

Fashion Network



YAMATO INTERNATIONAL INC.

Annual Report 2004

Year ended November 30, 2004

Profile

Yamato's casual clothing

—Changing with the times

Yamato International, established in 1947 as a shirtmaker, has since grown into a manufacturer and marketer of a wide range of apparel, centered on men's casual wear. Like the world in general, the apparel scene has changed greatly over the half-century of the Company's existence. But whatever further changes the future brings, Yamato will remain true to its commitment to casual wear as its mainline business.

Yamato International now handles a wide range of casual wear, led by our long-running hit brand of menswear, *Crocodile*, and the *AIGLE* brand of apparel and other goods for outdoor activities from France.

We are now focusing on expanding our brand lineup in ladies wear and family-oriented brands in our ongoing quest to become a comprehensive casual apparel maker offering our customers a totally coordinated look to suit any situation.

Contents

An Interview with the President	2
Financial Section	5
Financial Review	5
Consolidated Balance Sheets	6
Consolidated Statements of Income	7
Consolidated Statements of Shareholders' Equity	8
Consolidated Statements of Cash Flows	9
Notes to Consolidated Financial Statements	10
Independent Auditors' Report	16
Investor Information/Company Information	17

Forward-Looking Statements

Statements contained in this report regarding the Company's business outlook or future performance do not constitute statements of historical fact. Such statements are based on current estimates and on forecasts regarding the fields in which the Company operates, as well as on the management's beliefs and assumptions. As such estimates, forecasts, assumptions and so on are subject to a number of uncertainties and unknowable factors, actual results may differ substantially from those projected. Additionally, factors beyond the Company's control and outside its ability to predict, including but not limited to general economic conditions, currency exchange rates and market fluctuations, could cause results to diverge materially from the Company's projections. Readers are therefore cautioned not to place undue reliance on forward-looking statements.

<http://www.yamatointr.co.jp>

Our Brand Lineup

Family



Yamato International launched its *Crocodile* brand in 1963, and the little green crocodile mark has become very familiar to the Japanese public. This was originally a men's casual brand, which is our area of special expertise, and was one of the leaders in the fad for clothing with an "accent" mark, which swept through the fashion-conscious young of Japan during the 1970s. We now also sell a line of *Crocodile*-brand goods for ladies, and the *Crocodile* brand has now crossed generational barriers to become loved by a wide section of the Japanese population.



AIGLE

With a history of 150 years, *AIGLE* is a brand of apparel and other goods for outdoor activities from the French fashion house of Aigle, famous for its rubber riding boots. Featuring the sort of beautiful coloring one would expect from the French apparel world, *AIGLE* brand products are particularly popular among female consumers. Yamato International began selling *AIGLE*-brand goods on the Japanese market in 1993, and, together with the *Crocodile* brand, it now constitutes the Company's core earner.



The *CYRILLUS* brand was started in 1977 by a French woman who began making clothes for her own children. It has now grown into a family brand that enables people to pick out coordinated outfits in a relaxed, casual style that nonetheless has that unique French elegance. Yamato International began selling *CYRILLUS* brand products in 2004.



Trend

hiromichi
BY HIROMICHI NAKANO

In this brand line, Hiromichi Nakano's design sense constantly keeps that feeling of "now." Within the framework of classic and basic designs, these products incorporate fashion concepts taken from street culture as well as *avant garde* modes.



NO CONCEPT BUT GOOD SENSE

This brand is designed by Yoichi Nagasawa, of Paris and Tokyo collection fame. As the brand name indicates, the designs – which are not based on any fixed concept – give a feeling of unfettered freedom that appeals to young people.



GROSBEC

This brand is aimed at young men who are highly fashion-conscious and are also very particular about their apparel buying. The brand's product lineup changes rapidly to keep up with the fast-changing cycles of clothing fashion. The distinguishing feature of this brand is the way that clothing details inject a sense of fun.



Casual

UNIVERSITY OF OXFORD COLLECTION

This brand combines tops in simple, traditional fashions that are the perfect match for jeans, with a touch of elegance that creates a classic casual style. Sold mainly through famous specialist shops throughout Japan, this brand is performing strongly, in line with expectations.



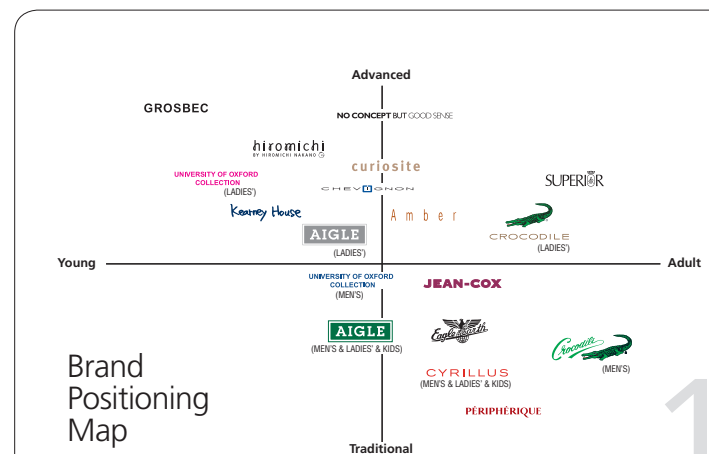
JEAN-COX

This is a Yamato International original ladies' brand based on the casual look, featuring tops that go well with jeans. The brand targets young women who love the casual, active lifestyle that goes with jeans.



