taxes	8,949	**—**	**—**
Consumption tax payable	1,174	**798**	**6,780**
Accrued bonuses to employees	2,091	**1,926**	**16,357**
Allowance for sales returns	1,385	**1,266**	**10,751**
Other current liabilities	1,253	**737**	**6,262**
Total current liabilities	51,211	**40,920**	**347,513**
Long-term liabilities:			
Long-term guarantee money deposited	2,138	**2,201**	**18,695**
Accrued retirement benefits	1,492	**2,846**	**24,169**
Provision for loss on guarantee obligations	3,870	**—**	**—**
Total long-term liabilities	7,500	**5,047**	**42,864**
Total liabilities	58,711	**45,967**	**390,377**
Other commitments and contingent liabilities (Note 9)			
Stockholders' equity:			
Common stock, without par value:			
Authorized—400,000,000 shares issued			
Outstanding—172,292,587 shares	30,080	**30,080**	**255,454**
Additional paid-in capital	49,135	**49,135**	**417,282**
Legal reserve (Note 10)	5,483	**5,483**	**46,560**
Net revaluation loss of land (Note 5)	(2,348)	**(2,347)**	**(19,928)**
General reserves (Note 10)	92,709	**92,709**	**787,337**
Special reserves	35	**34**	**294**
Retained earnings (Note 10)	6,344	**10,342**	**87,833**
Net unrealized loss on available-for-sale securities	(255)	**(173)**	**(1,478)**
Less: Treasury stock, at cost, 13,000 shares and 87,006 shares at February 28, 2002 and 2003, respectively	(17)	**(92)**	**(779)**
Total stockholders' equity	181,166	**185,171**	**1,572,575**
Total liabilities and stockholders' equity	¥239,877	**¥231,138**	**$1,962,952**

Non-Consolidated Statements of Income and Retained Earnings

Onward Kashiyama Co., Ltd.
For the years ended February 28, 2001, 2002 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2001	2002	**2003**	**2003**
Net sales	¥161,281	¥171,109	**¥175,031**	**$1,486,462**
Cost of sales	88,486	93,111	**92,843**	**788,472**
	72,795	77,998	**82,188**	**697,990**
Reversal of allowance for sales returns, net	511	89	**119**	**1,011**
Gross profit	73,306	78,087	**82,307**	**699,001**
Selling, general and administrative expenses	61,709	61,865	**65,423**	**555,613**
Operating income	11,597	16,222	**16,884**	**143,388**
Other income (expenses):				
Interest and dividend income	850	591	**431**	**3,659**
Loss on disposal of property	(60)	(36)	**(77)**	**(656)**
Reversal of revaluation allowance for investment in securities	1,156	—	**—**	**—**
Loss on write-down of investments in securities, net	(146)	(1,738)	**(2,380)**	**(20,212)**
Royalty income	750	587	**536**	**4,552**
Gain on securities contributed to employee retirement benefit trust	—	8,542	**—**	**—**
Loss on backup for subsidiaries and affiliates	(12,131)	—	**—**	**—**
Loss on liquidation of subsidiaries and affiliates	(4,898)	(617)	**(4,435)**	**(37,667)**
Provision for allowance for doubtful accounts	(2,657)	(511)	**(800)**	**(6,794)**
Additional retirement payments	(3,075)	(2,691)	**(929)**	**(7,886)**
Transition adjustment arising from adoption of the new accounting standard for retirement benefits	—	(13,940)	**—**	**—**
Gain on sale of equities in affiliates	—	—	**2,197**	**18,658**
Rents received	982	1,116	**1,197**	**10,161**
Other, net	(950)	3,015	**515**	**4,377**
	(20,179)	(5,682)	**(3,745)**	**(31,808)**
Income (loss) before income taxes	(8,582)	10,540	**13,139**	**111,580**
Income taxes (Note 7):				
Current	2,049	8,474	**3,005**	**25,519**
Deferred	(4,351)	(5,045)	**2,895**	**24,587**
Prior-year income taxes	—	1,287	**—**	**—**
	(2,302)	4,716	**5,900**	**50,106**
Net income (loss)	(6,280)	5,824	**7,239**	**61,474**
Retained earnings:				
Balance at beginning of year	9,495	3,611	**6,344**	**53,886**
Cumulative effect of adopting deferred tax accounting	6,224	—	**—**	**—**
Reversal of reserve for deferred capital gains on property due to adoption of deferred tax accounting	32	37	**1**	**5**
Reversal of reserve for land revaluation	—	—	**(1)**	**(11)**
Appropriations (Note 10):				
Cash dividends	(2,843)	(2,843)	**(2,843)**	**(24,141)**
Directors' bonuses	(210)	—	**(398)**	**(3,380)**
Transfer to legal reserve	(307)	(285)	**—**	**—**
Transfer to general reserves	(2,500)	—	**—**	**—**
	(5,860)	(3,128)	**(3,241)**	**(27,521)**
Balance at end of year	¥ 3,611	¥ 6,344	**¥ 10,342**	**$ 87,833**

