

Financial Highlights

WACOAL CORP. AND SUBSIDIARIES
Years ended March 31, 2002, 2001 and 2000

	Millions of Yen			Thousands of U.S. Dollars*	% Change
	2002	2001	2000	2002	2002 vs 2001
Net sales	¥162,829	¥162,023	¥165,937	\$1,227,046	+0.5%
Operating income	7,186	9,624	11,117	54,152	-25.3
Income before income taxes, equity in net income of affiliated companies, minority interests and cumulative effect of accounting change	7,613	20,129	11,401	57,370	-62.2
Net income	4,983	10,889	7,254	37,551	-54.2
Per 5 shares of common stock (in yen/dollars):					
Net income	¥166	¥356	¥235	\$1.25	-53.4
Cash dividends	68	83	68	0.51	-18.1
Shareholders' equity	¥168,205	¥172,558	¥173,612	\$1,267,559	-2.5
Total assets	223,985	232,262	237,721	1,687,905	-3.6

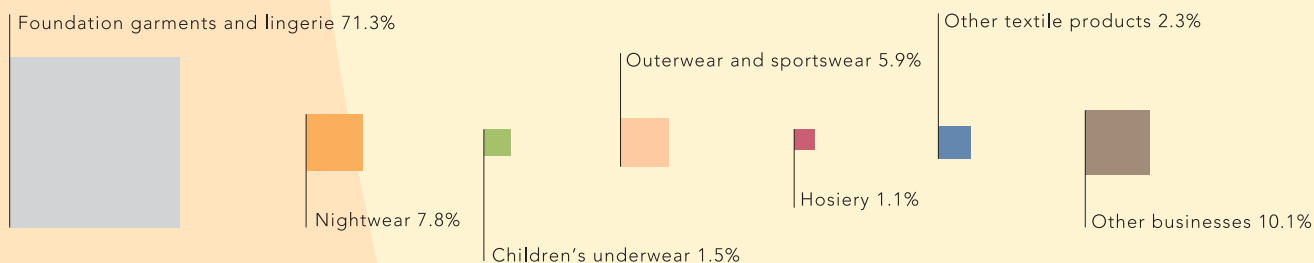
* The U.S. dollar amounts represent translations of Japanese yen solely for convenience at the rate of ¥132.70=\$1.

SALES BY PRODUCT CATEGORY

	Millions of Yen			% Change
	2002	2001	2000	2002 vs 2001
Foundation garments and lingerie	¥116,096 (71.3)	¥115,072 (71.0)	¥118,096 (71.2)	+0.9%
Nightwear	12,714 (7.8)	12,634 (7.8)	13,213 (8.0)	+0.6
Children's underwear	2,470 (1.5)	2,755 (1.7)	3,052 (1.8)	-10.3
Outerwear and sportswear	9,588 (5.9)	9,337 (5.8)	9,831 (5.9)	+2.7
Hosiery	1,777 (1.1)	1,638 (1.0)	1,725 (1.0)	+8.5
Other textile products	3,793 (2.3)	4,282 (2.6)	4,887 (3.0)	-11.4
Other businesses	16,391 (10.1)	16,305 (10.1)	15,133 (9.1)	+0.5
	¥162,829 (100.0)	¥162,023 (100.0)	¥165,937 (100.0)	+0.5

Note: Figures in parentheses represent percent of total sales.

SHARE OF NET SALES



Management's Discussion of Results of Operations and Financial Condition

Financial information contained in this section is based on the consolidated financial statements included in this annual report, which have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Business Overview

Wacoal is a leading manufacturer and retailer of women's intimate apparel in Japan. Foundation garments—primarily brasieres and girdles—and lingerie—mainly slips, knitted undergarments and women's briefs—accounted for approximately 70% of the Company's consolidated net sales in the fiscal year ended March 31, 2002. Wacoal has the largest share of the market for foundation garments and lingerie in Japan (according to the Nihon Body Fashion Association), boasting an overwhelming presence among products in the higher-quality, higher-price bracket. In department stores, the Company's principal sales channel, Wacoal has a considerable share of retail sales of foundation garments and lingerie. In addition to innerwear, Wacoal manufactures and sells nightwear, children's underwear, outerwear and sportswear, hosiery, and other apparel items.

The Company has earned a strong reputation for quality and design in Japan, its mainstay market. Wacoal sells most of its products wholesale to department stores, specialty stores, and general merchandising stores. At the same time, the Company is also actively developing its network of directly managed SPA shops.

Wacoal also has operations in overseas markets. Since establishing joint venture companies with local capital in the Republic of Korea, Taiwan, and Thailand in 1970 and commencing the production and sale of Wacoal products, the Company has expanded its business throughout Asia as well as to Europe and North America. In the United States, Wacoal's main overseas market, Wacoal America, Inc., manufactures and retails three brands—Wacoal, DKI, and DKNY—targeted at mid-to-high-end markets. Elsewhere, Wacoal France S.A. designs and markets

products for the European market. And, in Asia, Beijing Wacoal Co., Ltd., serves as a production and retailing base, while Guangdong Wacoal Inc., Ltd., and Vietnam Wacoal Corp. carry out manufacturing operations. Furthermore, other subsidiaries in Hong Kong, Singapore, the Philippines, and Indonesia are actively developing their operations and steadily building a presence in Southeast Asian markets.

Review of Operations

* Foundation Garments and Lingerie

Although sales of foundation garments and lingerie remained weak in Japan, subsidiaries in the United States and Asia performed favorably, with total category sales increasing 0.9% from the previous year, to ¥116.1 billion. In the domestic market, we endeavored to leverage our brand power and aggressively develop our business. Among Wacoal brand items, our campaign item KIME BRA and the Attaka Kenkyujo undergarment range gained further popularity during the spring/summer and fall/winter seasons, respectively. Meanwhile, sales of the Salute range of underwear, sold mainly through specialty stores, were weak due to sluggishness in the specialty store sector. In addition, to respond to the needs of the expanding senior market, we increasingly focused on products for older women, and our La Vie Aisée and Gra-P ranges of intimate apparel continued to do well. In the Wing brand lingerie category, as well as our hit product Secret Hips shorts, which we developed in response to the current fashion trend of low-rise bottoms, and our stylish Lesiage lingerie range, mainly sold through general merchandising stores, were well received.

On the other hand, a slumping domestic retail industry heavily affected by depressed personal consumption and a series of business failures and store closures among major retailing groups had an adverse impact on the intimate apparel market. In response to these unfavorable conditions, we continued to actively open stores as part of our SPA strategy, which is aimed at increasing points of



contact with new customers. During the year under review, we opened 16 new SPA shops, bringing the total number to 39 as of March 31, 2002. Based on a clarification of store concepts and store location strategies, we intend to steadily open new shops to build a 150-store network with annual sales of ¥10 billion by March 2004. We successfully increased catalog sales, and our Internet-based sales also continued to grow.

In overseas operations, Wacoal subsidiaries and affiliates in Asia recorded generally strong sales performances. In the United States, we achieved higher sales than in the previous year, despite the temporary downturn brought about by the September 2001 terrorist attacks. This recovery in performance was supported by increased sales of DKNY brand items, which registered low sales in the previous year, and of Wacoal brand products in mid-to-high-end markets.

* Nightwear

Although nightwear sales were affected by reductions in the nightwear market and a further divergence in pricing between high- and low-end products, a reorganization of our brands and a rethink of our sales promotional strategies with the needs of our customers in mind proved successful, and category sales edged up 0.6%, to ¥12.7 billion.

