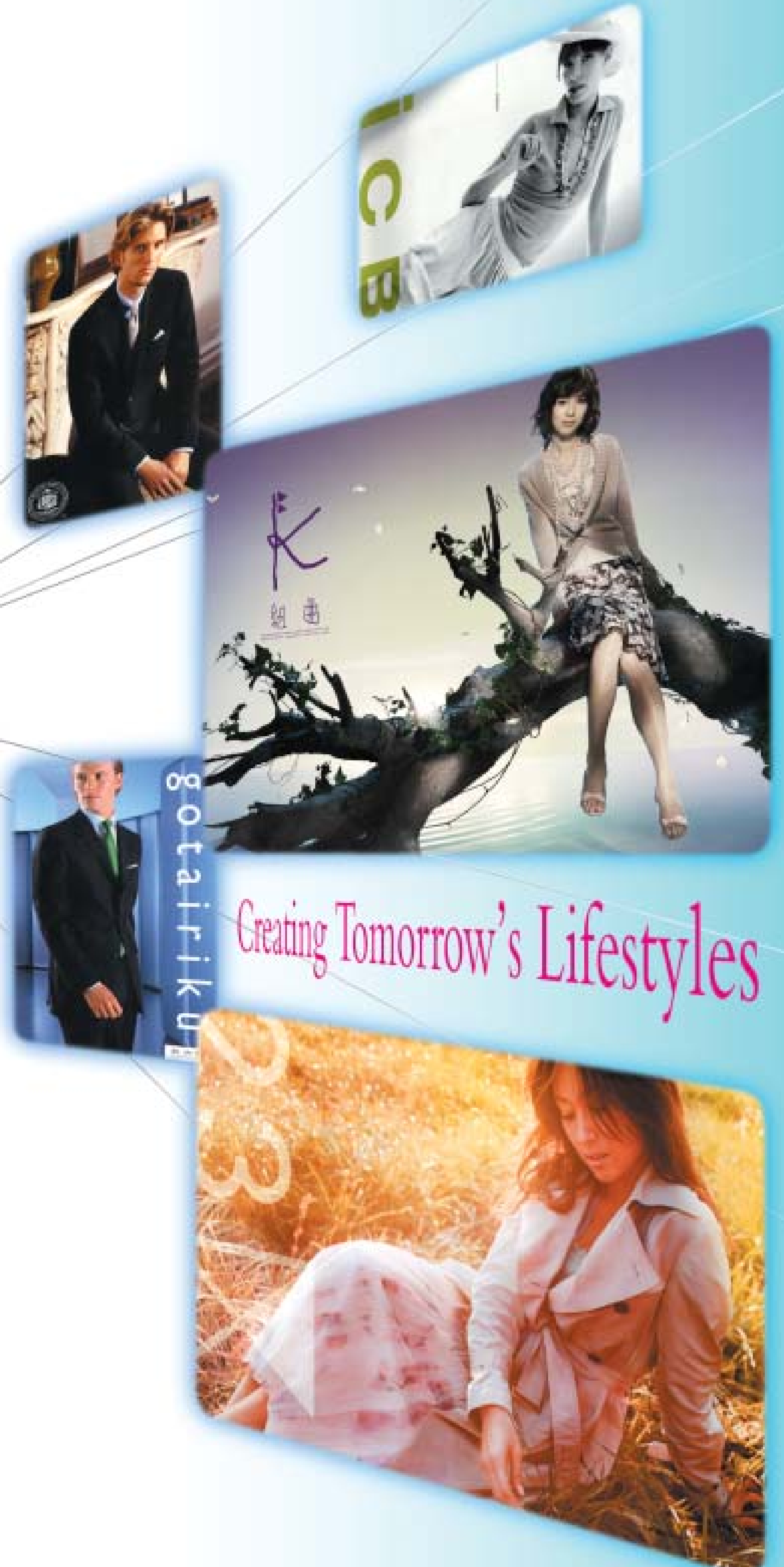



# Annual Report 2005

Year Ended February 29, 2005

*profile*

# 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 is drawing on its long experience in planning and development, technology, information, and production to more actively develop business in both domestic and overseas markets.

*contents*

# Contents



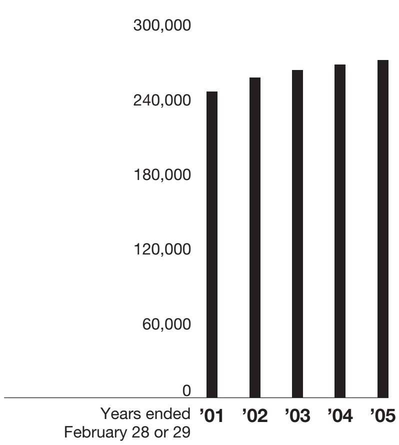
Future business plans, targets, and related numerical figures presented in this annual report are intended to give an accurate picture of Onward's future prospects. However, no guarantee can be offered that plans, targets, and other numerical figures described herein can be realized. The achievement of stated targets is dependent not only on the efforts of the Company, but also the conditions facing the industry as a whole, and we ask for understanding in this regard.

# Financial Highlights

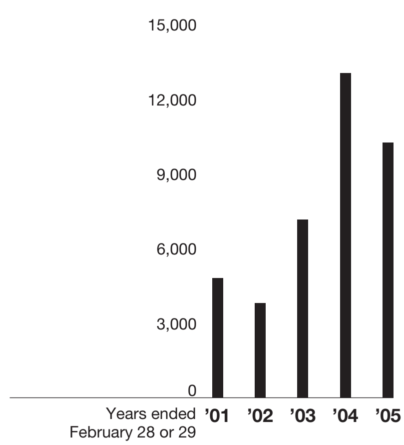
ONWARD KASHIYAMA Co., Ltd. and Subsidiaries
Years ended February 29, 2004 and February 28, 2005

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| **ASSETS** | 2004 | **2005** | **2005** |
| **At year-end:** | | | |
| Total current assets | ¥165,931 | **¥150,969** | **$1,441,366** |
| Total current liabilities | 92,270 | **79,025** | **754,488** |
| Short-term bank loans | 17,491 | **15,772** | **150,580** |
| Total shareholders' equity | 196,796 | **202,377** | **1,932,182** |
| **For the year:** | | | |
| Net sales | ¥267,746 | **¥271,273** | **$2,589,966** |
| Operating income | 22,896 | **24,205** | **231,098** |
| Net income | 13,053 | **10,257** | **97,927** |
| | Yen | | U.S. dollars |
| **Per share:** | | | |
| Net income—Basic | ¥74.1 | **¥58.1** | **$0.555** |
| Cash dividends | 20.0 | **22.0** | **0.210** |
| ROE (%) | 6.7 | **5.1** | |
| Operating income margin (%) | 8.6 | **8.9** | |

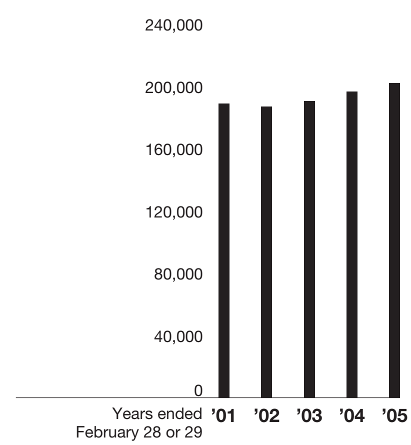
Note: Yen amounts have been translated, for convenience only, at ¥104.74=US$1, the approximate exchange rate on February 28, 2005.




**Net Sales**
(Millions of yen)




**Net Income**
(Millions of yen)




**Total Shareholders' Equity**
(Millions of yen)

**In fiscal 2005, ended February 28, 2005, ONWARD KASHIYAMA Co., Ltd., set net sales and operating income records and recorded increased revenues and profits for the fourth consecutive year.**

**On March 1, 2005, Shigeru Uemura assumed the role of president of Onward, and former president Takeshi Hirouchi became Chairman and CEO. This new management structure will advance the creation of an energetic organization that can address the rapidly changing business environment with confidence.**

### Performance Overview

In the year under review, in addition to flagging personal consumption, unusual weather patterns, including severe summer heat waves, frequent typhoons, and a warm winter, contributed to slack

**Takeshi Hirouchi**
**Chairman & CEO**

sales in department stores, a core sales channel. The central players in the consumer market are shifting as the generations older and younger than the baby boomers as well as second-generation baby boomers make their presence felt in the market. Distribution is being affected by the emergence in quick succession of various shopping centers and fashion malls in suburban areas. Increasing selectivity among consumers, “seasonless” consumption, and channel-specific shopping constitute some of the significant market changes that are taking place.

Amid this challenging environment, we vigorously promoted Brand-Leveraged Management in both our core sales channels of department stores and shopping centers and other new channels. As a result, we were able to realize consistent growth, posting higher revenues and profits for the fourth year running.

In fiscal 2005, net sales were up 1.3%, to ¥271.3 billion, operating income rose 5.7%, to ¥24.2 billion, and ordinary income increased 4.1%, to ¥26.2 billion. However, due to the absence of a gain such as the one recorded in fiscal 2004 due to the settlement of the substitutional portion of the government pension fund, net income dropped 21.4%, to ¥10.3 billion.

The parent company and subsidiary Impact 21 Co., Ltd., in particular, put in strong performances in fiscal 2005. At Onward, sales of major core brands, including KUMIKYOKU and

# a message to our shareholders

NIJYUSANKU, grew, making significant contributions to profits. Impact 21's Onward Beach Resort Guam, Inc., which previously had been a source of concern, reduced its deficit and improved its profitability. In addition, the reorganization of Group affiliates raised the profitability of Impact 21, thereby contributing to the overall increase in profits.

**A Growth Strategy to Strengthen Our Management Foundations**

Onward continued to aggressively advance Brand-Leveraged Management. Specifically, we rolled out the Channel-Specific Brand Strategy, under which we aim to carefully examine products and price ranges to facilitate the development of optimum brands for each channel.

Product appeal is what drives the fashion business. The accurate use of detailed data analysis and firsthand information from the sales floor is crucial. We must be able to adopt a consumer

**Shigeru Uemura**
**President**

mentality and pick up on changes, making confident decisions that do not rely on preexisting concepts. Onward will advance its growth as an apparel company by stimulating customer demand and consistently introducing brands and products that customers favor.

**Establishment of Corporate Governance**

Onward recognizes the establishment of corporate governance as an important management issue. Management is working to improve the Company's soundness, fairness, transparency, and compliance with laws to create an organizational framework that responds to rapid changes in the business environment.

Beginning in fiscal 2006, the Company appointed external directors and auditors for the first time to properly ensure objectivity in decision making. In addition to the two external directors, directors in charge of operations and products, respectively, have been added to the Company's Board of Directors, increasing the number of board members from 10 to 14. Two of the Company's four auditors are external auditors so as to strengthen the Board of Auditors' supervisory functions.

In 2004, we established a Compliance Committee as part of our compliance framework. The committee conducts training related to the Act Concerning the Protection of Personal Information, providing an ongoing and thorough course of education for all employees. We are also moving forward with a number of corporate social responsibility initiatives, which are becoming more popular, with the aim of being a company that society can trust.

**Creating a "New" Onward**

Under our new management, we are creating a "new" Onward that will move further ahead. In March 2005, we divided the former International Business Division into the North America, Europe, and Asia business groups with the goal of increasing our international market presence in the apparel industry. We plan to implement strategies tailored to the special characteristics of each region and will devote efforts to training local employees. In Shanghai and the rest of China, in particular, we are aiming to establish operations that range from planning and production to sales.

Looking at our production framework, we boast some of the world's best factories—including that of Italian subsidiary GIBO' CO. S.p.A. and a plant in China operated in conjunction with DAIDOH LIMITED, with which we formed a partnership in December 2004—to promote internationally viable product creation.

Furthermore, we are pushing forward with the creation of a corporate Group specializing in the fashion business by globalizing planning, forging alliances with other companies, collaborating with famous designers, and vigorously engaging in M&A activity.

In spring 2006, NAVE, a jointly designed Japanese/U.S. brand, will be simultaneously launched in Japan and the United States. A number of overseas designers were recruited for the brand, which includes men's, women's, and children's lines and is expected to be a global brand for the next generation.

**Aiming to Maximize Shareholder Value**

In March 2005, we established the IR Division within the Management Planning Office with the aim of enhancing IR activities. To this end, we are working to improve the disclosure of information and fulfill our obligations regarding accountability vis-à-vis our shareholders.

Our basic profit-sharing policy is to engage in profit sharing that is fair and takes into account overall performance to provide continuous and stable dividends. To this end, dividends for the fiscal year under review increased ¥2, to ¥22 per share.

Looking ahead, Onward plans to continue on its path of growth, realizing higher revenues and higher profits. In fiscal 2006, net sales are expected to rise 2.1%, to ¥277.0 billion, operating income is forecast to increase 14.0%, to ¥27.6 billion, and net income is anticipated to surge 11.7%, to ¥11.5 billion.

We sincerely thank our shareholders for their continued support on the road ahead.

May 2005

Takeshi Hirouchi

Takeshi Hirouchi, Chairman and CEO

Shigeru Uemura

Shigeru Uemura, President

# Developing Brand-Leveraged Management

***Onward is advancing Brand-Leveraged Management, the cornerstone of which is maximizing brand value. Brand-Leveraged Management is used to determine the identity, basic value, and added value of brands and, based on this, to nurture both core and spin-off brands and expand them. As a result, such major core brands as NIJYUSANKU, KUMIKYOKU, ICB, and GOTAIRIKU have exhibited stable growth, making a significant contribution to overall profits.***

***Looking ahead, Onward plans to shift to a Channel-Specific Brand Strategy that develops and nurtures brands that are appropriate to their respective distribution channels.***

**Japan's Fashion Market—**
**Ushering in a Period of Change**

Japan's fashion market has matured and is experiencing major changes with regard to structure and consumer behavior. A change in consumer tastes that favors "affordable luxury," with a focus on premium cars, cutting-edge home electronics, and designer furniture, has resulted in a decrease in the priority given to fashion consumption. One of the reasons for this can be found on the supplier side, where excessive quick response activity has resulted in a flood of knockoffs and a shift from a fashion-centric market in which fashion is an object of admiration to a consumer-centric market that caters to consumers.

**The Next Step in Brand-Leveraged Management**

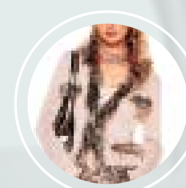
The considerable changes that are taking place in the business environment for the fashion industry demand the establishment of more detailed strategies under the Company's Brand-Leveraged Management. Thus, it must raise brand value by differentiating its brands and raising their impact and presence at stores.

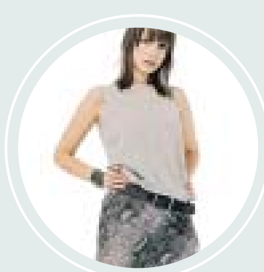
In Japan, consumers are practicing "selective consumption," wherein they purchase certain products from specific shops that meet their needs, a phenomenon that is advancing the compartmentalization of department stores, suburban shopping centers, and station buildings. Recognizing this trend, the Company has created a Channel-Specific Brand Strategy that clarifies its brand images. With department stores as its primary focus, the Company is actively promoting this strategy, under which it develops new brands and businesses for specific channels that best meet customer needs and that will thrive amid competition.

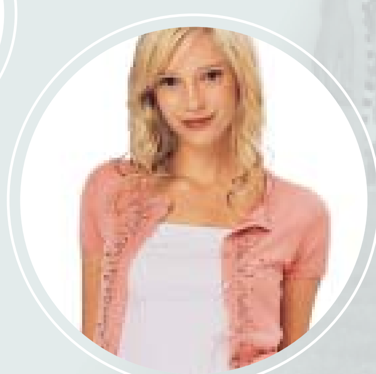
**Channel-Specific Brand Strategy**

**Department Stores**

In the Company's core distribution channel of department stores, apparel sales are stagnating due to a decrease in the amount spent per shopper and competition from new sales channels. Consequently, department stores are working to distinguish themselves from their competitors by shifting to the sale of luxury items.







# developing brand-leveraged management

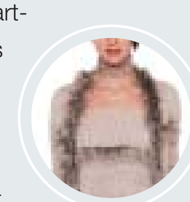
In response to this trend, Onward is rejuvenating the brand images of mainstays NIJYUSANKU and KUMIKYOKU by infusing them with new character. At the same time, it is enhancing its stores to increase the volume of products supplied and raise the efficiency of sales floor use.

Looking at menswear, the Company is striving to effect growth for new as well as recently transferred brands, a lineup that includes DAKS, CK Calvin Klein, and JOSEPH HOMME. Furthermore, it is making forays into luxury departments with the expansion of upscale tailored suits from Rome-based CIFONELLI and the addition of a high-end line to the J. PRESS brand.