	Yen			U.S. dollars (Note 1)
Per share:				
Net (loss) income—Basic	¥(36.5)	¥33.8	**¥42.0**	**$0.357**
Cash dividends	16.5	16.5	**16.5**	**0.140**

The accompanying notes are an integral part of these statements.

Non-Consolidated Statements of Stockholders' Equity

Onward Kashiyama Co., Ltd.
For the years ended February 28
2001, 2002 and 2003

	Number of shares of common stock (thousands)	Millions of yen									
		Common stock	Additional paid-in capital	Legal reserve	Net revaluation loss of land	General reserves	Special reserves	Retained earnings	Net unrealized loss on securities	Treasury stock, at cost
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 of reserve for deferred capital gains on property	—	—	—	—	—	—	(32)	32	—	—
Cash dividends	—	—	—	—	—	—	—	(2,843)	—	—
Transfer to legal reserve	—	—	—	307	—	—	—	(307)	—	—
Transfer to general reserves	—	—	—	—	—	2,500	—	(2,500)	—	—
Balance as at February 28, 2001:	172,293	30,080	49,135	5,198	—	92,709	72	3,611	—	—
Reversal of reserve for deferred capital gains on property	—	—	—	—	—	—	(37)	37	—	—
Cash dividends	—	—	—	—	—	—	—	(2,843)	—	—
Transfer to legal reserve	—	—	—	285	—	—	—	(285)	—	—
Net income for the year ended February 28, 2002	—	—	—	—	—	—	—	5,824	—	—
Net revaluation loss of land (Note 5)	—	—	—	—	(2,348)	—	—	—	—	—
Net unrealized loss on available-for-sale securities	—	—	—	—	—	—	—	—	(255)	—
Treasury stock, at cost (Note 1. (2))	—	—	—	—	—	—	—	—	—	(17)
Balance as at February 28, 2002:	172,293	30,080	49,135	5,483	(2,348)	92,709	35	6,344	(255)	(17)
Reversal of reserve for deferred capital gains on property	**—**	**—**	**—**	**—**	**—**	**—**	**(1)**	**1**	**—**	**—**
Reversal of reserve for land revaluation	**—**	**—**	**—**	**—**	**1**	**—**	**—**	**(1)**	**—**	**—**
Cash dividends	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(2,843)**	**—**	**—**
Directors' bonuses	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(398)**	**—**	**—**
Net income for the year ended February 28, 2003	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**7,239**	**—**	**—**
Net unrealized gain on available-for-sale securities	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**82**	**—**
Treasury stock, at cost	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(75)**
Balance as at February 28, 2003	**172,293**	**¥30,080**	**¥49,135**	**¥5,483**	**¥(2,347)**	**¥92,709**	**¥ 34**	**¥10,342**	**¥(173)**	**¥(92)**