* Children's Underwear

Despite steady sales of Wacoal's Junior Bra, sales at department stores were weak due to the strengthening trend among customers of purchasing lower-priced children's underwear. Sales fell 10.3% from the previous fiscal year, to ¥2.5 billion.

* Outerwear and Sportswear

Wacoal primarily sells its outerwear products under the HAI brand through department stores and specialty shops. During the year, orders were lower than expected, due to store closures and weak sales, particularly in the specialty store sector. Focusing mainly on catalog sales, we developed merchandise and sought new

customers for our outerwear range; however, sales remained flat due to the adverse impact of falling apparel prices and the emergence of new and competitive retailing concepts. In sportswear, sales of our CW-X range of conditioning wear and our range of swimwear supplied through OEM to NIKE Japan continued to grow steadily. As a result, category sales increased 2.7%, to ¥9.6 billion.

* Hosiery

A recovery in sales of our completely redesigned Kokochi E and Sevoy women's stockings and our Carlson slacks made from stretch fabric resulted in an 8.5% jump in sales in the hosiery category, to ¥1.8 billion.

* Other Textile Products

Sales of other textile products dropped 11.4% from the previous year, to ¥3.8 billion, mainly due to a fall in exports of raw materials and fabric products from Japan.

* Other Businesses

This category is comprised of housing and restaurant businesses, cultural projects, and Nanasai Co., Ltd., a subsidiary that builds interiors for commercial premises. Although we recorded a higher number of new contracts in our housing business, fewer dwellings were completed compared with the previous year. Consequently, sales were held to a 0.5% rise, to ¥16.4 billion.

Operating Results

* Income and Expenses

In the fiscal year ended March 31, 2002, although Wacoal companies in Japan struggled due to the unfavorable economic environment, an overall increase in sales at subsidiaries in the United States and Southeast Asia and the impact of a weak yen resulted in the Company's consolidated net sales edging up 0.5%, to ¥162.8 billion. Accompanying a slight decrease in the cost of



sales, to ¥86.6 billion, the cost to sales ratio improved 0.8 percentage points, to 53.2%. Selling, general and administrative expenses rose 6.4%, to ¥69.1 billion, due to higher expenses associated with the payment of retirement benefits and a loss on sale of real estate held by our subsidiary Nanasai. As a result, operating income decreased 25.3%, to ¥7.2 billion, and the operating profit margin declined from 5.9% in the previous fiscal year, to 4.4%.

In other income and expenses, Wacoal recorded net other income of ¥0.4 billion, approximately ¥10.0 billion less than the previous year. This sharp decrease was mainly attributable to an ¥11.0 billion gain on sale, transfer or exchange of investments recorded in the previous fiscal year. Consequently, income before income taxes, equity in net income of affiliated companies, minority interests and cumulative effect of accounting change fell 62.2%, to ¥7.6 billion.

Income taxes decreased 58.2%, to ¥3.8 billion, and the effective tax rate was 49.7%. Due to the abovementioned factors, net income in the year under review was down 54.2%, to ¥5.0 billion, and net income per American Depositary Receipt (ADR, equivalent to five shares of common stock) declined from ¥356 in the previous fiscal year to ¥166. Cash dividends per ADR were ¥68, ¥15 lower than the previous fiscal year's dividend payment, which included a special dividend to commemorate the 50th anniversary of the establishment of Wacoal. Due to the decrease in net income, the dividend payout ratio rose to 40.9%, from 23.3% in the previous fiscal year. Return on equity fell from 6.3% to 2.9%, and return on assets decreased from 4.6% to 2.2%. Return on sales for the year under review was 3.1%, compared with 6.7% in the previous fiscal year.

With a view to raising its corporate value, Wacoal has set a target of maintaining return on equity at more than 6% and is working to raise its profitability and the efficiency with which shareholders' equity is managed. In addition, aiming for an operating profit margin of more than 9%, the Company will ensure efficient management by seeking to curb costs and expenses.

* Cash Flow

Net cash provided by operating activities decreased to ¥8.7 billion, from ¥11.5 billion in the previous fiscal year, primarily due to the fall in net income. Depreciation and amortization amounted to ¥3.5 billion.

Net cash used in investing activities decreased from ¥13.7 billion to ¥9.4 billion, mainly attributable to a ¥4.4 billion decrease in net increment of marketable securities in the year under review.

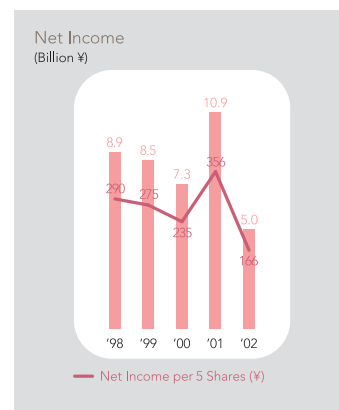
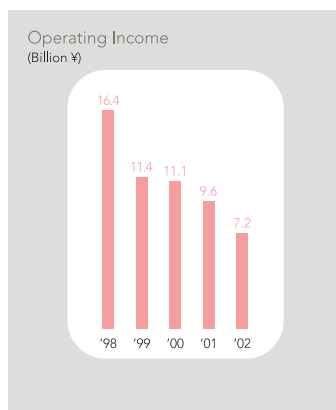
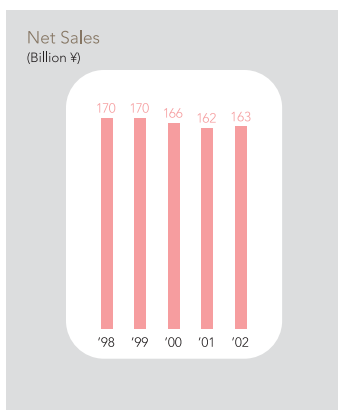
Net cash used in financing activities declined to ¥5.5 billion, from ¥6.5 billion in the previous fiscal year. This decrease was primarily due to a reduction in short-term bank loans and the reduced buy-back of Company stock as well as to lower dividends paid on common stock, which rose temporarily in the previous fiscal year because of the commemorative dividend payout.

As a result of the above activities, cash and cash equivalents were down ¥5.8 billion from the previous fiscal year-end, to ¥35.4 billion. Free cash flow (net cash provided by operating activities less capital expenditures and cash dividends paid) decreased to ¥4.1 billion, from ¥7.8 billion in the previous year, remaining at a healthy level of cash generation.

Liquidity and Capital Resources

Compared with the previous fiscal year-end, Wacoal's total current assets decreased 1.6%, to ¥127.4 billion, and total current liabilities fell 10.5%, to ¥37.1 billion. Working capital was ¥90.3 billion—equivalent to 55.5% of net sales, compared with 54.3% at the end of the previous fiscal year. The current ratio improved from 312% to 343% at fiscal year-end. Wacoal maintains adequate levels of working capital, in addition to cash provided by operating activities, to fund its operating costs and capital investments.

Capital expenditures increased from ¥1.2 billion in the previous fiscal year, to ¥2.5 billion. This rise principally reflected expenses associated with the decoration of and installation of equipment in our directly managed SPA shops, accompanying network expansion.



Long-term debt amounted to ¥1.2 billion, a ¥0.3 billion increase from the previous fiscal year-end. Shareholders' equity decreased 2.5%, to ¥168.2 billion, primarily attributable to a reduction in unrealized gain on securities and the recording of a minimum pension liability. The equity ratio was 75.1%, compared with 74.3% at the previous year-end. Mainly due to lower short-term bank loans, the debt-to-equity ratio edged down from 5.5% at the end of the previous year to 5.2%.