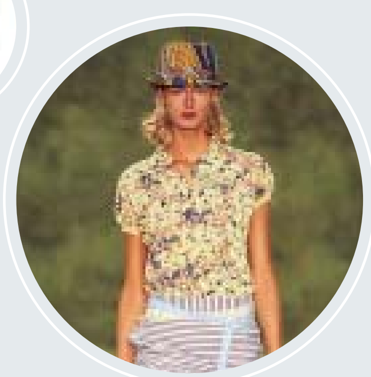
In spring 2006, joint Japan-U.S. planning created NAVE, a new brand that is being developed in both Japan and the United States to be marketed globally. Furthermore, the Company plans to target baby boomers with the launch of a new brand aimed at women in their mid-50s in autumn 2005 and the development of a store that carries a variety of men's brands.

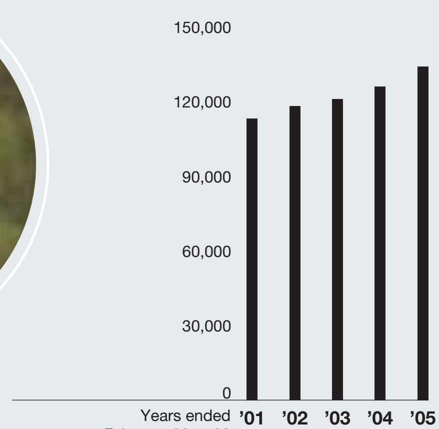
**Regional Shopping Centers (RSCs)**

RSCs, which for a number of years have been increasing the number of stores they house, have now entered a period of competition and maturity. Their customer base has begun to change, with second-generation baby boomers added to their target age-groups, and it is becoming easier for them to offer overseas brands.

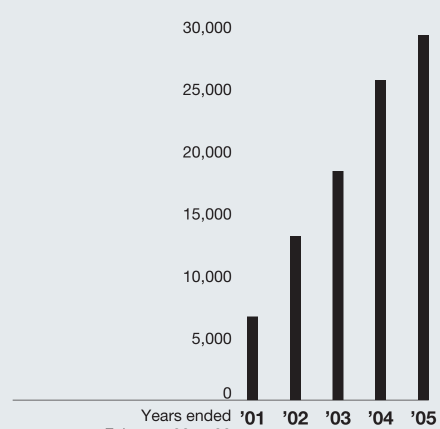


In RSCs, the Company's second focus of its Channel-Specific Brand Strategy, it will work to clearly compartmentalize its brand products. To cultivate customers who practice selective consumption, Onward plans to market certain brands through certain channels to revitalize existing brand groups. Specifically, the brand name KUMIKYOKU will be used exclusively at department stores and, to this end, KUMIKYOKU FAM and KUMIKYOKU SIS will change their names to anyFAM and anySiS this fall. Prior to the name changes, the Company will engage in a major campaign to ensure the brands' market penetration.

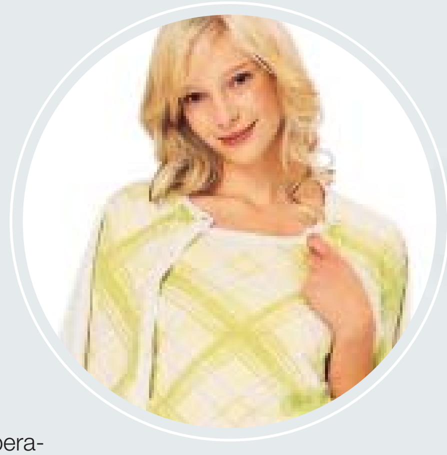





**Sales of Onward Brands in Department Stores**
(Millions of yen)




**Sales of Onward Brands in RSCs, Station Buildings, and Fashion Malls**
(Millions of yen)



In the past, the Company mainly targeted mothers and children in its RSC operations. Over the next few years, it will expand the number of shops targeting men, developing DEUX CONCEPT LABO, a casual brand that is a revamped version of NIJYUSANKU HOMME DEUX. Furthermore, in spring 2006, it will roll out a new brand targeting second-generation baby boomer couples in their 30s.

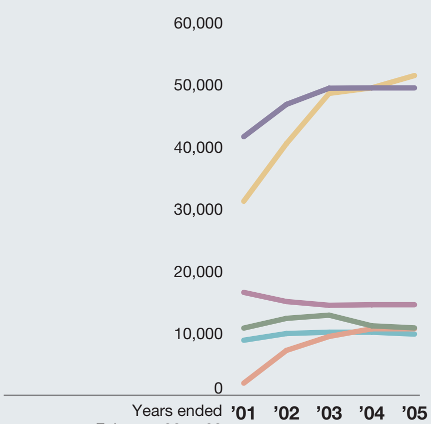
**Station Buildings and Fashion Malls**

Onward is expanding its business in the shopping areas within and above rail stations, where it is pushing forward with the development of new shops as well as remodeling of existing ones located in station buildings and fashion malls. Because this sales channel has until now been virtually untouched by Onward, it plans to effect growth here with the aggressive establishment of stores.

KORS MICHAEL KORS, launched in spring 2005, targets young women and will be followed by rosebullet this fall. In spring 2006, the Company plans to roll out Gramaras Casual, a new brand targeting men and women in their 30s.

**Tapping into New Demand with an Aggressive Strategy**

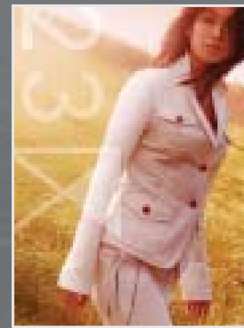
By advancing the Channel-Specific Brand Strategy outlined here, along with a growth strategy for its mainstay brands, the Company is evolving Brand-Leveraged Management. The fashion industry is led by the era, and its goods create added value. If a product lacks appeal, consumers will not accept it. Onward will work to generate demand by creating excitement with marketing devices that have impact, including large-scale campaigns and collaboration with magazines.




**Growth of Our Main Brands (Retail Sales)**

(Millions of yen)

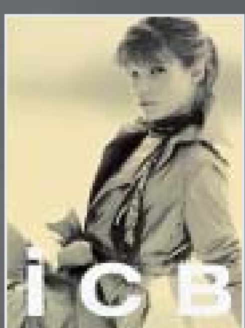
Note: In addition to the listed retail sales categories for these brands, Onward generates revenue from licensing out the brands.



NIJYUSANKU 23区

KUMIKYOKU 組曲

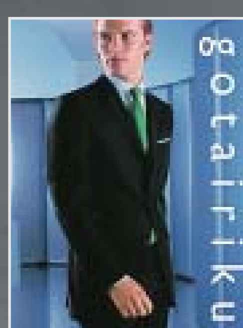
# *business*




ICB ICB

JIYUKU 自由区

GOTAIRIKU 五大陸




J. PRESS J.PRESS

Despite continuing sluggishness in overall market conditions, which were marked by slack personal consumption, Onward achieved consistent performance gains through the aggressive promotion of Brand-Leveraged Management. In addition, in the period under review, it successfully generated hit products by employing original patterns and garment construction technology for the Stylish Up series.

At the parent company, menswear sales soared, exceeding the previous fiscal year's sales by 13.7%. This was attributable to the fact that, in addition to the introduction of the DAKS brand and the transfer of CK Calvin Klein to the parent company, consumer preferences continued to trend toward casual wear, driving growth in NIJYUSANKU HOMME and NIJYUSANKU SPORT. Strong performances by the KUMIKYOKU, Paul Smith, and MICHAEL KORS brands pushed women's wear sales up 3.9% on a non-consolidated basis.

Looking at sales channels, we energetically developed business involving our core department store channels as well as urban and regional shopping centers. Non-consolidated sales at department stores rose 6.3%, while there was a 14.0% jump in sales in new channels, where the number of stores and sales floor space increased.

The Company progressed with the application of supply chain management, engaging in total management that ranges from demand forecasts to planning, production, and distribution. By implementing 52-week merchandising (52-week MD), we have created a system that efficiently expands the presence of the right products at the right time to boost sales and strengthen our profit base.

| Main Brands | Concept | Target Customers | | | Main Targets | Distribution | | |
|---|---|---|---|---|---|---|---|---|
| | | Men | Women | Children | | Department Stores | Urban Shopping Centers | Regional Shopping Centers |
| ICB | Urban and sophisticated brand for the global market | — | ● | — | Working women in their late 20s | ● | — | — |
| NIJYUSANKU | Casual wear separates for women who like to assemble their own original outfits | ● | ● | — | Women around 30 | ● | — | — |
| KUMIKYOKU | Trendy casual wear featuring mix-and-match separates | — | ● | ● | Young women in their early 20s | ● | — | — |
| JIYUKU | High-quality elegant everyday wear | ● | ● | — | Women in their 40s | ● | — | — |
| GOTAIRIKU | Tokyo-born brand that blends timeless British styling with an international flair | ● | — | — | Businessmen in their 40s and 50s | ● | — | — |
| J. PRESS | Modern versions of American-traditional and high quality styles | ● | ● | ● | Men in their late 30s | ● | — | — |
| DAKS* | Traditional English brand with a young mind-set and high quality | ● | ● | — | Fashion-conscious, sophisticated men 45 to 55 | ● | — | — |
| prideglide | Elegant styles that are sweet yet cool | — | ● | — | Working women in their early to mid-20s | ● | ● | — |
| rosebullet | Sexy-casual brand that blends cute sexiness and attractiveness | — | ● | — | Women in their mid-20s | — | ● | ● |
| Dip Drops | A casual jeans brand that combines fashion and convenience | — | ● | — | Young women 16 to 25 | — | ● | — |
| field dream | Lifestyle shop brand that offers a feeling of a better quality of life | ● | ● | — | Men and women 30 to 40 living in urban areas | — | ● | ● |
| Feroux | A sweet and casual brand | — | ● | — | Working women in their mid-20s | — | — | ● |
| La je | A brand that offers products for an elegant and high-quality lifestyle | — | ● | — | Women 45 to 55 | — | — | ● |
| Deux CONCEPT LABO | Sophisticated casual wear brand for everyday wear | ● | — | — | Men 25 to 35 | — | — | ● |
| anyFAM** | High-quality casual fashion that aims to improve the quality of life for anyone, anytime, anywhere | — | ● | ● | Second-generation baby boomer mothers | — | — | ● |
| anySiS** | | — | ● | — | Working women in their 20s | — | — | ● |

* DAKS is a licensed brand of U.K.-based DAKS.
** KUMIKYOKU spin-off brands KUMIKYOKU FAM and KUMIKYOKU SiS will be relaunched in fall 2005 as the new strategic brands anyFAM and anySiS.

# Men's Fashions

**Fiscal 2005**

In the men's apparel market, although sales of high-end suits and high-quality casual apparel were strong, severe summer heat and a cold winter resulted in a difficult market environment for business wear.

Amid such conditions, in its core eight brands the Company launched Stylish Up Pants, trousers that make the wearer's legs appear longer, in April 2004. These became a major hit product, selling 90,000 pairs in one year. In addition, Stylish Up Suit and Stylish Up Coat, products that give the illusion of slimness, exceeded sales forecasts, with 20,000 suits sold in the fall/winter season alone.

In individual brands, both DAKS, which was launched in March 2004, and CK Calvin Klein performed on par with forecasts, contributing to the increase in overall sales. Like Stylish Up Pants, casual shirts in the NIJYUSANKU HOMME brand performed well, enjoying considerable sales growth. GOTAIRIKU posted strong sales of pattern-made suits, but, due to slack demand for business suits and coats, overall performance fell below that of the previous fiscal year.

As a result of the aforementioned factors, consolidated sales of men's fashions rose 1.8%, to ¥77.9 billion, and accounted for 28.7% of net sales.

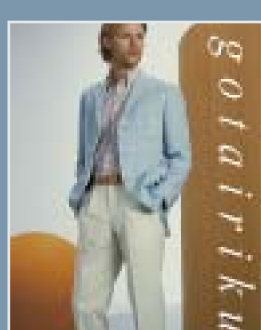
**Outlook**

To stimulate new demand, Onward will continue to expand the Stylish Up Series. In March 2005, in addition to pants, suits, and coats, the Company added Stylish Up Denim to its lineup. It plans to develop the series in the GOTAIRIKU, NIJYUSANKU, and J. PRESS brands to expand sales of men's casual apparel. In addition, it will vigorously promote lines of high-end suits under the GOTAIRIKU and J. PRESS brands. Furthermore, the Company will aggressively work to raise sales and secure profits by prioritizing efforts to strengthen the DAKS and CK Calvin Klein brands.

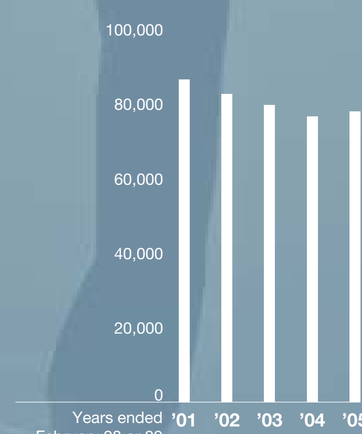
*Stylish Up Pants*

*NIJYUSANKU HOMME*

*J. PRESS*




*GOTAIRIKU*




**Sales of Men's Fashions**
(Millions of yen)

**Fiscal 2005**

Despite stagnancy in the general market for women's apparel due to the lack of a hit product, Onward exhibited growth in sales of its women's apparel business.

The cross-brand product development of Stylish Up Pants continued to yield strong results in the year under review, and we sold 160,000 pairs. Although KUMIKYOKU performed solidly, such other mainstay brands as NIJYUSANKU, ICB, and JIYUKU underperformed compared with the previous fiscal year, primarily due to unusual weather patterns and a slump in demand for suits and coats. However, image-driven product development at Paul Smith, MICHAEL KORS, and J. PRESS resulted in positive performances that contributed greatly to the overall growth in sales. Also exhibiting solid sales were KUMIKYOKU FAM and KUMIKYOKU SiS, brands being promoted in such new channels as regional and metropolitan shopping centers, as well as prideglide and VANILLA CONFUSION, strategic urban department store brands.

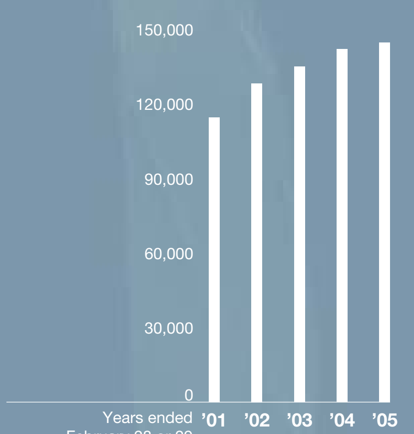
Consequently, consolidated sales of women's fashions climbed 1.1%, to ¥144.6 billion, and comprised 53.3% of net sales.

**Outlook**

In its core sales channel of department stores as well as with regard to NIJYUSANKU, KUMIKYOKU, and other major core brands, Onward plans to expand its profit base by strengthening its business structure in all areas, from planning and production to sales floors and stores.

At regional and metropolitan area shopping centers, Onward will optimize its Channel-Specific Brand Strategy with the aim of increasing profits. Specifically, in addition to reorganizing and newly establishing four spin-off brands originating from NIJYUSANKU and KUMIKYOKU, it will work to effect the full-fledged activation of the middle-aged ladies' brand La je, which was launched in fall 2004. Furthermore, the Company will endeavor to fully enter the young casual market with KORS MICHAEL KORS, launched in spring 2005, and rosebullet, which it will roll out in fall 2005.

# *Women's Fashions*

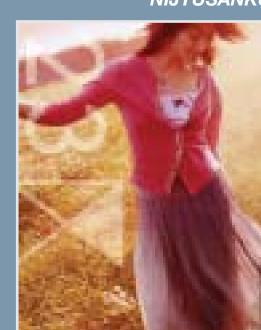



**Sales of Women's Fashions**
(Millions of yen)

*VANILLA CONFUSION*

*JIYUKU*

*NIJYUSANKU*



### Children's Fashions

Japan's declining birthrate has led to ongoing harshness in the market for children's fashions. However, the amount of money that parents can spend per child has risen, translating into strong sales of well-designed, good quality, and even premium-priced products. The KUMIKYOKU brand struggled as a result of difficult conditions in the cut and sewn garment business as well as its inability to respond to the market's trend toward casual clothing. However, experimental forays into baby clothing under the J. PRESS brand, designed with three-generation families in mind, did well, yielding sales growth. In addition, KUMIKYOKU FAM, which is being marketed in new sales channels, saw a steady increase in sales. As a result, consolidated sales of children's fashions rose 2.2%, to ¥9.3 billion, which represented 3.4% of net sales.

***KUMIKYOKU FAM***

### Kimonos

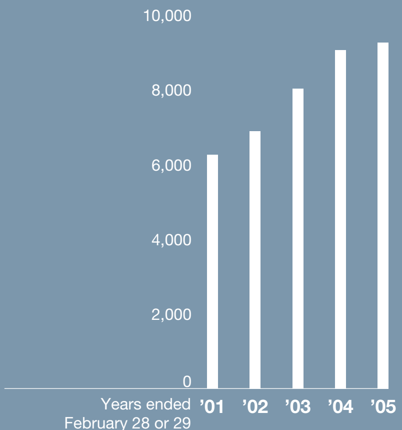
In the steadily shrinking market for kimonos, Onward posted healthy sales of *yukata* (cotton summer kimonos). The development of new products, including *yukata* linked to popular brands of Western clothing as well as items in the WANOFUKU by NIJYUSANKU line, expanded this segment's share of net sales. In addition, casual prêt-à-porter kimonos and small novelty goods performed well. Discount sales of high-end kimono fabric resulted in a significant decrease in sales. As a result, consolidated sales in Onward's Kimono Business Group inched up 0.6%, to ¥3.6 billion, or 1.3% of the Company's net sales.