	Number of shares of common stock (thousands)	Thousands of U.S. dollars (Note 1)									
		Common stock	Additional paid-in capital	Legal reserve	Net revaluation loss of land	General reserves	Special reserves	Retained earnings	Net unrealized loss on securities	Treasury stock, at cost
Balance as at February 28, 2002:	172,293	$255,454	$417,282	$46,560	$(19,939)	$787,337	$299	$53,886	$(2,171)	$(142)
Reversal of reserve for deferred capital gains on property	**—**	**—**	**—**	**—**	**—**	**—**	**(5)**	**5**	**—**	**—**
Reversal of reserve for land revaluation	**—**	**—**	**—**	**—**	**11**	**—**	**—**	**(11)**	**—**	**—**
Cash dividends	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(24,141)**	**—**	**—**
Directors' bonuses	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(3,380)**	**—**	**—**
Net income for the year ended February 28, 2003	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**61,474**	**—**	**—**
Net unrealized gain on available-for-sale securities	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**693**	**—**
Treasury stock, at cost	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(637)**
Balance as at February 28, 2003	**172,293**	**$255,454**	**$417,282**	**$46,560**	**$(19,928)**	**$787,337**	**$294**	**$87,833**	**$(1,478)**	**$(779)**

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 the accounts maintained by ONWARD KASHIYAMA Co., Ltd. (the "Company"), in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") and the Securities and Exchange Law, 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 of Japan. The rate of ¥117.75=US$1, the rate of exchange at February 28, 2003, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at that rate or any other rate.

(2) Effect of Adoption of New Accounting Standards

Retirement Benefits

Effective from the year ended February 28, 2002, the Company adopted the "New Accounting Standard for Retirement Benefits" (issued on June 16, 1998 by the Business Accounting Deliberation Council). The Company contributed securities to an employee retirement benefit trust, in order to fund the transition amount arising from adopting the new standards of ¥13,940 million at the beginning of the period, and a gain on securities contributed to the adopting trust of ¥8,542 million is credited to income. As a result of the new standard, net pension expense for the year ended February 28, 2002 increased by ¥14,118 million and operating income decreased by ¥179 million and income before income taxes decreased by ¥5,577 million.

Financial Instruments

Effective from the year ended February 28, 2002, the Company adopted the new Japanese accounting standard for financial instruments. Following this adoption, the valuation method of securities has changed and income before income taxes for the year ended February 28, 2002 increased by ¥546 million compared with the amount which would have been reported if the previous standard had been applied consistently.

Foreign Currency Translation

Effective from the year ended February 28, 2002, the Company adopted the "Revised Accounting Standard for Foreign Currency Translation" (issued on October 22, 1999, by the Business Accounting Deliberation Council). The adoption of the new method had no material impact on the accompanying non-consolidated financial statements.

Treasury Stocks

Effective from the fiscal year ended February 28, 2002, under the amended financial statements regulations in Japan, treasury stocks, which were previously presented in "Current assets", have been presented as a deduction of "Stockholders' equity".

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, 2002 and 2003, recorded write-down was ¥6,569 million and ¥6,243 million ($53,023 thousand), respectively.

(2) Investments in Securities

Refer to Note 2. (5) to the consolidated financial statements.

(3) Derivative Transactions

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

(4) Hedge Accounting

Refer to Note 2. (7) to the consolidated financial statements.

(5) Property, Plant and Equipment

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

(6) Amortization

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

(7) Income Taxes

Refer to Note 2. (10) to the consolidated financial statements.

(8) Allowances

An allowance for bad debts is provided for estimated losses on known bad debts and doubtful accounts at the balance sheet date.

Accrued bonuses to employees is provided for at an amount determined based on the estimated bonuses to employees which was incurred at the balance sheet date.

An allowance for sales returns is provided for the estimated losses on sales returns calculated under the Japanese tax regulations.

Accrued retirement benefit is provided for at the present value of the projected benefit obligation less the estimated fair value of plan assets and deferred gains or losses at the balance sheet date.

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. Until the year ended February 28, 2001, the Company 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, with the past service liabilities being amortized over a 6-year period.