Net property, plant and equipment declined 2.3% at year-end, to ¥57.3 billion, and total assets decreased 3.6% at fiscal year-end, to ¥224.0 billion.

Dividend Policy

In keeping with its dividend policy, Wacoal endeavors to bolster its financial position to ensure a stable operating base. At the same time, the Company works to achieve steady dividend payments while taking into account the dividend payout ratio. The Company intends to invest its internal reserves to build an integrated corporate structure that spans manufacturing, distribution, and retailing and to use its resources to improve information systems and develop new sales channels through its SPA shops. Through such investments, Wacoal will work to improve returns by enhancing corporate profitability.

Furthermore, as part of efforts to return profits to shareholders and boost share value, during the year under review the Company carried out the buy-back and retirement of two million shares, following the retirement of three million shares in the previous year. Wacoal will continue to evaluate the merits of this policy in light of market trends.

Wacoal gives high priority to encouraging the long-term, stable retention of its shares by investors and to expanding its base of investors. To those ends, with individual investors in mind, the Company believes that lowering investment units is an effective policy. While assessing stock market trends, Wacoal will carefully examine the cost and effectiveness of such a policy,

and, in the event that it is judged to be appropriate, the Company will respond promptly.

Trend Information

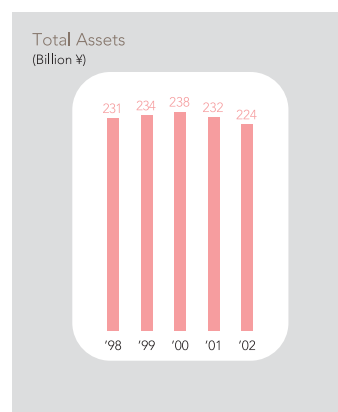
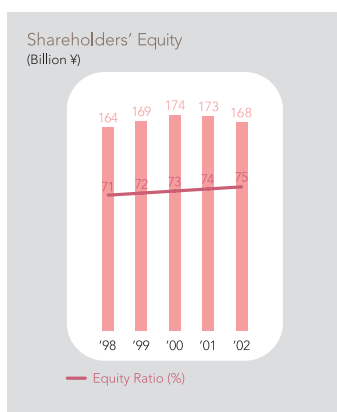
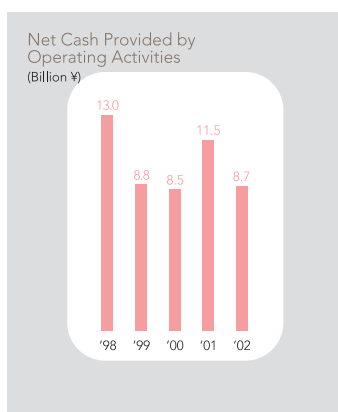
In the fiscal year under review, conditions in the Japanese economy were extremely challenging. In addition to a downturn that started in the IT sector and spread to household spending, the rate of unemployment rose and personal consumption remained sluggish. Overseas, the sudden slump in the U.S. economy resulting from the September 2001 terrorist attacks slowed the global economy as a whole, with the Asian economies being particularly hard hit due to their high dependency on exports.

Amid slumping consumer spending, difficult conditions in Japan's retail industry continued, precipitating a series of store closures and business failures. And, the subsequent reduction of sales areas severely impacted the intimate apparel sector.

Based on the premise that such dramatic changes in the operating environment are possible in the future, Wacoal will implement a variety of policies. As well as bolstering its area strategy, which aims to maintain and boost sales by responding to changes in business conditions in different regions and in retailing categories, Wacoal will construct a highly profitable corporate structure by further strengthening the Company's overall brand power.

Forward-Looking Statements

Statements contained in this annual report that are not historical facts are forward-looking statements that reflect Wacoal's plans and expectations. These forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the Company's actual results, performance, or achievements to differ materially from those anticipated in these statements.



FINANCIAL SUMMARY

WACOAL CORP. AND SUBSIDIARIES
Years ended March 31

	Millions of Yen				
	2002	2001	2000	1999	1998
For the year:					
Net sales	¥162,829	¥162,023	¥165,937	¥169,996	¥169,967
Cost of sales	86,567	87,493	89,290	91,951	91,474
% of net sales	53.2%	54.0%	53.8%	54.1%	53.8%
Selling, general and administrative expenses	69,076	64,906	65,530	66,613	62,066
% of net sales	42.4%	40.1%	39.5%	39.2%	36.5%
Operating income	7,186	9,624	11,117	11,432	16,427
Other income and expenses, net	310	10,443	338	595	(110)
Net interest income (expense)	117	62	(54)	195	256
Income before income taxes, equity in net income of affiliated companies, minority interests and cumulative effect of accounting change	7,613	20,129	11,401	12,222	16,573
Income taxes	3,785	9,058	4,961	4,749	8,170
Net income	4,983	10,889	7,254	8,489	8,929
Return on assets	2.2%	4.6%	3.1%	3.6%	3.9%
Return on equity	2.9%	6.3%	4.2%	5.0%	5.5%
Net cash provided by operating activities	8,653	11,480	8,451	8,813	12,971
Net cash provided by (used in) investing activities	(9,412)	(13,686)	(9,624)	(10,624)	2,045
Net cash used in financing activities	(5,472)	(6,478)	(2,611)	(105)	(296)
Depreciation and amortization	3,533	3,265	3,157	2,447	2,269
Capital expenditures	2,484	1,182	7,757	8,604	5,941
Per 5 shares of common stock (in yen):					
Net income	¥ 166	¥ 356	¥ 235	¥ 275	¥ 290
Cash dividends	68	83	68	68	68
Shareholders' equity	5,640	5,709	5,632	5,485	5,314
At year-end:					
Total current assets	¥127,390	¥129,508	¥127,734	¥129,206	¥130,319
Total current liabilities	37,095	41,449	38,490	39,541	42,319
Cash and cash equivalents	35,381	41,196	49,889	53,933	55,622
Net property, plant and equipment	57,291	58,644	59,990	56,339	52,878
Total assets	223,985	232,262	237,721	233,817	231,226
Short-term bank loans and long-term debt, including current portion	8,795	9,497	10,273	11,263	9,247
Shareholders' equity	168,205	172,558	173,612	169,065	163,800

CONSOLIDATED BALANCE SHEETS

WACOAL CORP. AND SUBSIDIARIES
March 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2002	2001	2002
ASSETS			
Current Assets:			
Cash and cash equivalents:			
Cash	¥ 10,656	¥ 7,634	\$ 80,301
Time deposits and certificates of deposit	24,725	33,562	186,323
Total	35,381	41,196	266,624
Marketable securities (Note 4)	40,203	34,499	302,962
Notes and accounts receivable:			
Trade notes	2,206	2,651	16,624
Trade accounts	21,537	22,049	162,298
Allowance for returns and doubtful receivables (Note 5)	(2,965)	(2,869)	(22,344)
Inventories (Note 6)	24,899	25,601	187,634
Deferred income taxes (Note 11)	4,604	4,647	34,695
Other current assets	1,525	1,734	11,492
Total current assets	127,390	129,508	959,985
Property, Plant and Equipment (Note 7):			
Land	24,649	25,284	185,750
Buildings	55,786	55,197	420,392
Machinery and equipment	12,314	11,530	92,796
Construction in progress	187	–	1,409
Total	92,936	92,011	700,347
Accumulated depreciation	(35,645)	(33,367)	(268,614)
Net property, plant and equipment	57,291	58,644	431,733
Other Assets:			
Investments in affiliates	10,247	8,670	77,219
Investments (Note 4)	22,509	28,877	169,623
Lease deposits and other	6,548	6,563	49,345
Total other assets	39,304	44,110	296,187
Total	¥223,985	¥232,262	\$1,687,905