CHEVIGNON

A French-born brand with an American flavor, this line of casual apparel features styles and colors inspired by military and street fashion.



An Interview with the President



Tomoki Hannya
President

Please say a word about your aspirations for the Company, now that you have become president.

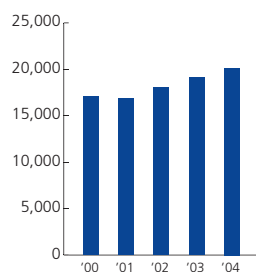
In its nearly 60 years of operation, Yamato International has experienced numerous successes and failures, and has had to overcome a variety of challenges. Chairman Fumiko Hannya overcame many challenges during the 1990s as the Company's president, as that was the most significant turning point for the Japanese economy in the post-war period. Her successor, Takashi Sakai, is currently serving as deputy chairman. Under his leadership, the Company was able to get back on the growth track, and return accounts to the black. I am keenly aware of the weight of my responsibilities and of the Company's history, and will make strenuous efforts to lead Yamato International into the next stage.

How has Yamato been able to expand revenues for the last three consecutive periods?

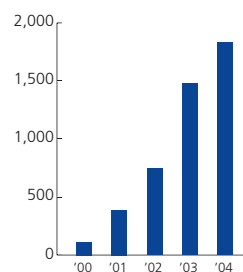
For about 10 years now, Yamato has been implementing structural reforms and measures to improve its business structure. We have pursued **customer-oriented business** strategies by offering products to match customers' lifestyles while simultaneously implementing **low-cost management**. In this way, we have been able to improve our performance to the level indicated in the business model.

One factor has been the strengthening of our core business, and another has been the establishment of a system of direct retail shops (dedicated sales areas within large retail premises). The menswear business has always been one of Yamato's areas of particular strength, and our main brands, which include *Crocodile* and *AIGLE*, closely match current consumer preferences. Moreover, we have moved into the field of fashion for the whole family, and are achieving market penetration in ladies' brands.

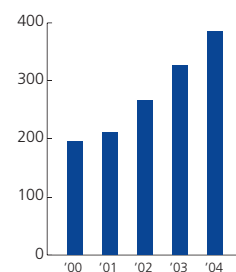
Sales (Millions of yen)



Operating Income (Millions of yen)



Direct Retailing Shops





Although consumer confidence has shown a modest recovery, business conditions will remain severe. What are your key strategies for succeeding in a market that is constantly becoming more competitive?

We will remain true to our key concept of pursuing **customer-oriented business** via **direct retail shops**. Since our founding, menswear has always been our main business. Now, we are expanding our range of brands with a focus on lifestyles. Because of increasingly sophisticated and diverse customer requirements, we cannot merely enhance our services and indiscriminately broaden sales channels. We must become genuinely consumer-oriented, and dramatically change our approach to retailing. The year 2005 is the first year of this new initiative. The point is how to build this into a solid, self-perpetuating core business, while paying due attention to market trends. Buying patterns in menswear and fashions for the family are relatively unaffected by trends and short-term fads. Therefore, we aim to simultaneously realize steady sales and efficient inventory controls. We have already established a business model by which we are able to diversify into the next business segment to create a growth cycle by securing a sufficient level of profits. We will further take advantage of this business model.

The Company is accelerating its switchover to direct sales. Please describe some of the features of this initiative, and your plans for the future.

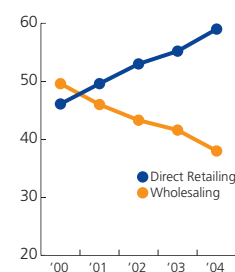
The ratio of direct retailing to total sales for the reporting period rose four percentage points over the previous business term, to 59%, with wholesaling at 38%. We have not finalized our style of direct retailing: we are continuing to make improvements while maintaining the best aspects of our existing set-up. Unless we strengthen the efficiency of operations, improve communication between customers, retail shops and the head office, and upgrade the training of sales staff, we will be unable to respond to the rapidly changing market. We are working to raise overall quality by tightening the liaison between our head office and shops, managing our customers more effectively, conducting our operations with greater efficiency, and reducing costs.

We will not only persistently pursue direct retailing, but also strengthen ties with our wholesaling partners. In this way, we intend to maintain the current scale of sales while striking a balance between the two types of sales channels.

What sales strategies are you thinking of pursuing in the future?

In addition to our direct retailing and wholesaling activities, we are expanding our retail channels, with an eye toward the e-commerce business. These days, although e-commerce has become a common way of doing business, it is not such a simple undertaking. We have undertaken risk analysis, and conducted test operations several times. We are not yet quite ready for commercialization, but are getting a feel for the business. We will expand the e-commerce for the *AIGLE* brand, which has already been started, and assess the potential of the other brands.

