

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 generally accepted accounting principles in the United States (U.S. GAAP). The Wacoal Group consists of 36 consolidated subsidiaries and 9 affiliates accounted for by the equity method. Wacoal Corp. is engaged in the manufacturing, wholesaling, and – for certain products – retailing of women's foundation garments and lingerie, nightwear, children's underwear, outerwear and sportswear, hosiery, and other textile products. Other operations include restaurant businesses, cultural and service-related operations, and the construction of interiors for commercial premises.

Business Overview

We are a leading designer, manufacturer and marketer of women's intimate apparel in Japan, with the largest share of the Japanese market for foundation garments and lingerie. Sales of foundation garments (primarily brassieres and girdles) and lingerie (primarily slips, bra-slips and ladies' briefs) accounted for 71.4% of our consolidated net sales for fiscal 2005. We also design, manufacture and sell nightwear, children's underwear, outerwear, sportswear, hosiery and other apparel and textile products, and engage in several business lines that are ancillary to our core apparel business.

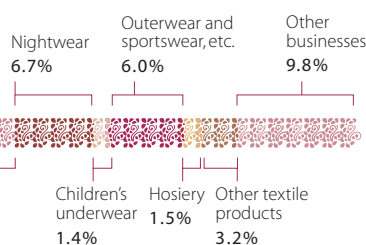
Revenues

We principally generate revenues from sales of innerwear (consisting of foundation garments and lingerie, nightwear and children's underwear), outerwear and sportswear, hosiery, textile products and other products.

The following table sets forth information with respect to our total sales by product category for the fiscal years ended March 31, 2005, 2004 and 2003.

Share of Net Sales 2005

Foundation garments and lingerie
71.4%



Sales by Product Category

WACOAL CORP. AND SUBSIDIARIES
Years Ended March 31, 2005, 2004 and 2003

	2005		2004		2003		% Change 2005 vs 2004
	Millions of yen		Millions of yen		Millions of yen		
Foundation garments and lingerie	¥114,895	(71.4)	¥115,674	(70.9)	¥116,741	(71.3)	-0.7%
Nightwear	10,746	(6.7)	11,823	(7.2)	12,710	(7.8)	-9.1
Children's underwear	2,317	(1.4)	2,583	(1.6)	2,515	(1.5)	-10.3
Outerwear and sportswear, etc	9,628	(6.0)	10,409	(6.4)	9,440	(5.8)	-7.5
Hosiery	2,398	(1.5)	1,798	(1.1)	1,672	(1.0)	+33.4
Other textile and related products	5,250	(3.2)	4,658	(2.9)	4,299	(2.6)	+12.7
Other businesses	15,734	(9.8)	16,210	(9.9)	16,332	(10.0)	-2.9
Total	¥160,968	(100.0)	¥163,155	(100.0)	¥163,709	(100.0)	-1.3

In fiscal 2005, approximately 83% of the sales of Wacoal Corp. (the total sales of which account for approximately 80% of the Wacoal Group's sales on a consolidated basis) were apparel sales made on a wholesale basis to department stores, general merchandising stores and other general retailers, and approximately 7% were apparel sales made through our own SPA specialty retail stores, mail-order catalogs and the Internet. Sales from our other businesses (which include the sale of mannequins, store design and construction, restaurant businesses, cultural projects and other services) comprised the remaining 10% of our total sales in fiscal 2005.

Over the past five fiscal years, fluctuations in our sales have typically reflected changes in unit volume, as average unit prices have generally remained stable during this period.

Key Industry Trends

We believe that the following have been key trends in our industry during the last three fiscal years:

1. Consumer spending in Japan has generally been stagnant, which has negatively impacted performance at general retailers, our key distribution channel.
2. The sale of lower-priced women's innerwear garments in Japan – to a large degree manufactured in China and other lower-cost countries – has increased. This has generally resulted in a greater degree of price competition in our industry.
3. There has been increased demand for higher-end innerwear products. This development (combined with increased demand for lower-end products) has resulted in greater market segmentation.
4. Manufacturers are increasingly focused on reducing their costs, including by sourcing fabric and producing garments in China and other lower-cost countries.
5. Alternative marketing concepts for women's innerwear garments, such as direct shops and e-commerce,

Cost of Sales

Our cost of sales arises principally from material and manufacturing costs related to the production of our apparel products.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses principally consist of employee compensation and benefit expenses and promotional expenses, such as advertising costs and expenses associated with remodeling our sales counters at department stores. Other selling, general and administrative expenses include shipment costs, payment fees (including outsourcing payments) and rental payments for our SPA shops. Our selling, general and administrative expenses do not include any impairment charges on long-lived assets or any losses on the sale or disposal of property, plant and equipment. However, these expenses are included in operating costs and expenses and thus impact our operating income.

are becoming more prevalent as apparel companies seek to diversify their sales channels and reach new customer groups.

During the last three fiscal years, we have taken steps to address these key industry trends in seeking to build on the core strengths of our market position and brand awareness with Japanese consumers. We believe that our strategic emphasis on higher-end products has helped us to reach consumers seeking high quality innerwear garments, and to mitigate the adverse impact on sales and margins from lower-priced garments. We have taken steps to reduce our cost structure, such as producing more products in lower-cost countries such as China and Vietnam and consolidating and modernizing our product distribution centers. We are also seeking to expand sales by developing new contact points with customers, such as SPA, catalog and Internet, and enforcing our Wellness business and presence of the *Wacoal* brand in the U.S., Europe and China.

Review of Operations

Sales

Consolidated net sales decreased 1.3% in fiscal 2005, from ¥163,155 million to ¥160,968 million.

Sales of our mainstay innerwear products (consisting of foundation wear, nightwear and children's underwear), which comprised 79.5% of total consolidated sales, decreased 1.6% in fiscal 2005, to ¥127,958 million. A principal factor in this decrease was lower than expected sales of our campaign products during fiscal 2005, including our *NAMI-NAMI T-shirt bra* (580,000 units sold) and our *Kanjiru* and *Shakitto* bras and underwear (1,160,000 units sold). We believe that sales performance for these campaign items was hurt by the fact that we did not introduce new *Wacoal* brand campaign items in fiscal 2005; the *NAMI-NAMI T-shirt bra* and the *Kanjiru* and *Shakitto* bras marketed as campaign items in fiscal 2005 were remodeled versions of products that had been campaign items in fiscal 2004. Additionally, Japan experienced a long rainy spring, many typhoons in summer and autumn and a warm winter in 2004, which impacted consumer spending generally, including on our products.

Sales of our high-value-added innerwear garments helped to support our sales performance in fiscal 2005, reflecting our success in targeting the high end of the Japanese market. Several of our high end innerwear product lines achieved significant sales growth in fiscal 2005, including *Gra-P* (a 24% increase over fiscal 2004); *La Vie Aisée* (an 11% increase over fiscal 2004); and *L'ge* (a 9% increase over fiscal 2004).

Overseas sales were mixed. Our sales in Asia outside of Japan (including China, Hong Kong, Singapore and the Philippines) grew slightly to ¥5,176 million, representing 3.2% of total consolidated sales in fiscal 2005.

Sales grew 22.1% over the previous year in China overall, and sales were particularly strong in Shanghai, where rapid growth of personal income helped to increase sales of our high-end products.

In the U.S., which represented 7.3% of our total consolidated sales in fiscal 2005, sales increased by 3.5% on a dollar basis in fiscal 2005 as compared to fiscal 2004. However, the reduced value of the dollar against the yen resulted in a 3.0% decrease in U.S. sales in fiscal 2005. Sales growth in the U.S. was largely due to stronger consumer spending and growing awareness of our *Wacoal* brand. Sales in Europe – representing 0.6% of our total sales – were down 12.7% in fiscal 2005 as compared to fiscal 2004. This decrease was largely due to a slump in customer spending and retailers' reductions of counters' stock as new product lines were not acknowledged well in the market.

In our other apparel businesses, sales of outerwear and sportswear in fiscal 2005 decreased 7.5% to ¥9,628 million as compared to fiscal 2004. Within this category, sportswear posted strong sales growth of 19% over fiscal 2004, led by 22% sales growth in our *CW-X* conditioning wear line. We believe that this sales growth in our *CW-X* line reflects the appeal of our human science approach among active consumers. However, this strong performance was more than offset by a nearly 40% decrease in outerwear sales in fiscal 2005, which was largely due to the closure of our outerwear subsidiary Point Up, Inc. in January 2005 after consistently unprofitable performance. Hosiery sales (which include *Carlson*) helped to support our sales results in fiscal 2005, increasing by 33.4%. This performance was due in part to favorable sales of our *Wacoal Panty Stocking*, a collaborative product with Seven-Eleven Japan Co., Ltd. that was launched in spring 2004.