### Other

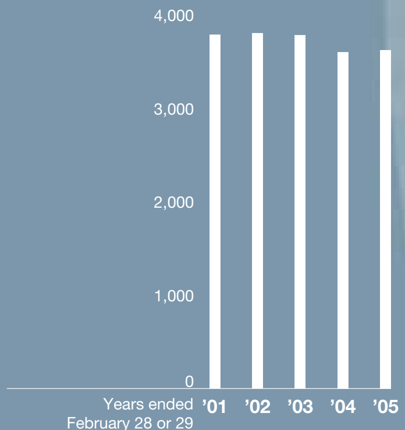
Thanks to a reduction in the amount of debt posted by Onward Beach Resort Guam, Inc., resort-related business recovered profitability. In fashion jewelry, product lines designed for personal purchases for oneself rather than as gifts were popular. NIJYUSANKU bags styled for career women, and mit mitte designer brand leisure bags were a hit, contributing to an increase in sales. Thus, other operations posted consolidated sales of ¥35.9 billion, up 0.9%, and represented 13.3% of net sales.

***KUMIKYOKU jewelry***

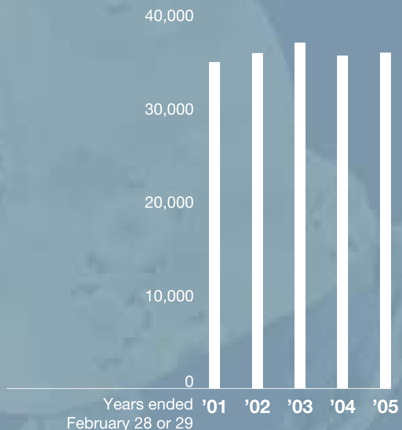
# *Children's Fashions, Kimonos, and Other*




**Sales of Children's Fashions**
(Millions of yen)




**Sales of Kimonos**
(Millions of yen)




**Sales of Other**
(Millions of yen)

# Topics


## Acquisition of U.K.-Based Joseph Group, Acceleration of Overseas Strategy

In May 2005, Onward acquired the U.K.-based Joseph Group, which operates Joseph, a fashion brand that evokes London style. The Joseph brand is marketed in major cities in Europe, the United States, and Japan and is favored by sophisticated, urban men and women. Onward is looking to further expand its operations in North America and Asia by strengthening links among the companies in its global network through such activities as utilizing Italy-based subsidiary GIBO' CO. S.p.A. for production.

## Launch of DAKS Golf to Boost the New DAKS Brand

DAKS products and stores were transferred to Onward, and planning and production functions were also transferred with the launch of the 2005 spring line. In December 2004, the Company commenced domestic operations for DAKS Golf, a brand of golf clothing derived from the traditional British-style brand DAKS. Adding DAKS Golf to the DAKS lineup is part of the Company's efforts to create a new brand image for DAKS. Onward aims to have 80 DAKS outlets in major nationwide department stores by spring 2006.

## New Brand rosebullet to Debut in Fall 2005

Onward will roll out the new brand rosebullet, which targets women in their mid-20s, in fall 2005. The brand's concept is glamorous-casual, making this the Company's first sexy yet casual brand. It plans to open at least 15 stores, primarily in fashion malls and station buildings, by winter 2005. In addition, Onward is planning a simultaneous debut of the brand in eastern Asian countries.

## Acquisition of Management Rights for Italian Company IRIS

In June 2005, Onward acquired the management rights for Italian shoe manufacturer IRIS s.r.l. through subsidiary GIBO'. Including IRIS—which manufactures and markets shoes created by the world's top designers—under the Onward umbrella will strengthen the GIBO' designer brand business. In Japan, Onward subsidiary BUS STOP CO., LTD., will open a new shop, AUDOXIA, offering imported brand goods and IRIS shoes in spring 2006.

## Japan-U.S. Joint Planning for Next-Generation International Strategic Brand NAVE

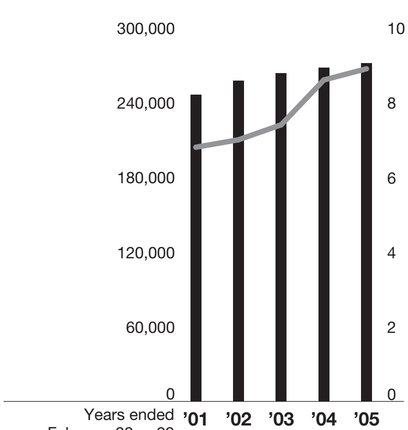
NAVE, a new brand jointly developed in Japan and the United States that targets working women in their 20s, will be launched simultaneously in Japan and the United States. The brand concept is of a select boutique created and evolved by designers, with the fashions offered representing a collaborative effort among designers. We are developing NAVE with an emphasis on unique pieces that celebrated stylists have carefully chosen from among offerings created exclusively for the brand by fresh new designers from around the world.

# Consolidated Six-Year Summary

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

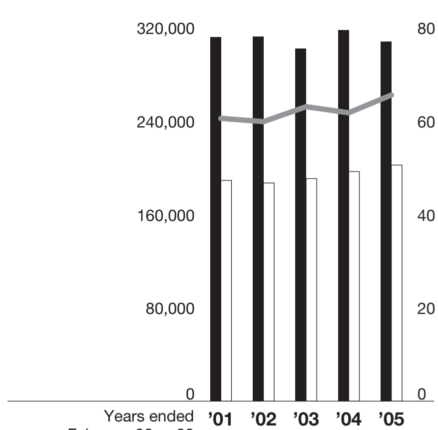
| | Millions of yen | | | | | | Thousands of U.S. dollars |
|---|---|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2003 | 2004 | **2005** | **2005** |
| **At year-end:** | | | | | | | |
| Total current assets | ¥120,922 | ¥126,151 | ¥146,080 | ¥141,468 | ¥165,931 | **¥150,969** | **$1,441,366** |
| Total property, plant and equipment | 92,956 | 103,581 | 99,274 | 101,188 | 96,017 | **96,394** | **920,318** |
| Total assets | 296,715 | 312,258 | 312,443 | 302,188 | 318,270 | **308,170** | **2,942,239** |
| Total current liabilities | 79,636 | 78,985 | 99,673 | 80,147 | 92,270 | **79,025** | **754,488** |
| Total shareholders' equity | 180,415 | 189,236 | 187,039 | 190,755 | 196,796 | **202,377** | **1,932,182** |
| **For the year:** | | | | | | | |
| Net sales | ¥221,206 | ¥245,924 | ¥257,306 | ¥263,399 | ¥267,746 | **¥271,273** | **$2,589,966** |
| Cost of sales | 130,058 | 143,449 | 145,687 | 143,234 | 143,921 | **146,447** | **1,398,197** |
| Selling, general and administrative expenses | 73,887 | 85,731 | 93,499 | 100,558 | 100,929 | **100,621** | **960,671** |
| Operating income | 17,261 | 16,744 | 18,120 | 19,607 | 22,896 | **24,205** | **231,098** |
| Income taxes, current | 9,306 | 4,888 | 11,176 | 6,166 | 13,868 | **7,490** | **71,513** |
| Net income | 7,404 | 4,805 | 3,802 | 7,158 | 13,053 | **10,257** | **97,927** |
| | Yen | | | | | | U.S. dollars |
| **Per share** (Yen and U.S. dollars): | | | | | | | |
| Net income—Basic | ¥43.0 | ¥27.9 | ¥22.1 | ¥41.6 | ¥74.1 | **¥58.1** | **$0.555** |
| Cash dividends | 16.5 | 16.5 | 16.5 | 16.5 | 20.0 | **22.0** | **0.210** |

Note: Yen amounts have been translated, for convenience only, at ¥104.74=US$1, the approximate exchange rate on February 28, 2005.



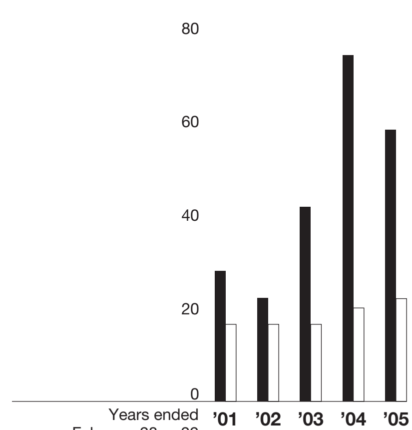

■ Net sales (left scale)
■ Operating income margin (right scale)

**Net Sales and Operating Income Margin**
(Millions of yen, %)




■ Total assets (left scale)
□ Total shareholders' equity (left scale)
■ Shareholders' equity ratio (right scale)

**Total Assets, Total Shareholders' Equity, and Shareholders' Equity Ratio**
(Millions of yen, %)




■ Net income per share
□ Cash dividends per share

**Net Income Per Share and Cash Dividends Per Share**
(Yen)

**Overview**

In fiscal 2005, ended February 28, 2005, although certain domestic economic indices pointed toward a recovery, business confidence was low due to a deflationary trend. In addition, the employment situation and wage levels failed to improve and personal consumption was affected by uncertainty linked to the ongoing demographic aging of the Japanese population, contributing to continued stagnation. Conditions in the apparel industry remained harsh due to slack personal consumption as well as unusual weather patterns, including severe summer heat waves, frequent typhoons, and a warm winter, that resulted in lackluster clothing sales at our core distributors, department stores.

Faced with this challenging business environment, the Company aggressively promoted Brand-Leveraged Management with the aim of establishing a stable profit base by working to ensure that the core brands NIJYUSANKU, KUMIKYOKU, ICB, and JIYUKU continued to meet the quality standards for better brands at department stores. In department store distribution, the Company launched DAKS, an upscale British-style brand for men. By creating dedicated brand shops that exclusively feature this line in a new shopping environment, we are steadily building a system to expand the DAKS brand. In addition, the Company is consistently expanding sales through urban department stores of prideglide and VANILLA CONFUSION, strategic brands targeting young career women and young women in general.

Onward has developed Stylish Up Pants as a strategic product for its mainstay men's and women's brands that will stimulate new demand, launching a campaign for the product in early spring. In the autumn, in addition to suits, jackets, and coats in its GOTAIRIKU, J. PRESS, and DAKS lines, the Company kicked off the Stylish Up campaign to promote the product line, resulting in higher sales than originally projected. In new distribution channels, including regional and metropolitan shopping centers, the Company expanded sales of such brands as KUMIKYOKU FAM, field dream, and Dip Drops. In addition, we launched the new La je brand for middle aged women in the autumn to strengthen our brand lineup with the aim of supporting further growth.

Despite the aforementioned overall weakness in the market, the Company was able to effect steady growth, thanks to its vigorous promotion of Brand-Leveraged Management in core department store distribution channels as well as such new distribution channels as shopping centers.

In addition, the Company promoted supply-chain management, employing demand forecasts to ensure the comprehensive management of planning, production, and distribution operations. The application of the 52-week merchandising (52-week MD) structure enabled store expansion driven by timely and appropriate products, simultaneously raising sales and strengthening the Company's profit base.

As a result of the aforementioned activities, consolidated net sales in the year under review rose 1.3%, to ¥271.3 billion, and operating income increased 5.7%, to ¥24.2 billion; however, net income was down 21.4%, to ¥10.3 billion, due to the absence of special income posted in the previous fiscal year as a result of a gain on the settlement of substitutional portion of governmental pension fund.

**Results of Operations**

***Net Sales***

Net sales increased for the fifth consecutive year, rising 1.3%, to ¥271.3 billion. The Company's persistent efforts to strengthen the pull of its mainstay brands through Brand-Leveraged Management was the primary factor in achieving the increase despite such negative factors as overall weakness in personal consumption and unusual weather patterns, including severe summer heat waves, frequent typhoons, and a warm winter. Brands that made considerable contributions to this achievement included KUMIKYOKU FAM, which exhibited remarkable growth in children's apparel in new distribution channels; KUMIKYOKU, one of the Company's core women's apparel brands, which gave a solid performance; brands targeted at young career women, including prideglide, Paul Smith, and MICHAEL KORS, all of which grew steadily; VANILLA CONFUSION and other new brands that made a strong start; and the CK Calvin Klein brand, the transfer of which to the Company helped strengthen profits. In menswear in particular, the new contribution of DAKS, an upscale British-style brand launched in the period under review, and the aforementioned transfer of the CK Calvin Klein brand as well as of the Joseph brand to the Company contributed to higher revenues. Overall sales in the Clothing Segment edged up 1.0%, to ¥257.6 billion.

Sales in the Other business segment climbed 8.1%, to ¥27.5 billion.

Furthermore, in fiscal 2005, the Company decided to implement the following changes to make business operations more efficient.

- Chacott Co., Ltd., became a fully owned subsidiary on March 1, 2004, through a stock swap.
- On Business Trend Co., Ltd., transferred its brands CK Calvin Klein and Joseph to the Company and completed its liquidation on February 14, 2005.

***Costs, Expenses, and Earnings***

The cost of sales climbed 1.8%, to ¥146.4 billion. This was mainly attributable to the increase in net sales. At the same time, the introduction of new brands resulted in a decrease in the gross profit margin of 0.2 percentage points, from 46.2% to 46.0%, although gross profit edged up 0.8%, to ¥124.8 billion.

Selling, general and administrative (SG&A) expenses slipped 0.3%, to ¥100.6 billion. Due to the fact that SG&A expenses fell despite the growth in net sales, SG&A expenses as a percentage of net sales decreased 0.6 percentage point, from 37.7% to 37.1%. Higher operational efficiency and the promotion of the reorganization of subsidiaries constituted the reasons for the reduction in costs. As a result of the reduced costs and modest gain in net sales, operating income rose 5.7%, to ¥24.2 billion, making fiscal 2005 the fourth consecutive year of gains, while the operating income margin improved 0.3 percentage point, from 8.6% to 8.9%. Thus, the Company has broken its records for net sales and operating income for four straight years.

Other income (expenses) declined ¥4.1 billion, from income of ¥4.2 billion to ¥0.1 billion. The primary reason for the decrease was the absence of a ¥10.5 billion gain on the settlement of substitutional portion of governmental pension fund recorded in fiscal 2004. However, also absent during fiscal 2005 were such expenses as a ¥2.7 billion provision for allowance for bad debt incurred in the previous fiscal year in connection with the Company's support for business restructuring and overseas businesses as well as ¥3.7 billion in valuation losses on fixed assets and investments in unconsolidated subsidiaries and affiliates. During the fiscal year under review, Onward posted ¥1.6 billion in additional retirement payments resulting from voluntary early retirements at subsidiary O & K Co., Ltd.

These factors contributed to a 10.2% fall in income before income taxes and minority interests, to ¥24.3 billion. The effective tax rate in fiscal 2004 was 42.1%, almost the same as the statutory tax rate of 42.0%, but due to losses recorded by consolidated subsidiaries for which deferred tax assets are not recognized as well as unrealized income related to Chacott's new status as a wholly owned subsidiary, the effective tax rate in 2005 increased to 49.4%, reflecting a rise in the tax burden. As a result, net income dropped 21.4%, to ¥10.3 billion, the first drop in income in three years. The profit margin thus fell 1.1 percentage points, to 3.8%, and return on equity declined 1.6 percentage points, to 5.1%.

**Financial Position**

The Onward Group's total assets as of the fiscal year-end were down 3.2%, or ¥10.1 billion, to ¥308.2 billion. A 9.0%, or ¥15.0 billion, drop in current assets represented a significant portion of this decrease and was largely attributable to a ¥6.3 billion drop in cash and time deposits resulting from higher tax payments as well as declines in accounts and notes receivable and deferred tax assets.

Compared with property, plant and equipment, which was at roughly the same level as at the previous fiscal year-end, edging up only ¥0.4 billion, investments and advances increased ¥4.5 billion. The principal factors in this movement were a ¥4.8 billion increase in investments in securities and a ¥3.0 billion decrease in long-term loans related to the reorganization of subsidiaries, as well as a reduction in deferred tax assets—non-current of ¥1.7 billion.

Turning to the liabilities side of the balance sheet, current liabilities were down ¥13.2 billion compared with the previous year-end. This was primarily attributable to a ¥9.5 billion drop in accrued income taxes, a ¥2.1 billion reduction in accounts and notes payable, a ¥1.7 billion decrease in short-term bank loans, and a decline in accrued expenses of ¥1.1 billion. Total interest-bearing debt continued its downward trend, falling ¥1.8 billion, from ¥22.3 billion to ¥20.5 billion.

Shareholders' equity was boosted by the increase in retained earnings, rising 2.8%, or ¥5.6 billion, to ¥202.4 billion. As a result, the shareholders' equity ratio climbed 3.9 percentage points, to 65.7%. In addition, the ratio of short-term bank loans to shareholders' equity improved 1.1 percentage points, from 8.9% to 7.8%. The current ratio also improved, rising 11.2 percentage points, from 179.8% to 191.0%.