Ratio of Direct Retailing (%)



AIGLE / Koshien



What are the future tasks and challenges facing the Company?

The following three measures are necessary for the creation and expansion of a self-perpetuating, high-earnings business model. Regarding our brand business: 1) In addition to *Crocodile* and *AIGLE*, cultivate the *CYRILLUS* brand to become the third core brand, by developing ladieswear and kidswear; 2) raise the quality of the above-mentioned direct retail shops; 3) create a new business effectively using management resources. In all cases, the idea is to build on initiatives that are already underway. We envision results from all of our current initiatives. We must take into account the dramatic changes in the market and the need for a flexible response to customer trends. While recognizing that these goals will not be easily achieved, we are confident of ultimate success.

What steps are you taking in the fields of compliance and corporate governance?

It is crucial to change the business approach of directors and the other top officers. By encouraging more communication within the Company, it is easier to detect problems before they come to light, and take the appropriate measures or conduct risk hedging. In this way, we are reducing the level of risk. Also, from the current term, we have set up a CSR Committee, and are working to raise awareness regarding compliance.

To conclude, do you have a message for your shareholders and other market investors?

I would like to take this opportunity to thank our shareholders for their continuous support. To weather the rapid changes of this period, it is important to devise a realistic action plan. Therefore, from December 2004, we adopted the slogan "Action! Action!! Action!!!" We aim to further enhance shareholder value, employees' value and product value. As for our future development, we will remain a highly **customer-oriented business**, and pursue **low-cost management** with an emphasis on improving profitability and cash flows. Finally, we will maintain our basic stance of giving priority to maintaining a comparatively high payout ratio.



CYRILLUS



Financial Section

Five-Year Summary

	Millions of Yen				
	2000	2001	2002	2003	2004
Operating Results:					
Net sales	¥17,079	¥16,867	¥18,045	¥19,162	¥20,137
SG & A.....	6,944	6,993	7,497	7,807	8,140
Operating income	113	388	748	1,475	1,829
Net income (loss).....	(28)	37	63	1,869	981
Financial Position:					
Total assets	26,271	25,308	25,194	26,207	27,299
Shareholders' equity.....	15,549	15,270	15,253	16,704	17,564
Per Share Data:					
Shareholders' equity (yen)	562.65	578.32	617.78	741.95	780.60
Cash dividends (yen)	0	2	2	5	12

Financial Position

Total assets increased by ¥1,092 million during the period under review, to reach ¥27,299 million on a consolidated basis. Current assets rose ¥660 million to ¥11,593 million, mainly a result of growth in cash and cash equivalents in line with increased sales.

Total liabilities increased by ¥232 million to ¥9,735 million. Current liabilities increased by ¥581 million to ¥6,926 million due to a substantial rise in income tax payable, as a result of the elimination of tax loss carryforwards. Long-term liabilities decreased ¥349 million to ¥2,809 million, mainly due to the shift of a portion of long-term debt into the current portion of long-term debt classified under current assets.

Shareholders' equity increased to ¥17,564 million, from ¥16,704 million, accompanying a rise in retained earnings. As a result, the shareholders' equity ratio (shareholders' equity as a percentage of total assets) rose 0.6 percentage points from 63.7% to 64.3%.

Sales by Category on a Consolidated Basis

Yamato International Inc. and Subsidiaries Years Ended November 30, 2004 and 2003

	Millions of Yen			
	2004		2003	
Cut-Sewn Knits	¥ 5,385	(26.7%)	¥ 5,385	(28.1%)
Sweaters	1,591	(7.9)	1,645	(8.6)
Shirts.....	2,408	(12.0)	2,337	(12.2)
Outerwear.....	3,665	(18.2)	3,617	(18.9)
Pants.....	1,022	(5.1)	1,047	(5.5)
Women's Apparel.....	3,963	(19.7)	3,133	(16.3)
Accessories and Other Products	2,103	(10.4)	1,998	(10.4)
TOTAL.....	¥20,137	(100.0%)	¥19,162	(100.0%)

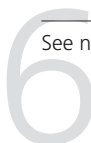
Note: Figures in parentheses represent percentages of net sales.