Sales from our other businesses (which include the sale of mannequins, store design and construction, restaurant businesses, cultural projects and other services) declined to ¥15,734 million in fiscal 2005, or 2.9%, from ¥16,210 million in fiscal 2004. We stopped selling pre-fabricated houses in fiscal 2004, which had not been a profitable business for us; the sales decline in this category resulted largely from our termination of the housing business.

Cost of Sales

Our cost of sales decreased 0.7% in fiscal 2005, to ¥84,041 million, from ¥84,638 million in fiscal 2004. Cost of sales as a percentage of net sales increased by 0.3 percentage points, from 51.9% in fiscal 2004 to 52.2% in fiscal 2005. The reduction in our aggregate gross margin primarily resulted from poor sales of highly profitable campaign items.

Selling, General and Administrative Expenses

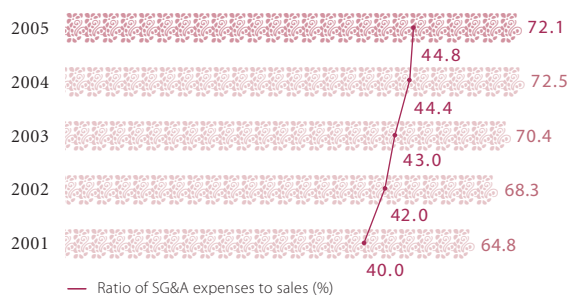
Selling, general and administrative (SG&A) expenses were ¥72,128 million in fiscal 2005, a decrease of 0.5% from ¥72,472 million in fiscal 2004 (not including government subsidy and fixed-assets related profit or loss). Contributing to this aggregate decrease were a huge reduction in personnel costs due to the return of the substitutional portion of our employee pension fund to the Japanese government and higher returns on our pension fund assets. These expense reductions were partially offset by the following increases in expenses:

1. A one-time charge of ¥826 million related to the return of the substitutional portion of our employee pension fund to the Japanese government (this one-time charge represents a settlement loss which is calculated as a ratio of the obligation settled to the total employee pension fund obligation immediately prior to settlement, times the net unrecognized gain/loss immediately prior to settlement);

2. An increment of ¥551 million retirement charge due to an increased number of employees electing to take early retirement under our early retirement program, which was revised in fiscal 2005; and
3. An increase in advertising costs of ¥363 million.

The net reduction in these expenses did not keep pace with the reduction in our sales, which led to an increase in our SG&A expenses as a percentage of sales from 44.4% for fiscal 2004 to 44.8% for fiscal 2005.

SG&A Expenses* (Billion ¥)



* Excluding government subsidy and fixed-assets related profit or loss.

Other Income (Expenses), Net

We had net other income, which decreased from ¥1,516 million in fiscal 2004 to ¥313 million in fiscal 2005. This decline was mainly attributable to the decrease of gain on sale of investment securities by ¥361 million, the increase of impairment charges on investment securities by ¥476 million and the increase of other loss by ¥376 million.

Net Income

Net income in fiscal 2005 was ¥6,790 million, or ¥236 per American Depositary Receipt (“ADR”, equivalent to five shares of common stock), versus ¥99 in fiscal 2004. This increase in net income was primarily due to the recognition of a one-time government subsidy in the amount of ¥7,100 million from the return of the substitutional portion of our employee pension fund to the Japanese government.

Liquidity and Capital Resources

Our main source of liquidity is cash from operations. Our cash from operations has allowed us to fund our working capital requirements and our capital expenditures (including our SPA specialty retail store expansion, the construction of our new production facility in Dalian, China, and the construction of our new distribution center in the Kansai district of Japan) and make dividend payments without material borrowings or other external financing. We believe that we maintain sufficient cash for our anticipated capital requirements and other expenditures (including for the planned capital expenditures in fiscal 2006 noted below) for the foreseeable future.

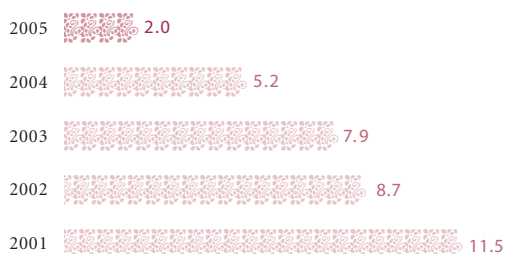
Cash Flows

Net cash provided by operating activities decreased by 60.7%, from ¥5,201 million in fiscal 2004 to ¥2,045 million in fiscal 2005. The decrease resulted largely from lower gross margins due to poor sales of highly profitable campaign items and increases in our accounts receivable and inventories. The higher accounts receivable and inventory balances resulted from an increase in sales of our spring product campaign, which began earlier than usual. Sales for fiscal 2005 were also higher year on year because sales in fiscal 2004 were negatively affected by a high level of returned goods in March 2004, so that the price tags of such goods could be changed in line with a new legal requirement as of April 1, 2004 that all prices be inclusive of consumption tax. Finally, an increase in taxes payable during fiscal 2004 resulted in a large tax payment during fiscal 2005, which was recorded as a decrease of other current liabilities.

Net cash used in investing activities was ¥5,528 million in fiscal 2005, as compared to ¥1,328 million provided by investing activities in fiscal 2004. This change in fiscal 2005 was mainly attributable to an increase in capital expenditures of ¥3,080 million in connection with our new distribution center in the Kansai district of Japan and an increase of ¥2,209 million in investment securities.

Net cash provided by financing activities was ¥296 million in fiscal 2005 versus net cash used in financing activities of ¥6,138 million in fiscal 2004. This change in fiscal 2005 was primarily attributable to an increase in short-term bank borrowings and reduced repurchases of treasury stock as well as a dividend increase from ¥13.5 to ¥15.0. We paid cash dividends of ¥2,878 million in June 2006.

Net Cash Provided by Operating Activities (Billion ¥)

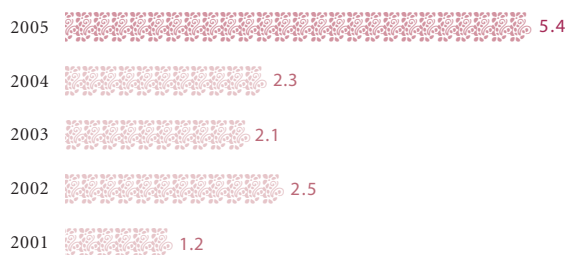


Capital Expenditures

Capital expenditures in fiscal 2005 and 2004 were ¥5,418 million and ¥2,338 million, respectively. In fiscal 2005, our most significant capital expenditures were ¥2,036 million incurred in connection with our new distribution center in the Kansai district of Japan, ¥1,067 million for the construction of Dalian Wacoal, China, ¥538 million incurred to improve our IT infrastructure in Japan and ¥419 million incurred in connection with the addition of 32 new stores to our SPA specialty retail store network. We made significant capital expenditures in fiscal 2003 and 2004 in connection with the establishment and development of our SPA specialty retail network, to purchase computer equipment for Wacoal Corp. and to construct a new factory for Wacoal Dominicana Corp., our subsidiary operating in the Dominican Republic.

In fiscal 2006, we expect that our principal capital expenditures will be approximately ¥3,700 million for continuing work on the new distribution center in the Kansai district of Japan, ¥600 million for adding an anticipated 30 new stores to our SPA specialty retail store network, ¥500 million for IT infrastructure and ¥500 million for overseas factories.

Capital Expenditures (Billion ¥)



Research and Development

Through our Human Science Research Center, we conduct research and development activities focused on the relationship between the human body and garments, which we believe enable us to produce better products. Since the establishment of the Human Science Research Center in 1964, we have conducted a long-term study of the female body designed to accurately understand the Japanese woman's body as a three-dimensional shape. Through these research activities, we have developed specialized equipment, such as silhouette analysis equipment and three-dimensional measuring equipment, and we are currently working on equipment that we believe will provide advanced measurements of sensory comfort.