Viewed as a whole, significant changes in the balance sheets were generally related to the reorganization and consolidation of subsidiaries and brands as a part of the Group's strategy to advance optimally efficient business management through the strategic allocation of business resources to promising brands and business opportunities, which was undertaken to benefit shareholders.

### *Cash Flows*

Net cash provided by operating activities fell ¥14.5 billion, to ¥16.0 billion, due largely to income tax payments of ¥17.7 billion.

Net cash used in investing activities increased ¥4.2 billion compared with the previous fiscal year, for a net outflow of ¥12.9 billion, reflecting investments in stores and sales floors as well as the acquisition of investments in securities.

Net cash used in financing activities dipped ¥1.5 billion, to ¥9.3 billion, owing to declines in the acquisition of treasury stock and debt repayment.

As a result of the aforementioned factors, the balance of cash and cash equivalents at the end of fiscal 2005, at ¥81.5 billion, was down ¥6.3 billion.

## Policy on the Distribution of Profits

The Onward Group's management has long recognized as one of its top priorities the distribution of profits to shareholders. We will strive to continue to make stable dividend payments and carry out the distribution of profits in a way that adequately takes into account the overall business environment as well as performance trends. Internal reserves will be employed in a flexible manner that strikes a balance between strategic investment for the construction of a solid business structure, bolstering the Company's financial position, and meeting financing requirements.

Based on these considerations, and taking into account the Company's performance in the year under review as well as the outlook for the business environment, special dividends of ¥3.5 per share from fiscal 2004 were included in the regular dividends of ¥20 per share, along with special dividends of ¥2 per share for fiscal 2005, bringing total dividends to ¥22 per share. As a result, the nonconsolidated payout ratio for fiscal 2005 was 36.4%, and the nonconsolidated ratio of cash dividends to shareholders' equity was 1.8%.

## Forward-Looking Statement

Looking ahead, despite signs of economic recovery, we expect challenging economic conditions to persist amid uncertainty in the areas of employment, wages, and the international political climate.

To counter these adverse economic conditions, the Onward Group will continue to actively promote Brand-Leveraged Management. It will focus on solidifying its Channel-Specific Brand Strategy, which clearly defines brand images and aims to advance brand development that is tailored to the needs and competition of different kinds of sales channels.

In the Company's core sales channel of department stores, it will strive toward improved product planning and the expansion of sales at individual stores of such major mainstay brands as NIJYUSANKU and KUMIKYOKU through integrated planning, production, sales, marketing, sales floor design, and store proposals, with the ultimate goal of creating a stronger profit base.

Strengthening the new DAKS brand as well as the CK Calvin Klein and MICHAEL KORS brands will be priorities, and we will energetically work toward securing higher sales and stable profits for these brands. To stimulate new demand, Onward will continue to expand its Stylish Up Campaign and plans to cross-market brands in a "Vacation Your Style" campaign targeting Golden Week* holidaymakers.

Onward has established such spin-off brands of mainstays NIJYUSANKU and KUMIKYOKU as Feroux, DEUX CONCEPT LABO, anyFAM, and anySiS, for suburban and metropolitan shopping centers. In addition, it is engaged in the full-fledged activation of La je, a brand launched in the 2004 fall season, endeavoring to optimize its Channel-Specific Brand Strategy as a means of expanding its profit base.

In addition, the Company is working to boost its presence in young casual apparel at fashion malls and station buildings with the launch of new brands KORS MICHAEL KORS in the spring and rosebullet in the fall.

For the fiscal year ending February 28, 2006, we anticipate a 2.1% increase in consolidated net sales, to ¥277.0 billion, a 14.0% rise in operating income, to ¥27.6 billion, and an 11.7% jump in net income, to ¥11.5 billion. These forecasts, based on information available to the Onward Group at the time of writing, include the possibility of latent risks and uncertainties. Please be aware that a variety of factors may affect the Group's forecasts and cause actual results to differ significantly from projections.

* Falling at the end of April, Golden Week is one of Japan's busiest holiday seasons.

# Consolidated Balance Sheets

ONWARD KASHIYAMA Co., Ltd. and Subsidiaries
February 29, 2004 and February 28, 2005

| ASSETS | Millions of yen 2004 | Millions of yen 2005 | Thousands of U.S. dollars (Note 2. (19)) 2005 |
|---|---|---|---|
| **Current assets:** | | | |
| Cash and time deposits (Note 2. (16)) | ¥ 88,099 | **¥ 81,821** | **$ 781,186** |
| Accounts and notes receivable | 31,781 | **26,084** | **249,035** |
| Less: Allowance for bad debt | (318) | **(307)** | **(2,934)** |
| | 31,463 | **25,777** | **246,101** |
| Inventories (Note 2 (4)) | 26,158 | **27,410** | **261,701** |
| Deferred tax assets—current (Note 8) | 7,240 | **4,228** | **40,362** |
| Other current assets | 12,971 | **11,733** | **112,016** |
| Total current assets | 165,931 | **150,969** | **1,441,366** |
| **Investments and advances:** | | | |
| Investments in securities (Note 3) | 13,113 | **17,889** | **170,789** |
| Long-term loans (Note 14) | 6,089 | **3,089** | **29,495** |
| Deferred tax assets—non-current (Note 8) | 7,481 | **5,744** | **54,838** |
| Deferred tax assets—revaluation of land (Notes 8 and 9) | 1,626 | **1,612** | **15,394** |
| Other investments | 18,791 | **23,307** | **222,524** |
| Total investments and advances | 47,100 | **51,641** | **493,040** |
| **Property, plant and equipment** (Note 5): | | | |
| Buildings and structures | 65,006 | **64,528** | **616,074** |
| Other depreciable property | 18,357 | **19,037** | **181,758** |
| Less: Accumulated depreciation | (43,416) | **(44,308)** | **(423,030)** |
| | 39,947 | **39,257** | **374,802** |
| Land (Note 9) | 56,070 | **57,137** | **545,516** |
| Total property, plant and equipment | 96,017 | **96,394** | **920,318** |
| **Deferred charges and other assets** | 9,222 | **9,166** | **87,515** |
| | ¥318,270 | **¥308,170** | **$2,942,239** |

The accompanying notes are an integral part of these statements.

| LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY | Millions of yen 2004 | Millions of yen 2005 | Thousands of U.S. dollars (Note 2. (19)) 2005 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Short-term bank loans (Note 16) | ¥ 17,491 | **¥ 15,772** | **$ 150,580** |
| Accounts and notes payable | 47,777 | **45,657** | **435,913** |
| Accrued expenses | 7,840 | **6,710** | **64,059** |
| Accrued income taxes | 10,867 | **1,407** | **13,433** |
| Consumption tax payable | 1,104 | **1,308** | **12,492** |
| Accrued bonuses to employees | 2,969 | **2,592** | **24,751** |
| Allowance for sales returns | 1,213 | **1,013** | **9,670** |
| Other current liabilities | 3,009 | **4,566** | **43,590** |
| Total current liabilities | 92,270 | **79,025** | **754,488** |
| **Long-term liabilities:** | | | |
| Long-term debt | 4,764 | **4,694** | **44,813** |
| Negative goodwill on consolidation | 1,790 | **1,342** | **12,817** |
| Accrued retirement benefits (Note 6) | 3,198 | **2,088** | **19,931** |
| Accrued retirement benefits for directors and statutory auditors | 1,682 | **1,766** | **16,864** |
| Total long-term liabilities | 11,434 | **9,890** | **94,425** |
| Total liabilities | 103,704 | **88,915** | **848,913** |
| **Minority interests in consolidated subsidiaries** | 17,770 | **16,878** | **161,144** |
| **Commitments and contingent liabilities** (Note 10) | | | |
| **Shareholders' equity:** | | | |
| Common stock: | | | |
| Authorized—400,000,000 shares | | | |
| Issued—172,921,669 shares | | | |
| at February 29, 2004 and February 28, 2005 | 30,080 | **30,080** | **287,184** |
| Capital surplus | 49,707 | **50,043** | **477,787** |
| Retained earnings (Note 11) | 124,575 | **130,979** | **1,250,520** |
| Net revaluation loss of land (Notes 8 and 9) | (2,373) | **(2,353)** | **(22,457)** |
| Net unrealized gains on available-for-sale securities (Note 3) | 807 | **1,266** | **12,078** |
| Foreign currency translation adjustment | (627) | **(556)** | **(5,308)** |
| | 202,169 | **209,459** | **1,999,804** |
| Less: Treasury stock, at cost, 5,128,796 shares and 5,690,756 shares | | | |
| at February 29, 2004 and February 28, 2005, respectively | (5,373) | **(7,082)** | **(67,622)** |
| Total shareholders' equity | 196,796 | **202,377** | **1,932,182** |
| | ¥318,270 | **¥308,170** | **$2,942,239** |

| | Yen | | U.S. dollars (Note 2. (19)) |
|---|---|---|---|
| **Per share** (Note 13): | | | |
| Net assets per share | ¥1,170.0 | **¥1,207.3** | **$11.5** |

# Consolidated Statements of Income

ONWARD KASHIYAMA Co., Ltd. and Subsidiaries
For the years ended February 28, 2003, February 29, 2004 and February 28, 2005

| | Millions of yen | | | Thousands of U.S. dollars (Note 2. (19)) |
|---|---|---|---|---|
| | 2003 | 2004 | **2005** | **2005** |
| **Net sales** | ¥263,399 | ¥267,746 | **¥271,273** | **$2,589,966** |
| **Cost of sales** | 143,234 | 143,921 | **146,447** | **1,398,197** |
| **Gross profit** | 120,165 | 123,825 | **124,826** | **1,191,769** |
| **Selling, general and administrative expenses** (Note 14) | 100,558 | 100,929 | **100,621** | **960,671** |
| **Operating income** | 19,607 | 22,896 | **24,205** | **231,098** |
| **Other income (expenses):** | | | | |
| Interest income | 160 | 149 | **131** | **1,249** |
| Interest expenses | (149) | (128) | **(102)** | **(974)** |
| Loss on disposal of property, net | (911) | (1,169) | **(352)** | **(3,364)** |
| Gain on sale of investments in securities, net | 1,338 | 1,016 | **883** | **8,430** |
| Loss on write-down of investments in securities | (2,549) | (15) | **(112)** | **(1,067)** |
| Royalty income | 1,030 | 899 | **741** | **7,079** |
| Loss on liquidation of subsidiaries and affiliates | (72) | (34) | **(536)** | **(5,118)** |
| Additional retirement payments | (993) | (54) | **(1,554)** | **(14,834)** |
| Provision for allowance for bad debt | — | (2,744) | **—** | **—** |
| Foreign currency exchange loss | (665) | (794) | **(127)** | **(1,210)** |
| Gain on the settlement of substitutional portion of governmental pension fund (Note 2. (11)) | — | 10,471 | **—** | **—** |
| Valuation losses on investments in unconsolidated subsidiaries and affiliates | — | (1,611) | **(300)** | **(2,864)** |
| Valuation losses on fixed assets | (2) | (2,103) | **—** | **—** |
| Other, net (Note 14) | 651 | 304 | **1,431** | **13,660** |
| **Income before income taxes and minority interests** | 17,445 | 27,083 | **24,308** | **232,085** |
| **Income taxes** (Note 8): | | | | |
| Current | 6,166 | 13,868 | **7,490** | **71,513** |
| Deferred | 3,605 | (2,466) | **4,507** | **43,030** |
| **Income before minority interests** | 7,674 | 15,681 | **12,311** | **117,542** |
| **Minority interests in (earnings) losses of consolidated subsidiaries** | (516) | (2,628) | **(2,054)** | **(19,615)** |
| **Net income** | ¥ 7,158 | ¥ 13,053 | **¥ 10,257** | **$ 97,927** |

| | Yen | | | U.S. dollars (Note 2. (19)) |
|---|---|---|---|---|
| **Per share** (Note 13): | | | | |
| Net income—Basic | ¥41.6 | ¥74.1 | **¥58.1** | **$0.555** |
| Cash dividends | 16.5 | 20.0 | **22.0** | **0.210** |

Diluted net income per share is not disclosed because there were no securities with dilutive effect.
The accompanying notes are an integral part of these statements.

# Consolidated Statements of Shareholders' Equity

ONWARD KASHIYAMA Co., Ltd. and Subsidiaries
For the years ended February 28, 2003, February 29, 2004 and February 28, 2005

| | | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of shares of common stock (thousands) | Common stock | Capital surplus | Retained earnings (Note 11) | Net revaluation loss of land (Notes 8 and 9) | Net unrealized gains (losses) on available-for-sale-securities (Note 3) | Foreign currency translation adjustment | Treasury stock |
| **Balance as at February 28, 2002:** | 172,293 | ¥30,080 | ¥49,135 | ¥110,942 | ¥(2,348) | ¥ (278) | ¥(475) | ¥ (17) |
| Cash dividends | — | — | — | (2,843) | — | — | — | — |
| Directors' bonuses | — | — | — | (466) | — | — | — | — |
| Selling of treasury stock, net | — | — | — | — | — | — | — | (75) |
| Net income for the year | — | — | — | 7,158 | — | — | — | — |
| Reversal of reserve for land valuation | — | — | — | — | 1 | — | — | — |
| Net unrealized losses on available-for-sale securities | — | — | — | — | — | 103 | — | — |
| Foreign currency translation adjustment | — | — | — | — | — | — | (162) | — |
| **Balance as at February 28, 2003:** | 172,293 | 30,080 | 49,135 | 114,791 | (2,347) | (175) | (637) | (92) |
| Cash dividends | — | — | — | (2,841) | — | — | — | — |
| Directors' bonuses | — | — | — | (401) | — | — | — | — |
| Gain on sales of treasury stock | — | — | 0 | — | — | — | — | 2 |
| Increase in treasury stock | — | — | — | — | — | — | — | (5,283) |
| Net income for the year | — | — | — | 13,053 | — | — | — | — |
| Increase in net revaluation loss of land due to statutory tax rate change | — | — | — | — | (53) | — | — | — |
| Reversal of reserve for land valuation | — | — | — | (27) | 27 | — | — | — |
| Net unrealized gains on available-for-sale securities | — | — | — | — | — | 982 | — | — |
| Foreign currency translation adjustment | — | — | — | — | — | — | 10 | — |
| Issuance of new stock in exchange for Oak Co., Ltd.'s stock | 629 | — | 572 | — | — | — | — | — |
| **Balance as at February 29, 2004:** | 172,922 | 30,080 | 49,707 | 124,575 | (2,373) | 807 | (627) | (5,373) |
| Cash dividends | **—** | **—** | **—** | **(3,356)** | **—** | **—** | **—** | **—** |
| Directors' bonuses | **—** | **—** | **—** | **(477)** | **—** | **—** | **—** | **—** |
| Gain on sales of treasury stock | **—** | **—** | **2** | **—** | **—** | **—** | **—** | **5** |
| Increase in treasury stock | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **(3,495)** |
| Exchange of treasury stock for Chacott Co., Ltd.'s stock | **—** | **—** | **334** | **—** | **—** | **—** | **—** | **1,781** |
| Net income for the year | **—** | **—** | **—** | **10,257** | **—** | **—** | **—** | **—** |
| Reversal of reserve for land valuation | **—** | **—** | **—** | **(20)** | **20** | **—** | **—** | **—** |
| Net unrealized gains on available-for-sale securities | **—** | **—** | **—** | **—** | **—** | **459** | **—** | **—** |
| Foreign currency translation adjustment | **—** | **—** | **—** | **—** | **—** | **—** | **71** | **—** |
| **Balance as at February 28, 2005** | **172,922** | **¥30,080** | **¥50,043** | **¥130,979** | **¥(2,353)** | **¥1,266** | **¥(556)** | **¥(7,082)** |

| | Thousands of U.S. dollars (Note 2. (18)) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common stock | Capital surplus | Retained earnings (Note 11) | Net revaluation loss of land (Notes 8 and 9) | Net unrealized gains on available-for-sale-securities (Note 3) | Foreign currency translation adjustment | Treasury stock |
| **Balance as at February 29, 2004:** | $287,184 | $474,577 | $1,189,377 | $(22,650) | $ 7,696 | $(5,984) | $(51,297) |
| Cash dividends | **—** | **—** | **(32,040)** | **—** | **—** | **—** | **—** |
| Directors' bonuses | **—** | **—** | **(4,551)** | **—** | **—** | **—** | **—** |
| Gain on sales of treasury stock | **—** | **18** | **—** | **—** | **—** | **—** | **42** |
| Increase in treasury stock | **—** | **—** | **—** | **—** | **—** | **—** | **(33,370)** |
| Exchange of treasury stock for Chacott Co., Ltd.'s stock | **—** | **3,192** | **—** | **—** | **—** | **—** | **17,003** |
| Net income for the year | **—** | **—** | **97,927** | **—** | **—** | **—** | **—** |
| Reversal of reserve for land valuation | **—** | **—** | **(193)** | **193** | **—** | **—** | **—** |
| Net unrealized gains on available-for-sale securities | **—** | **—** | **—** | **—** | **4,382** | **—** | **—** |
| Foreign currency translation adjustment | **—** | **—** | **—** | **—** | **—** | **676** | **—** |
| **Balance as at February 28, 2005** | **$287,184** | **$477,787** | **$1,250,520** | **$(22,457)** | **$12,078** | **$(5,308)** | **$(67,622)** |

