ONWARD

CREATING TOMORROW'S LIFESTYLES

# Annual Report 2006

Year Ended February 28, 2006

## Profile

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

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

## Contents

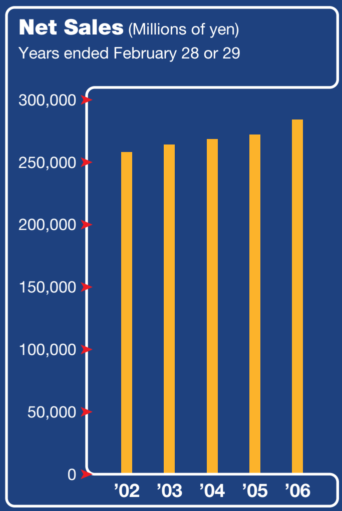


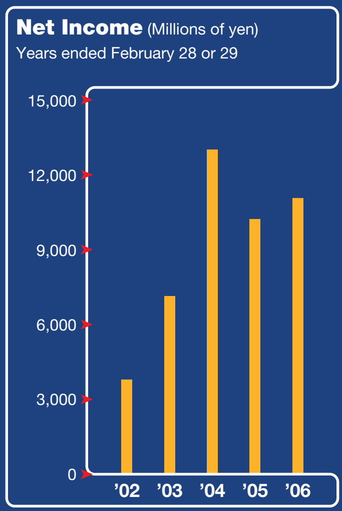
Future business plans, targets, and related numerical figures presented in this annual report are intended to give an accurate picture of Onward's future prospects. However, no guarantee can be offered that plans, targets, and other numerical figures described herein can be realized. The achievement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

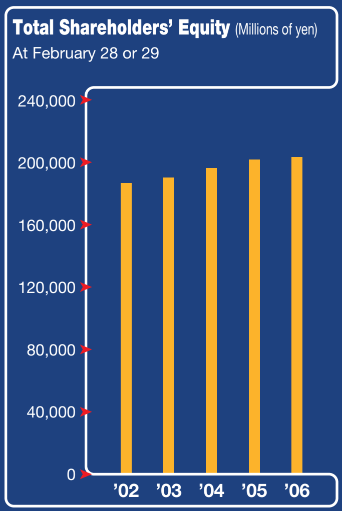
ONWARD KASHIYAMA Co., Ltd. and Subsidiaries
Years ended February 28, 2005 and 2006

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| **At year-end:** | | | |
| Total current assets | ¥150,969 | **¥135,769** | **$1,167,707** |
| Total current liabilities | 79,025 | **97,617** | **839,574** |
| Short-term loans | 15,772 | **26,419** | **227,224** |
| Total shareholders' equity | 202,377 | **203,826** | **1,753,048** |
| **For the year:** | | | |
| Net sales | ¥271,273 | **¥283,111** | **$2,434,941** |
| Operating income | 24,205 | **24,708** | **212,503** |
| Net income | 10,257 | **11,091** | **95,394** |
| | Yen | | U.S. dollars |
| **Per share:** | | | |
| Net income—Basic | ¥58.1 | **¥63.8** | **$0.549** |
| Cash dividends | 22.0 | **24.0** | **0.206** |
| ROE (%) | 5.1 | **5.4** | |
| Operating income margin (%) | 8.9 | **8.7** | |

Note: Yen amounts have been translated, for convenience only, at ¥116.27=US$1, the approximate exchange rate on February 28, 2006.



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

**In fiscal 2006, ended February 28, 2006, ONWARD KASHIYAMA Co., Ltd., recorded its fifth consecutive year of gains in consolidated revenues and profits, as net sales and operating income climbed to the highest levels in the Company's history.**

**Onward's objective going forward will be to remain on its current growth path while continuing to maintain its policy of Brand-Leveraged Management.**

## *Overview of Performance*

During the fiscal year under review, household incomes improved, supported by recovery in the Japanese economy. Conditions in Japan's apparel market were generally firm, owing to such factors as the "Cool Biz" initiative aimed at encouraging people to wear cooler summer clothing even for business occasions and expansion in demand for clothing suitable to unseasonably severe winter weather.