Our research and development activities are based on the proportional, physiological and mental aspects of garment design. Since 1995, we have participated in a project led by the Ministry of Economy, Trade and Industry (formerly the Ministry of International Trade and Industry) for the study of sensory comfort and have conducted basic research based on reactions to three basic stimuli: pressure, heat and touch. Based on this research, we are focused on developing new products that are not only comfortable for the wearer but have a positive physiological effect.

Currently, the Human Science Research Center's product development team, basic research team and development factory team are working on priority issues such as focusing research and development on addressing customer needs and establishing a product development database. One of our major achievements in recent years was the development of a fitting dummy with the same shape and softness as a human body. We believe that this development has contributed to a higher level of brassiere design by allowing us to quickly test the look and fit of brassieres without testing them on human subjects. We have also published some of our research findings such as "Modern Maternity – Now Beautiful," "Survey of the Perception of Modern Maternity" and "Sleep Science – Development of a Brassiere for Sleeping."

In 2003, we established a sales and design office in Shanghai as part of efforts to improve our product design and development capabilities in China. In order to underpin the new office's product-planning functions, we have established a Wacoal (Shanghai) Human Science R&D Co., Ltd. tasked with developing unique products for the local market based on the principles of human science and ergonomics.

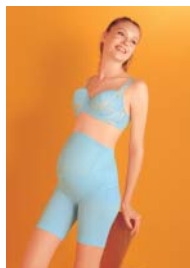
Risk Factors

Our business, performance and financial condition are subject to risks and uncertainties, including those described in the risk factors below. These risks and uncertainties could result in a material adverse effect on Wacoal, and a material decline in the trading price of our common stock and American Depositary Shares, or ADRs.

1. Continued weak consumer spending in Japan would hurt our business.
2. Continued difficulties faced by department stores and other general retailers in Japan would hurt our business.
3. Our success depends on our ability to effectively anticipate and respond to consumer tastes and preferences.
4. We may not be able to increase sales of our products designed for younger women and mature women.
5. We are subject to inventory risks that could negatively impact our operating results.
6. Improvement in our profitability will depend in large part on our ability to reduce costs.
7. Our SPA specialty retail store network may not be successful.
8. We may experience difficulties in successfully increasing our mail-order catalog and Internet sales.
9. Our business is highly competitive.
10. Our business is affected by seasonality.
11. We may face increasing risks relating to conducting business internationally.
12. Our dependency on outside suppliers creates business risks for our company.
13. We face risks in our business relating to intellectual property rights.
14. We must comply with laws and regulations regarding privacy and the protection of customer information.
15. Our holdings of equity securities expose us to risks.
16. We may be adversely affected by our employee benefit obligations.
17. We may become classified as a passive foreign investment company, which could result in adverse U.S. tax consequences to U.S. holders of our stock or ADRs.
18. Yen-dollar fluctuations could cause the market price of the ADRs to decline and reduce dividend amounts payable to ADR holders as expressed in U.S. dollars.
19. Holders of ADRs will have fewer rights than a shareholder, and must act through the depositary to exercise those rights.
20. There are restrictions on the withdrawal of shares from our depositary receipt facility.



Nightwear



Maternity innerwear



Imported product



Tréfle

ELEVEN-YEAR FINANCIAL SUMMARY

WACOAL CORP. AND SUBSIDIARIES
Years Ended March 31

	2005	2004	2003
For the year:			
Net sales	¥160,968	¥163,155	¥163,709
Cost of sales	84,041	84,638	85,306
% of net sales	52.2%	51.9%	52.1%
Selling, general and administrative	72,128	72,472	70,440
Loss (gain) on sale or disposal of property, plant and equipment	133	455	143
Impairment charges on long-lived assets		2,574	556
Government subsidy	(7,100)		
Total selling, general and administrative expenses	65,161	75,501	71,139
% of net sales	40.5%	46.3%	43.5%
Operating income	11,766	3,016	7,264
Other income and expenses, net	206	1,404	(2,800)
Net interest income (expense)	107	112	140
Income before income taxes, equity in net income of affiliated companies and minority interests	12,079	4,532	4,604
Income taxes	5,800	2,520	2,487
Net income	6,790	2,902	2,898
Return on assets	3.0%	1.3%	1.3%
Return on equity	3.9%	1.8%	1.8%
Net cash provided by operating activities	2,045	5,201	7,858
Net cash provided by (used in) investing activities	(5,528)	1,328	(9,839)
Net cash provided by (used in) financing activities	296	(6,138)	(6,006)
Depreciation and amortization	3,312	3,081	2,971
Capital expenditures	5,418	2,338	2,104
Per 5 shares of common stock (in yen):			
Net income	¥ 236	¥ 99	¥ 97
Cash dividends	100	75	68
Shareholders' equity	6,105	5,931	5,487
At year-end:			
Total current assets	¥120,300	¥123,045	¥124,486
Total current liabilities	34,970	33,899	33,576
Cash and cash equivalents	24,195	27,443	27,246
Net property, plant and equipment	51,826	49,932	54,171
Total assets	226,196	224,803	218,105
Short-term bank loans and long-term debt, including current portion	6,911	4,450	6,301
Total shareholders' equity	175,746	170,758	160,839

Millions of Yen

2002	2001	2000	1999	1998	1997	1996	1995
¥162,829	¥162,023	¥165,937	¥169,996	¥169,967	¥168,330	¥159,162	¥153,170
86,567	87,493	89,290	91,951	91,474	90,640	85,470	83,162
53.2%	54.0%	53.8%	54.1%	53.8%	53.8%	53.7%	54.3%
68,336	64,831	66,004	67,319	65,328	64,725	61,942	59,353
740	75	(474)	(706)	(3,262)	566		
69,076	64,906	65,530	66,613	62,066	65,291	61,942	59,353
42.4%	40.1%	39.5%	39.2%	36.5%	38.8%	38.9%	38.7%
7,186	9,624	11,117	11,432	16,427	12,399	11,750	10,655
310	10,443	338	595	(110)	549	937	416
117	62	(54)	195	256	324	619	935
7,613	20,129	11,401	12,222	16,573	13,272	13,306	12,006
3,785	9,058	4,961	4,749	8,170	7,018	7,181	6,119
4,983	10,889	7,254	8,489	8,929	7,336	7,227	6,688
2.2%	4.6%	3.1%	3.6%	3.9%	3.2%	3.2%	3.4%
2.9%	6.3%	4.2%	5.0%	5.5%	4.6%	4.6%	4.7%
8,653	11,480	8,451	8,813	12,971	5,474	11,231	12,015
(9,412)	(13,686)	(9,624)	(10,624)	2,045	962	(5,044)	(1,203)
(5,472)	(6,478)	(2,611)	(105)	(296)	(7,882)	(3,412)	(2,559)
3,533	3,265	3,157	2,447	2,269	2,368	2,404	2,643
2,484	1,182	7,757	8,604	5,941	2,480	1,555	2,958
¥ 166	¥ 356	¥ 235	¥ 275	¥ 290	¥ 236	¥ 228	¥ 211
68	83	68	68	68	68	68	68
5,640	5,709	5,632	5,485	5,314	5,219	4,573	4,398
¥127,390	¥129,508	¥127,734	¥129,206	¥130,319	¥117,579	¥116,705	¥105,153
37,095	41,449	38,490	39,541	42,319	37,884	41,861	35,720
35,381	41,196	49,889	53,933	55,622	40,313	41,350	38,443
57,291	58,644	59,990	56,339	52,878	50,482	50,914	51,698
223,985	232,262	237,721	233,817	231,226	226,103	238,634	214,792
8,079	8,865	9,658	10,649	8,602	6,757	7,025	8,135
168,205	172,558	173,612	169,065	163,800	160,869	160,926	150,390

CONSOLIDATED BALANCE SHEETS

WACOAL CORP. AND SUBSIDIARIES
March 31, 2005 and 2004

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2005	2004	2005
Current assets:			
Cash and cash equivalents:			
Cash	¥ 7,173	¥ 6,847	\$ 66,900
Time deposits and certificates of deposit	17,022	20,596	158,758
Total	24,195	27,443	225,658
Marketable securities (Note 3)	43,396	44,316	404,738
Notes and accounts receivable:			
Trade notes	677	1,226	6,314
Trade accounts	20,879	19,053	194,730
Allowance for returns and doubtful receivables (Note 4)	(2,214)	(2,140)	(20,649)
Inventories (Note 5)	26,785	26,060	249,813
Deferred income taxes (Note 11)	4,811	5,219	44,870
Other current assets	1,771	1,868	16,518
Total current assets	120,300	123,045	1,121,992
Property, plant and equipment:			
Land	21,382	19,910	199,422
Buildings and building improvements	56,719	55,879	528,997
Machinery and equipment	12,918	12,413	120,481
Construction in progress	634	370	5,913
Total	91,653	88,572	854,813
Accumulated depreciation	(39,827)	(38,640)	(371,451)
Net property, plant and equipment	51,826	49,932	483,362
Other assets:			
Investments in affiliates	13,543	12,838	126,310
Investments (Note 3)	31,479	29,872	293,593
Deferred income taxes (Note 11)	649	959	6,053
Lease deposits and other	8,399	8,157	78,334
Total other assets	54,070	51,826	504,290
Total	¥226,196	¥224,803	\$2,109,644