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, 2003, February 29, 2004 and February 28, 2005

| | Millions of yen | | | Thousands of U.S. dollars (Note 2. (19)) |
|---|---|---|---|---|
| | 2003 | 2004 | **2005** | **2005** |
| **Cash flows from operating activities:** | | | | |
| Income before income taxes and minority interests | ¥17,445 | ¥27,083 | **¥24,308** | **$232,085** |
| Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 7,890 | 7,531 | **7,042** | **67,229** |
| Increase (decrease) in provision for allowance for doubtful accounts | (658) | 2,683 | **(2,863)** | **(27,336)** |
| Increase (decrease) in provision for accrued retirement benefits | 996 | (2,792) | **(1,110)** | **(10,601)** |
| Net interest and dividend income | (43) | (46) | **(81)** | **(773)** |
| Loss on disposal of property, net | 911 | 1,169 | **352** | **3,364** |
| Gain on sale of investments in securities, net | (1,338) | (1,016) | **(883)** | **(8,430)** |
| Loss on write-down of investments in securities | 2,549 | 15 | **112** | **1,067** |
| Valuation losses on investments in unconsolidated subsidiaries and affiliates | — | 1,611 | **300** | **2,864** |
| (Increase) decrease in trade receivables | 2,363 | (2,746) | **5,734** | **54,750** |
| (Increase) decrease in inventories | 1,750 | (1,035) | **(1,230)** | **(11,748)** |
| Increase (decrease) in trade payables | (2,396) | 4,942 | **(2,128)** | **(20,313)** |
| Other, net | 1,492 | (1,936) | **3,897** | **37,209** |
| Subtotal | 30,961 | 35,463 | **33,450** | **319,367** |
| Interest and dividends received | 190 | 178 | **326** | **3,114** |
| Interest paid | (156) | (130) | **(101)** | **(970)** |
| Income taxes paid | (15,494) | (4,996) | **(17,683)** | **(168,827)** |
| Net cash provided by operating activities | 15,501 | 30,515 | **15,992** | **152,684** |
| **Cash flows from investing activities:** | | | | |
| Increase in time deposits | (2,283) | (498) | **(2,278)** | **(21,749)** |
| Decrease in time deposits | 445 | 493 | **288** | **2,750** |
| Decrease in investments in securities | — | — | **4,400** | **42,009** |
| Acquisition of property, plant and equipment | (4,170) | (4,183) | **(5,288)** | **(50,485)** |
| Proceeds from sale of property, plant and equipment | 316 | 1,208 | **50** | **481** |
| Acquisition of investments in securities | (6,324) | (412) | **(7,570)** | **(72,274)** |
| Proceeds from sale of investments in securities | 5,554 | 1,907 | **1,546** | **14,759** |
| Net (increase) decrease in deferred charges | 220 | (2,444) | **(2,723)** | **(26,005)** |
| Payments for deposits | (2,182) | (1,320) | **(874)** | **(8,346)** |
| Proceeds from deposits | 2,370 | 668 | **685** | **6,542** |
| Other, net | (553) | (4,123) | **(1,185)** | **(11,313)** |
| Net cash used in investing activities | (6,607) | (8,704) | **(12,949)** | **(123,631)** |
| **Cash flows from financing activities:** | | | | |
| Net repayments of short-term loans | (6,293) | (2,385) | **(1,719)** | **(16,421)** |
| Net repayments of long-term debt | (2,060) | — | **—** | **—** |
| Acquisition of treasury stock | (75) | (5,281) | **(3,495)** | **(33,370)** |
| Dividends paid | (2,843) | (2,841) | **(3,356)** | **(32,040)** |
| Dividends paid to minority stockholders | (196) | (337) | **(770)** | **(7,351)** |
| Other, net | — | (3) | **3** | **38** |
| Net cash used in financing activities | (11,467) | (10,847) | **(9,337)** | **(89,144)** |
| **Effect of exchange rate changes on cash and cash equivalents** | (18) | (61) | **26** | **251** |
| **Increase (decrease) in cash and cash equivalents** | (2,591) | 10,903 | **(6,268)** | **(59,840)** |
| **Cash and cash equivalents at beginning of year** | 79,499 | 76,908 | **87,811** | **838,372** |
| **Cash and cash equivalents at end of year** (Note 2. (16)) | ¥76,908 | ¥87,811 | **¥81,543** | **$778,532** |

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**

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 Commercial Code of Japan (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 Financial Reporting 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 and 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.

**2. Summary of Significant Accounting Policies**

***(1) Scope of Consolidation***

The Company had 42 subsidiaries as at February 28, 2005 (47 as at February 29, 2004, 53 as at February 28, 2003). The accompanying consolidated financial statements include the accounts of the Company and 16 subsidiaries (17 for 2004, 23 for 2003). The 16 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. | 41.1% | 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 | February 28 |
| Across Transport 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. | 100.0 | February 28 |
| Chacott Co., Ltd. | 100.0 | February 28 |
| BOOKLET CORP. | 100.0 | February 28 |

Effective from February 28, 2005, On Business Trend Co., Ltd. was excluded from consolidation, as the company was liquidated on February 14, 2005.

By an exchange of stock, Chacott Co., Ltd. became a 100% owned subsidiary on March 1, 2004. Chacott Co., Ltd. has reduced its common stock to ¥400 million on July 1, 2004.

+A VIA BUS CO., LTD. and Field Dream Co., Ltd. were liquidated in 2003. By an exchange of stock, Oak Co., Ltd. became a 100% owned subsidiary on April 1, 2003. Acty 21 Co., Ltd., and Partner 21 Co., Ltd. have been merged with Impact 21 Co., Ltd. in 2003 and the name of the new company is Impact 21 Co., Ltd. Across Service Co., Ltd. has been merged with Across Transport Co., Ltd. in 2003 and the name of the new company is Across Transport Co., Ltd.

The 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.

The remaining 26 subsidiaries (30 for 2004 and 2003) 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 differences between the cost of investments in consolidated subsidiaries and the equity in their net assets at dates of acquisition are amortized equally over five-year periods.

*(3) Investments in Unconsolidated Subsidiaries and Affiliates*

Although the Company had 26 unconsolidated subsidiaries (30 in 2004 and 2003) and 5 affiliates (5 in 2004 and 3 in 2003) as at February 28, 2005, the equity method was not applied to any of those subsidiaries and affiliates except for Polo Ralph Lauren Japan Co., Ltd. This was because investment in the unconsolidated subsidiaries and affiliates would not have had a material effect on the stocks of consolidated financial statements.

Since Polo Ralph Lauren Japan Co., Ltd. was acquired at the 2003 fiscal year-end, the equity method has been applied to the investment since the 2004 fiscal year.

*(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 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 29, 2004 and February 28, 2005, the recorded write-downs were ¥10,335 million and ¥10,489 million ($100,145 thousand), respectively.

*(5) Investments in Securities*

Debt securities and equity securities designated as available for sale (“other securities”) whose fair values are readily determinable are carried at fair values prevailing at the fiscal year-end date with unrealized gains or losses included as a component of shareholders’ equity, net of applicable taxes.

Other securities whose fair values cannot readily be determined are stated principally at cost. In cases where declines in fair values 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 cost determined by the moving-average method.

*(6) Derivative Transactions*

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*

All gains or losses arising from changes in fair values of the derivatives designated as “hedging instruments” are deferred as assets or liabilities 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 the 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 and trade accounts receivable denominated in foreign currencies and scheduled transactions.

The Company has a policy to utilize hedging instruments in order to reduce the exposure to the risk of foreign currency exchange rate fluctuation.

***(8) Property, Plant and Equipment***

Depreciation is computed using the declining-balance method at rates based on the estimated useful lives of assets which are prescribed by Japanese income tax regulations except for certain buildings.

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 Commercial Code of Japan or tax regulations.

Software costs for internal use are amortized over their expected useful lives (five years) by the straight-line method.

***(10) Income Taxes***

The income taxes of the Company and its domestic consolidated subsidiaries consist of corporate income tax, local inhabitant taxes and enterprise taxes.

***(11) Allowances***

An allowance for bad debt is provided for estimated losses on known bad debt 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 were 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.

Unrecognized prior service costs are amortized and charged/credited to income on a straight-line basis over 5 to 10 years, which is within the related employees' average remaining service years. Unrecognized actuarial differences are amortized on a straight-line basis over 5 to 10 years, which is within the related employees' average remaining service years from the year following the one in which they arise.

Following the enactment of the Defined Benefit Corporate Pension Plan Law in Japan, on September 25, 2003, the Company and certain consolidated subsidiaries obtained approval from Japan's Ministry of Health, Labour and Welfare for exemption from the future benefit obligation with respect to the portion of the Employee Pension Fund that the Company and certain consolidated subsidiaries operate on behalf of the Government (the so-called substitutional portion). The Company and the subsidiaries applied transitional provisions as prescribed in paragraph 47-2 of the "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" (Accounting Committee Report No. 13 issued by the Japanese Institute of Certified Public Accountants) and recognized a gain in the amount of ¥10,471 million ($95,524 thousand) for the settlement of the substitutional portion at the date of approval from Japan's Ministry of Health, Labour and Welfare. The amount of plan assets to be transferred to the Government was computed at ¥21,743 million ($198,351 thousand) as of February 29, 2004.

Accrued retirement benefits for directors and statutory auditors are provided for at the amount required at the balance sheet dates in accordance with the internal rules of the Company and certain consolidated subsidiaries.

While these companies have no legal obligation, it is the customary practice in Japan to make lump-sum payments to a director or a statutory auditor upon retirement under the approval of the general meeting of shareholders.

***(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***

Under the resolution of the general meeting of shareholders held on May 26, 2005, the Board of Directors declared a cash dividend of ¥3,679 million ($35,126 thousand), ¥22.0 ($0.210) per share, which was applicable to earnings of the year ended February 28, 2005 and payable to shareholders on the register on February 28, 2005.

***(15) Net Assets, Net Income—Basic and Dividends per Share***

Effective from the fiscal year ended February 29, 2004, the Company and its domestic consolidated subsidiaries applied the Financial Accounting Standards No. 2 "Financial Accounting Standards for Earning per Share" and the Financial Accounting Standards Implementation Guidance No. 4 "Implementation Guidance for Accounting Standards for Earnings per Share" issued by the Accounting Standards Board of Japan on September 25, 2002. The effect of the adoption is set forth in Note 13.

***(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 can 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 29, 2004 and February 28, 2005, consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2004 | **2005** | **2005** |
| Cash and time deposits | ¥88,099 | **¥81,821** | **$781,186** |
| Time deposits with maturities of more than three months | (288) | **(278)** | **(2,654)** |
| Cash and cash equivalents | ¥87,811 | **¥81,543** | **$778,532** |

***(17) Accounting Standard for Impairment of Fixed Assets***

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

The standard shall be effective for fiscal years beginning April 1, 2005. However, an earlier adoption is permitted for fiscal years beginning April 1, 2004, and for fiscal years ending between March 31, 2004 and March 30, 2005.

***(18) Reclassification of Accounts***

Certain prior year amounts have been reclassified to conform with the current year's presentation.

***(19) United States Dollar Amounts***

Amounts in U.S. dollars are included solely for the convenience of readers outside of Japan. The rate of ¥104.74=US$1, the rate of exchange as of February 28, 2005, 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.

## 3. Investments in Securities

### *(1) Information as of and for the Year Ended February 28, 2005*

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

Investments in securities whose fair values were available at February 28, 2005, 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 gains: | | | | | | |
| Equity securities | **¥5,738** | **¥7,902** | **¥2,164** | **$54,786** | **$75,445** | **$20,659** |
| Total | **5,738** | **7,902** | **2,164** | **54,786** | **75,445** | **20,659** |
| Securities with unrealized losses: | | | | | | |
| Equity securities | **217** | **211** | **(6)** | **2,069** | **2,017** | **(52)** |
| Total | **217** | **211** | **(6)** | **2,069** | **2,017** | **(52)** |
| Total | **¥5,955** | **¥8,113** | **¥2,158** | **$56,855** | **$77,462** | **$20,607** |

(b) Other securities sold during the year ended February 29, 2005:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Proceeds from sale of other securities | **¥1,541** | **$14,711** |
| Gross realized gain on sale of other securities | **883** | **8,430** |
| Gross realized loss on sale of other securities | **—** | **—** |

(c) Major securities which were not stated at fair value as of February 28, 2005:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Other securities: | | |
| Non-listed equity securities | **¥3,208** | **$30,625** |
| Investments in equity securities of unconsolidated subsidiaries and affiliates | **6,568** | **62,702** |
| Total | **¥9,776** | **$93,327** |

### *(2) Information as of and for the Year Ended February 29, 2004*

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

Investments in securities whose fair values were available at February 29, 2004, are analyzed as follows:

| | Millions of yen | | |
|---|---|---|---|
| | Acquisition cost | Fair value (Carrying value) | Difference |
| Securities with unrealized gains: | | | |
| Equity securities | ¥1,373 | ¥2,873 | ¥1,500 |
| Total | 1,373 | 2,873 | 1,500 |
| Securities with unrealized losses: | | | |
| Equity securities | 728 | 606 | (122) |
| Total | 728 | 606 | (122) |
| Total | ¥2,101 | ¥3,479 | ¥1,378 |

(b) Other securities sold during the year ended February 29, 2004:

| | Millions of yen |
|---|---|
| Proceeds from sale of other securities | ¥1,907 |
| Gross realized gain on sale of other securities | 1,016 |
| Gross realized loss on sale of other securities | — |

(c) Major securities which were not stated at fair value as of February 29, 2004:

| | Millions of yen |
|---|---|
| Other securities: | |
| Non-listed equity securities | ¥ 786 |
| Non-listed foreign bonds | 4,400 |
| Subtotal | 5,186 |
| Investments in equity securities of unconsolidated subsidiaries and affiliates | 6,448 |
| Total | ¥11,634 |

(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 | ¥2,000 | ¥— | ¥2,400 | ¥— |

**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 29, 2004 and February 28, 2005, therefore, no market value information is disclosed.

**5. Property, Plant and Equipment**

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

Property, plant and equipment at February 29, 2004 and February 28, 2005, were reduced by ¥8,658 million and ¥8,573 million ($81,852 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, 2005, is analyzed as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Projected benefit obligations | **¥(34,942)** | **$(333,603)** |
| Plan assets (including employee retirement benefit fund) | **40,266** | **384,434** |
| Funded status | **5,324** | **50,831** |
| Unrecognized prior service costs | **(231)** | **(2,206)** |
| Unrecognized actuarial differences | **652** | **6,229** |
| Subtotal | **5,745** | **54,854** |
| Prepaid pension cost | **7,833** | **74,785** |
| Accrued retirement benefits | **¥ (2,088)** | **$ (19,931)** |

The net pension expense for the year ended February 28, 2005, was as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Service cost | **¥1,376** | **$13,140** |
| Interest cost | **643** | **6,140** |
| Expected return on plan assets | **(382)** | **(3,652)** |
| Amortization of unrecognized prior service costs | **(41)** | **(397)** |
| Amortization of unrecognized actuarial differences | **548** | **5,236** |
| Net pension expense | **¥2,144** | **$20,467** |

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

| | As of February 28, 2005 |
|---|---|
| Method of attributing the projected benefits to periods of service | **Straight-line basis** |
| Discount rate | **2.0%** |
| Expected rate of return on plan assets | **0.8%~2.0%** |
| Amortization of unrecognized prior service costs | **5~10 years** |
| Amortization of unrecognized actuarial differences | **5~10 years** |

The reserve for retirement benefits as of February 29, 2004, is analyzed as follows:

| | Millions of yen |
|---|---|
| Projected benefit obligations | ¥(34,940) |
| Plan assets (including employee retirement benefit fund) | 36,571 |
| Funded status | 1,631 |
| Unrecognized prior service costs | (273) |
| Unrecognized actuarial differences | 3,413 |
| Subtotal | 4,771 |
| Prepaid pension cost | 7,969 |
| Accrued retirement benefits | ¥ (3,198) |

The net pension expense for the year ended February 29, 2004, was as follows:

| | Millions of yen |
|---|---|
| Service cost | ¥2,030 |
| Interest cost | 1,229 |
| Expected return on plan assets | (588) |
| Amortization of unrecognized prior service costs | (111) |
| Amortization of unrecognized actuarial differences | 1,682 |
| Net pension expense | ¥4,242 |

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

| | As of February 29, 2004 |
|---|---|
| Method of attributing the projected benefits to periods of service | Straight-line basis |
| Discount rate | 2.0% (2.0% to 2.5% at the beginning) |
| Expected rate of return on plan assets | 0.8%~2.0% |
| Amortization of unrecognized prior service costs | 5~10 years |
| Amortization of unrecognized actuarial differences | 5~10 years |