Consolidated Balance Sheets

Yamato International Inc. and Subsidiaries November 30, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	¥ 5,097	¥ 3,963	\$ 49,485
Marketable securities (Note 4)		50	
Notes and accounts receivable:			
Trade notes	534	738	5,184
Trade accounts	3,411	3,567	33,117
Allowance for returns and doubtful accounts	(154)	(219)	(1,495)
Inventories (Note 5)	2,200	2,205	21,359
Deferred tax assets (Note 9)	79	142	767
Other current assets	426	487	4,136
Total current assets	11,593	10,933	112,553
PROPERTY, PLANT AND EQUIPMENT (Note 6):			
Land	7,936	7,936	77,049
Buildings and structures	9,780	9,683	94,951
Other	876	893	8,505
Total	18,592	18,512	180,505
Accumulated depreciation	(6,896)	(6,672)	(66,951)
Net property, plant and equipment	11,696	11,840	113,554
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 6)	1,857	1,121	18,029
Leasehold deposits	1,671	1,759	16,223
Deferred tax assets (Note 9)	349	380	3,388
Other assets	133	174	1,292
Total investments and other assets	4,010	3,434	38,932
TOTAL	¥27,299	¥26,207	\$265,039
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term loans (Note 6)	¥ 300	¥ 450	\$ 2,913
Current portion of long-term debt (Note 6)	539	346	5,233
Notes and accounts payable:			
Trade notes	3,632	3,656	35,262
Trade accounts	725	680	7,039
Accrued payroll and bonuses	393	371	3,816
Income taxes payable	571	45	5,544
Other current liabilities	766	797	7,436
Total current liabilities	6,926	6,345	67,243
LONG-TERM LIABILITIES:			
Long-term debt (Note 6)	2,014	2,403	19,553
Liability for retirement benefits (Notes 2, 3 and 7)	515	486	5,000
Other long-term liabilities	280	269	2,719
Total long-term liabilities	2,809	3,158	27,272
COMMITMENTS (Notes 10 and 11)			
SHAREHOLDERS' EQUITY (Notes 8 and 13):			
Common stock – authorized, 71,977,447 shares in 2004 and 2003; issued, 22,502,936 shares in 2004 and 2003	4,918	4,918	47,748
Capital surplus	5,645	5,645	54,806
Retained earnings	6,755	5,895	65,583
Unrealized gain on available-for-sale securities (Note 4)	210	192	2,039
Foreign currency translation adjustments	52	55	504
Total	17,580	16,705	170,680
Treasury stock – at cost: 25,201 shares in 2004 and 892 shares in 2003	(16)	(1)	(156)
Total shareholders' equity	17,564	16,704	170,524
TOTAL	¥27,299	¥26,207	\$265,039

See notes to consolidated financial statements.



Consolidated Statements of Income

Yamato International Inc. and Subsidiaries Years Ended November 30, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
NET SALES	¥20,137	¥19,162	\$195,505
OPERATING COSTS AND EXPENSES:			
Cost of sales	10,168	9,880	98,718
Selling, general and administrative expenses	8,140	7,807	79,030
Total	18,308	17,687	177,748
OPERATING INCOME	1,829	1,475	17,757
OTHER INCOME (EXPENSES):			
Interest and dividend income	20	14	194
Interest expense	(81)	(101)	(786)
Write-down of investment securities		(25)	
Gain on sales of investment securities	139		1,350
Loss on sales and disposals of facilities	(45)	(53)	(437)
Provision for doubtful accounts	(247)		(2,398)
Cumulative effect of accounting change for retirement benefits to directors		(82)	
Other – net	23	38	223
Total	(191)	(209)	(1,854)
INCOME BEFORE INCOME TAXES	1,638	1,266	15,903
INCOME TAXES (Note 9):			
Current.....	575	50	5,583
Deferred	82	(653)	796
Total income taxes	657	(603)	6,379
NET INCOME	¥ 981	¥ 1,869	\$ 9,524
PER SHARE OF COMMON STOCK (Note 12):			
Net income	¥42.84	¥79.12	\$0.41
Cash dividends applicable to the year.....	12.00	5.00	0.12

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Yamato International Inc. and Subsidiaries Years Ended November 30, 2004 and 2003

	Outstanding Number of Shares of Common Stock	Millions of Yen					
		Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, DECEMBER 1, 2002	24,689,698	¥4,918	¥6,427	¥4,075	¥ 6	¥110	¥(283)
Net income				1,869			
Cash dividends, ¥2.00 per share				(49)			
Repurchase of treasury stock	(2,187,654)						(500)
Retirement of treasury stock			(782)				782
Net increase in unrealized gain on available-for-sale securities...					186		
Net decrease in foreign currency translation adjustments						(55)	
BALANCE, NOVEMBER 30, 2003	22,502,044	4,918	5,645	5,895	192	55	(1)
Net income				981			
Cash dividends, ¥5.00 per share				(112)			
Bonuses to directors				(9)			
Repurchase of treasury stock	(24,309)						(15)
Net increase in unrealized gain on available-for-sale securities...					18		
Net decrease in foreign currency translation adjustments						(3)	
BALANCE, NOVEMBER 30, 2004	22,477,735	¥4,918	¥5,645	¥6,755	¥210	¥ 52	¥ (16)

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, NOVEMBER 30, 2003	\$47,748	\$54,806	\$57,233	\$1,864	\$534	\$ (10)
Net income			9,524			
Cash dividends, \$0.05 per share			(1,087)			
Bonuses to directors			(87)			
Repurchase of treasury stock						(146)
Net increase in unrealized gain on available-for-sale securities				175		
Net decrease in foreign currency translation adjustments					(30)	
BALANCE, NOVEMBER 30, 2004	\$47,748	\$54,806	\$65,583	\$2,039	\$504	\$(156)

See notes to consolidated financial statements.