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2005	2004	2005
Current liabilities:			
Short-term bank loans (Note 6)	¥ 6,752	¥ 3,954	\$ 62,973
Notes and accounts payable:			
Trade notes	2,657	2,885	24,781
Trade accounts	10,299	9,343	96,055
Other payables	6,384	5,340	59,541
Accrued payroll and bonuses	6,580	6,895	61,369
Income taxes payable	370	2,724	3,451
Current portion of long-term debt (Notes 6 and 14)	60	374	560
Other current liabilities	1,868	2,384	17,422
Total current liabilities	34,970	33,899	326,152
Long-term liabilities:			
Long-term debt (Notes 6 and 14)	99	122	923
Liability for termination and retirement benefits (Note 8)	7,083	14,794	66,061
Deferred income taxes (Note 11)	6,213	3,424	57,946
Total long-term liabilities	13,395	18,340	124,930
Minority interests	2,085	1,806	19,446
Commitments and contingencies (Notes 7 and 15):			
Shareholders' equity (Note 9):			
Common stock, no par value— authorized 229,900,000 shares in 2005 and 2004; issued 144,016,685 shares in 2005 and 2004	13,260	13,260	123,671
Additional paid-in capital	25,242	25,242	235,423
Retained earnings (Note 16)	134,572	129,941	1,255,102
Accumulated other comprehensive income (loss) (Note 10):			
Foreign currency translation adjustments	(3,820)	(3,512)	(35,628)
Unrealized gain on securities	6,565	6,831	61,229
Minimum pension liability		(954)	
Total accumulated other comprehensive income	2,745	2,365	25,601
Less treasury stock at cost—72,245 and 52,860 shares in 2005 and 2004	(73)	(50)	(681)
Total shareholders' equity	175,746	170,758	1,639,116
Total	¥226,196	¥224,803	\$2,109,644

CONSOLIDATED STATEMENTS OF INCOME

WACOAL CORP. AND SUBSIDIARIES
Years Ended March 31, 2005, 2004 and 2003

	Millions of Yen			Thousands of U.S. Dollars (Note 2)
	2005	2004	2003	2005
Net sales	¥160,968	¥163,155	¥163,709	\$1,501,287
Operating costs and expenses (income):				
Cost of sales	84,041	84,638	85,306	783,818
Selling, general and administrative	72,128	72,472	70,440	672,711
Impairment charges on long-lived assets		2,574	556	
Loss on sale or disposal of property, plant and equipment	133	455	143	1,240
Government subsidy (Note 8)	(7,100)			(66,219)
Total operating costs and expenses	149,202	160,139	156,445	1,391,550
Operating income	11,766	3,016	7,264	109,737
Other income (expenses):				
Interest income	186	225	305	1,735
Interest expense	(79)	(113)	(165)	(737)
Dividend income	271	256	220	2,528
Gain on sale or exchange of investments (Note 3)	571	932	436	5,325
Impairment charges on investments	(618)	(142)	(3,566)	(5,764)
Other—net	(18)	358	110	(168)
Total other income (expenses), net	313	1,516	(2,660)	2,919
Income before income taxes, equity in net income of affiliated companies and minority interests	12,079	4,532	4,604	112,656
Income taxes (Note 11):				
Current	3,041	5,774	5,243	28,362
Deferred	2,759	(3,254)	(2,756)	25,732
Total income taxes	5,800	2,520	2,487	54,094
Income before equity in net income of affiliated companies and minority interests	6,279	2,012	2,117	58,562
Equity in net income of affiliated companies	871	1,032	966	8,123
Minority interests	(360)	(142)	(185)	(3,357)
Net income	¥ 6,790	¥ 2,902	¥ 2,898	\$ 63,328
		Yen		U.S. Dollars
Earnings per share (Note 13)	¥ 47	¥20	¥19	\$0.44
Earnings per American depositary receipt (5 shares of common stock) (Note 13)	¥236	¥99	¥97	\$2.20

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

WACOAL CORP. AND SUBSIDIARIES
Years Ended March 31, 2005, 2004 and 2003

	Millions of Yen			Thousands of U.S. Dollars (Note 2)
	2005	2004	2003	2005
Net income	¥6,790	¥ 2,902	¥ 2,898	\$63,328
Other comprehensive income (loss), net of tax (Note 10):				
Foreign currency translation adjustments	(308)	(1,565)	(1,010)	(2,873)
Unrealized gains (losses) on securities	(266)	7,677	(1,045)	(2,481)
Minimum pension liability	954	5,339	(3,848)	8,898
Other comprehensive income (loss)	380	11,451	(5,903)	3,544
Comprehensive income (loss)	¥7,170	¥14,353	¥(3,005)	\$66,872

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

WACOAL CORP. AND SUBSIDIARIES
Years Ended March 31, 2005, 2004 and 2003

	Millions of Yen					
	Shares of Outstanding Common Stock (Thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock
Balance, April 1, 2002	149,112	¥13,260	¥25,242	¥132,891	¥(3,183)	¥ (5)
Net income				2,898		
Other comprehensive loss					(5,903)	
Cash dividends paid, ¥68 per 5 shares of common stock				(2,013)		
Repurchase of treasury stock for retirement	(2,500)			(2,310)		
Repurchase of treasury stock—other	(42)					(38)
Balance, March 31, 2003	146,570	13,260	25,242	131,466	(9,086)	(43)
Net income				2,902		
Other comprehensive income					11,451	
Cash dividends paid, ¥68 per 5 shares of common stock				(1,978)		
Repurchase of treasury stock for retirement	(2,600)			(2,449)		
Repurchase of treasury stock—other	(6)					(7)
Balance, March 31, 2004	143,964	13,260	25,242	129,941	2,365	(50)
Net income				6,790		
Other comprehensive income					380	
Cash dividends paid, ¥75 per 5 shares of common stock				(2,159)		
Repurchase of treasury stock—other	(20)					(23)
Balance, March 31, 2005	143,944	¥13,260	¥25,242	¥134,572	¥ 2,745	¥(73)

	Thousands of U.S. Dollars (Note 2)				
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock
Balance, March 31, 2004	\$123,671	\$235,423	\$1,211,910	\$22,057	\$(466)
Net income			63,328		
Other comprehensive income				3,544	
Cash dividends paid, \$0.70 per 5 shares of common stock			(20,136)		
Repurchase of treasury stock—other					(215)
Balance, March 31, 2005	\$123,671	\$235,423	\$1,255,102	\$25,601	\$(681)