Effective from the year ended February 28, 2002, the Company adopted the “New Accounting Standard for Retirement Benefits.” The unrecognized difference arising from adopting the new standard (the “transition adjustment”) of ¥13,940 million has been fully amortized for the year ended February 28, 2002. Unrecognized prior service costs are amortized on a straight-line basis over the average remaining service life of the employees (10-year periods). Unrecognized prior service costs are amortized on a straight-line basis over the employees’ average remaining service years (over 10 year periods).

Accrued retirement benefits for directors and statutory auditors is provided for at the amount required at the balance sheet date in accordance with the Company’s internal rules.

The provisions for loss on guarantee obligations was 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.

(9) Accounting for Leases

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

(10) Accounting for Consumption Tax

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

(11) Dividends

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

(12) Net Income and Dividends per Share

Refer to Note 2. (15) to the consolidated financial statements.

3. Inventories

Inventories at February 28, 2002 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Merchandise and finished goods	¥15,252	**¥14,382**	**$122,138**
Raw materials	1,315	**1,469**	**12,474**
Work-in-process	1,051	**844**	**7,165**
Supplies	149	**197**	**1,676**
	¥17,767	**¥16,892**	**$143,453**

4. Property, Plant and Equipment

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

Property, plant and equipment at February 28, 2002 and 2003, was reduced by ¥8,854 million and ¥8,752 million ($74,331 thousand), respectively, representing accumulated deferred gains from eligible prior sales.

5. Revaluation of Land

Refer to Note 9 to the consolidated financial statements.

6. Lease Transactions

The Company's finance lease contracts which are not deemed to transfer the ownership of the leased assets to lessees are not capitalized, which is permitted by the Japanese accounting principles. Certain key information on such lease contracts of the Company for the years ended February 28, 2002 and 2003, 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, were summarized at February 28, 2002 and 2003 as follows:

	Millions of yen						Thousands of U.S. dollars		
	2002			**2003**			**2003**		
	Tools, furniture, and fixtures	Other	Total	Tools, furniture, and fixtures	Other	Total	Tools, furniture, and fixtures	Other	Total
Acquisition cost	¥1,473	¥290	¥1,763	**¥1,467**	**¥326**	**¥1,793**	**$12,464**	**$2,764**	**$15,228**
Accumulated depreciation	(603)	(122)	(725)	**(678)**	**(116)**	**(794)**	**(5,760)**	**(982)**	**(6,742)**
Net book value	¥ 870	¥168	¥1,038	**¥ 789**	**¥210**	**¥ 999**	**$ 6,704**	**$1,782**	**$ 8,486**

The scheduled maturities of future lease payments on such lease contracts as of February 28, 2002 and 2003, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Scheduled maturities of future lease payments:			
Due within one year	¥ 346	**¥395**	**$3,355**
Due over one year	692	**604**	**5,131**
	¥1,038	**¥999**	**$8,486**

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Lease expenses for the year	¥338	**¥441**	**$3,749**
Depreciation	338	**441**	**3,749**

7. Securities

Shares of subsidiaries with market value:

	Millions of yen						Thousands of U.S. dollars		
	2002			**2003**			**2003**		
	Book value	Market value	Difference	Book value	Market value	Difference	Book value	Market value	Difference
Shares of subsidiaries	¥572	¥7,966	¥7,394	**¥508**	**¥7,536**	**¥7,028**	**$4,318**	**$63,996**	**$59,678**

8. Income Taxes

Deferred tax assets and liabilities as at February 28, 2002 and 2003, consisted of the following elements:

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Deferred tax assets:			
Valuation loss on inventories	¥ 1,532	**¥ 1,410**	**$ 11,974**
Evaluation loss on investments in subsidiaries	2,799	**2,841**	**24,126**
Excess amount of tax-deductible employees' accrued retirement benefits	8,007	**8,496**	**72,149**
Allowance for directors' retirement benefits	613	**753**	**6,398**
Provision for guarantee obligations	1,626	**—**	**—**
Others	4,843	**3,099**	**26,323**
Total deferred tax assets	19,420	**16,599**	**140,970**
Deferred tax liabilities:			
Gain on securities contributed to an employee retirement benefit trust	(3,589)	**(3,589)**	**(30,482)**
Provision for deferred capital gains on real property	(25)	**(25)**	**(209)**
Other	—	**(132)**	**(1,128)**
Total deferred tax liabilities	(3,614)	**(3,746)**	**(31,819)**
Net deferred tax assets	¥15,806	**¥12,853**	**$109,151**