Consolidated Statements of Cash Flows

Yamato International Inc. and Subsidiaries Years Ended November 30, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
OPERATING ACTIVITIES:			
Income before income taxes	¥1,638	¥1,266	\$15,903
Adjustments for:			
Income taxes paid.....	(49)	(52)	(476)
Depreciation and amortization.....	360	364	3,495
Allowance for returns and doubtful accounts	180	(66)	1,748
Write-down of investment securities.....		25	
Gain on sales of investment securities.....	(139)		(1,350)
Loss on sales and disposals of facilities.....	33	45	320
Bonuses to directors	(9)		(87)
Changes in assets and liabilities:			
Decrease in notes and accounts receivable	350	182	3,398
Decrease in inventories.....	4	31	39
Decrease (increase) in other current assets.....	77	(12)	748
Increase in notes and accounts payable	21	5	204
Increase (decrease) in other liabilities	(71)	177	(689)
Increase in liability for retirement benefits.....	29	126	282
Other – net	48	(1)	464
Net cash provided by operating activities.....	2,472	2,090	23,999
INVESTING ACTIVITIES:			
Capital expenditures.....	(104)	(164)	(1,010)
Investment securities acquired	(967)	(297)	(9,388)
Proceeds from sales of investment securities	402	276	3,903
Payment for acquisition of assets by business transfer.....	(85)		(825)
Other – net.....	(107)	17	(1,039)
Net cash used in investing activities.....	(861)	(168)	(8,359)
FINANCING ACTIVITIES:			
Net change in short-term loans.....	(150)	(200)	(1,456)
Proceeds from borrowing of long-term debt.....	200	1,600	1,942
Repayments of long-term debt	(397)	(2,146)	(3,855)
Repurchase of treasury stock	(15)	(500)	(146)
Cash dividends paid.....	(112)	(49)	(1,087)
Other – net.....		(18)	
Net cash used in financing activities	(474)	(1,313)	(4,602)
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS.....	(3)	(15)	(29)
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	1,134	594	11,009
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR.....	3,963	3,369	38,476
CASH AND CASH EQUIVALENTS, END OF YEAR.....	¥5,097	¥3,963	\$49,485

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Yamato International Inc. and Subsidiaries Years Ended November 30, 2004 and 2003

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2003 financial statements to conform to the classifications used in 2004.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Yamato International Inc. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥103 to U.S.\$1, the approximate rate of exchange at November 30, 2004. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation – The accompanying consolidated financial statements include the accounts of the Company and all subsidiaries (together the "Companies"). All intercompany balances and transactions are eliminated in consolidation.

Cash and Cash Equivalents – Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and money management funds, all of which mature or become due within three months of the date of acquisition.

Inventories – Inventories are principally stated at the lower of cost, determined by the average method, or market.

Marketable and Investment Securities – All of the Company's securities are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average method.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, available-for-sale securities are reduced to net realizable value by a charge to income.

Property, Plant and Equipment – Property, plant and equipment are stated at cost. Depreciation is computed by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings acquired after December 1, 1998. The range of useful lives is principally from 3 to 47 years for buildings and structures.

Leases – All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that are deemed to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's consolidated financial statements.

Retirement and Pension Plan – The Company has a non-contributory funded pension plan covering substantially all of its employees.

The Company accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date.

In addition, the Company has joined a contributory funded plan which was established by companies in the same industry, and is governed by the regulations of the Japanese Welfare Pension Insurance Law. The amounts contributed to the fund were charged to income when paid.

Retirement benefits to the Company's directors are provided at the amount which would be required if all directors retired at the balance sheet date (see Note 3). Effective December 1, 2003, the Company discontinued the retirement plan for the Company's corporate auditors.

Foreign Currency Amounts – All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

Foreign Currency Financial Statements – The accounts of the consolidated foreign subsidiary are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate. Differences arising from such translation were shown as "Foreign currency translation adjustments" as a separate component of shareholders' equity.

Income Taxes – The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

Derivatives and Hedging Activities – The Company uses a variety of derivative financial instruments, including foreign currency forward contracts and interest rate swaps as a means of hedging exposure to foreign currency and interest rate risks. The Company does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and are measured at fair value, and gains or losses on derivative transactions are recognized in the income statement and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts are utilized to hedge foreign currency exposures for import and export transactions. Trade payables and receivables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income.

Appropriations of Retained Earnings – Appropriations of retained earnings at each year-end are reflected in the financial statements for the following year upon shareholders' approval.

Per Share Information – Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share is not disclosed because the Companies do not have dilutive securities.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

3. ACCOUNTING CHANGE

Prior to December 1, 2002, no provisions were recorded for retirement benefits to be paid to the Company's directors and corporate auditors. Effective December 1, 2002, the Company changed its method of accounting for such retirement benefits to the accrual basis. The effect of this change was to decrease income before income taxes for the year ended November 30, 2003 by ¥104 million (\$1,009 thousand), which included a cumulative effect of ¥82 million (\$796 thousand) at November 30, 2002.