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

WACOAL CORP. AND SUBSIDIARIES
Years Ended March 31, 2005, 2004 and 2003

	Millions of Yen			Thousands of U.S. Dollars (Note 2)
	2005	2004	2003	2005
Operating activities:				
Net income	¥ 6,790	¥ 2,902	¥ 2,898	\$ 63,328
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	3,312	3,081	2,971	30,890
Deferred income taxes	2,759	(3,254)	(2,756)	25,732
Loss on sale or disposal of property, plant and equipment	133	455	143	1,240
Impairment charges on long-lived assets		2,574	556	
Government subsidy	(7,100)			(66,219)
Gain on sale or exchange of investments	(571)	(932)	(436)	(5,325)
Impairment charges on investments	618	142	3,566	5,764
Undistributed earnings of affiliates, less dividends	(448)	(726)	(643)	(4,178)
Changes in assets and liabilities:				
(Increase) decrease in notes and accounts receivable	(1,350)	(46)	3,110	(12,591)
(Increase) decrease in inventories	(878)	(2,124)	154	(8,189)
Increase (decrease) in notes and accounts payable	1,198	1,020	(2,236)	11,173
Increase in liability for termination and retirement benefits	1,193	3,212	1,672	11,127
Increase (decrease) in accrued bonus and income taxes payable	(2,655)	(657)	771	(24,762)
Increase (decrease) in allowance for returns and doubtful receivables	90	(100)	(547)	839
Other assets and liabilities	(1,046)	(346)	(1,365)	(9,756)
Net cash provided by operating activities	2,045	5,201	7,858	19,073
Investing activities:				
Proceeds from sales and redemption of marketable securities	51,990	59,977	59,681	484,891
Payments to acquire marketable securities	(51,111)	(56,019)	(67,613)	(476,693)
Proceeds from sales of property, plant and equipment	340	369	1,416	3,171
Proceeds from sales and redemption of investments	926	2,130	1	8,636
Capital expenditures	(5,418)	(2,338)	(2,104)	(50,532)
Payments to acquire investments	(2,985)	(776)	(716)	(27,840)
Payments to acquire investments in affiliated companies	(16)	(1,690)	(150)	(149)
(Increase) decrease in other assets	746	(325)	(354)	6,958
Net cash (used in) provided by investing activities	(5,528)	1,328	(9,839)	(51,558)
Financing activities:				
Increase (decrease) in short-term bank loans	2,813	(1,595)	(1,647)	26,236
Proceeds from issuance of long-term debt	45	49	183	420
Repayments of long-term debt	(380)	(158)	(181)	(3,544)
Repurchase of treasury stock	(23)	(2,456)	(2,348)	(215)
Dividends paid on common stock	(2,159)	(1,978)	(2,013)	(20,136)
Net cash provided by (used in) financing activities	296	(6,138)	(6,006)	2,761
Effect of exchange rate changes on cash and cash equivalents	(61)	(194)	(148)	(568)
Net (decrease) increase in cash and cash equivalents	(3,248)	197	(8,135)	(30,292)
Cash and cash equivalents, beginning of year	27,443	27,246	35,381	255,950
Cash and cash equivalents, end of year	¥24,195	¥27,443	¥27,246	\$225,658
Additional cash flow information:				
Cash paid for:				
Interest	¥ 85	¥ 114	¥ 154	\$ 793
Income taxes	5,395	5,846	4,543	50,317
Noncash investing activities:				
Fair value of marketable securities received in exchange for certain other marketable securities with a recorded amount of ¥60 million in 2003			496	

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 as required by Statement of Financial Accounting Standards (“SFAS”) No. 131, “Disclosures about Segments of an Enterprise and Related Information”.

Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries (collectively, 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 where the Company’s ownership is 20% to 50% are accounted for using the equity method.

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

Cash and cash equivalents include 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.

Foreign Currency Translation

Assets and liabilities of international subsidiaries have been translated to Japanese yen at period-end exchange rates and income and expenses have been translated using weighted average exchange rates for the period. Translation adjustments are included in other comprehensive income (loss). Exchange gains and losses resulting from foreign currency transactions and the conversion of monetary assets and liabilities denominated in foreign currencies are included in the consolidated statements of income.

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 (loss), 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 a 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. The Companies principally consider that an other-than-temporary impairment has occurred when the decline in the fair value below the carrying value continues for over nine consecutive months. The Companies may also consider other factors, including their ability and intent to hold the applicable investment securities until maturity, and the severity of the decline in the fair value.

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 less accumulated depreciation. 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 depreciated using the straight-line method, based upon the estimated useful lives of the assets. The estimated useful lives are as follows:

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

Impairment of Long-Lived Assets

The carrying values of long-lived assets, held and used by the Companies, are evaluated for impairment whenever there is an event or change in circumstances that indicates that such assets have been impaired or that the carrying amounts of such assets might not be recoverable.

The Companies recorded ¥2,574 million and ¥556 million in impairment charges on long-lived assets for the years ended March 31, 2004 and 2003, respectively, which resulted from the impairment of primarily land and buildings related to a warehouse facility in 2004, and an apartment complex in 2003 held and operated by the Companies with a fair value of ¥1,252 million and ¥398 million, respectively.

In 2004, as a result of changes in business plans in which the Companies reconsidered the intended use of the land and warehouse facility, the Companies evaluated the recoverability of the assets and recognized an impairment. The fair values of the land and warehouse facility were determined by an independent appraisal. In 2003, the Companies evaluated the recoverability of the apartment complex and recognized an impairment loss, due to the significant deterioration of real estate value in Japan. The fair value of the apartment complex assets was determined by the discounted cash flow approach. No impairment charges were recorded in the year ended March 31, 2005.

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”, SFAS No. 138, “Accounting for Certain Derivative Instruments and Certain Hedging Activities as

Amendment of FASB Statement No. 133,” and SFAS No. 149, “Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities.” Changes in the fair value of a derivative are recorded in other comprehensive income (loss) or in earnings, depending on its intended use. Changes in fair value of foreign currency forward exchange contracts designated as fair value hedges of recognized assets and liabilities and firm commitments are recognized in income. Changes in fair value of forward exchange contracts designated and qualifying as cash flow hedges of recognized assets and liabilities and firm commitments are reported in accumulated other comprehensive income. These amounts are reclassified into income in the same period as the hedged items affect income.

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 Companies.

As allowed under SFAS No. 88, “Employers’ Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits,” the Companies do not recognize gain or loss on settlement of the pension obligation when the cost of all settlements in a year is less than or equal to the sum of the service cost and interest cost components of net periodic pension cost for the plan for the year.

Advertising Expenses

Advertising costs are expensed as incurred. Advertising expenses for the years ended March 31, 2005, 2004 and 2003 were ¥13,241 million (\$123,494 thousand), ¥12,878 million and ¥11,850 million, respectively.

Revenue Recognition

The Companies recognize revenue on sales to retailers when (1) persuasive evidence of an arrangement exists, (2) delivery has occurred resulting in transfer of title and risk of loss, (3) the sales price is fixed or determinable and (4) collectibility is reasonably assured. Retail sales are recognized at the point of sale. The Companies establish allowances for estimated returns based on historical experience. As for consignment sales, the Companies recognize revenue when the products are sold to the ultimate customer.

Income Taxes

The provision for income taxes is determined under the liability method pursuant to SFAS No. 109, “Accounting for Income Taxes”. Under this method, deferred tax assets and liabilities are determined for temporary differences between the financial statements and tax bases of assets and liabilities at presently enacted tax rates. A valuation allowance is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized in the future.

Provisions are made for taxes on undistributed earnings and cumulative translation adjustments of foreign subsidiaries whose earnings are not deemed to be permanently invested.

Reclassifications

Certain reclassifications have been made to the prior years’ financial statements to conform with the current year’s presentation.

Recent Accounting Pronouncements

(1) Inventory Costs, an Amendment of ARB No. 43, Chapter 4— In November 2004, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 151, “Inventory Costs, an amendment of

ARB No. 43, Chapter 4”. This statement clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. Additionally, SFAS No. 151 requires that allocation of fixed production overhead to inventory be based on the normal capacity of the production facilities. The provisions of SFAS No. 151 are applicable to inventory costs incurred during fiscal years beginning after June 15, 2005. The Companies do not expect the adoption of SFAS No. 151 to have a material effect on the consolidated financial statements.

(2) Share Based Payment—In December 2004, the FASB issued SFAS No. 123 (revised 2004), “Share Based Payment”. This statement is applicable to awards issued after the effective date and all awards prior to the effective date that remain unvested on the effective date and requires that all equity-based compensation be recorded in the consolidated financial statements at the grant date fair value. In April 2005, the Securities and Exchange Commission announced a deferral of the effective date of SFAS No. 123 (revised 2004). Under this deferral, SFAS No. 123 (revised 2004) is required to be adopted as of the beginning of the Company’s first annual reporting period that begins after June 15, 2005. The Companies do not expect the adoption of SFAS No. 123 (revised 2004) to have any effect on the consolidated financial statements as the Companies do not make share-based payments to employees or directors.

(3) Exchanges of Nonmonetary Assets, an Amendment to APB Opinion No. 29—In December 2004, the FASB issued SFAS No. 153, “Exchanges of Nonmonetary Assets, an amendment to APB Opinion No. 29”. SFAS No. 153 eliminates the exception to measure exchanges at fair value for exchanges of similar productive assets and replaces it with a general exception for exchange transactions that do not have commercial substance. SFAS No. 153 is effective for non-monetary exchanges in fiscal periods beginning after June 15, 2005. The Companies do not expect the adoption of SFAS No. 153 to have a material effect on the consolidated financial statements.