Reconciliation between statutory tax rate and effective tax rate as at February 28, 2002 and 2003:

	%	
	2002	**2003**
Statutory tax rate	42.0%	**42.0%**
(Reconciliation)		
Nondeductible items (entertainment, expenses, etc.)	3.0	**2.3**
Nontaxable items (dividend income, etc.)	(1.0)	**(0.5)**
Inhabitant tax per capita basis	0.7	**1.1**
Effective tax rate	44.7%	**44.9%**

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

With the implementation of the Revision of the Local Tax Law on March 31, 2003, the effective statutory tax rates will decrease for fiscal years beginning after March 31, 2004. As a result, deferred tax assets, net of deferred tax liabilities, as of February 28, 2003, decreased by ¥345 million ($2,927 thousand), income taxes expense—deferred for the year then ended increased by ¥345 million ($2,927 thousand) and net revaluation loss of land decreased by ¥55 million ($464 thousand).

9. Commitment and Contingent Liabilities

The Company was contingently liable as a guarantor for certain affiliates' bank loans. The outstanding balance guaranteed as at February 28, 2002 and 2003, aggregated ¥20,030 million and ¥19,564 million ($166,177 thousand), respectively.

10. Legal Reserve and Appropriation of Retained Earnings

Refer to Note 11 to the consolidated financial statements.

11. Subsequent Event

Refer to Note 12 to the consolidated financial statements.

Report of Independent Accountants

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 28, 2002 and 2003, and the related non-consolidated statements of income and retained earnings, and of stockholders' equity for each of the three years in the period ended February 28, 2003, 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 28, 2002 and 2003, and the results of its operations for each of the three years in the period ended February 28, 2003 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 non-consolidated financial statements.