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of November 30, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of
	2004	2003	U.S. Dollars 2004
Current:			
Marketable debt securities.....		¥ 50	
Non-current:			
Marketable equity securities	¥ 887	¥ 891	\$ 8,612
Marketable debt securities.....	697		6,767
Trust fund investments and other...	265	225	2,572
Equity securities – fair value not available.....	8	5	78
Total.....	¥1,857	¥1,121	\$18,029

The carrying amounts and aggregate fair values of available-for-sale securities at November 30, 2004 and 2003 were as follows:

	Millions of Yen			
	2004			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	¥507	¥396	¥16	¥887
Debt securities	721		24	697
Others	267	1	3	265

	Millions of Yen			
	2003			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	¥567	¥341	¥17	¥891
Debt securities	50			50
Others	227		2	225

	Thousands of U.S. Dollars			
	2004			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	\$4,922	\$3,845	\$155	\$8,612
Debt securities	7,000		233	6,767
Others	2,592	9	29	2,572

Available-for-sale securities whose fair value is not readily determinable as of November 30, 2004 and 2003 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of
	2004	2003	U.S. Dollars 2004
Equity securities.....	¥8	¥5	\$78

Proceeds from sales of available-for-sale securities for the years ended November 30, 2004 and 2003 were ¥452 million (\$4,388 thousand) and ¥397 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥140 million (\$1,359 thousand) and ¥3 million (\$29 thousand), respectively, for the year ended November 30, 2004 and ¥21 million and ¥17 million, respectively, for the year ended November 30, 2003.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at November 30, 2004 were as follows:

	Millions of Yen		Thousands of
			U.S. Dollars
Due in one to five years	¥207		\$2,010
Due in five to ten years.....	213		2,068
Due after ten years	277		2,689

5. INVENTORIES

Inventories at November 30, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of
	2004	2003	U.S. Dollars 2004
Finished products and merchandise	¥2,116	¥2,097	\$20,544
Work-in-process	50	75	485
Raw materials and supplies.....	34	33	330
Total.....	¥2,200	¥2,205	\$21,359

6. SHORT-TERM LOANS AND LONG-TERM DEBT

Short-term loans at November 30, 2004 and 2003 consisted of deed loans from banks and bank overdrafts, with weighted average interest rates of 2.0% and 2.1%, respectively. Long-term debt at November 30, 2004 and 2003 consisted of bank loans, with interest rates ranging from 1.0% to 2.9% and from 1.6% to 3.5%, respectively.

Annual maturities of long-term debt as of November 30, 2004 for the next five years and thereafter were as follows:

Year Ending November 30	Thousands of	
	Millions of Yen	U.S. Dollars
2005	¥ 539	\$ 5,233
2006	909	8,825
2007	380	3,689
2008	700	6,796
2009 and thereafter	25	243
Total.....	¥2,553	\$24,786

At November 30, 2004, investment securities of ¥387 million (\$3,757 thousand), buildings and structures of ¥1,146 million (\$11,126 thousand) and land of ¥4,222 million (\$40,990 thousand) were pledged as collateral for short-term loans and long-term debt totaling to ¥2,279 million (\$22,126 thousand).

7. RETIREMENT AND PENSION PLAN

Under most circumstances, employees of the Company terminating their employment either voluntarily or upon reaching mandatory retirement age are entitled to a lump-sum severance payment or an annuity based on the rate of pay at the time of termination, length of service and certain other factors.

The Company has maintained a non-contributory funded pension plan covering substantially all of its employees in order to provide for future severance payments.

In addition, the Company has joined a contributory funded plan which was established by companies in the same industry, and is governed by the regulations of the Japanese Welfare Pension Insurance Law.

The liability for employees' retirement benefits at November 30, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Projected benefit obligation.....	¥1,037	¥1,014	\$10,068
Fair value of plan assets.....	(529)	(502)	(5,136)
Unrecognized actuarial loss.....	(96)	(130)	(932)
Net liability	¥ 412	¥ 382	\$ 4,000

The components of net periodic benefit costs were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Service cost.....	¥ 52	¥ 49	\$ 505
Interest cost.....	20	23	194
Expected return on plan assets.....	(10)	(12)	(97)
Recognized actuarial loss.....	15	10	146
Contribution to the contributory funded plan.....	114	97	1,106
Net periodic benefit costs	¥191	¥167	\$1,854

Assumptions used for the years ended November 30, 2004 and 2003 were set forth as follows:

	2004	2003
Discount rate.....	2.0%	2.0%
Expected rate of return on plan assets.....	2.0%	2.5%
Recognition period of actuarial gain/loss.....	10 years	10 years

The assets of the pension plan established by companies in the same industry as of November 30, 2004 and 2003 was ¥2,855 million (\$27,718 thousand) and ¥2,430 million, respectively. The amount is calculated by the proportion of the amount contributed by the Company to the aggregate amount contributed to the fund.

The liability for retirement benefits at November 30, 2004 for the Company's directors is ¥103 million (\$1,000 thousand). The retirement benefits for directors are paid subject to the approval of the shareholders.

8. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which various amendments have become effective since October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. 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 revised 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 revised Code eliminated restrictions on the repurchase and use of treasury stock allowing 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 dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥11,216 million (\$108,893 thousand) as of November 30, 2004, based on the amount recorded in the parent company's general books of account. 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.

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.

9. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42% for the years ended November 30, 2004 and 2003.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at November 30, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Deferred tax assets:			
Inventories	¥ 8	¥ 7	\$ 78
Investment securities	148	235	1,437
Write-down of memberships		38	
Accrued enterprise taxes	47		456
Accrued business facility tax	11	11	107
Allowance for returns and doubtful accounts.....	132	51	1,282
Liability for retirement benefits	209	197	2,029
Telephone rights	10		97
Tax loss carryforwards	14	127	136
Other	9	7	87
Less valuation allowance	(15)	(16)	(146)
Total deferred tax assets	¥573	¥657	\$5,563
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥144	¥131	\$1,398
Other	1	4	10
Total deferred tax liabilities	¥145	¥135	\$1,408
Net deferred tax assets	¥428	¥522	\$4,155

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended November 30, 2004 and 2003 is as follows:

	2004	2003
Normal effective statutory tax rate	42.0%	42.0%
Expenses not deductible for income tax purposes	0.5	0.5
Per capita levy	2.7	3.4
Valuation allowance	(4.8)	(95.4)
Difference in subsidiaries' tax rates	(0.3)	(1.3)
Deduction for foreign taxes	(0.7)	
Other – net.....	0.7	3.2
Actual effective tax rate	40.1%	(47.6)%

10. LEASES

The Company leases certain computer equipment, computer software and other assets. Total lease payments under these leases were ¥53 million (\$515 thousand) and ¥57 million for the years ended November 30, 2004 and 2003, respectively.

Pro forma information of leased property and obligations under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended November 30, 2004 and 2003 was as follows:

	Millions of Yen		
	2004		
	Furniture and Fixtures	Computer Software	Total
Acquisition cost	¥231	¥19	¥250
Accumulated depreciation	(179)	(9)	(188)
Net leased property	¥ 52	¥10	¥ 62

	Millions of Yen		
	2003		
	Furniture and Fixtures	Computer Software	Total
Acquisition cost	¥251	¥17	¥268
Accumulated depreciation	(160)	(5)	(165)
Net leased property	¥ 91	¥12	¥103

	Thousands of U.S. Dollars		
	2004		
	Furniture and Fixtures	Computer Software	Total
Acquisition cost	\$2,243	\$184	\$2,427
Accumulated depreciation	(1,738)	(87)	(1,825)
Net leased property	\$ 505	\$ 97	\$ 602

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Due within one year	¥31	¥ 52	\$301
Due after one year.....	31	51	301
Total.....	¥62	¥103	\$602

The amount of acquisition cost and obligations under finance leases includes the imputed interest expense portion.

Depreciation expense which is not reflected in the accompanying statements of income, computed by the straight-line method was ¥53 million (\$515 thousand) and ¥57 million for the years ended November 30, 2004 and 2003, respectively.

11. DERIVATIVES

The Company enters into foreign currency forward contracts to hedge foreign exchange risk associated with foreign transactions. The Company also enters into interest rate swap contracts to manage its interest rate exposures on bank loans.

All derivative transactions are entered into to hedge interest and foreign currency exposures incorporated within its business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities. The Company does not enter into derivatives for trading purposes. Subsidiaries do not hold or issue any derivatives.

Because the counterparties to those derivatives are limited to major international financial institutions, the Company does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Company have been made in accordance with internal policies which regulate the authorization and credit limit amount.

The fair value of the Companies' derivative financial instruments at November 30, 2004 and 2003 are as follows:

	Millions of Yen		
	Contract Amount	Fair Value	Unrealized Loss
2004			
Interest rate swaps			
– Pay fixed/receive floating	¥150	¥(4)	¥(4)

	Millions of Yen		
	Contract Amount	Fair Value	Unrealized Loss
2003			
Interest rate swaps			
– Pay fixed/receive floating	¥150	¥(4)	¥(4)

	Thousands of U.S. Dollars		
	Contract Amount	Fair Value	Unrealized Loss
2004			
Interest rate swaps			
– Pay fixed/receive floating	\$1,456	\$(39)	\$(39)

Derivative contracts which qualify for hedge accounting are excluded from disclosure of market value information.

12. PER SHARE INFORMATION

The computation of net income per common share is based on the weighted average number of shares outstanding. The weighted average number of common shares outstanding used in the computation was 22,491,798 and 23,507,600 for fiscal 2004 and 2003, respectively.

13. SUBSEQUENT EVENTS

Appropriations of Retained Earnings – The following appropriations of retained earnings at November 30, 2004 were approved at the Company's shareholders' meeting held on February 25, 2005:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥12.00 (\$0.12) per share	¥269	\$2,612
Bonuses to directors	18	175

14. SEGMENT INFORMATION

In the year ended November 30, 2003, the Company operated in three industry segments: apparel, rental real estate and other. The apparel segment produces and sells cut-sewn knits, sweaters, shirts, outerwear, pants, women's apparel, accessories, and other products. The rental real estate segment rents offices and company housing. The business of the other segment consisted of trading with (companies in) the Republic of Uganda.