Amid this environment, we actively pursued our Channel-Specific Brand Strategy, continuing to develop brands appropriate for different distribution channels. In addition, we went beyond our previous Four-Season Merchandising policy to a more finely tuned eight-season policy and worked to strengthen our product planning capabilities.

As a consequence, in fiscal 2006 we were able to maintain growth in revenues and basic profitability for the fifth consecutive year. Net sales rose 4.4% from the previous fiscal year, to ¥283.1 billion, operating income was up 2.1%, to ¥24.7 billion, and ordinary income climbed 3.4%, to ¥27.2 billion. Please note that as a result of a change in accounting principles, a payment of ¥0.6 billion in taxes based on the scale of operations was included in selling, general and administrative expenses for the fiscal year under review. If this amount is subtracted to facilitate a like-for-like comparison, operating income would have risen 4.4% and ordinary income 5.5%.

Our product approach, based on a business headquarters system for each brand, and our sales approach, which defines eight branch area blocks nationwide in Japan, functioned efficiently, and our major core brands, including NIJYUSANKU, KUMIKYOKU, JIYUKU, and ICB, attained stable growth. Also, as a result of the aggressive development of new brands and expansion of our stores, we were successful in raising sales above the level of the previous fiscal year. Moreover, as a consequence of the improved success ratios of our Eight-Season, 52 Week Merchandising strategy, our sales-to-consumer ratios have improved, and we have been able to maintain stability in earnings.

## *Targeting Further Expansion*

We of the Onward Group will continue to implement our Brand-Leveraged Management policy while working to improve the success ratios of our Eight-Season, 52 Week Merchandising policy.

Key issues demanding management attention during the fiscal year ending February 2007 will include the expansion of existing brands and realization of profits from new businesses in which we have invested. To address these issues effectively, we will implement four basic policies.

### Boosting Underlying Capabilities

We will strive to further expand overall sales, especially by maximizing sales of our core brands NIJYUSANKU, KUMIKYOKU, JIYUKU, and ICB. In addition, we will position four other brands—DAKS for men and, for women, Paul Smith, MICHAEL MICHAEL KORS, and prideglide—as core brands and work to grow each of them to become one of our next core brands with sales of ¥10 billion or more. In the men's fashion sector, where market conditions are improving, we plan to prioritize investing in and rejuvenating the core brand GOTAIRIKU.

### Developing and Nurturing New Brands

We aim to aggressively develop new brands and establish positions in new product and price zones where we traditionally have not had a significant presence. In department stores, our core distribution channel, we are moving forward with plans to develop new brands targeted at various age segments, including ESME, which we will begin to develop from fall 2006 as a bridge prêt-à-porter brand. On the other hand, in new distribution channels, we will be developing Maison D'Azur, a brand for fashion-conscious customers that will be sold at urban-type shopping centers. Also, for young people, we aim to further expand sales of our rosebullet brand. Regarding our NAVE brand, we introduce apparel for ladies this spring and summer, followed by men's in fall and winter.

### Pursuing New Growth through M&A and Joint Ventures

Going forward, we will continue to aggressively acquire international brands. Among our acquisitions thus far, the U.K.-based Joseph Group is reporting smooth progress and has embarked on an international expansion program. Among our joint ventures, we are expanding the operations of Croon a Song boutiques operated by CANDELA INTERNATIONAL Co., Ltd., a joint venture we have entered into with MOTHER INTERNATIONAL Co., Ltd.

***Shigeru Uemura***

***President***

### Strengthening Overseas Operations

Beginning in fiscal 2007, we plan to add another 15 subsidiaries, based in Europe, Asia, and North America, to our consolidated accounts. In our international strategy, we plan to build around Joseph and the GIBO' CO. S.p.A. Group as the core of our overseas activities and work to expand our overseas sales. Moreover, we will move ahead with aggressive sales expansion in Southeast and East Asia, especially in China.

## *Growth Founded on Strengths*

We of Onward plan to draw on the core competencies we have developed in the areas of planning, production, and marketing and remain on the path of growth in revenues and profits.