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation

Tokyo, Japan
May 22, 2003

Board of Directors

<DIRECTORS>

Chairman

Akira Baba*

President

Takeshi Hirouchi*

Vice President

Kenji Takada*

Senior Managing Directors

Fumiyasu Yamashita

Masaru Kusaki

Managing Directors

Masao Ohno

Kazuya Baba

Isao Yamane

Masaaki Yoshizawa

Shigeru Uemura

* Representative Director

<CORPORATE AUDITORS>

Standing Corporate Auditors

Katsutoshi Kashiyama

Yukio Sugimoto

Yasumitsu Miyamoto

Masao Kusunoki

<OFFICERS>

Managing Executive Officers

Takashi Nakamura

Yoshiaki Hanada

Ryuji Horie

Tetsuji Wada

Kentaro Mizuno

Masabumi Kiyohara

Tadayoshi Kobayashi

Executive Officers

Akio Date

Nobutake Matsuo

Susumu Maeda

Kisaku Uragami

Hiroshi Imai

Toshio Tobita

Shigeru Kamakari

Yoshihiko Sato

Wataru Sakai

Hideo Matsumoto

Kenichiro Tamai

Hiroaki Yamada

Hiroshi Ishida

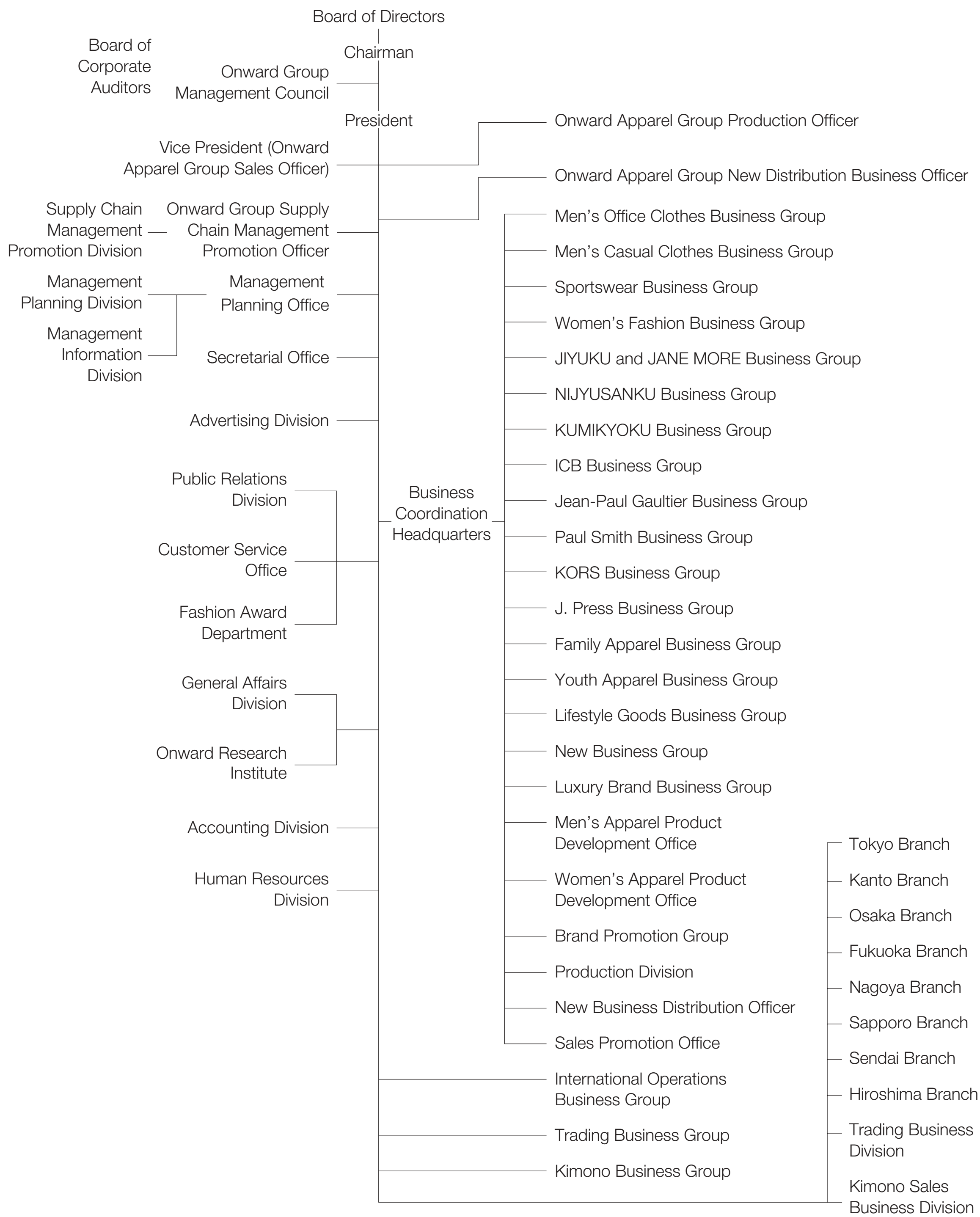
Tsutomu Hagihira

Eiji Tono

Masayoshi Tomura

As of May 22, 2003

Organization Chart



As of May 22, 2003

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.
6, Rue Vivienne,
75002 Paris, France
Tel: (33) 1-5504-8787

ONWARD KASHIYAMA U.S.A. INC.
530 Seventh Avenue,
29th Floor,
New York, NY 10018, U.S.A.
Tel: (1) 212-997-3600

ONWARD KASHIYAMA HONG KONG LTD.
Unit 1208-9, Lippo Sun Plaza,
28 Canton Road, T.S.T.,
Kowloon, Hong Kong
People's Republic of China
Tel: (852) 2367-2055, 2721-7074