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2002	2001	2002
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term bank loans (Note 7)	¥ 7,397	¥ 8,088	\$ 55,742
Notes and accounts payable:			
Trade notes	6,061	8,513	45,674
Trade accounts	8,147	7,214	61,394
Accrued payroll and bonuses	7,484	7,743	56,398
Income taxes payable	2,096	3,093	15,795
Other current liabilities	5,747	6,281	43,309
Current portion of long-term debt (Notes 7 and 13)	163	517	1,228
Total current liabilities	37,095	41,449	279,540
Long-Term Liabilities:			
Long-term debt (Notes 7 and 13)	1,235	892	9,307
Liability for termination and retirement benefits (Note 8)	12,334	6,709	92,946
Deferred income taxes (Note 11)	3,346	8,957	25,215
Total long-term liabilities	16,915	16,558	127,468
Minority Interests	1,770	1,697	13,338
Shareholders' Equity (Notes 9, 10 and 14):			
Common stock, no par value—authorized, 235,000,000 and 237,000,000 shares in 2002 and 2001; issued 149,116,685 and 151,116,685 shares in 2002 and 2001	13,260	13,260	99,925
Additional paid-in capital	25,242	25,242	190,219
Retained earnings	132,891	132,322	1,001,439
Accumulated other comprehensive income (loss) (Note 10):			
Foreign currency translation adjustments	(937)	(2,418)	(7,061)
Unrealized gain on securities	199	4,152	1,500
Minimum pension liability	(2,445)	—	(18,425)
Total accumulated other comprehensive income (loss)	(3,183)	1,734	(23,986)
Less treasury stock at cost—4,991 shares in 2002	(5)	—	(38)
Total shareholders' equity	168,205	172,558	1,267,559
Total	¥223,985	¥232,262	\$1,687,905

CONSOLIDATED STATEMENTS OF INCOME

WACOAL CORP. AND SUBSIDIARIES
Years ended March 31, 2002, 2001 and 2000

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2002	2001	2000	2002
Net Sales	¥162,829	¥162,023	¥165,937	\$1,227,046
Operating Costs and Expenses:				
Cost of sales	86,567	87,493	89,290	652,351
Selling, general and administrative (Note 1)	68,336	64,831	66,004	514,966
(Gain) loss on sale or disposal of property, plant and equipment	740	75	(474)	5,577
Total operating costs and expenses	155,643	152,399	154,820	1,172,894
Operating Income	7,186	9,624	11,117	54,152
Other Income and Expenses:				
Interest income	356	395	285	2,683
Interest expense	(239)	(333)	(339)	(1,801)
Dividend income	201	268	294	1,515
Gain on sale, transfer or exchange of investments (Notes 4 and 8)	502	11,025	502	3,783
Other-net	(393)	(850)	(458)	(2,962)
Total other income and expenses	427	10,505	284	3,218
Income before Income Taxes, Equity in Net Income of Affiliated Companies, Minority Interests and Cumulative Effect of Accounting Change	7,613	20,129	11,401	57,370
Income Taxes (Note 11):				
Current	4,405	5,181	5,443	33,195
Deferred	(620)	3,877	(482)	(4,672)
Total income taxes	3,785	9,058	4,961	28,523
Income before Equity in Net Income of Affiliated Companies, Minority Interests and Cumulative Effect of Accounting Change	3,828	11,071	6,440	28,847
Equity in Net Income of Affiliated Companies	1,148	1,271	1,096	8,651
Minority Interests	7	(167)	(282)	53
Income before Cumulative Effect of Accounting Change	4,983	12,175	7,254	37,551
Cumulative Effect of Accounting Change (Note 2)		(1,286)		
Net Income	¥ 4,983	¥ 10,889	¥ 7,254	\$ 37,551

	Yen			U.S. Dollars (Note 3)
	2002	2001	2000	2002
Amounts per American Depositary Receipt (5 shares of common stock) (Note 12):				
Net income before cumulative effect of accounting change	¥166	¥398	¥235	\$1.25
Net income	¥166	¥356	¥235	\$1.25
Cash dividends	¥68	¥83	¥68	\$0.51

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

WACOAL CORP. AND SUBSIDIARIES
Years ended March 31, 2002, 2001 and 2000

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2002	2001	2000	2002
Net Income	¥ 4,983	¥10,889	¥ 7,254	\$ 37,551
Other Comprehensive Loss, Net of Tax (Note 10):				
Foreign currency translation adjustments	1,481	813	(1,672)	11,161
Unrealized gains (losses) on securities	(3,953)	(7,409)	1,046	(29,789)
Minimum pension liability	(2,445)			(18,425)
Other Comprehensive Loss	(4,917)	(6,596)	(626)	(37,053)
Comprehensive Income	¥ 66	¥ 4,293	¥ 6,628	\$ 498

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

WACOAL CORP. AND SUBSIDIARIES
Years ended March 31, 2002, 2001 and 2000

	Outstanding Shares of Common Stock (Thousands)	Millions of Yen				Treasury Stock
		Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	
Balance, April 1, 1999	154,117	¥13,260	¥25,242	¥121,607	¥ 8,956	
Net income				7,254		
Other comprehensive loss					(626)	
Cash dividends paid, ¥68 per 5 shares of common stock				(2,081)		
Balance, March 31, 2000	154,117	13,260	25,242	126,780	8,330	
Net income				10,889		
Other comprehensive loss					(6,596)	
Cash dividends paid, ¥83 per 5 shares of common stock				(2,544)		
Repurchase of treasury stock for retirement ...	(3,000)			(2,803)		
Balance, March 31, 2001	151,117	13,260	25,242	132,322	1,734	
Net income				4,983		
Other comprehensive loss					(4,917)	
Cash dividends paid, ¥68 per 5 shares of common stock				(2,040)		
Repurchase of treasury stock for retirement ...	(2,000)			(2,374)		
Repurchase of treasury stock other, net	(5)					¥(5)
Balance, March 31, 2002	149,112	¥13,260	¥25,242	¥132,891	¥(3,183)	¥(5)

	Thousands of U.S. Dollars (Note 3)				
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock
Balance, March 31, 2001	\$99,925	\$190,219	\$ 997,151	\$ 13,067	
Net income			37,551		
Other comprehensive loss				(37,053)	
Cash dividends paid, \$0.51 per 5 shares of common stock			(15,373)		
Repurchase of treasury stock for retirement			(17,890)		
Repurchase of treasury stock other, net					\$(38)
Balance, March 31, 2002	\$99,925	\$190,219	\$1,001,439	\$(23,986)	\$(38)