**7. Lease Transactions**

The Companies' 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 29, 2004 and February 28, 2005, are as follows:

(Lessee)

Assumed data as to acquisition cost, accumulated depreciation and net book value of the leased assets, which included the portion of interest thereon, as of February 29, 2004 and February 28, 2005, are summarized as follows:

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2004 | | | **2005** | | | **2005** | | |
| | Tools, furniture, and fixtures | Other | Total | Tools, furniture, and fixtures | Other | Total | Tools, furniture, and fixtures | Other | Total |
| Acquisition cost | ¥2,670 | ¥1,354 | ¥4,024 | **¥2,446** | **¥1,290** | **¥3,736** | **$23,353** | **$12,311** | **$35,664** |
| Accumulated depreciation | (1,392) | (745) | (2,137) | **(1,458)** | **(773)** | **(2,231)** | **(13,920)** | **(7,381)** | **(21,301)** |
| Net book value | ¥1,278 | ¥ 609 | ¥1,887 | **¥ 988** | **¥ 517** | **¥1,505** | **$ 9,433** | **$ 4,930** | **$14,363** |

The scheduled maturities of future lease payments on such lease contracts as of February 29, 2004 and February 28, 2005, are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2004 | **2005** | **2005** |
| Scheduled maturities of future leases: | | | |
| Due within one year | ¥ 828 | **¥ 725** | **$ 6,922** |
| Due over one year | 1,102 | **808** | **7,712** |
| | ¥1,930 | **¥1,533** | **$14,634** |

The lease expenses for the year and depreciation of the lease assets as of February 29, 2004 and February 28, 2005, are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2004 | **2005** | **2005** |
| Lease expenses for the year | ¥756 | **¥839** | **$8,006** |
| Depreciation | 756 | **839** | **8,006** |

(Lessor)

Assumed data as to acquisition cost, accumulated depreciation and net book value of the leased assets, which included the portion of interest thereon, as of February 29, 2004 and February 28, 2005, are summarized as follows:

| | Millions of yen | | | | Thousands of U.S. dollars | |
|---|---|---|---|---|---|---|
| | 2004 | | **2005** | | **2005** | |
| | Other | Total | Other | Total | Other | Total |
| Acquisition cost | ¥75 | ¥75 | **¥83** | **¥83** | **$792** | **$792** |
| Accumulated depreciation | (36) | (36) | **(51)** | **(51)** | **(482)** | **(482)** |
| Net book value | ¥39 | ¥39 | **¥32** | **¥32** | **$310** | **$310** |

The scheduled maturities of future lease income on such lease contracts as of February 29, 2004 and February 28, 2005, are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2004 | **2005** | **2005** |
| Due within one year | ¥ 33 | **¥35** | **$338** |
| Due over one year | 77 | **60** | **568** |
| | ¥110 | **¥95** | **$906** |

The lease income for the year and depreciation of the lease assets as of February 29, 2004 and February 28, 2005, are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2004 | **2005** | **2005** |
| Lease income for the year | ¥16 | **¥18** | **$172** |
| Depreciation | 17 | **19** | **184** |

## 8. Income Taxes

Deferred tax assets and liabilities as at February 29, 2004 and February 28, 2005, consisted of the following elements:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2004 | **2005** | **2005** |
| Deferred tax assets: | | | |
| Valuation loss on inventories | ¥ 2,828 | **¥ 2,890** | **$ 27,590** |
| Evaluation loss on investments in unconsolidated subsidiaries | 1,392 | **1,939** | **18,512** |
| Excess amount of tax deductible accrued bonuses to employees | 995 | **1,061** | **10,126** |
| Excess amount of tax deductible accrued employees' retirement benefits | 6,381 | **6,626** | **63,259** |
| Accrued retirement benefits for directors and corporate auditors | 677 | **730** | **6,975** |
| Tax loss carryforwards | 12,218 | **7,325** | **69,938** |
| Other | 8,604 | **2,273** | **21,705** |
| Subtotal | 33,095 | **22,844** | **218,105** |
| Valuation allowance | (14,342) | **(8,550)** | **(81,635)** |
| Total deferred tax assets | 18,753 | **14,294** | **136,470** |
| Deferred tax liabilities: | | | |
| Gain on securities contributed to an employee retirement benefit trust | (3,474) | **(3,474)** | **(33,167)** |
| Provision for deferred capital gains on real property | (23) | **(23)** | **(218)** |
| Other | (561) | **(914)** | **(8,730)** |
| Total deferred tax liabilities | (4,058) | **(4,411)** | **(42,115)** |
| Net deferred tax assets | ¥14,695 | **¥ 9,883** | **$ 94,355** |

The reconciliation of the difference between the statutory tax rate and the effective tax rate for the year ended February 29, 2004, has not been disclosed because such a difference is immaterial.

The reconciliation of the difference between the statutory tax rate and the effective tax rate for the year ended February 28, 2005, is as follows:

| | % |
|---|---|
| Statutory tax rate | 42.0% |
| Reconciliation: | |
| Nondeductible items (entertainment expense, etc.) | 1.7 |
| Losses of consolidated subsidiaries to which deferred tax assets are not recognized | 2.3 |
| Deduction of deferred tax assets caused by changing of tax rate | 0.6 |
| Unrealized gains by exchange of stock (Chacott Co., Ltd. became a 100% owned subsidiary) | 5.4 |
| Other | (2.6) |
| Effective tax rate | 49.4% |

In accordance with an amendment of a local tax law on March 31, 2003, the statutory tax rate was changed from 42.1% to 40.7% for the calculation of deferred tax assets and liabilities for temporary differences that are expected to reverse for the year beginning March 1, 2005, and thereafter. As a result, deferred tax assets, net of deferred tax liabilities, as of February 29, 2004, decreased by ¥250 million, income tax expense—deferred for the year then ended increased by ¥250 million and net revaluation loss of land increased by ¥53 million.

## 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 the application of the law, which permits a one-time revaluation of land for business use.

The revaluation loss amounted to ¥3,964 million ($37,851 thousand), the related deferred tax asset recognized is ¥1,612 million ($15,394 thousand) and the net revaluation loss of ¥2,352 million ($22,457 thousand) is presented as a separate component of shareholders' 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 ¥6,572 million ($62,748 thousand) as at February 28, 2005.

**10. Commitments and Contingent Liabilities**

The Company was contingently liable as a guarantor for certain affiliates' bank loans and certain customers' bank loans. The outstanding balance guaranteed as at February 29, 2004 and February 28, 2005, aggregated ¥3,147 million and ¥2,733 million ($26,090 thousand), respectively.

**11. Legal Reserve and Appropriation of Retained Earnings**

Under the Commercial Code of Japan and the Company's Articles of Incorporation, a proposal for the appropriation of retained earnings must be submitted by the Board of Directors to the shareholders' 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 Commercial Code of Japan 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 shareholders.

**12. Subsequent Events**

(1) Subsequent to February 28, 2005, the Company's Board of Directors proposed a plan for the appropriation of retained earnings applicable to the year ended February 28, 2005, which was approved at the general meeting of shareholders held on May 26, 2005.

The approved appropriations 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 (¥22.0 per share) | (3,679) | (35,126) |
| Directors' bonuses | (421) | (4,019) |
| Arbitrary reserves: | | |
| General reserve | (6,500) | (62,058) |
| | ¥(10,600) | $(101,197) |

(2) The Board of Directors on May 16, 2005, resolved that the Company should acquire all shares of Project Sloane Limited and make Project Sloane Limited a subsidiary. Upon the resolution and approval of the Board of Directors the Company concluded the contract for the acquisition of shares on May 16, 2005.

An outline is as follows:

(a) The objective: Strengthening of overseas business strategy

(b) An outline of the company purchased

Name of the company: Project Sloane Limited

Representative of the company: Thierry Jean Letrilliart

Head office: 50 Carnwath Road, London SW6 3JX, United Kingdom

Date of foundation: August 5, 1999

Content of the business: Planning and sales of the Joseph brand

Paid in Capital: £17,557 thousand

Net Sales: £68,303 thousand (For the fiscal year ended March 31, 2004, consolidated basis)

(c) Date of purchase of shares: May 16, 2005

(d) Number and amount of shares to be purchased and ownership situation before and after acquisition

Ownership (before acquisition): 0 shares (ownership percentage: 0%)

Number of shares to be purchased: 47,510,000 shares (value: £84 million)

Ownership (after acquisition): 47,510,000 shares (ownership percentage: 100%)

(e) Method of procuring the payment capital: All of the amount was procured by the Company

**13. Net Assets, Net Income—Basic and Cash Dividends per Share**

Net income per share of common stock is computed based upon the weighted-average number of shares of common stock 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.

The basis for the calculation of net income—basic per share for the years ended February 29, 2004 and February 28, 2005, is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2004 | **2005** | **2005** |
| Net income | ¥13,053 | **¥10,257** | **$97,927** |
| Less: Components not pertaining to common shareholders—Bonuses to directors and corporate auditors | (479) | **(487)** | **(4,649)** |
| Net income pertaining to common stock | ¥12,574 | **¥ 9,770** | **$93,278** |
| Average outstanding shares of common stock (shares) | 169,754,659 | **168,160,781** | |

Effective from the year ended February 29, 2004, the Company and its subsidiaries applied the Financial Accounting Standards No. 2 “Financial Accounting Standards for Earnings per Share” and the Financial Accounting Standards Implementation Guidance No. 4 “Implementation Guidance for Accounting Standards for Earnings per Share” issued by the Accounting Standards Board of Japan on September 25, 2002.

By applying the previous method, the amounts of net income—basic per share and net assets per share for the year ended February 29, 2004, would be calculated as follows:

Net income—basic per share: ¥76.9

Net assets per share: ¥1,172.9

**14. Related Party Transaction**

**Year ended February 28, 2005**

The Company leased land from Mr. Hirouchi, Chairman of Onward Kashiyama Co., Ltd., during the year and the rental fee was ¥5 million (US$52 thousand). At the same time, Mr. Hirouchi, Chairman of Onward Kashiyama Co., Ltd., paid a rental fee for a house to the Company of ¥16 million (US$151 thousand). The rental fees were determined by the market average amount.

**Year ended February 29, 2004**

The Company lent ¥3,300 million to ONWARD KASHIYAMA U.S.A. INC., a 100% owned subsidiary of the Company, during the year, and an outstanding balance as at February 29, 2004, in the same amount was included in long-term loans. The interest rate is based on the market rate and the repayment is scheduled at a time on the due date.

## 15. Segment Information

### *(1) Industry Segment Information*

The Company and its consolidated subsidiaries operate principally in two industrial segments, "Clothing" and "Other."

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

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

Segment information classified by industry segment of the Companies for the two years ended February 28, 2005 and February 29, 2004, is as follows:

| **For the year ended February 28, 2005** | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Industry segment | | | Elimination of intersegment sales | Consolidated total |
| | Clothing | Other | Total | | |
| Sales to outside customers | **¥257,619** | **¥13,654** | **¥271,273** | **¥ —** | **¥271,273** |
| Intersegment sales | **16** | **13,832** | **13,848** | **(13,848)** | **—** |
| Total | **257,635** | **27,486** | **285,121** | **(13,848)** | **271,273** |
| Costs and expenses | **233,924** | **26,995** | **260,919** | **(13,851)** | **247,068** |
| Operating income | **¥ 23,711** | **¥ 491** | **¥ 24,202** | **¥ 3** | **¥ 24,205** |
| Assets | **¥287,331** | **¥40,681** | **¥328,012** | **¥(19,842)** | **¥308,170** |
| Depreciation | **6,274** | **827** | **7,101** | **(59)** | **7,042** |
| Capital expenditures | **8,801** | **351** | **9,152** | **(75)** | **9,077** |

| **For the year ended February 28, 2005** | Thousands of U.S. dollars | | | | |
|---|---|---|---|---|---|
| | Industry segment | | | Elimination of intersegment sales | Consolidated total |
| | Clothing | Other | Total | | |
| Sales to outside customers | **$2,459,605** | **$130,361** | **$2,589,966** | **$ —** | **$2,589,966** |
| Intersegment sales | **151** | **132,062** | **132,213** | **(132,213)** | **—** |
| Total | **2,459,756** | **262,423** | **2,722,179** | **(132,213)** | **2,589,966** |
| Costs and expenses | **2,233,378** | **257,734** | **2,491,112** | **(132,244)** | **2,358,868** |
| Operating income | **$ 226,378** | **$ 4,689** | **$ 231,067** | **$ 31** | **$ 231,098** |
| Assets | **$2,743,278** | **$388,405** | **$3,131,683** | **$(189,444)** | **$2,942,239** |
| Depreciation | **59,904** | **7,894** | **67,798** | **(569)** | **67,229** |
| Capital expenditures | **84,024** | **3,349** | **87,373** | **(713)** | **86,660** |

| For the year ended February 29, 2004 | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Industry segment | | | Elimination of intersegment sales | Consolidated total |
| | Clothing | Other | Total | | |
| Sales to outside customers | ¥255,111 | ¥12,635 | ¥267,746 | ¥ — | ¥267,746 |
| Intersegment sales | 19 | 12,632 | 12,651 | (12,651) | — |
| Total | 255,130 | 25,267 | 280,397 | (12,651) | 267,746 |
| Costs and expenses | 232,209 | 25,361 | 257,570 | (12,720) | 244,850 |
| Operating income (loss) | ¥ 22,921 | ¥ (94) | ¥ 22,827 | ¥ 69 | ¥ 22,896 |
| Assets | ¥298,909 | ¥38,384 | ¥337,293 | ¥(19,023) | ¥318,270 |
| Depreciation | 6,573 | 1,026 | 7,599 | (68) | 7,531 |
| Capital expenditures | 6,858 | 336 | 7,194 | (47) | 7,147 |

***(2) Geographic Segment Information***

Geographic segment information is omitted because more than 90% 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% of consolidated sales amount.

**16. Loans**

Short-term loans at February 29, 2004 and February 28, 2005, represented loans, principally from banks. The weighted-average interest rate on these loans was 0.6% in 2004 and 2005.

# Report of Independent Accountants

To the Board of Directors and Shareholders 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 29, 2004 and February 28, 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended February 28, 2005, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ONWARD KASHIYAMA Co., Ltd. and its consolidated subsidiaries as of February 29, 2004 and February 28, 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended February 28, 2005, in conformity with accounting principles and practices generally accepted in Japan (see Note 1).

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 2. (19) to the accompanying consolidated financial statements.

As discussed in Note 12 to the consolidated financial statements, the Company acquired all shares of Project Sloane Limited on May 16, 2005, and Project Sloane Limited became a subsidiary of the Company.

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers

Tokyo, Japan
May 26, 2005

# Non-Consolidated Balance Sheets

ONWARD KASHIYAMA Co., Ltd.
February 29, 2004 and February 28, 2005

| ASSETS | Millions of yen 2004 | Millions of yen 2005 | Thousands of U.S. dollars (Note 2. (15)) 2005 |
|---|---|---|---|
| **Current assets:** | | | |
| Cash | ¥ 8,103 | **¥ 8,324** | **$ 79,474** |
| Time deposits | 45,008 | **35,308** | **337,101** |
| Accounts and notes receivable: | | | |
| Notes | 2,009 | **1,746** | **16,669** |
| Accounts | 19,524 | **16,116** | **153,870** |
| | 21,533 | **17,862** | **170,539** |
| Less: Allowance for bad debt | (238) | **(206)** | **(1,964)** |
| | 21,295 | **17,656** | **168,575** |
| Inventories (Notes 2 (1) and 3) | 19,914 | **20,887** | **199,422** |
| Advance payments | 918 | **1,478** | **14,107** |
| Deferred tax assets—current (Note 9) | 5,743 | **3,102** | **29,616** |
| Prepaid pension cost | 7,969 | **7,833** | **74,786** |
| Other current assets | 3,757 | **1,306** | **12,463** |
| Total current assets | 112,707 | **95,894** | **915,544** |
| **Investments and advances:** | | | |
| Investments in securities | 5,552 | **10,377** | **99,074** |
| Investments in and advances to subsidiaries and affiliates (Note 8) | 30,068 | **31,441** | **300,176** |
| Long-term loans to employees | 226 | **184** | **1,760** |
| Deferred tax assets—non-current (Note 9) | 9,063 | **8,341** | **79,638** |
| Deferred tax assets—revaluation of land (Notes 6 and 9) | 1,626 | **1,612** | **15,394** |
| Long-term deposits | 2,000 | **4,000** | **38,190** |
| Other investments | 16,268 | **16,549** | **157,998** |
| Less: Allowance for bad debt | (3,801) | **(953)** | **(9,099)** |
| Total investments and advances | 61,002 | **71,551** | **683,131** |
| **Property, plant and equipment** (Note 5): | | | |
| Buildings and structures | 47,066 | **48,256** | **460,724** |
| Machinery and equipment | 1,374 | **1,381** | **13,182** |
| Tools, furniture and fixtures | 8,837 | **9,793** | **93,498** |
| | 57,277 | **59,430** | **567,404** |
| Less: Accumulated depreciation | (29,019) | **(31,486)** | **(300,609)** |
| | 28,258 | **27,944** | **266,795** |
| Land (Note 6) | 42,926 | **44,028** | **420,354** |
| Total property, plant and equipment | 71,184 | **71,972** | **687,149** |
| **Deferred charges and other assets** | 3,681 | **5,520** | **52,698** |
| Total assets | ¥248,574 | **¥244,937** | **$2,338,522** |