The Onward Group regards the sharing of profits with its shareholders as a key management issue and will endeavor to maintain stable cash dividends on a continuing basis, after taking due account of the appropriate allocation of profit based on comprehensive consideration of the operating environment and performance. Accordingly, the Company will pay a dividend for the full fiscal year of ¥24 per share. As another means of sharing our success with our shareholders and maintaining a strong defense against takeovers, we bought back additional treasury stock in January and February 2006.

Looking to fiscal 2007, we are aiming for growth in sales of 9.5%, to ¥310.0 billion. If the effect of the inclusion of another 15 subsidiaries within the scope of consolidation, estimated at ¥12.0 billion, were excluded, the rate of growth would be 5.3%. We are also forecasting growth in ordinary income of 4.5%, to ¥28.4 billion, and expansion in net income of 17.2%, to ¥13.0 billion.

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

May 2006

Takeshi Hirouchi, Chairman & CEO

Shigeru Uemura, President

**Onward is continuing to move ahead with its Brand-Leveraged Management policy, which aims to maximize brand value. Major core brands, such as NIJYUSANKU, KUMIKYOKU, JIYUKU, ICB, and GOTAIRIKU, have shown stable growth.**

**Looking ahead, Onward will evolve its Brand-Leveraged Management strategy and promote the implementation of outlet-based Store Branding. Moreover, in its World Strategy, Onward will adopt policies finely tailored to each area, with primary focus on Joseph and the GIBO' Group, and endeavor to expand sales through the acceleration of this international strategy.**

### Continued Evolution in Brand-Leveraged Management

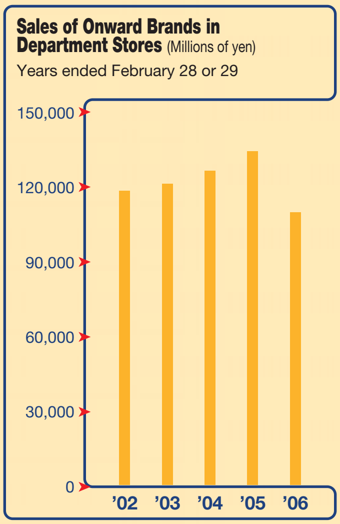
The fashion market in Japan is becoming increasingly complex along with growth in demand for "seasonless" apparel and the increasing diversification of individual tastes and values. As part of its Brand-Leveraged Management approach, Onward is implementing a Channel-Specific Brand Strategy, which involves developing and nurturing brands optimally tailored to a range of specific distribution channels.

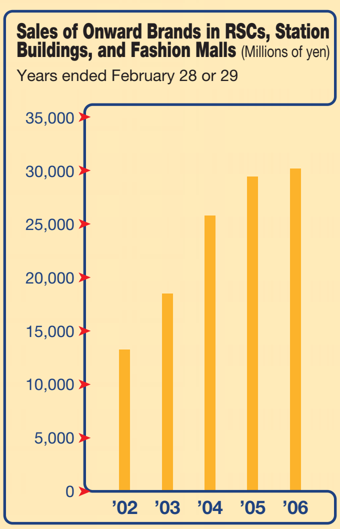
Store Branding initiatives aim to enhance the value of individual brands at the point of sale and create stronger and more diverse brand values. Under Store Branding initiatives, Onward positions the store itself as central to the entire product supply chain, from manufacturing through final sales and, based on this, works to create newer, stronger brand values. The scope of these initiatives covers not only products but store design and the sales process. While emphasizing the retail concept, Onward strives to create attractive stores that help to capture the hearts of customers who will, in turn, support the brand.

Through these initiatives that take Brand-Leveraged Management many steps forward, Onward is able to strengthen existing brands. At the same time, Onward is adding a diversity of new brands tailored to appeal to customers of various age-groups, such as ESME, a prêt-à-porter brand sold in department stores. Other such initiatives include the introduction of the Maison D'Azur brand, which offers upmarket fashion goods suited for sale in regional shopping centers (RSCs), and the Croon a Song boutiques designed for rail station shopping areas and fashion malls. Through these initiatives, Onward is pressing forward to nurture new brands for various distribution channels.