(4) Accounting for Conditional Asset Retirement Obligations—In March 2005, the FASB issued FASB Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143” (“FIN 47”). This interpretation clarifies the timing of liability recognition for legal obligations associated with the retirement of tangible long-lived assets when the timing and/or method of settlement of the obligation are conditional on a future event and where an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective for conditional asset retirement obligations occurring during fiscal years ending after December 15, 2005. The Companies do not expect FIN 47 to have a material effect on the consolidated financial statements.

2. 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 of readers outside of Japan and have been made at the rate of ¥107.22 to \$1, the buying rate for yen in New York City at March 31, 2005. 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.

3. Marketable Securities and Investments

The fair value of marketable debt and equity securities is based on quoted market prices at March 31, 2005 and 2004. The fair values of the marketable debt and equity securities were as follows:

Millions of Yen				
2005	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Current:				
Corporate debt securities	¥19,920	¥ 21	¥15	¥19,926
Bank debt securities	13,412	88	3	13,497
Mutual funds	4,404	43	11	4,436
National debt securities	5,521	16		5,537
Total	¥43,257	¥ 168	¥29	¥43,396

Noncurrent:				
Equity securities	¥17,294	¥13,398	¥18	¥30,674

Millions of Yen				
2004	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Current:				
Corporate debt securities	¥22,962	¥ 19	¥ 4	¥22,977
Bank debt securities	12,781	87	5	12,863
Mutual funds	5,722	43	9	5,756
National debt securities	2,722	2	4	2,720
Total	¥44,187	¥ 151	¥22	¥44,316

Noncurrent:				
Equity securities	¥15,457	¥13,805	¥ 6	¥29,256

Thousands of U.S. Dollars				
2005	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Current:				
Corporate debt securities	\$185,786	\$ 196	\$140	\$185,842
Bank debt securities	125,089	821	28	125,882
Mutual funds	41,075	401	103	41,373
National debt securities	51,492	149		51,641
Total	\$403,442	\$ 1,567	\$271	\$404,738

Noncurrent:				
Equity securities	\$161,295	\$124,958	\$168	\$286,085

Gross unrealized holding losses and fair values of marketable debt and equity securities which had been in a continuous unrealized loss position for less than 12 months at March 31, 2005 and 2004 were as follows:

Millions of Yen			Thousands of U.S. Dollars	
2005	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Current:				
Corporate debt securities	¥ 2,885	¥15	\$26,907	\$140
Bank debt securities	4,897	3	45,672	28
Mutual funds	2,582	11	24,081	103
Total	¥10,364	¥29	\$96,661	\$271

Noncurrent:				
Equity securities	¥ 547	¥18	\$ 5,102	\$168

Millions of Yen			
2004	Fair Value	Gross Unrealized Loss	Fair Value
Current:			
Corporate debt securities			¥ 3,778
Bank debt securities			4,402
Mutual funds			1,587
National debt securities			506
Total			¥10,273

Noncurrent:			
Equity securities			¥ 511

There were no securities which had been in a continuous unrealized loss position over 12 months at March 31, 2005 and 2004.

Future maturities of debt securities classified as available-for-sale at March 31, 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	Cost	Fair Value	Cost	Fair Value
Due within one year	¥19,859	¥19,864	\$185,217	\$185,264
Due after one year through five years	15,790	15,867	147,267	147,985
Due after five years through ten years	3,204	3,229	29,883	30,116
Total	¥38,853	¥38,960	\$362,367	\$363,365

Proceeds from sales of available-for-sale securities were ¥2,697 million (\$25,154 thousand), ¥2,631 million and ¥1,741 million for the years ended March 31, 2005, 2004 and 2003, respectively. The gross realized gains on the sales of available-for-sale securities for the years ended March 31, 2005, 2004 and 2003 were ¥572 million (\$5,335 thousand), ¥933 million and ¥1 million, respectively. The gross realized losses on the sales of available-for-sale securities for the years ended March 31, 2005, 2004 and 2003 were ¥9 million (\$84 thousand), ¥4 million and ¥53 million, respectively.

During the year ended March 31, 2003, the Companies exchanged certain equity securities for other securities. The Companies recorded the newly received securities at fair value and recognized a gain of ¥436 million in the year ended March 31, 2003. No such exchanges were made in the years ended March 31, 2005 and 2004.

The Companies recognized impairment charges on investments of ¥618 million (\$5,764 thousand), ¥142 million and ¥3,566 million in the years ended March 31, 2005, 2004 and 2003, respectively.

Investments in non-marketable equity securities for which there is no readily determinable fair value were accounted for using the cost method and aggregated ¥801 million (\$7,471 thousand) and ¥616 million at March 31, 2005 and 2004, respectively. Each investment in non-marketable equity securities is reviewed annually for impairment or upon the occurrence of an event or change in circumstances that may have a significant adverse effect on the carrying value of the investment.

4. Valuation and Qualifying Accounts

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

	Millions of Yen			Thousands of U.S. Dollars
	2005	2004	2003	2005
Balance at beginning of year	¥149	¥222	¥645	\$1,390
Charged to costs and expenses		13	83	
Balances written-off/reversed	(77)	(86)	(506)	(718)
Balance at end of year	¥72	¥149	¥222	\$672

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

	Millions of Yen			Thousands of U.S. Dollars
	2005	2004	2003	2005
Balance at beginning of year	¥1,991	¥2,066	¥2,320	\$18,569
Charged to costs and expenses	2,142	1,991	2,066	19,978
Balances utilized	(1,991)	(2,066)	(2,320)	(18,569)
Balance at end of year	¥2,142	¥1,991	¥2,066	\$19,978

5. Inventories

Inventories at March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Finished products	¥22,296	¥21,955	\$207,946
Work in process	2,918	2,730	27,215
Raw materials	1,571	1,375	14,652
Total	¥26,785	¥26,060	\$249,813

6. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Unsecured bank loans	¥4,537	¥1,339	\$42,315
Collateralized bank loans	2,215	2,615	20,658
Total	¥6,752	¥3,954	\$62,973

The weighted average annual interest rates on short-term bank loans as of March 31, 2005 and 2004 were 1.1% and 1.5%, respectively.

Long-term debt at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Unsecured loans principally from banks and an insurance company, with interest at 1.65% (based on current market rates), maturing through 2007	¥ 50	¥317	\$ 466
Other	109	179	1,017
Total	159	496	1,483
Less current portion	60	374	560
Long-term debt, less current portion	¥ 99	¥122	\$ 923

The annual maturities of long-term debt at March 31, 2005 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year ending March 31:		
2006	¥ 60	\$ 560
2007	99	923
Total	¥159	\$1,483

At March 31, 2005, assets pledged as collateral for short-term bank loans and long-term debt were property, plant and equipment with a net book value of ¥224 million (\$2,089 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 such requests for additional collateral.

7. Leases

The Companies rent certain facilities and equipment under lease arrangements classified as operating leases. Future minimum rental commitments on non-cancelable operating leases are presented below:

	Millions of Yen	Thousands of U.S. Dollars
Year ending March 31:		
2006	¥ 818	\$ 7,629
2007	755	7,042
2008	447	4,169
2009	160	1,492
2010	168	1,567
Thereafter	1,376	12,833
Total	¥3,724	\$34,732

Rental expenses were ¥3,703 million (\$34,536 thousand), ¥3,174 million and ¥2,811 million for the years ended March 31, 2005, 2004 and 2003, respectively.

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, position in the Companies and performance. 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 substitutional portion requiring employee and employer contributions plus a corporate portion established by the Companies. Periodic pension

benefit payments required under the substitutional portion are prescribed by the Japanese Ministry of Health, Labour and Welfare, commence at a certain age and continue until the death of the employee or the surviving spouse. Benefits under the corporate portion are usually paid in a lump-sum at the earlier of termination or retirement, although periodic payments are available under certain conditions.

The other retirement 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 Companies use a March 31 measurement date for the majority of their plans.