The accompanying notes are an integral part of these financial statements.

| LIABILITIES AND SHAREHOLDERS' EQUITY | Millions of yen 2004 | Millions of yen 2005 | Thousands of U.S. dollars (Note 2. (15)) 2005 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Accounts and notes payable: | | | |
| Notes | ¥ 27,912 | **¥ 26,412** | **$ 252,166** |
| Accounts | 7,437 | **6,942** | **66,279** |
| | 35,349 | **33,354** | **318,445** |
| Non-trade payables | 1,188 | **1,917** | **18,304** |
| Accrued expenses | 5,647 | **5,136** | **49,036** |
| Accrued income taxes | 8,890 | **—** | **—** |
| Consumption tax payable | 760 | **997** | **9,519** |
| Accrued bonuses to employees | 2,122 | **1,810** | **17,281** |
| Allowance for sales returns | 1,119 | **875** | **8,354** |
| Other current liabilities | 469 | **414** | **3,953** |
| Total current liabilities | 55,544 | **44,503** | **424,892** |
| **Long-term liabilities:** | | | |
| Long-term guarantee money deposited | 2,238 | **2,307** | **22,024** |
| Accrued retirement benefits | 195 | **294** | **2,808** |
| Provision for loss on guarantee obligations | — | **1,800** | **17,185** |
| Accrued retirement benefits for directors and statutory auditors | 1,328 | **1,463** | **13,964** |
| Total long-term liabilities | 3,761 | **5,864** | **55,981** |
| Total liabilities | 59,305 | **50,367** | **480,873** |
| **Commitments and contingent liabilities** (Note 10) | | | |
| **Shareholders' equity:** | | | |
| Common stock: | | | |
| Authorized—400,000,000 shares | | | |
| Issued—172,921,669 shares | | | |
| at February 29, 2004 and February 28, 2005, respectively | 30,080 | **30,080** | **287,184** |
| Capital surplus | 50,615 | **51,552** | **492,194** |
| Legal reserve (Note 11) | 5,483 | **5,483** | **52,344** |
| General reserve | 96,209 | **102,209** | **975,835** |
| Special reserve | 33 | **33** | **324** |
| Retained earnings (Note 11) | 13,830 | **14,681** | **140,163** |
| Net revaluation loss of land (Note 6) | (2,373) | **(2,353)** | **(22,457)** |
| Net unrealized gains on available-for-sale securities | 765 | **1,092** | **10,421** |
| Less: Treasury stock, at cost, 5,128,796 shares and 5,690,756 shares | | | |
| at February 29, 2004 and February 28, 2005, respectively | (5,373) | **(8,207)** | **(78,359)** |
| Total shareholders' equity | 189,269 | **194,570** | **1,857,649** |
| Total liabilities and shareholders' equity | ¥248,574 | **¥244,937** | **$2,338,522** |

| | Yen | | U.S. dollars (Note 2. (15)) |
|---|---|---|---|
| **Per share:** | | | |
| Net assets per share (Note 13) | ¥1,125.5 | **¥1,161.0** | **$11.1** |

# Non-Consolidated Statements of Income and Retained Earnings

ONWARD KASHIYAMA Co., Ltd.
For the years ended February 28, 2003, February 29, 2004 and February 28, 2005

| | Millions of yen | | | Thousands of U.S. dollars (Note 2. (15)) |
|---|---|---|---|---|
| | 2003 | 2004 | **2005** | **2005** |
| **Net sales** | ¥175,031 | ¥184,914 | **¥197,230** | **$1,883,048** |
| **Cost of sales** | 92,843 | 96,782 | **105,161** | **1,004,027** |
| | 82,188 | 88,132 | **92,069** | **879,021** |
| **Reversal of allowance for sales returns, net** | 119 | 147 | **265** | **2,530** |
| **Gross profit** | 82,307 | 88,279 | **92,334** | **881,551** |
| **Selling, general and administrative expenses** | 65,423 | 70,416 | **74,349** | **709,841** |
| **Operating income** | 16,884 | 17,863 | **17,985** | **171,710** |
| **Other income (expenses):** | | | | |
| Interest and dividend income | 431 | 409 | **674** | **6,432** |
| Loss on disposal of property, net | (77) | (86) | **(286)** | **(2,727)** |
| Loss on write-down of investments in securities | (2,380) | (15) | **(112)** | **(1,067)** |
| Royalty income | 536 | 467 | **420** | **4,014** |
| Loss on liquidation of subsidiaries and affiliates | (4,435) | (4,750) | **(536)** | **(5,118)** |
| Provision for allowance for bad debt | (800) | (2,744) | **—** | **—** |
| Additional retirement payments | (929) | — | **—** | **—** |
| Provision for loss on guarantee obligations | — | — | **(1,800)** | **(17,186)** |
| Gain on sale of equities in affiliates | 2,197 | — | **—** | **—** |
| Rents received | 1,197 | 1,123 | **1,058** | **10,098** |
| Gain on sale of investments in securities, net | — | 1,016 | **883** | **8,430** |
| Gain on the settlement of substitutional potion of governmental pension fund (Note 2. (8)) | — | 8,616 | **—** | **—** |
| Reversal of allowance for bad debt | — | — | **37** | **354** |
| Other, net | 515 | (3,756) | **325** | **3,101** |
| | (3,745) | 280 | **663** | **6,331** |
| **Income before income taxes** | 13,139 | 18,143 | **18,648** | **178,041** |
| **Income taxes** (Note 9): | | | | |
| Current | 3,005 | 10,522 | **4,847** | **46,281** |
| Deferred | 2,895 | (2,582) | **3,153** | **30,098** |
| | 5,900 | 7,940 | **8,000** | **76,379** |
| **Net income** | 7,239 | 10,203 | **10,648** | **101,662** |
| **Retained earnings:** | | | | |
| Balance at beginning of year | 6,344 | 10,342 | **13,830** | **132,039** |
| Reversal of reserve for deferred capital gains on property due to adoption of deferred tax accounting | 1 | 1 | **1** | **6** |
| Reversal of reserve for land revaluation | (1) | (27) | **(20)** | **(193)** |
| Appropriations (Note 11): | | | | |
| Cash dividends | (2,843) | (2,841) | **(3,356)** | **(32,040)** |
| Directors' bonuses | (398) | (348) | **(421)** | **(4,019)** |
| Reserve for deferred capital gains on property due to adoption of deferred tax accounting | — | — | **(1)** | **(7)** |
| Transfer to general reserve | — | (3,500) | **(6,000)** | **(57,285)** |
| | (3,241) | (6,689) | **(9,778)** | **(93,351)** |
| **Balance at end of year** | ¥ 10,342 | ¥ 13,830 | **¥ 14,681** | **$ 140,163** |

| | Yen | | | U.S. dollars (Note 2. (15)) |
|---|---|---|---|---|
| **Per share** (Note 13): | | | | |
| Net income—Basic | ¥42.0 | ¥57.6 | **¥60.49** | **$0.578** |
| Cash dividends | 16.5 | 20.0 | **22.0** | **0.210** |

Diluted net income per share is not disclosed because there were no securities with dilutive effect.
The accompanying notes are an integral part of these financial statements.

# Non-Consolidated Statements of Shareholders' Equity

ONWARD KASHIYAMA Co., Ltd.
For the years ended February 28, 2003, February 29, 2004 and February 28, 2005

| | Number of shares of common stock (thousands) | Millions of yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Common stock | Capital surplus | Legal reserve (Note 11) | General reserve | Special reserve | Retained earnings (Note 11) | Net revaluation loss of land (Note 6) | Net unrealized gains (losses) on available-for-sale-securities | Treasury stock |
| **Balance as at February 28, 2002:** | 172,293 | ¥30,080 | ¥49,135 | ¥5,483 | ¥ 92,709 | ¥35 | ¥ 6,344 | ¥(2,348) | ¥ (255) | ¥ (17) |
| Reversal of reserve for deferred capital gains on property | — | — | — | — | — | (1) | 1 | — | — | — |
| Reversal of reserve for land valuation | — | — | — | — | — | — | (1) | 1 | — | — |
| Cash dividends | — | — | — | — | — | — | (2,843) | — | — | — |
| Directors' bonuses | — | — | — | — | — | — | (398) | — | — | — |
| Net income for the year | — | — | — | — | — | — | 7,239 | — | — | — |
| Net unrealized gains 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 | 92,709 | 34 | 10,342 | (2,347) | (173) | (92) |
| Reversal of reserve for deferred capital gains on property | — | — | — | — | — | (1) | 1 | — | — | — |
| Increase in net revaluation loss of land due to statutory tax rate change | — | — | — | — | — | — | — | (53) | — | — |
| Reversal of reserve for land valuation | — | — | — | — | — | — | (27) | 27 | — | — |
| Cash dividends | — | — | — | — | — | — | (2,841) | — | — | — |
| Directors' bonuses | — | — | — | — | — | — | (348) | — | — | — |
| Transfer to general reserve | — | — | — | — | 3,500 | — | (3,500) | — | — | — |
| Net income for the year | — | — | — | — | — | — | 10,203 | — | — | — |
| Net unrealized gains on available-for-sale securities | — | — | — | — | — | — | — | — | 938 | — |
| Issuance of new stock in exchange for Oak Co., Ltd.'s stock | 629 | — | 1,480 | — | — | — | — | — | — | — |
| Gain on sales of treasury stock | — | — | 0 | — | — | — | — | — | — | 2 |
| Increase in treasury stock | — | — | — | — | — | — | — | — | — | (5,283) |
| **Balance as at February 29, 2004:** | 172,922 | 30,080 | 50,615 | 5,483 | 96,209 | 33 | 13,830 | (2,373) | 765 | (5,373) |
| Reversal of reserve for deferred capital gains on property | **—** | **—** | **—** | **—** | **—** | **(1)** | **1** | **—** | **—** | **—** |
| Reversal of reserve for land valuation | **—** | **—** | **—** | **—** | **—** | **—** | **(20)** | **20** | **—** | **—** |
| Cash dividends | **—** | **—** | **—** | **—** | **—** | **—** | **(3,356)** | **—** | **—** | **—** |
| Directors' bonuses | **—** | **—** | **—** | **—** | **—** | **—** | **(421)** | **—** | **—** | **—** |
| Reserve for deferred capital gains on property due to adoption of deferred tax accounting | **—** | **—** | **—** | **—** | **—** | **1** | **(1)** | **—** | **—** | **—** |
| Transfer to general reserve | **—** | **—** | **—** | **—** | **6,000** | **—** | **(6,000)** | **—** | **—** | **—** |
| Net income for the year | **—** | **—** | **—** | **—** | **—** | **—** | **10,648** | **—** | **—** | **—** |
| Net unrealized gains on available-for-sale securities | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **327** | **—** |
| Exchange of treasury stock for Chacott Co., Ltd.'s stock | **—** | **—** | **936** | **—** | **—** | **—** | **—** | **—** | **—** | **4,164** |
| Gain on sales of treasury stock | **—** | **—** | **1** | **—** | **—** | **—** | **—** | **—** | **—** | **5** |
| Increase in treasury stock | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **(7,003)** |
| **Balance as at February 28, 2005** | **172,922** | **¥30,080** | **¥51,552** | **¥5,483** | **¥102,209** | **¥33** | **¥14,681** | **¥(2,353)** | **¥1,092** | **¥(8,207)** |

| | Thousands of U.S. dollars (Note 2. (15)) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Common stock | Capital surplus | Legal reserve (Note 11) | General reserve | Special reserve | Retained earnings (Note 11) | Net revaluation loss of land (Note 6) | Net unrealized gains on available-for-sale-securities | Treasury stock |
| **Balance as at February 29, 2004:** | $287,184 | $483,241 | $52,344 | $918,550 | $323 | $132,029 | $(22,650) | $ 7,300 | $(51,297) |
| Reversal of reserve for deferred capital gains on property | **—** | **—** | **—** | **—** | **(6)** | **6** | **—** | **—** | **—** |
| Reversal of reserve for land valuation | **—** | **—** | **—** | **—** | **—** | **(193)** | **193** | **—** | **—** |
| Cash dividends | **—** | **—** | **—** | **—** | **—** | **(32,040)** | **—** | **—** | **—** |
| Directors' bonuses | **—** | **—** | **—** | **—** | **—** | **(4,019)** | **—** | **—** | **—** |
| Reserve for deferred capital gains on property due to adoption of deferred tax accounting | **—** | **—** | **—** | **—** | **7** | **(7)** | **—** | **—** | **—** |
| Transfer to general reserve | **—** | **—** | **—** | **57,285** | **—** | **(57,285)** | **—** | **—** | **—** |
| Net income for the year | **—** | **—** | **—** | **—** | **—** | **101,662** | **—** | **—** | **—** |
| Net unrealized gains on available-for-sale securities | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **3,121** | **—** |
| Exchange of treasury stock for Chacott Co., Ltd.'s stock | **—** | **8,936** | **—** | **—** | **—** | **—** | **—** | **—** | **39,757** |
| Gain on sales of treasury stock | **—** | **17** | **—** | **—** | **—** | **—** | **—** | **—** | **44** |
| Increase in treasury stock | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **(66,863)** |
| **Balance as at February 28, 2005** | **$287,184** | **$492,194** | **$52,344** | **$975,835** | **$324** | **$140,163** | **$(22,457)** | **$10,421** | **$(78,359)** |

The accompanying notes are an integral part of these financial statements.

# Notes to Non-Consolidated Financial Statements

ONWARD KASHIYAMA Co., Ltd.

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

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 Commercial Code of Japan (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 Financial Reporting 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 outside Japan.

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

**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 and finished goods 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 29, 2004 and February 28, 2005, the recorded write-downs were ¥7,621 million and ¥8,379 million ($79,998 thousand), respectively.

***(2) Investments in Securities***

Debt securities and equity securities designated as available for sale (“other securities”) whose fair values are readily determinable are carried at fair values prevailing at the fiscal year-end date with unrealized gains or losses included as a component of shareholders’ equity, net of applicable taxes.

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

Investment in subsidiaries and affiliates is stated at cost determined by the moving-average method.

***(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 debt is provided for estimated losses on known bad debt 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 were 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.

Unrecognized prior service costs are amortized on a straight-line basis over 10 years, which is within the related employees' average remaining service years. Unrecognized actuarial differences are amortized on a straight-line basis over 10 years, which is within the related employees' average remaining service years from the year following the one in which they arise.

Following the enactment of the Defined Benefit Corporate Pension Plan Law in Japan, on September 25, 2003, the Company obtained approval from Japan's Ministry of Health, Labour and Welfare for exemption from the future benefit obligation with respect to the portion of the Employee Pension Fund that the Company operates on behalf of the Government (the so-called substitutional portion). The Company applied transitional provisions as prescribed in paragraph 47-2 of the "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" (Accounting Committee Report No. 13 issued by the Japanese Institute of Certified Public Accountants) and recognized a gain in the amount of ¥8,616 million for the settlement of the substitutional portion at the date of approval from Japan's Ministry of Health, Labour and Welfare. The amount of plan assets to be transferred to the Government was computed at ¥19,705 million as of February 29, 2004.

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.

While the Company has no legal obligation, it is the customary practice in Japan to make lump-sum payments to a director or a statutory auditor upon retirement under the approval of the general meeting of shareholders.

The provision 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) Cash Dividends***

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

***(12) Net Assets, Net Income—Basic and Cash Dividends per Share***

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

***(13) Accounting Standard for Impairment of Fixed Assets***

Refer to Note 2. (17) to the consolidated financial statements.

***(14) Reclassification of Accounts***

Certain prior year amounts have been reclassified to conform with the current year's presentation.

***(15) United States Dollar Amounts***

Amounts in U.S. dollars are included solely for the convenience of readers outside of Japan. The rate of ¥104.74=US$1, the rate of exchange as of February 28, 2005, 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.

### 3. Inventories

Inventories at February 29, 2004 and February 28, 2005, consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2004 | **2005** | **2005** |
| Merchandise and finished goods | ¥17,175 | **¥18,243** | **$174,175** |
| Raw materials | 1,637 | **1,399** | **13,355** |
| Work-in-process | 885 | **1,016** | **9,702** |
| Supplies | 217 | **229** | **2,190** |
| | ¥19,914 | **¥20,887** | **$199,422** |

### 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 applied hedge accounting for all derivative transactions as of February 29, 2004 and February 28, 2005, therefore, no market value information is disclosed.

### 5. Property, Plant and Equipment

Refer to Note 5 to the consolidated financial statements.

### 6. Revaluation of Land

Refer to Note 9 to the consolidated financial statements.

### 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 Company for the years ended February 29, 2004 and February 28, 2005, is as follows.