In the year ended November 30, 2003, the Company ceased its trading business in the other segment. Accordingly, there is no business classified as the other segment in the year ended November 30, 2004.

Information about industry segments of the Companies for the year ended November 30, 2004, is as follows:

a. Sales and Operating Income

	Millions of Yen			
	2004			
	Apparel	Rental Real Estate	Eliminations/ Corporate	Consolidated
Sales to customers	¥19,845	¥292		¥20,137
Operating expenses	17,595	168	¥ 545	18,308
Operating income	¥ 2,250	¥124	¥(545)	¥ 1,829

b. Total Assets, Depreciation and Capital Expenditures

	Millions of Yen			
	2004			
	Apparel	Rental Real Estate	Eliminations/ Corporate	Consolidated
Total assets	¥16,180	¥4,371	¥6,748	¥27,299
Depreciation	330	74		404
Capital expenditures	302	26		328

a. Sales and Operating Income

	Thousands of U.S. Dollars			
	2004			
	Apparel	Rental Real Estate	Eliminations/ Corporate	Consolidated
Sales to customers	\$192,670	\$2,835		\$195,505
Operating expenses	170,826	1,631	\$ 5,291	177,748
Operating income	\$ 21,844	\$1,204	\$(5,291)	\$ 17,757

b. Total Assets, Depreciation and Capital Expenditures

	Thousands of U.S. Dollars			
	2004			
	Apparel	Rental Real Estate	Eliminations/ Corporate	Consolidated
Total assets	\$157,087	\$42,437	\$65,515	\$265,039
Depreciation	3,204	718		3,922
Capital expenditures	2,932	252		3,184

a. Sales and Operating Income

	Millions of Yen				
	2003				
	Apparel	Rental Real Estate	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥18,928	¥230	¥4		¥19,162
Operating expenses	17,030	152	3	¥ 502	17,687
Operating income	¥ 1,898	¥ 78	¥1	¥(502)	¥ 1,475

b. Total Assets, Depreciation and Capital Expenditures

	Millions of Yen				
	2003				
	Apparel	Rental Real Estate	Other	Eliminations/ Corporate	Consolidated
Total assets	¥16,889	¥4,260	¥3	¥5,055	¥26,207
Depreciation	345	64			409
Capital expenditures	238	14			252

Eliminations/Corporate include unallocated operating expense, principally consisting of general corporate expenses incurred by the administration headquarters of the Company. Corporate assets are principally cash and cash equivalents, marketable securities and investment securities.



Deloitte Touche Tohmatsu

Osaka Kokusai Building
2-3-13, Azuchi-machi
Chuo-ku, Osaka 541-0052
Japan

Tel: +81 6 6261 1381

Fax: +81 6 6261 1238

www.deloitte.com/jp

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Yamato International Inc.:

We have audited the accompanying consolidated balance sheets of Yamato International Inc. and subsidiaries as of November 30, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Yamato International Inc. and subsidiaries as of November 30, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 3 to the consolidated financial statements, the Company changed its method of accounting for retirement benefits to directors and corporate auditors as of December 1, 2002.

Our audits also comprehended the translation of 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 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

February 25, 2005

Investor Information/Company Information

As of November 30, 2004

Date of Establishment

June 1947

Paid-in Capital

¥4,917,652 thousand

Authorized Shares

71,977,447

Issued and Outstanding Shares

22,502,936

Number of Shareholders

4,025

Number of Employees

243

Principal Shareholders

Senecio Corp.
The Master Trust Bank of Japan, Ltd.
Bank of New York Europe (Luxembourg) Limited
UFJ Bank Limited
Japan Trustee Services Bank, Ltd.

Main Banks

UFJ Bank Limited
Mizuho Corporate Bank, Ltd.
Resona Bank, Ltd.
Sumitomo Mitsui Banking Corporation

Osaka Head Office

3-9, Bakuro-machi 2-chome, Chuo-ku, Osaka
541-0059, Japan
Phone: 81(6)6262-1661
Facsimile: 81(6)6261-4343

Tokyo Head Office

1-1, Heiwajima 5-chome, Ohta-ku, Tokyo
143-8537, Japan
Phone: 81(3)5493-5654
Facsimile: 81(3)3768-3724

Office

Fukuoka

Factory

Wakayama

Retail Shops (selected principal locations)

Tokyo: Shibuya, Harajuku, Ikebukuro
Yokohama
Osaka: Umeda, Namba
Kobe
Nagoya
Sapporo
Karuizawa
Funabashi

Subsidiaries

Yamato Merchandising Corporation
3-9, Bakuro-machi 2-chome, Chuo-ku, Osaka
541-0059, Japan
Phone: 81(6)6262-1661
Facsimile: 81(6)6261-4343

Yamato Fashion Service Corporation
3-9, Bakuro-machi 2-chome, Chuo-ku, Osaka
541-0059, Japan
Phone: 81(6)6784-3051
Facsimile: 81(6)6784-3061

Shanghai Yamato Fashion Co., Ltd.
No.35, Song Dong Road, Songjiang, Shanghai, China
Phone: 86(21)5774-1767
Facsimile: 86(21)5774-1768