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

WACOAL CORP. AND SUBSIDIARIES
Years ended March 31, 2002, 2001 and 2000

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2002	2001	2000	2002
Operating Activities:				
Net income	¥ 4,983	¥ 10,889	¥ 7,254	\$ 37,551
Adjustments to reconcile net income to net cash provided by operating activities:				
Cumulative effect of accounting change		1,286		
Depreciation and amortization	3,533	3,265	3,157	26,624
Deferred income taxes	(620)	3,877	(482)	(4,672)
(Gain) loss on sale or disposal of property, plant and equipment	740	75	(474)	5,576
Gain on sale, transfer or exchange of investments	(502)	(11,025)	(502)	(3,783)
Undistributed earnings of affiliates, less dividends	(1,028)	(943)	(832)	(7,747)
Changes in assets and liabilities:				
Decrease in notes and accounts receivable	1,306	321	634	9,842
(Increase) decrease in inventories	1,262	289	(55)	9,510
Decrease in other current assets	395	437	67	2,977
(Decrease) increase in notes and accounts payable	(2,049)	2,658	(856)	(15,441)
Increase in liability for termination and retirement benefits	1,400	459	16	10,550
(Decrease) increase in accrued expenses, income taxes and other current liabilities	(1,293)	(279)	374	(9,744)
Other	526	171	150	3,964
Net cash provided by operating activities	8,653	11,480	8,451	65,207
Investing Activities:				
Proceeds from sales and redemption of marketable securities	29,248	19,267	10,430	220,407
Payments to acquire marketable securities	(35,148)	(29,559)	(14,132)	(264,868)
Proceeds from sales of property, plant and equipment	115	219	1,152	867
Payments to acquire subsidiary stock		(771)		
Proceeds from sales and redemption of investments	65	487	535	490
Capital expenditures	(2,484)	(1,182)	(7,757)	(18,719)
Payments to acquire investments	(895)	(1,510)	(360)	(6,745)
Decrease (increase) in other assets	(313)	(637)	508	(2,359)
Net cash used in investing activities	(9,412)	(13,686)	(9,624)	(70,927)
Financing Activities:				
Increase (decrease) in short-term bank loans	(1,018)	(340)	71	(7,671)
Repayments of long-term debt	(556)	(820)	(1,025)	(4,190)
Proceeds from issuance of long-term debt	521	29	424	3,926
Purchase of treasury stock	(2,379)	(2,803)		(17,928)
Dividends paid on common stock	(2,040)	(2,544)	(2,081)	(15,373)
Net cash used in financing activities	(5,472)	(6,478)	(2,611)	(41,236)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	416	(9)	(260)	3,135
Net Decrease in Cash and Cash Equivalents	(5,815)	(8,693)	(4,044)	(43,821)
Cash and Cash Equivalents, Beginning of Year	41,196	49,889	53,933	310,445
Cash and Cash Equivalents, End of Year	¥ 35,381	¥ 41,196	¥ 49,889	\$ 266,624
Additional Cash Flow Information:				
Cash paid for:				
Interest	¥ 231	¥ 229	¥ 353	\$ 1,741
Income taxes	5,402	5,121	4,997	40,708
Noncash Investing Activities:				
Fair value of marketable securities contributed to retirement trust fund		7,706		
Fair value of marketable securities received in exchange for certain other marketable securities with a recorded amount of ¥1,069 million in 2002 and certain non publicly traded investment securities with a recorded amount of ¥25 million in 2001	1,927	4,101		14,521

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WACOAL CORP. AND SUBSIDIARIES

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statements

Wacoal Corp. (the "Company") and its subsidiaries are predominantly engaged in one industry, the manufacture and sale of apparel, including foundation garments, lingerie, nightwear and outerwear in Japan, the United States of America, Europe and certain Asian countries.

The accompanying consolidated financial statements, stated in Japanese yen, have been prepared on the basis of accounting principles generally accepted in the United States of America except for the omission of segment information concerning the operations of the Company and its majority-owned subsidiaries in different industries and their foreign operations and export sales, as required by Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information."

The accompanying financial statements differ from the financial statements issued by the Company for domestic purposes in Japan. They reflect certain adjustments and reclassifications, not recorded in the books of account, to present them in accordance with accounting principles generally accepted in the United States of America. The principal adjustments include the charge of stock issuance expenses to the additional paid-in capital account, accrual or deferral of certain expenses, the recording of exchanged equity securities at fair value, accounting for retirement and pension plans and the recognition of deferred income taxes relating to these adjustments.

Certain reclassifications have been made to amounts previously reported to conform with the current year's presentation.

Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries (together the "Companies"). All significant intercompany transactions and balances are eliminated.

Certain foreign subsidiaries of the Company have a fiscal year ending December 31. The accounts of those subsidiaries are included in the Company's consolidated financial statements based on the subsidiaries' fiscal year.

Investments in affiliated companies are stated at cost plus equity in undistributed earnings.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Companies consider all time deposits and certificates of deposit (all of which are interest-bearing) with original maturities of three months or less, which can be withdrawn at face value at any time without diminution of principal, to be cash equivalents.

Inventories

Inventories are stated at the lower of cost or market, cost being substantially determined on the first-in, first-out method for raw materials and the average cost method for work in process and finished products.

Property, Plant and Equipment

Property, plant and equipment is stated at cost. Depreciation of property, plant and equipment is computed by the declining-balance method, except for buildings acquired on or after April 1, 1998, which

are computed by the straight-line method, based upon the estimated useful lives of the assets. The estimated useful lives are as follows:

Buildings:	5 – 50 years (Mainly 38 years)
Machinery and equipment:	5 – 20 years

Goodwill

Goodwill, included in Other assets—Lease deposits and other, is being amortized over its estimated useful life of 5 years.

Accounting for the Impairment of Long-Lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. When the sum of expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized, based on the fair value of the asset.

Marketable Securities and Investments

The Companies classify their marketable debt and equity securities as available-for-sale and carry them at fair value with a corresponding recognition of unrealized holding gains or losses (net of tax) in other comprehensive income and as a separate component of shareholders' equity until realized. Equity securities that do not have readily determinable fair values are recorded at cost. Gains and losses on sales of investments are computed based on cost determined using the average cost method.

If decline in the fair value of marketable securities is determined to be other than temporary, an impairment charge is recorded in the consolidated statements of income.

Derivatives

Derivative instruments, including certain derivative instruments embedded in other contracts, are accounted for in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended. Changes in the fair value of a derivative are recorded in other comprehensive income (loss) or in earnings, depending on whether the derivative instruments are hedging transactions or not.

Termination and Retirement Plans

Termination and retirement benefits are accounted for in accordance with SFAS No. 87, "Employers' Accounting for Pensions." Provisions for termination and retirement benefits include those for directors and corporate auditors of the Company.

Advertising Expenses

Advertising costs are expensed as incurred. Advertising expenses for the years ended March 31, 2002, 2001 and 2000 were ¥10,855 million (\$81,801 thousand), ¥10,818 million and ¥10,343 million, respectively.

Comprehensive Income

Comprehensive income consists of net income, foreign currency translation adjustments, unrealized gains or losses on securities and minimum pension liability, and is presented in the consolidated statements of comprehensive income.

Revenue Recognition

The Company recognizes revenue when (1) persuasive evidence of an arrangement exists, (2) delivery has occurred, (3) the sales price is fixed or determinable, and (4) collectibility is reasonably assured. The above described revenue recognition criteria are met, in most cases, when products are shipped. As for consignment sales, the Company recognizes revenue when the products are sold to ultimate customers.

Recent Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 141, "Business Combinations", which applies to all business combinations initiated after June 30, 2001. This statement addresses financial accounting and reporting for business combinations. Management believes that there is no impact from the adoption of this statement.