### Creating World Brands

Over the years, Onward has created many world brands. About 30 years ago, Onward made its first forays into overseas markets and, in 1995, extended sales of its ICB brand line, which it developed originally for world markets, into a number of countries. The experience garnered from this entry into global markets enabled Onward to accumulate know-how in the international retailing business. Also, through Onward's relationship with GIBO' it has had the opportunity to work with and gain the confidence and trust of many of the world's best-known designers.




Building on this record of accomplishment, Onward is now about to launch a new world strategy. With regard to Onward's future growth, we believe that it will be essential to venture beyond the domestic market and make a full-scale commitment to world markets. Group companies that will accelerate this entry into the global market will be Joseph, which was acquired as the core enterprise for Onward's world strategy, and GIBO', which has made major strides in development in recent years.

Brands newly positioned for international development are NAVE and rosebullet. NAVE is one of Onward's own brands and draws on the talents of European and U.S. designers—original goods in the NAVE line are developed simultaneously in Japan and the United States through the collaboration of designers selected each season. Onward looks forward to the performance of the NAVE brand, which represents a new business model that enables it to evolve beyond reliance on in-house design. Outlets offering the rosebullet brand will be expanded in fiscal 2007 to include stores in China, principally in Shanghai and Hong Kong, as well as Korea and Taiwan, bringing the total in Asia to 45, with 20 outlets planned for Japan.

Onward is expecting to attain overseas sales of ¥30 billion in fiscal 2007, rising to ¥50 billion in fiscal 2008.

### Joseph: A Mainstay of Onward's World Strategy

Onward acquired the U.K.-based Joseph Group in May 2005 and the Joseph brand will be a pillar of Onward's world strategy. Joseph has expanded from two-season merchandising, which is the traditional practice in Europe, to four-season merchandising and it is now in the process of strengthening its product lineup. Japanese staff members have been seconded to Joseph's headquarters in London and are working to establish close working relationships between Onward and Joseph.

Plans call for accelerating the development of Joseph's sales network, with Europe as the base, to include Japan, the United States, and Asia outside Japan. In addition to our current presence in the United Kingdom and France, our coverage in Europe will be expanded to include Italy, Germany, and Spain. Plans under consideration include entry into the wholesaling business in the United States and the development of a chain of franchise outlets in Asia covering principally China, including especially Hong Kong, and Taiwan. During 2006, new outlets to be added in Japan will include five menswear stores, five stores for women's goods, and two outlets carrying both men's and women's apparel.

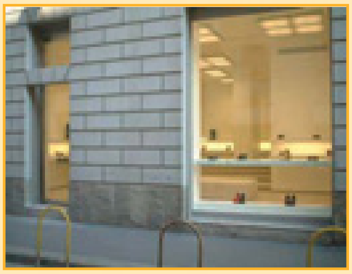
Joseph's sales targets, including Japan, are ¥16.5 billion in fiscal 2007 and ¥30.0 billion in fiscal 2009.

### GIBO' to Become a Consolidated Subsidiary

Based in Europe, GIBO' is engaged in the planning, production, and marketing of a wide range of designer brands and products under licensing arrangements.

GIBO' acquired the management rights to ERIKA s.r.l., a high-quality knitwear manufacturer, in 2004 and those to IRIS s.r.l., a shoe manufacturer and marketer, in June 2005, bringing both these companies into its operating group. On a licensing contract basis, ERIKA undertakes the production and marketing of top-quality brands, including Prada, Louis Vuitton, and Christian Dior. IRIS manufactures shoes under the Mark Jacobs, Chloé, and other brands and has marketing rights throughout the world.

In fiscal 2007, the GIBO' Group will be consolidated into the Onward Group, and the addition is expected to contribute ¥10 billion to net sales. The approximate breakdown of this total sales figure will be ¥5.5 billion from GIBO', ¥1.0 billion from ERIKA, and ¥3.7 billion from IRIS.



# Business Overview

NIJYUSANKU
KUMIKYOKU
ICB
JIYUKU
GOTAIRIKU
J. PRESS






Now that consumer spending in Japan is recovering and signs of prosperity are reemerging in the apparel industry, the Onward Group is responding to nascent disparate trends—on the one hand toward trendy consumption and on the other toward demand for traditional items—by introducing Eight-Season Merchandising. This approach divides the annual product planning cycle into eight periods, and Onward is strengthening its production design capabilities to meet the demands of this new merchandising approach.