ONWARD KASHIYAMA U.K. LTD.
47, Conduit Street,
London W1S 2YP, U.K.
Tel: (44) 20-7494-2074

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
Tel: (39) 02-783-667

SHANGHAI ONWARD FASHION CO., LTD.
5F Jinjiang Dickson Center,
400# Changle Road, Shanghai,
People's Republic of China
Tel: (86) 21-6466-6466

ONWARD TRADING (SHANGHAI) CO., LTD.
5F Jinjiang Dickson Center,
400# Changle Road, Shanghai,
People's Republic of China
Tel: (86) 21-6472-3660

ONWARD RETAIL L.L.C.
499 Seventh Avenue,
7th & 8th Floors, South Tower,
New York, NY 10018, U.S.A.
Tel: (1) 212-629-6100

ONWARD KASHIYAMA KOREA CO., LTD.
U-SAM BLDG., 2F, 584-1 Shinsa-Dong,
Kangnam-ku, Seoul,
Republic of Korea
Tel: (82) 2-548-5841

HORLOGE SAINT BENOIT S.A.
22 Rue Saint Benoit,
75006 Paris, France
Tel: (33) 1-4544-1118

ONWARD BEACH RESORT GUAM, INC.
445 Governor Carlos G. Camacho Road,
Tamuning, Guam 96911, U.S.A.
Tel: (1) 671-647-7777

FREED OF LONDON LTD.
94, St. Martin's Lane,
London WC2N 4AT, U.K.
Tel: (44) 20-7240-0432

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BUS STOP CO., LTD.

PERSONAL ORDER JAPAN CO., LTD.

<SERVICES>

ACROSS TRANSPORT CO., LTD.

ACROSS SERVICE CO., LTD.

ONWARD CREATIVE CENTER CO., LTD.

ONWARD LIFE DESIGN NETWORK CO., LTD.

EXCEL CO., LTD.

BOOKLET CORP.

<RESORTS>

O & K CO., LTD.

ONWARD MARINE CO., LTD.

ONWARD BEACH RESORT CO., LTD.

As of May 22, 2003

Corporate Data and Locations

Head Office	3-10-5, Nihonbashi, Chuo-ku, Tokyo 103-8239 Tel: (81) 3-3272-2317 Fax: (81) 3-3272-2314 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
Number of Shareholders	7,801
Stock Listings	Tokyo, Osaka, and Nagoya stock exchanges
Transfer Agent	UFJ Trust Bank Ltd. 1-4-3, Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan
Number of Employees	1,754

OFFICES

Head Office
3-10-5, Nihonbashi,
Chuo-ku, Tokyo 103-8239
Tel: (81) 3-3272-2317

Tokyo Shibaura Bldg. No. 1
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Tokyo Shibaura Bldg. No. 2
3-11-6, Kaigan,
Minato-ku, Tokyo 108-8439

Tokyo Shibaura Bldg. No. 3
3-14-11, Kaigan,
Minato-ku, Tokyo 108-8439

Tokyo Shibaura Bldg. No. 4
3-14-21, Kaigan,
Minato-ku, Tokyo 108-8439

Atsugi Distribution Center
1434, Aikokatamachi,
Atsugi, Kanagawa 243-0035

Tokyo Branch
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Minato-ku, Tokyo 108-8439

Kanto Branch
3-11-6, Kaigan,
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Chuo-ku, Sapporo,
Hokkaido 060-0001

Sendai Branch
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Aoba-ku, Sendai, Miyagi 980-0011

Nagoya Branch
4-11-31, Meiekiminami,
Nakamura-ku, Nagoya,
Aichi 450-0003

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4-3-6, Honmachi,
Chuo-ku, Osaka 541-0053

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5-10-7, Takadono,
Asahi-ku, Osaka 535-0031

Hiroshima Branch
3-12-10, Minami-Kanon,
Nishi-ku, Hiroshima 733-0035

Fukuoka Branch
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Institute Onward Sōken
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As of February 28, 2003

Onward Kashiyama Co., Ltd.

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