In June 2001, the FASB issued SFAS No. 142, "Accounting for Goodwill and Other Intangible Assets", which is effective for fiscal years beginning after December 15, 2001. SFAS 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets. In accordance with SFAS No. 142, the Company will stop amortizing goodwill effective April 1, 2002, and periodically test goodwill for impairment. Goodwill amortization amounted to ¥131 million (\$987,189 thousand) for the year ended March 31, 2002.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations", which is effective for fiscal years beginning after June 15, 2002. SFAS No. 143 addresses financial accounting and reporting for obligations and costs associated with the retirement of tangible long-lived assets. Management has not yet determined the impact that the adoption of SFAS No. 143 will have on its financial position, results of operations and cash flows.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", and is effective for fiscal

years beginning after December 15, 2001. SFAS No. 144 establishes accounting and reporting standards for long-lived assets to be disposed of by sale. This standard applies to all long-lived assets, including discontinued operations. SFAS No. 144 requires that those assets be measured at the lower of carrying amount or fair value less cost to sell. SFAS No. 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity that will be eliminated from the ongoing operations of the entity in a disposal transaction. The Company will adopt SFAS No. 144 effective April 1, 2002. Management has not yet determined the impact that the adoption of this statement will have on its financial position, results of operations and cash flows.

In July 2001, the Emerging Issues Task Force reached a final consensus on Issue 00-25 ("EITF 00-25"), "Vendor Income Statement Characterization of Consideration to a Purchaser of the Vendor's Products or Services". EITF 00-25 addresses the income statement characterization of consideration other than sales incentives from a vendor to an entity that purchases the vendor's products for resale. EITF 00-25 should be applied no later than in financial statements for fiscal years beginning after December 15, 2001. Under EITF 00-25, certain amounts previously classified in selling, general, and administrative will be classified within net sales. Management has not yet determined the impact that the adoption of EITF 00-25 will have on the Company's consolidated financial statements, although there will be an effect on net income.

2. ACCOUNTING CHANGE

Effective April 1, 2000, the Company changed its method of accounting for unrecognized actuarial gains and losses for the defined benefit pension plan, to amortize all such gains and losses over the average remaining service period of employees. The method previously used was to amortize any unrecognized gain or loss in excess of 10% of (a)

the projected benefit obligation or (b) the fair market value of plan assets, whichever greater. As a result of this change in accounting principle, net income decreased by ¥1,429 million, including the cumulative effect at the beginning of the year of ¥1,286 million.

3. TRANSLATION INTO U.S. DOLLAR STATEMENTS

The financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for convenience and have been made at the rate of

¥132.70 to \$1, the buying rate for yen in New York City at March 30, 2002. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at the above or any other rate.

4. MARKETABLE SECURITIES AND INVESTMENTS

The fair value of marketable debt and equity securities is based on quoted market prices at March 31, 2002 and 2001. The fair values of the marketable debt and equity securities were as follows:

	Millions of Yen			Fair Value
	Cost	Gross Unrealized Gain	Gross Unrealized Loss	
2002				
Current:				
Corporate debt securities	¥20,483	¥42	¥ 26	¥20,499
Bank debt securities	17,641	18	140	17,519
Fund trusts	1,897	1	13	1,885
National debt securities	299	1		300
Total	¥40,320	¥62	¥179	¥40,203
Noncurrent:				
Equity securities	¥18,639	¥5,676	¥2,234	¥22,081
Total	¥18,639	¥5,676	¥2,234	¥22,081

2001	Millions of Yen			
	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Current:				
Corporate debt securities	¥ 7,696	¥ 39	¥ 79	¥ 7,656
Bank debt securities	17,010	102	28	17,084
Fund trusts	9,758	3	2	9,759
Total	¥34,464	¥144	¥109	¥34,499
Non-current:				
Equity securities	¥17,748	¥12,248	¥1,606	¥28,390
Total	¥17,748	¥12,248	¥1,606	¥28,390

2002	Thousands of U.S. Dollars			
	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Current:				
Corporate debt securities	\$154,355	\$317	\$ 196	\$154,476
Bank debt securities	132,939	136	1,055	132,020
Fund trusts	14,296	8	98	14,206
National debt securities	2,253	7		2,260
Total	\$303,843	\$468	\$1,349	\$302,962
Noncurrent:				
Equity securities	\$140,460	\$42,773	\$16,835	\$166,398
Total	\$140,460	\$42,773	\$16,835	\$166,398

The unrealized gain on available-for-sale securities, net of related income taxes and minority interests, for the years ended March 31, 2002 and 2001 decreased by ¥3,953 million (\$29,789 thousand) and

¥7,409 million, respectively. Future maturities of debt securities (including fund trusts) classified as available-for-sale at March 31, 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	Cost	Fair Value	Cost	Fair Value
Due within one year	¥17,398	¥17,393	\$131,115	\$131,070
Due after one year through five years	14,416	14,420	108,636	108,666
Due after five years through ten years	8,506	8,390	64,099	63,226
Total	¥40,320	¥40,203	\$303,851	\$302,962

Proceeds from sales of available-for-sale securities were ¥12,208 million (\$91,997 thousand), ¥7,029 million and ¥7,018 million for the years ended March 31, 2002, 2001 and 2000, respectively. The gross realized gains on the sales of available-for-sale securities for the years ended March 31, 2002, 2001 and 2000 were ¥6 million (\$45 thousand), ¥366 million and ¥526 million, respectively. The gross realized losses on the sales of available-for-sale securities for the years ended March 31, 2002, 2001 and 2000 were ¥333 million (\$2,509 thousand), ¥8 million and ¥25 million, respectively.

In addition to the sales described above, during 2001, the Company contributed marketable securities to an outside trust for employee retirement benefit purposes and realized a gain on this transfer of ¥6,581 million.

On March 31, 2001, a certain company's non-publicly traded equity securities held by the Company were exchanged into its publicly traded parent company's equity securities. The Company recorded the received equity securities at fair value and recognized a gain on exchange of equity securities of ¥4,076 million in the year ended March 31, 2001.

On April 2, 2001, certain companies' marketable equity securities held by the Company were exchanged into another company's marketable equity securities. The Company recorded the received equity securities at fair value and recognized a gain on exchange of equity securities of ¥858 million in the year ended March 31, 2002.

5. VALUATION AND QUALIFYING ACCOUNTS

Information related to the Companies' allowance for returns and doubtful receivables was as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2002	2001	2000	2002
Balance at beginning of year	¥ 2,869	¥ 2,633	¥ 2,649	\$ 21,620
Charged to costs and expenses	1,937	2,292	2,059	14,597
Balance written-off	(1,841)	(2,056)	(2,075)	(13,873)
Balance at end of year	¥ 2,965	¥ 2,869	¥ 2,633	\$ 22,344

6. INVENTORIES

Inventories at March 31, 2002 and 2001 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Finished products	¥20,714	¥21,001	\$156,097
Work in process	2,856	3,455	21,522
Raw materials	1,329	1,145	10,015
Total	¥24,899	¥25,601	\$187,634

7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Unsecured bank loans	¥2,183	¥3,193	\$16,451
Collateralized bank loans	5,214	4,895	39,291
Total	¥7,397	¥8,088	\$55,742

The weighted average annual interest rates of short-term bank loans as of March 31, 2002 and 2001 were 1.9% and 3.5%, respectively. Long-term debt at March 31, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Collateralized loans principally from banks, with interest at 1.00% to 2.15%, maturing through 2002	—	¥ 131	—
Unsecured loans principally from banks and an insurance company, with interest at 1.07% to 7.13% (based on current market rates), maturing through 2007	¥ 348	446	\$ 2,622
Other	1,050	832	7,913
Total	1,398	1,409	10,535
Less current portion	163	517	1,228
Long-term debt, less current portion	¥1,235	¥ 892	\$ 9,307

The annual maturities of long-term debt at March 31, 2002 were as follows:

Year ending March 31:	Millions of Yen	Thousands of U.S. Dollars
2003	¥ 163	\$ 1,228
2004	163	1,228
2005	256	1,929
2006	25	189
2007	19	143
Thereafter	772	5,818
Total	¥1,398	\$10,535

At March 31, 2002, assets pledged as collateral for short-term bank loans and long-term debt were property, plant and equipment, less related accumulated depreciation, of ¥867 million (\$6,534 thousand).