The weighted-average assumptions used as of March 31 in computing the benefit obligation liabilities were as follows:

	2005	2004
Discount rate	2.5%	2.5%
Rate of increase in future compensation	0.5%	0.4%

The weighted-average assumptions used as of March 31 in computing the net periodic benefit cost as follows:

	2005	2004	2003
Discount rate	2.5%	2.5%	3.0%
Expected long-term rate of return on plan assets	2.5%	2.5%	3.0%
Rate of increase in future compensation	0.4%	0.4%	0.4%

The Company's approach to establishing the discount rate is based upon long-term Japanese government bond rates and corporate bond indices. The discount rate assumption is based upon the five-year average of the effective yields on the 20-year Japanese government bond, adjusted for an incremental yield of approximately 25 basis points that is achieved by selecting corporate bonds whose credit characteristics satisfy the quality requirements but whose yields are slightly higher than the yields on Japanese government bonds. For other plans, similar indices and methods are used.

The expected long-term rate of return on plan assets is derived proportionally from return assumptions determined for each of the major asset classes. The return expectations for each of the asset classes are based largely on assumptions about economic growth and inflation,

The asset allocation at March 31, 2005 and 2004 was as follows:

	2005	2004
Equity securities	60.6%	45.3%
Debt securities	25.6%	16.4%
Life insurance company general accounts	11.3%	10.5%
Cash and cash equivalents	2.5%	27.8%

The Company applied for an exemption from the obligation to pay benefits for future employee services related to the substitutional portion in accordance with the Defined Benefit Pension Plan Law enacted in April 2002 and received approval from the government in January 2003. In January 2004, the Company received approval for exemption of the benefit obligation for past service related to the substitutional portion. In September 2004, the substitutional portion of the benefit obligation and related plan assets were transferred to the government.

In accordance with the Emerging Issue Task Force ("EITF") Issue 03-2, "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities" ("EITF 03-2"), the Company accounted for the entire

which are supported by long-term historical data. The estimated long-term rate of return is based on an asset allocation of equity securities of 60.0%, debt securities of 22.0%, and other investments of 18.0%.

The Companies' investment strategy is to maintain actual asset weightings within a preset range of target allocations. The Companies' investments are broadly diversified, typically consisting primarily of equity and debt securities. The Companies believe these ranges represent an appropriate risk profile for the planned benefit payments of the plans based on the timing of the estimated benefit payment. This asset allocation differed from the existing asset allocation at March 31, 2004 as disclosed below due to a temporary shift of assets to cash and cash equivalents in preparation for the transfer of the substitutional portion of plan assets to the government.

separation process upon completion of the transfer to the government of the substitutional portion of the benefit obligation and related plan assets as the culmination of a series of steps in a single settlement transaction. The transfer resulted in the Company recording a subsidy from the government of ¥7,100 million (\$66,219 thousand) representing the difference between the substitutional portion of the accumulated benefit obligation and the related plan assets. In addition, the Company recorded a gain from derecognition of previously accrued salary progression of ¥1,716 million (\$16,004 thousand), and a settlement loss from recognition of actuarial losses of ¥2,644 million (\$24,660 thousand) in the year ended March 31, 2005.

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

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Change in benefit obligation:			
Benefit obligation at beginning of year	¥ 54,618	¥55,115	\$ 509,401
Service cost	1,811	1,589	16,891
Interest cost	1,063	1,302	9,914
Participants' contributions	114	131	1,063
Actuarial gain	(1,113)	(1,964)	(10,380)
Plan amendments		(68)	
Benefits paid from plan assets	(218)	(1,018)	(2,033)
Benefits paid by the Companies	(1,846)	(169)	(17,217)
Settlement paid	(354)	(300)	(3,302)
Return of substitutional portion of employee pension fund	(17,594)		(164,093)
Benefit obligation at end of year	36,481	54,618	340,244
Change in plan assets:			
Fair value of plan assets at beginning of year	35,513	29,191	331,216
Actual return on plan assets	922	5,466	8,599
Employer contributions	2,668	1,912	24,884
Participants' contributions	114	131	1,063
Benefit payments	(218)	(1,018)	(2,033)
Settlement payments	(1,846)	(169)	(17,217)
Return of substitutional portion of employee pension fund	(8,777)		(81,860)
Fair value of plan assets at end of year	28,376	35,513	264,652
Funded status:			
Funded status at end of year	8,105	19,105	75,592
Unrecognized net actuarial loss	(3,327)	(8,616)	(31,029)
Unrecognized prior service benefit	1,690	1,896	15,762
Net amount recognized	¥ 6,468	¥12,385	\$ 60,325

Net periodic benefit costs for the Companies' plans consisted of the following for the years ended March 31:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2004	2003	2005
Service cost	¥ 1,811	¥1,589	¥2,146	\$ 16,891
Interest cost on projected benefit obligation	1,063	1,302	1,355	9,914
Expected return on plan assets	(629)	(642)	(808)	(5,866)
Net amortization	1,110	3,153	1,832	10,353
Derecognition of previously accrued salary progression	(1,716)			(16,005)
Settlement loss	2,644			24,660
Total	¥ 4,283	¥5,402	¥4,525	\$ 39,947

The unrecognized net actuarial loss and prior service benefit are being amortized over 12 years (the average remaining service life of active participants) using the declining-balance method and the straight-line method, respectively.

The accumulated benefit obligation for all domestic defined benefit plans was ¥33,615 million (\$313,514 thousand) and ¥49,646 million at March 31, 2005 and 2004, respectively.

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Amounts recognized in the consolidated balance sheets consist of:			
Accrued benefit cost	¥ 6,468	¥14,188	\$ 60,325
Accumulated other comprehensive loss		(1,803)	
Net amount recognized	¥ 6,468	¥12,385	\$ 60,325
Retirement and pension plans with accumulated benefit obligations in excess of plan assets:			
Projected benefit obligations	¥33,454	¥50,974	\$312,013
Accumulated benefit obligations	30,610	46,003	285,488
Fair value of plan assets	27,824	34,032	259,504

The minimum pension liability adjustment included in accumulated other comprehensive income (loss) was recorded on the consolidated balance sheet net of a deferred income tax asset of ¥741 million at March 31, 2004. No minimum pension liability adjustment was recorded at March 31, 2005.

The general funding policy of the funded plans is to contribute amounts computed in accordance with actuarial methods accepted by Japanese tax law. The Companies expect to contribute ¥2,769 million (\$25,825 thousand) to their plans in the year ending March 31, 2006.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year ending March 31:		
2006	¥ 1,242	\$ 11,584
2007	1,168	10,893
2008	1,939	18,084
2009	2,311	21,554
2010	1,242	11,584
2011–2015	13,322	124,249

The Companies also provide additional benefits to employees that elect to participate in the Companies' early retirement program. Retirement benefits of ¥718 million (\$6,697 thousand) and ¥167 million and ¥1,246 million were paid in addition to normal benefits and charged to selling, general and administrative expenses for the years ended March 31, 2005, 2004 and 2003, respectively.

Termination Plan for Directors and Corporate Auditors

The Companies have termination plans for directors and corporate auditors. Payment of termination benefits to directors and corporate auditors is made in lump-sum upon termination and requires the approval of the shareholders before payment.

In accordance with EITF 88-1, the Companies record 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, 2005 and 2004 was ¥615 million (\$5,736 thousand) and ¥606 million, respectively.

9. Shareholders' Equity

Japanese companies are subject to the Japanese Commercial Code (the "Code").

The Code requires that at least 50% of the issue price of new shares is recorded as common stock and the remaining net proceeds as additional paid-in capital. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors. The Company's legal reserve amount, which is included in retained earnings, totals ¥4,209 million (\$39,256 thousand) and ¥4,162 million as of March 31, 2005 and 2004, respectively.

The Code allows Japanese 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. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or the legal reserve to be reduced in the case where such reduction was resolved at the general shareholders' meeting.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends. The amount of retained earnings available for dividends under the Code was ¥110,134 million (\$1,027,178 thousand) as of March 31, 2005, based on the amount recorded in the parent company's general books of account.