As a result of this new approach, in women's fashions Onward created its largest number of hit items ever in the major core brand lines NIJYUSANKU, KUMIKYOKU, JIYUKU, and ICB, resulting in expansion in sales. The success of the Paul Smith and prideglide lines for young working women also contributed to overall growth in sales of women's fashions. In men's fashions, Cool Biz and Warm Biz* items helped boost sales as well.

By distribution channel, sales via urban department stores were especially favorable and contributed to overall growth in revenues and income. On a nonconsolidated basis, sales through both department stores and new channels expanded as turnover at department stores rose 4.0% and sales through new distribution channels moved up 2.5%. (The number of new distribution outlets was expanded by 51, to 497.) The ratio of department store sales to new distribution channel sales was 7 to 3, reflecting a continuation of Onward's traditional sales pattern. Since many improvements are being made going forward, including the refurbishment of department store sales areas and addition of new stores as well as the development of new brands, Onward is aiming to secure a dominant share of department store sales.

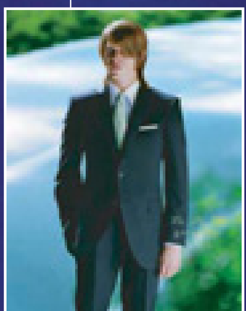
Onward has positioned the U.K.-based global Joseph brand as its core brand for maximum emphasis. Reflecting the implementation of powerful product and outlet strategies, the Joseph brand has made a strong start according to schedule.

* The Cool Biz and Warm Biz campaigns were sponsored by Japan's Ministry of the Environment. Their aim was to reduce emissions of greenhouse gases by asking people to wear cooler clothing in summer and warmer clothing in winter, thereby making it possible to reduce air conditioner usage. This campaign brought an increase in purchases of office wear.

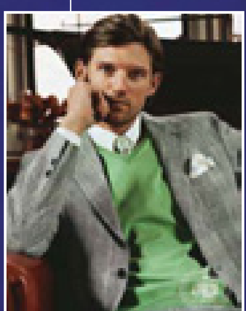
| Main Brands | Concept | Target Customers | | | Main Targets | Distribution | | |
|---|---|---|---|---|---|---|---|---|
| | | Men | Women | Children | | Department Stores | Urban Shopping Centers | Regional Shopping Centers |
| ICB | Urban and sophisticated brand for the global market | — | ● | — |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

* DAKS is a licensed brand of U.K.-based DAKS.
** Spin-off brands of KUMIKYOKU launched in fall 2005 as new strategic brands.

*NIJYUSANKU HOMME*



*GOTAIRIKU*



*J. PRESS*

*JIYUKU Men's*

# *Men's Fashions*

**Fiscal 2006**

***Consolidated sales of men's fashions rose 0.6%, to ¥78,361 million, and accounted for 27.7% of net sales.***

Conditions in the men's apparel market during the fiscal year under review were quite favorable because of demand generated by the Cool Biz campaign in June and the Warm Biz campaign in November as well as purchases of heavy clothing stimulated by unusually severe winter weather. In addition, the rising popularity of fashion magazines targeting adult men helped foster interest in clothing and heightened the general awareness of men's fashion. Although sales in the first half of the fiscal year fell below those of the same period a year earlier, purchases picked up in the latter half and showed a recovery trend.

Along with the Cool Biz and Warm Biz campaigns, Onward offered styles emphasizing both function and fashion. As a consequence of aggressive marketing efforts that included the creation of a special website and other activities, Onward was able to report a major improvement in results. Brands showing strong gains were DAKS, which reported a 56% increase in sales, CK Calvin Klein, with a 13% increase, and Joseph Uomo, with a 63% gain.