As is customary in Japan, the Companies maintain deposit balances with banks and certain financial institutions with which they have short- or long-term borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal.

In addition, collateral must be given if requested by a lending bank and such bank has the right to offset cash deposited with it against any long- or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the bank. The Companies have never received any such requests.

8. TERMINATION AND RETIREMENT PLANS

Employee Retirement Plans

The Companies sponsor termination and retirement benefit plans that cover substantially all employees. Benefits are based on the employee's years of service and certain other factors. If the termination is involuntary or caused by death, the employee is usually entitled to greater payments than in the case of voluntary termination.

The Companies have a contributory retirement plan, several partially funded plans administered by independent trustees and several unfunded termination plans administered by the Companies.

The contributory retirement plan is interrelated with the Japanese government social welfare program which consists of a basic portion requiring employee and employer contributions plus an additional portion established by the Company. Periodic pension benefit payments required under the basic portion are prescribed by the Japanese Ministry of Welfare, commence at age 60 and continue until the death of the employee or the surviving spouse. Benefits under the additional portion are usually paid in a lump sum at the earlier of termination or retirement, although periodic payments are available under certain conditions.

In June 2001, the Japanese Government issued a new law that regulates retirement benefit plans. Under the new law, effective April 1, 2002,

the Companies can transfer the obligation for the basic portion and corresponding plan assets to the social welfare plan administered by the government subject to approval by the government.

The Companies have not yet decided if they will apply for the return of the basic portion but if such an application is made and accepted, it may result in a settlement or curtailment under SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits". The Companies have also not determined the amount of any gain or loss that would result under such circumstances.

The other plans provide either lump-sum termination benefits or periodic payments under certain conditions. Benefits are usually paid as a lump-sum at the earlier of the employee's termination or the mandatory retirement age.

The general funding policy of the funded plans is to contribute amounts computed in accordance with actuarial methods accepted by Japanese tax law.

The following provides a reconciliation of benefit obligations, plan assets and funded status of the plans:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Change in Benefit Obligation:			
Benefit obligation at beginning of year	¥44,655	¥42,047	\$336,511
Service cost	2,368	2,256	17,845
Interest cost	1,490	1,410	11,228
Participants' contributions	484	472	3,647
Actuarial losses	1,917	926	14,446
Plan amendments	(1,151)	(1,209)	(8,674)
Benefits paid from plan assets	(953)	(870)	(7,181)
Benefits paid by the Company	(379)	(377)	(2,856)
Benefit obligation at end of year	48,431	44,655	364,966
Change in Plan Assets:			
Fair value of plan assets at beginning of year	32,787	27,971	247,076
Actual return on plan assets	(2,654)	(4,378)	(20,000)
Employer contributions	2,298	1,886	17,317
Employer contributions to an outside trust		7,706	
Participants' contributions	484	472	3,647
Benefit payments	(953)	(870)	(7,181)
Fair value of plan assets at end of year	31,962	32,787	240,859
Funded Status:			
Funded status at end of year	16,469	11,868	124,107
Unrecognized net actuarial loss	(11,590)	(7,425)	(87,340)
Unrecognized prior service benefit	2,229	1,158	16,797
Unrecognized transition amount	235	353	1,771
Net amount recognized	¥ 7,343	¥ 5,954	\$ 55,335
Amounts recognized in the consolidated balance sheets consist of:			
Accrued benefit cost	¥11,567	¥ 5,954	\$ 87,166
Accumulated other comprehensive loss	(4,224)		(31,831)
Net amount recognized	¥ 7,343	¥ 5,954	\$ 55,335

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2000
Service cost, less participants' contributions	¥2,368	¥2,256	¥2,221
Interest cost on projected benefit obligation	1,490	1,410	1,239
Expected return on plan assets	(939)	(923)	(785)
Net amortization and deferral	1,105	51	237
	¥4,024	¥2,794	¥2,912
			\$30,324

The above pension costs do not include the effect on April 1, 2000, retained earnings of the accounting change described in Note 2.

The actuarial present value of the projected benefit obligation at March 31, 2002, 2001 and 2000 was determined using a discount rate of 3.0% for 2002 and 3.5% for 2001 and 2000, and a rate of increase in future compensation levels of 0.4% for 2002 and 1.0% for 2001 and 2000. The expected long-term rate of return on plan assets was 3.5% at March 31, 2002, 2001 and 2000. The unrecognized net actuarial loss is being amortized utilizing an accelerated method over 12 years (the average remaining service life of active participants), and the remaining unrecognized net transition liability is being amortized on a straight-line basis over 15 years.

During 2001, the Company modified its contributory retirement plan to reduce future pension payments to conform to changes in the government social welfare program. Effective April 1, 2002, the commencement age of life-time annuity payment for the basic portion will increase

progressively from age 60 to age 65. The resulting prior service benefit is being amortized using the straight-line method over 12 years.

Also during 2001, the Company contributed marketable securities to an outside trust for employee retirement benefit purposes and realized a gain on this transfer of ¥6,581 million.

Termination Plan for Directors and Corporate Auditors

The Company has termination plans for directors and corporate auditors. Payment of termination benefits to directors and corporate auditors requires the approval of the shareholders before payment.

The Company records a liability for termination benefits for directors and corporate auditors at the amount that would be needed if all directors and corporate auditors resign at each balance sheet date. The liability for termination benefits for directors and corporate auditors at March 31, 2002 and 2001 was ¥767 million (\$5,780 thousand) and ¥755 million, respectively.

9. SHAREHOLDERS' EQUITY

The Company is subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001. Prior to October 1, 2001, the Code required at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital were credited to additional paid-in capital. Effective October 1, 2001, the Code was revised and common stock par values were eliminated resulting in all shares being recorded with no par value.

Prior to October 1, 2001, the Code also provided that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other cash payments which are made as an appropriation of retained earnings applicable to each fiscal period shall be appropriated and set aside as a legal reserve until such reserve equals 25% of stated capital. Effective October 1, 2001, the revised Code allows for such appropriations to be determined based on total additional paid-in capital and legal reserves. The amount of total additional paid-in capital and legal reserve which exceeds 25% of stated capital can be transferred to retained earnings by resolution of the shareholders, and may be available for dividends. The Company's legal reserve amount, which is included in retained earnings, totals ¥4,072 million (\$30,686 thousand) and ¥4,018 million as of March 31, 2002 and 2001, respectively. Under the Code, companies may issue new common shares to existing shareholders without consideration as a stock split pursuant

to a resolution of the Board of Directors. Prior to October 1, 2001, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split could not be less than ¥50. The revised Code eliminated this restriction.

Prior to October 1, 2001, the Code imposed certain restrictions on the repurchase and use of treasury stock. Effective October 1, 2001, the Code eliminated these restrictions allowing companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders' meeting and dispose of such treasury stock by resolution of the Board of Directors after March 31, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of stated capital, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders' meeting.