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

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2004 | | | **2005** | | | **2005** | | |
| | Tools, furniture, and fixtures | Other | Total | Tools, furniture, and fixtures | Other | Total | Tools, furniture, and fixtures | Other | Total |
| Acquisition cost | ¥1,407 | ¥373 | ¥1,780 | **¥1,190** | **¥421** | **¥1,611** | **$11,360** | **$4,018** | **$15,378** |
| Accumulated depreciation | (786) | (184) | (970) | **(756)** | **(243)** | **(999)** | **(7,220)** | **(2,319)** | **(9,539)** |
| Net book value | ¥ 621 | ¥189 | ¥ 810 | **¥ 434** | **¥178** | **¥ 612** | **$ 4,140** | **$1,699** | **$ 5,839** |

The scheduled maturities of future lease payments on such lease contracts as of February 29, 2004 and February 28, 2005, are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2004 | **2005** | **2005** |
| Scheduled maturities of future leases: | | | |
| Due within one year | ¥382 | **¥320** | **$3,055** |
| Due over one year | 428 | **292** | **2,784** |
| | ¥810 | **¥612** | **$5,839** |

The lease expenses for the year and depreciation of the lease assets as of February 29, 2004 and February 28, 2005, are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2004 | **2005** | **2005** |
| Lease expenses for the year | ¥419 | **¥401** | **$3,827** |
| Depreciation | 419 | **401** | **3,827** |

## 8. Investments in and Advances to Subsidiaries and Affiliates

Shares of subsidiaries with market value at February 29, 2004 and February 28, 2005, are as follows:

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2004 | | | **2005** | | | **2005** | | |
| | Book value | Market value | Difference | Book value | Market value | Difference | Book value | Market value | Difference |
| Shares of subsidiaries | ¥280 | ¥13,529 | ¥13,249 | **¥280** | **¥12,795** | **¥12,515** | **$2,677** | **$122,162** | **$119,485** |

## 9. Income Taxes

Deferred tax assets and liabilities as at February 29, 2004 and February 28, 2005, consisted of the following elements:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2004 | **2005** | **2005** |
| Deferred tax assets: | | | |
| Valuation loss on inventories | ¥ 1,713 | **¥ 1,894** | **$ 18,078** |
| Evaluation loss on investments in subsidiaries | 4,303 | **3,797** | **36,251** |
| Excess amount of tax deductible accrued employees' retirement benefits | 5,519 | **5,937** | **56,685** |
| Accrued retirement benefits for directors and corporate auditors | 540 | **595** | **5,679** |
| Provision for loss on guarantee obligations | — | **732** | **6,989** |
| Other | 6,752 | **2,767** | **26,427** |
| Total deferred tax assets | 18,827 | **15,722** | **150,109** |
| Deferred tax liabilities: | | | |
| Gain on securities contributed to an employee retirement benefit trust | (3,474) | **(3,474)** | **(33,167)** |
| Provision for deferred capital gains on real property | (23) | **(23)** | **(218)** |
| Other | (524) | **(782)** | **(7,470)** |
| Total deferred tax liabilities | (4,021) | **(4,279)** | **(40,855)** |
| Net deferred tax assets | ¥14,806 | **¥11,443** | **$109,254** |

The reconciliation of the difference between the statutory tax rate and the effective tax rate for the years ended February 29, 2004 and February 28, 2005, has not been disclosed because such difference is immaterial.

In accordance with an amendment of the local tax law at March 31, 2003, the statutory tax rate was changed from 42.1% to 40.7% for the calculation of deferred tax assets and liabilities for temporary differences that are expected to reverse for the year beginning March 1, 2005, and thereafter. As a result, deferred tax assets, net of deferred tax liabilities, as of February 29, 2004, decreased by ¥290 million, income tax expense—deferred for the year then ended increased by ¥290 million and the net revaluation loss of land increased by ¥53 million.

### 10. Commitments and Contingent Liabilities

The Company was contingently liable as a guarantor for certain affiliates' bank loans. The outstanding balance guaranteed as at February 29, 2004 and February 28, 2005, aggregated ¥17,419 million and ¥13,984 million ($133,512 thousand), respectively.

### 11. Legal Reserve and Appropriation of Retained Earnings

Refer to Note 11 to the consolidated financial statements.

### 12. Subsequent Events

Refer to Note 12 to the consolidated financial statements.

### 13. Net Assets, Net Income—Basic and Cash Dividends per Share

Net income per share of common stock is computed based upon the weighted-average number of shares of common stock outstanding during each year. Cash dividends per share shown for each year in the accompanying non-consolidated statements of income and retained earnings represent dividends declared as applicable to the respective years rather than those paid during the years.

Effective from the year ended February 29, 2004, the Company applied the Financial Accounting Standards No. 2 "Financial Accounting Standards for Earnings per Share" and the Financial Accounting Standards Implementation Guidance No. 4 "Implementation Guidance for Accounting Standards for Earnings per Share" issued by the Accounting Standards Board of Japan on September 25, 2002.

The basis for the calculation of net income—basic per share for the years ended February 29, 2004 and February 28, 2005, is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2004 | **2005** | **2005** |
| Net income | ¥10,203 | **¥10,648** | **$101,662** |
| Less: Components not pertaining to common shareholders—Bonuses to directors and corporate auditors | (421) | **(421)** | **(4,019)** |
| Net income pertaining to common stock | ¥ 9,782 | **¥10,227** | **$ 97,643** |
| Average outstanding shares of common stock (shares) | 169,755,528 | **169,077,356** | |

By applying the previous method, the amounts of net income—basic per share and net assets per share for the year ended February 29, 2004, would be calculated as follows:

Net income—basic per share: ¥57.6

Net assets per share: ¥1,125.5

# Report of Independent Accountants

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

We have audited the accompanying non-consolidated balance sheets of ONWARD KASHIYAMA Co., Ltd. as of February 29, 2004 and February 28, 2005, and the related non-consolidated statements of income and retained earnings, and of shareholders' equity for each of the three years in the period ended February 28, 2005, all expressed in Japanese yen. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits.

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

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of ONWARD KASHIYAMA Co., Ltd. as of February 29, 2004 and February 28, 2005, and the results of its operations for each of the three years in the period ended February 28, 2005, in conformity with accounting principles and practices generally accepted in Japan (see Note 1).

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 2. (15) to the accompanying non-consolidated financial statements.

As discussed in Note 12 to the consolidated financial statements, the Company had acquired all shares of Project Sloane Limited on May 16, 2005, and Project Sloane Limited became a subsidiary of the Company.

ChuoAoyama PricewaterhouseCoopers

Tokyo, Japan
May 26, 2005

# Board of Directors

**<DIRECTORS>**

**Honorary Chairman**

Akira Baba

**Chairman & CEO**

Takeshi Hirouchi*

**President**

Shigeru Uemura*

**Senior Managing Directors**

Kazuya Baba*[1]

Masaru Kusaki

Tsutomu Ohnuma

**Managing Directors**

Masao Ohno

Isao Yamane

Masaaki Yoshizawa

Ryuji Horie

Hiroshi Imai

Tadayoshi Kobayashi

**Outside Directors**

Tasuku Chino

Hachiro Honjou

* Representative Director

** Outside Auditor

**<CORPORATE AUDITORS>**

**Standing Corporate Auditors**

Akito Yamamoto

Yuji Ohtsuka

Keiichi Ogawa**

Zyoutarou Yabe**

**<OFFICERS>**

**Managing Executive Officers**

Tetsuji Wada

Kentaro Mizuno

Masabumi Kiyohara

Susumu Maeda

Wataru Sakai

Hiroaki Yamada

Akio Date

Akira Okuda

Kenichiro Tamai

Akinori Baba

**Executive Officers**

Kisaku Uragami

Toshio Tobita

Shigeru Kamakari

Yoshihiko Sato

Hideo Matsumoto

Hiroshi Ishida

Tsutomu Hagihira

Eiji Tono

Masayoshi Harazawa

Minoru Tanaka

Hitoshi Aoyama

Takahisa Suzuki

Hideo Hisamichi

Kazuo Kagatani

Manabu Nomura

Hidenobu Tanaka

Teruhiko Komatsu

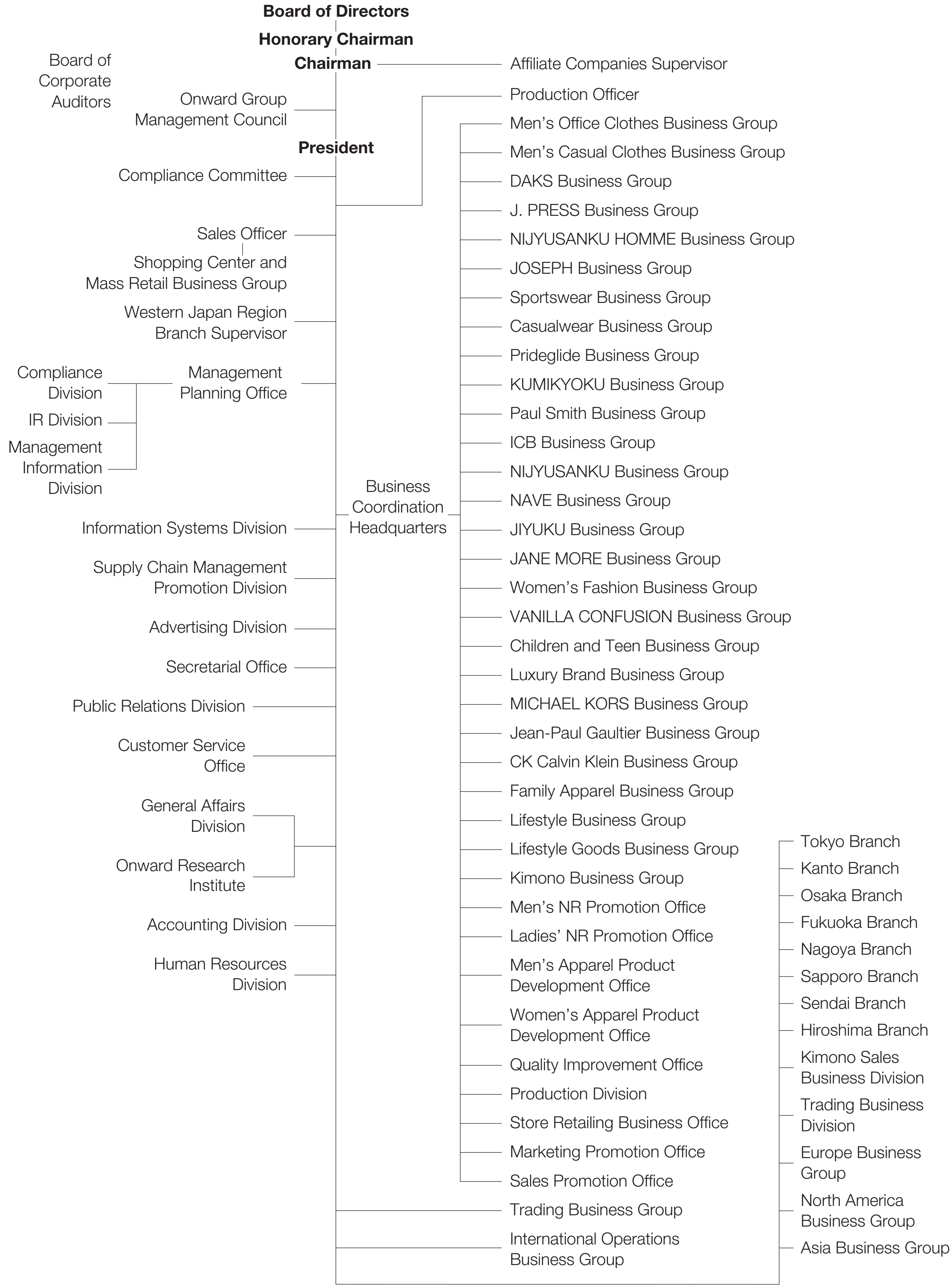
Hirokazu Yoshizato

Hironobu Mitsuta

Kazuhito Kobayashi

As of May 27, 2005

# Organization Chart




As of September 1, 2005

# 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 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,
W1 London, U.K.
Tel: (44) 20-7494-2074

**GIBO' CO. S.p.A.**
Via Cassia 69, Tavarnuzze,
50029 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.**
530 7th Ave., 29th Floor,
New York, NY 10018, U.S.A.
Tel: (1) 212-997-3600

**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

**JOSEPH LTD.**
Unit 11, 50 Carnwath Road,
London SW6 3JX, U.K.
Tel: (44) 20-7736-2522

**IRIS s.r.l.**
Via Pampagnina 42, Fisso d'Artico,
30032 Venezia, Italy
Tel: (39) 041-5169911

**ERIKA s.r.l.**
Via Boschi 421 bis,
Maccari, 37060 Verona, Italy
Tel: (39) 0442-56666

**DOMESTIC SUBSIDIARIES**

**<APPAREL AND TEXTILE PRODUCTS>**

**IMPACT 21 CO., LTD.**

**OAK CO., LTD.**

**CHACOTT CO., LTD.**

**DONNA KARAN JAPAN K.K.**

**BUS STOP CO., LTD.**

**PERSONAL ORDER JAPAN CO., LTD.**

**<SERVICES>**

**ACROSS TRANSPORT 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 27, 2005

# Corporate Data

(As of February 28, 2005)

**Head Office** 10-5, Nihonbashi 3-chome,
Chuo-ku, Tokyo 103-8239, Japan
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—172,921,669 shares

**Number of Shareholders** 9,069

**Stock Listings** Tokyo, Osaka, and Nagoya stock exchanges

**Transfer Agent** UFJ Trust Bank Ltd.
1-4-3, Marunouchi, Chiyoda-ku,
Tokyo 100-0005, Japan

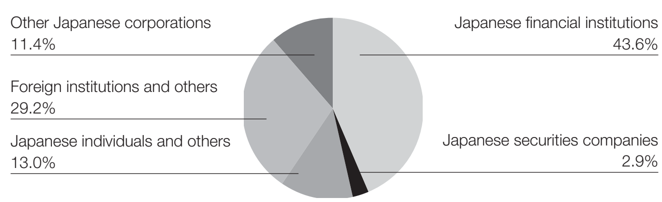
**Number of Employees** 1,684

## Major Shareholders

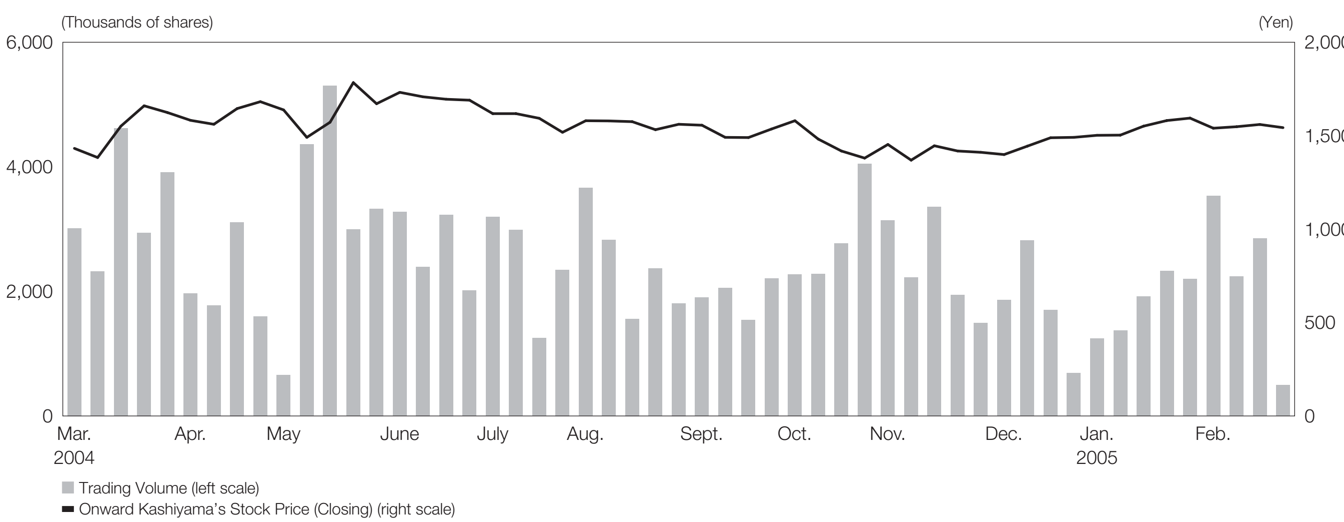
| | Percentage of Total Shares Issued |
|---|---|
| Japan Trustee Services Bank, Ltd. | 9.89% |
| The Master Trust Bank of Japan, Ltd. | 7.03 |
| Kashiyama Scholarship Foundation | 5.03 |
| Nippon Life Insurance Company | 3.60 |
| Nomura Securities Co., Ltd. | 2.61 |
| Isetan Company Limited | 2.49 |
| The Dai-ichi Mutual Life Insurance Company | 2.42 |
| Sumitomo Mitsui Banking Corporation | 1.69 |
| The Chase Manhattan Bank, N.A., London | 1.64 |
| The National Mutual Insurance Federation of Agricultural Cooperatives | 1.63 |

## Distribution of Ownership among Shareholders

(On a number of shares basis)




## Stock Price Movement



Onward Kashiyama Co., Ltd.

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Printed in Japan