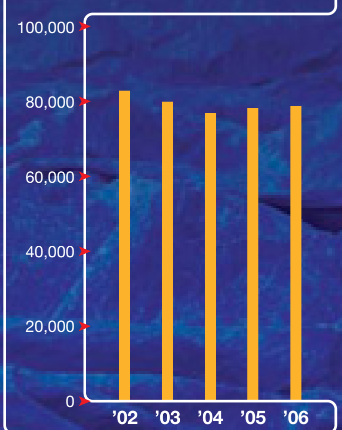
**Outlook**

Going forward, in the Cool Biz and Warm Biz product segments, Onward will offer an all-around lineup of products with a stronger message. This broader lineup will include Bikei Jackets (lightweight jackets), Bisenaka Shirts (shirts with an appealing silhouette), and Bikyaku Pants (pants that create the impression of being taller) as part of efforts to increase Onward's market share during the Cool Biz and Warm Biz sales push. Also in line with these activities, in its leading GOTAIRIKU and J. Press brand lines Onward will introduce its originally developed Giga Cool Suits, which have superior heat dispersal properties, and Giga Warm System items,which offer the wearer special warmth and comfort.

The core GOTAIRIKU brand line will be converted to an urban-type, high-grade merchandise line in the fall and winter season of 2006 and the outlets will be refurbished to suit the new environment. The number of New Manual Shops selling the DAKS brand will be increased to 100, establishing DAKS's position as a core brand.

New brand introductions will include NAVE Men's, which will go on sale in fall 2006. Other initiatives will include accelerating activities to strengthen the presence of Onward-related brands in key commercial centers, including offering the Joseph line together with WE men's clothing in large-scale, first-floor multi-line stores with prominent street locations.

**Sales of Men's Fashions**
(Millions of yen)
Years ended February 28 or 29



# *Women's Fashions*

**Fiscal 2006**

***Consolidated sales of women's fashions rose 7.2%, to ¥154,929 million, and accounted for 54.7% of net sales.***

Onward sales of women's fashions in both department stores and new distribution channels saw steady expansion. In the department store retail segment, sales of major core brands NIJYUSANKU, KUMIKYOKU, JIYUKU, and ICB expanded. For these brands, we were able to report major successes by adopting policies of improving the accuracy of forward product planning, focusing on items that were selling well while also expanding the availability of individual items and offering a broader selection of best-selling items. In the market for younger women's clothing, Onward closely coordinated its promotional activities for the prideglide brand with fashion magazines to win a high level of support from customers. These successful efforts resulted in a stunning 72% rise in sales of the prideglide line.

At RSCs, sales of the anySiS brand line exceeded planned levels. In rail station shopping areas and fashion malls, sales of rosebullet fashions, which were introduced in fall 2005, were favorable. Sales at Croon a Song boutiques also got under way as these stores have put their plans and systems in order, ready for full-scale entry into new distribution channels.

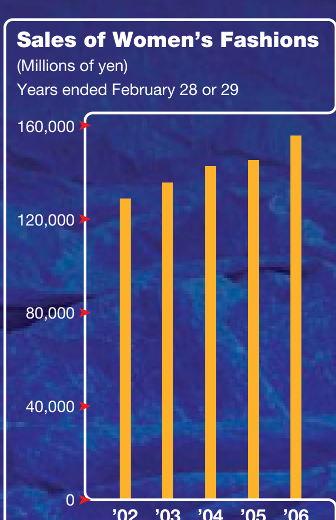
Sales of Joseph items also advanced steadily, and the number of stores carrying this line expanded to 18, with sales of approximately ¥1.8 billion (on a retail price basis, covering an eight-month period).

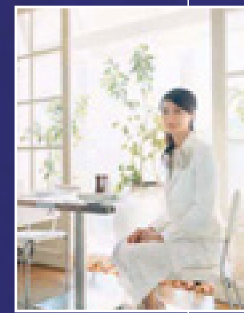
**Outlook**

Onward will aim to further expand sales of its existing major brands and, by aggressively developing new brands, work to expand the scope of its activities.

Along with the growing awareness of the NAVE brand, Onward will make active use of fashion magazines and the press to develop NAVE into a core brand. In new distribution channels, Onward will move forward to strengthen the presence of the rosebullet brand in urban shopping areas through an expansion of the number of outlets and work to accelerate the expansion in the number of Croon-a-Song stores.

Among new brands, in fall 2006 we introduced our ESME bridge prêt-à-porter line and began offering this line in urban department stores. Also, in fall 2006, we will work to develop the Maison D'Azur brand for fashion-conscious customers in urban shopping centers.