The Code permits companies to transfer a portion of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Code also permits companies to transfer a portion of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semi-annual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

10. OTHER COMPREHENSIVE LOSS

The changes in the components of accumulated other comprehensive income (loss) are reported net of income taxes as follows:

	Millions of Yen								
	2002			2001			2000		
	Pre-Tax Amount	Tax (Expense) Credit	Net Amount	Pre-Tax Amount	Tax (Expense) Credit	Net Amount	Pre-Tax Amount	Tax (Expense) Credit	Net Amount
Foreign currency translation adjustments	¥ 1,627	¥ (146)	¥ 1,481	¥ 904	¥ (91)	¥ 813	¥(1,814)	¥ 142	¥(1,672)
Unrealized gain (loss) on securities:									
Unrealized holding gain (loss)	(7,430)	3,431	(3,999)	(5,119)	2,084	(3,035)	2,193	(921)	1,272
Reclassification adjustments	79	(33)	46	(7,555)	3,181	(4,374)	(390)	164	(226)
Net unrealized gain (loss)	(7,351)	3,398	(3,953)	(12,674)	5,265	(7,409)	1,803	(757)	1,046
Minimum pension liability	(4,224)	1,779	(2,445)	–	–	–	–	–	–
Other comprehensive loss	¥(9,948)	¥ 5,031	¥(4,917)	¥(11,770)	¥5,174	¥(6,596)	¥ (11)	¥(615)	¥ (626)

	Thousands of U.S. Dollars		
	2002		
	Pre-Tax Amount	Tax (Expense) Credit	Net Amount
Foreign currency translation adjustments	\$ 12,261	\$ (1,100)	\$ 11,161
Unrealized gain (loss) on securities:			
Unrealized holding gain (loss)	(55,991)	25,855	(30,136)
Reclassification adjustments	595	(248)	347
Net unrealized gain (loss)	(55,396)	25,607	(29,789)
Minimum pension liability	(31,831)	13,406	(18,425)
Other comprehensive loss	\$(74,966)	\$37,913	\$(37,053)

11. INCOME TAXES

The Companies are subject to a number of different taxes based on income. The effective income tax rates differed from the normal statutory rates for the following reasons for the years ended March 31, 2002, 2001 and 2000:

	2002	2001	2000
Normal Japanese statutory rates	42.1%	42.1%	42.1%
Increase (decrease) in taxes resulting from:			
Permanently non-deductible expenses	3.8	1.2	2.2
Increase (decrease) in valuation allowance	2.3	0.5	(3.5)
Undistributed earnings of foreign subsidiaries and affiliates	1.1	2.6	1.7
Other—net	0.4	(1.4)	1.0
Effective tax rates	49.7%	45.0%	43.5%

The approximate effect of temporary differences and tax loss carryforwards that gave rise to deferred tax balances at March 31, 2002 and 2001 were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2002		2001		2002	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Sales returns	¥ 908		¥ 716		\$ 6,843	
Inventory valuation	854		855		6,436	
Accrued bonuses	1,342		931		10,113	
Intercompany profits	127		157		957	
Gain on sales of property, plant and equipment		¥1,800		¥ 1,832		\$13,564
Undistributed earnings of foreign subsidiaries and affiliates		2,050		1,818		15,448
Net unrealized gain on securities		1,400		6,273		10,550
Net realized gain on exchange of equity securities		2,080				15,675
Capitalized supplies	404		358		3,044	
Enterprise taxes	175		289		1,319	
Compensated absences	948		1,066		7,144	
Pension expense	3,498		996		26,360	
Tax loss carryforwards	614		1,128		4,627	
Other temporary differences	1,521	663	1,402	739	11,461	4,996
Total	10,391	7,993	7,898	10,662	78,304	60,223
Valuation allowance	(607)		(931)		(4,574)	
Total	¥ 9,784	¥7,993	¥6,967	¥10,662	\$73,730	\$60,223

The total valuation allowance for the year ended March 31, 2002 decreased by ¥324 million (\$2,442 thousand), for the year ended March 31, 2001 increased by ¥61 million, and for the year ended March 31, 2000 decreased by ¥860 million.

At March 31, 2002, certain subsidiaries had loss carryforwards amounting to ¥1,602 million (\$12,072 thousand) for tax reporting purposes, which are available to offset future taxable income of such subsidiaries. The available loss carryforwards expire in various amounts through 2007.

12. AMOUNTS PER AMERICAN DEPOSITARY RECEIPT

The computation of net income per American Depositary Receipt ("ADR"), each ADR representing 5 shares of common stock, is based on the weighted average number of common shares outstanding. The

average number of common shares outstanding used in the computations was 149,985,724 for 2002, 152,992,548 shares for 2001 and 154,116,685 shares for 2000.

13. FINANCIAL INSTRUMENTS AND CONCENTRATION OF CREDIT RISK

The Companies use derivative financial instruments to reduce their exposure to market risks from changes in interest rates and foreign exchange rates. At March 31, 2002, the Companies had three such instruments outstanding: a forward contract to exchange Japanese yen for U.S. dollars, an interest rate swap to cap the rate paid on certain U.S. dollar debt, and an interest rate swap to fix the interest rate on certain variable rate investments. These instruments do not qualify as hedges under SFAS No. 133 and are being marked to market value, with the related gains or losses recorded in Other Income and Expenses – Other Net. The value of derivative financial instruments and the related gains or losses were insignificant for all periods presented. The Companies believe its credit risk is minimal on these transactions, as the counterparties are major financial institutions.

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents and short term bank loans approximates fair value because of the short maturities of these instruments. The fair values of current and noncurrent marketable securities, as presented in Note 4, are primarily estimated based on quoted market prices for these securities. The difference between the

fair value of marketable securities in Note 4 and the corresponding amount for non-current investments in the consolidated balance sheets represents investments in certain non-publicly traded securities for which fair values are not reasonably available.

The fair values of long-term debt at March 31, 2002 and 2001 are ¥1,406 million (\$10,595 thousand) and ¥1,418 million, respectively. Those fair values are based on comparisons of instruments with similar terms and maturities.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision.

Concentration of Credit Risk

The Companies' business consists primarily of sales of women's intimate apparel to a large number of diverse customers in the Japanese retail industry, which include well established department stores. The Company's management believes that no concentration of credit risk existed at March 31, 2002.

14. SUBSEQUENT EVENT

The Board of Directors of the Company intends to propose for approval at the shareholders' meeting to be held on June 27, 2002, payment of a cash dividend of ¥68 (\$0.51) per 5 shares of common stock to holders of record as of March 31, 2002 with respect to the year then ended. The

total amount of such proposed dividend is ¥2,013 million (\$15,170 thousand), and the purchase of treasury stock for retirement up to 5 million shares of the Company's common stock (aggregate amount of ¥5,000 million).

INDEPENDENT AUDITORS' REPORT

Tohatsu & Co.

Osaka Kokusai Building
3-13, Azuchimachi 2-chome,
Chuo-ku, Osaka 541-0052, Japan

Tel: +81-6-6261-1381
Fax: +81-6-6261-1238
www.tohatsu.co.jp

**Deloitte
Touche
Tohatsu**

**To the Board of Directors and Shareholders of
Wacoal Corp.
Kyoto, Japan:**

We have audited the accompanying consolidated balance sheets of Wacoal Corp. and Subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2002, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

Certain information required by Statement of Financial Accounting Standards No.131, "Disclosures about Segments of an Enterprise and Related Information" has not been presented in the accompanying financial statements. In our opinion, presentation of segment information concerning the Company's operations is required for a complete presentation of the Company's consolidated financial statements.

In our opinion, except for the omission of segment information, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wacoal Corp. and Subsidiaries as of March 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

Our audits also comprehended the translation of the Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 3. The translation of the financial statement amounts into U.S. dollars has been made solely for convenience.

As discussed in Note 2, the Company changed its method of accounting for amortization of unrecognized pension gains and losses in 2001.

Deloitte Touche Tohatsu

June 7, 2002