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

10. Other Comprehensive Income (Loss)

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

	Millions of Yen								
	2005			2004			2003		
	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	¥ (325)	¥ 17	¥(308)	¥(1,686)	¥ 121	¥ (1,565)	¥(1,374)	¥ 364	¥(1,010)
Unrealized gain (loss) on securities:									
Unrealized holding gain (loss)	(334)	113	(221)	12,369	(4,781)	7,588	(3,527)	1,534	(1,993)
Reclassification adjustments	(76)	31	(45)	152	(63)	89	1,610	(662)	948
Net unrealized gain (loss)	(410)	144	(266)	12,521	(4,844)	7,677	(1,917)	872	(1,045)
Minimum pension liability	1,620	(666)	954	9,064	(3,725)	5,339	(6,461)	2,613	(3,848)
Other comprehensive income (loss)	¥ 885	¥(505)	¥ 380	¥19,899	¥(8,448)	¥11,451	¥(9,752)	¥3,849	¥(5,903)

	Thousands of U.S. Dollars		
	2005		
	Pre-Tax Amount	Tax (Expense) Credit	Net Amount
Foreign currency translation adjustments	\$ (3,031)	\$ 159	\$ (2,873)
Unrealized gain (loss) on securities:			
Unrealized holding gain (loss)	(3,115)	1,054	(2,061)
Reclassification adjustments	(709)	289	(420)
Net unrealized gain (loss)	(3,824)	1,343	(2,481)
Minimum pension liability	15,109	(6,212)	8,898
Other comprehensive income (loss)	\$ 8,254	\$(4,710)	\$ 3,544

11. Income Taxes

Income before income taxes, equity in net income of affiliated companies and minority interests is summarized as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2004	2003	2005
	Japan	¥12,789	¥4,791	¥4,550
Foreign	(710)	(259)	54	(6,622)
Total	¥12,079	¥4,532	¥4,604	\$112,656

Income taxes are as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2004	2003	2005
Current				
Japan	¥2,437	¥5,011	¥4,689	\$22,729
Foreign	604	763	554	5,633
	¥3,041	¥5,774	¥5,243	\$28,362
Deferred				
Japan	¥2,890	¥(3,196)	¥(2,872)	\$26,954
Foreign	(131)	(58)	116	(1,222)
	¥2,759	¥(3,254)	¥(2,756)	\$25,732
Total income taxes	¥5,800	¥ 2,520	¥ 2,487	\$54,094

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, 2005, 2004 and 2003:

	2005	2004	2003
Normal Japanese statutory rates	40.7%	42.1%	42.1%
Increase in taxes resulting from:			
Permanently non-deductible expenses	3.7	9.8	5.8
Change in valuation allowance	3.8	(0.3)	12.9
Undistributed earnings of foreign subsidiaries	0.5	(2.7)	4.1
Additional tax charges		16.8	
Differences in subsidiaries' tax rate	(1.9)	(3.1)	(9.4)
Tax exemption	(0.9)	(5.1)	(1.4)
Other-net	2.1	(1.9)	(0.1)
Effective tax rates	48.0%	55.6%	54.0%

Under the provisions of SFAS No. 109, the effect of a change in tax laws or rates is included in income in the period the change is enacted and includes a cumulative recalculation of deferred tax balances based on the new tax laws or rates in effect. During the year ended March 31, 2003, the normal statutory tax rate was decreased from 42.1% to 40.7% effective April 1, 2004. The provision for income taxes for the year ended March 31, 2003

includes a ¥61 million charge to record the impact on deferred tax assets and liabilities for the change in the enacted tax rate.

In the year ended March 31, 2004, the Companies were assessed with additional income taxes plus interest of ¥760 million as a result of an income tax audit for the fiscal years ended March 31, 1998 through 2003 conducted by the Japanese tax authorities.

The approximate effect of temporary differences and tax loss carryforwards that gave rise to deferred tax balances at March 31, 2005 and 2004 were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2005		2004		2005	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Sales returns	¥ 812		¥ 754		\$ 7,573	
Inventory valuation	1,269		1,244		11,835	
Accrued bonuses	1,360		1,499		12,684	
Intercompany profits	187		191		1,744	
Valuation loss on investments	624		794		5,820	
Gain on sales of property, plant and equipment		¥ 1,819		¥ 1,631		\$ 16,965
Undistributed earnings of foreign subsidiaries		2,002		1,890		18,672
Net unrealized gain on securities		5,502		5,652		51,315
Net realized gain on exchange of equity securities		1,996		2,015		18,616
Capitalized supplies	365		390		3,404	
Enterprise taxes	62		225		578	
Accrued vacation	909		922		8,478	
Pension expense	2,455		5,170		22,897	
Tax loss carryforwards	1,717		1,486		16,014	
Fixed assets	1,657		1,642		15,454	
Other temporary differences	799	5	1,342	532	7,453	47
Total	12,216	11,324	15,659	11,720	113,934	105,615
Valuation allowance	(1,645)		(1,185)		(15,342)	
Total	¥10,571	¥11,324	¥14,474	¥11,720	\$ 98,592	\$105,615

A valuation allowance was recorded against the deferred tax assets, primarily related to loss carryforwards, of certain domestic and foreign subsidiaries. The valuation allowance increased by ¥460 million (\$4,290 thousand) and ¥592 million for the years ended March 31, 2005 and 2003, respectively, and decreased by ¥14 million for the year ended March 31, 2004.

At March 31, 2005, certain subsidiaries had loss carryforwards which are available to offset future taxable income of such subsidiaries expiring as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year Carryforward Expires:		
2006	¥ 120	\$ 1,119
2007	117	1,091
2008	117	1,091
2009	538	5,018
2010	1,144	10,670
2011	1,136	10,595
2012	945	8,814
Indefinitely until utilized	257	2,397
Total	¥4,374	\$40,795

12. Related Party Transactions

The Company purchases merchandise from numerous suppliers throughout the world, including from certain affiliates of the Company. The Company purchased merchandise from affiliates in the amount of ¥1,805 million (\$16,835 thousand), ¥2,437 million and ¥1,822 million in the fiscal years ended March 31, 2005, 2004 and 2003. The amounts payable to affiliates were ¥2 million (\$19 thousand) at March 31, 2005 and 2004.

The Company also sells supplies, materials and products to certain affiliates. Aggregate sales to affiliates were ¥1,679 million (\$15,659 thousand), ¥1,259 million and ¥1,123 million in the fiscal years ended March 31, 2005, 2004 and 2003. The amounts receivable from affiliates were ¥286 million (\$2,667 thousand) and ¥282 million at March 31, 2005 and 2004, respectively.

13. Earnings per Share and American Depositary Receipt

The Company accounts for its earnings per share in accordance with SFAS No. 128, "Earnings per Share." Basic net income per share has been computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during each year. Fully diluted income per share is not computed as there are no common stock equivalents.

The computation of earnings 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 143,956,284 shares for 2005, 146,226,674 shares for 2004 and 148,772,325 shares for 2003.

14. Financial Instruments and Concentration of Credit Risk

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 3, are primarily estimated based on quoted market prices for these securities.

The fair value of long-term debt including the current portion at March 31, 2005 and 2004 was ¥160 million (\$1,492 thousand) and ¥498 million, respectively. These 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.

Forward Currency Exchange Contracts

The Company occasionally uses forward currency exchange contracts to manage its exposure to foreign currency fluctuation on the transactions denominated in foreign currencies. At March 31, 2005, the notional amount of its open forward currency contract was for the purchase of \$3,000 thousand. The Company recorded the changes in the fair value of the derivative contract of ¥10 million in other income since it was not designated as a hedge in the year ended March 31, 2005. No derivative contract was outstanding as of March 31, 2004.

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, 2005.

15. Commitments and Contingencies

The Company has outstanding purchase commitments at March 31, 2005 of approximately ¥3,776 million (\$35,217 thousand) related to construction of the West Japan distribution center.

There are no material pending legal proceedings, other than those involving ordinary routine litigation incidental to the business. The consequences of these matters are not presently determinable but, in the opinion of management, the ultimate liability, if any, would not have a material effect on the consolidated financial statements.

16. Subsequent Events

The Company announced in May 2005 its plan to spin off all of the Company's businesses into a new wholly owned subsidiary and to effect a transition to a holding company structure as of October 1, 2005. The plan will be submitted for approval at the ordinary general meeting of shareholders to be held on June 29, 2005.

The Board of Directors of the Company intends to propose for approval at the shareholders' meeting to be held on June 29, 2005 payment of a cash dividend of ¥100 (\$0.93) per 5 shares of common stock to holders of record as of March 31, 2005 for the year then ended (aggregate amount of ¥2,878 million (\$26,842 thousand)).

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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 (the “Companies”) as of March 31, 2005 and 2004, and the related consolidated statements of income, comprehensive income (loss), shareholders’ equity and cash flows for each of the three years in the period ended March 31, 2005, all expressed in Japanese yen. These financial statements are the responsibility of the Companies’ management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Companies are not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Companies’ internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2005 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 2. The translation of the financial statement amounts into U.S. dollars has been made solely for convenience of readers outside of Japan.



June 17, 2005