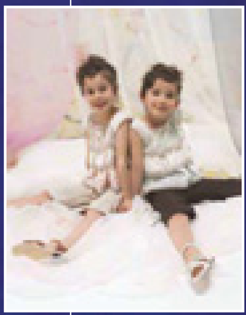


*JIYUKU*


*anySiS*


*NIJYUSANKU*


*ROSEBULLET*

# Children's Fashions, Kimonos, and Other



KUMIKYOKU
for children

KUMIKYOKU
jewelry

KUMIKYOKU
kimono

**Children's Fashions**

***Consolidated sales of children's fashions declined 6.5%, to ¥8,653 million, and accounted for 3.1% of net sales.***

Although Japan's declining birthrate has led to a continued dwindling in the market for children's clothing, items in the Celine line, a licensed brand, showed favorable performance. However, sales of the KUMIKYOKU and J. Press lines were below planned levels. Since "young fashions" worn by women in their teens and young adults are generating growing interest among primary and middle school children, we introduced a new line, KUMIKYOKU PYURUTE, for school-age children.

**Kimonos**

***Consolidated sales of kimonos rose 1.3%, to ¥3,667 million, and accounted for 1.3% of net sales.***

Consumers are continuing to move away from traditional Japanese kimonos, but the market for *yukata* (cotton summer kimonos) for both men and women, which are positioned as summer fashion items, is expanding and demand is becoming more diverse. In view of these trends, Onward expanded its lineup of *yukata* sold under the NIJYUSANKU, NIJYUSANKU OMU, KUMIKYOKU, JIYUKU, and Jean Paul Gaultier brands.

In summer 2006, Onward will introduce *yukata* under the prideglide brand and aim for increases in sales.

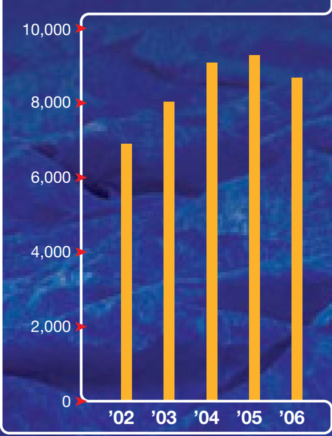
**Other Operations**

***Consolidated sales of other operations rose 4.4%, to ¥37,499 million, and accounted for 13.2% of net sales.***

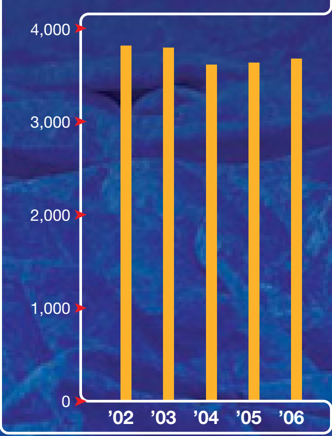
The services and resort-related businesses posted a decline in revenues of 2.3%, or ¥638 million. This was because of a decline in new orders at Onward Creative Center Co., Ltd., which is engaged primarily in preparing and implementing store designs. On the other hand, reforms at Onward Beach Resort Guam, Inc., are proceeding and the company is expected to show a profit in the near future.

Among accessories and other items, the fashion jewelry business implemented vigorous business policies and maintained sales at the previous year's level. Also, mit mitte, a retailer of designer-brand leisure bags, stepped up its activities, opening additional corners in department stores and increasing its brand presence.

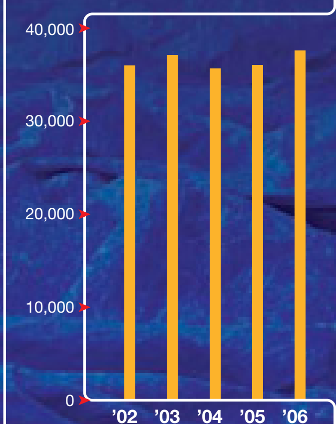
**Sales of Children's Fashions**
(Millions of yen)
Years ended February 28 or 29




**Sales of Kimonos**
(Millions of yen)
Years ended February 28 or 29

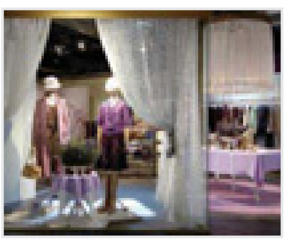



**Sales of Other**
(Millions of yen)
Years ended February 28 or 29



## *ESME: New Prêt-à-Porter Brand for Department Stores*

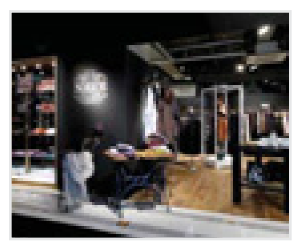

In a strategic move to enter the prêt-à-porter zone of department stores, Onward will introduce ESME, an original brand, in fall 2006. Clothing in this line will be designed by Japanese for Japanese and will be targeted at urbanite women in the 45- to 50-year-old range. These new prêt-à-porter fashions will feature designs tailored especially to the Japanese female figure and will offer luxury and sensuousness. The ESME brand will aim to develop the "bridge prêt-à-porter zone" lying between foreign luxury brands and existing Japanese prêt-à-porter fashions.



## *Maison D'Azur: A New Brand for New Distribution Channels*

In fall 2006, Onward will begin to offer its Maison D'Azur line of women's fashion goods. The new line will be carried by suburban shopping malls and will emphasize sensuousness. Creators of the Maison D'Azur fashions will be Japanese male and female designers living in Paris. To differentiate the new line, it will be designed for the highly fashion-conscious customer.

## *Menswear Added to the NAVE Brand Line*



The NAVE brand line might be called a more innovative version of a traditional boutique. Through the collaboration of designers and brands chosen for the season, the NAVE line seeks to provide "individual items with distinctive value," ranging from apparel to accessories. Beginning in fall 2006, this next-generation, strategic brand will introduce a line for fashion-conscious men. We have concluded contracts with a number of apparel and accessory designers in Europe, the United States, and Japan. We will draw on the particular strengths of each designer to offer items with distinctive value created through collaboration.

## *Croon a Song Boutiques to Begin Offering Multiple Lines*

Beginning in fall 2006, Croon a Song boutiques will add a menswear line. Croon a Song boutiques are managed by CANDELA INTERNATIONAL, which was formed as a joint venture with MOTHER INTERNATIONAL in September 2005. Going forward, Croon a Song boutiques will be introduced as a new store brand to rail station shopping areas and fashion malls.

## Corporate Governance

Onward has positioned corporate governance as an important management issue and is working to structure organizational systems that will permit rapid responses to changes in the operating environment and enhance the Company's soundness, fairness, transparency, and compliance with legal regulations.

To separate management decision making from the day-to-day conduct and supervision of operations, the Company has introduced the Executive Officer system. In addition, to strengthen the supervisory functions of the Board of Directors, an outside director and outside auditors have been appointed.

Moreover, the Company is endeavoring to strengthen its systems to ensure compliance, and its efforts to this end include the formation of a Compliance Committee and the preparation of a *Compliance Manual* that all employees are required to follow.

To strengthen internal controls, the Company has implemented measures to improve its systems for control and reporting with the aims of securing compliance, ensuring the reliability of financial reporting, and improving the efficiency of operations. For the management of risk, the Company has created a Compliance Division within the Corporate Planning Office and is working to strengthen its capabilities for dealing with risk systematically and its systems for preventing the emergence of legal issues.

Going forward, Onward will continue to strengthen its corporate governance systems and conduct its operations in a fair and transparent manner in response to the expectations of its shareholders.

## Board of Directors

### *Directors*

**Honorary Chairman**
Akira Baba

**Chairman & CEO**
Takeshi Hirouchi*

**President**
Shigeru Uemura*

**Senior Managing Directors**
Kazuya Baba*
Masaru Kusaki
Tsutomu Ohnuma

**Managing Directors**
Masao Ohno
Isao Yamane
Masaaki Yoshizawa
Ryuji Horie
Hiroshi Imai
Tadayoshi Kobayashi

**Outside Director**
Hachiro Honjou

### *Corporate Auditors*

**Standing Corporate Auditors**
Akito Yamamoto
Yuji Ohtsuka
Keiichi Ogawa**
Jotaro Yabe**

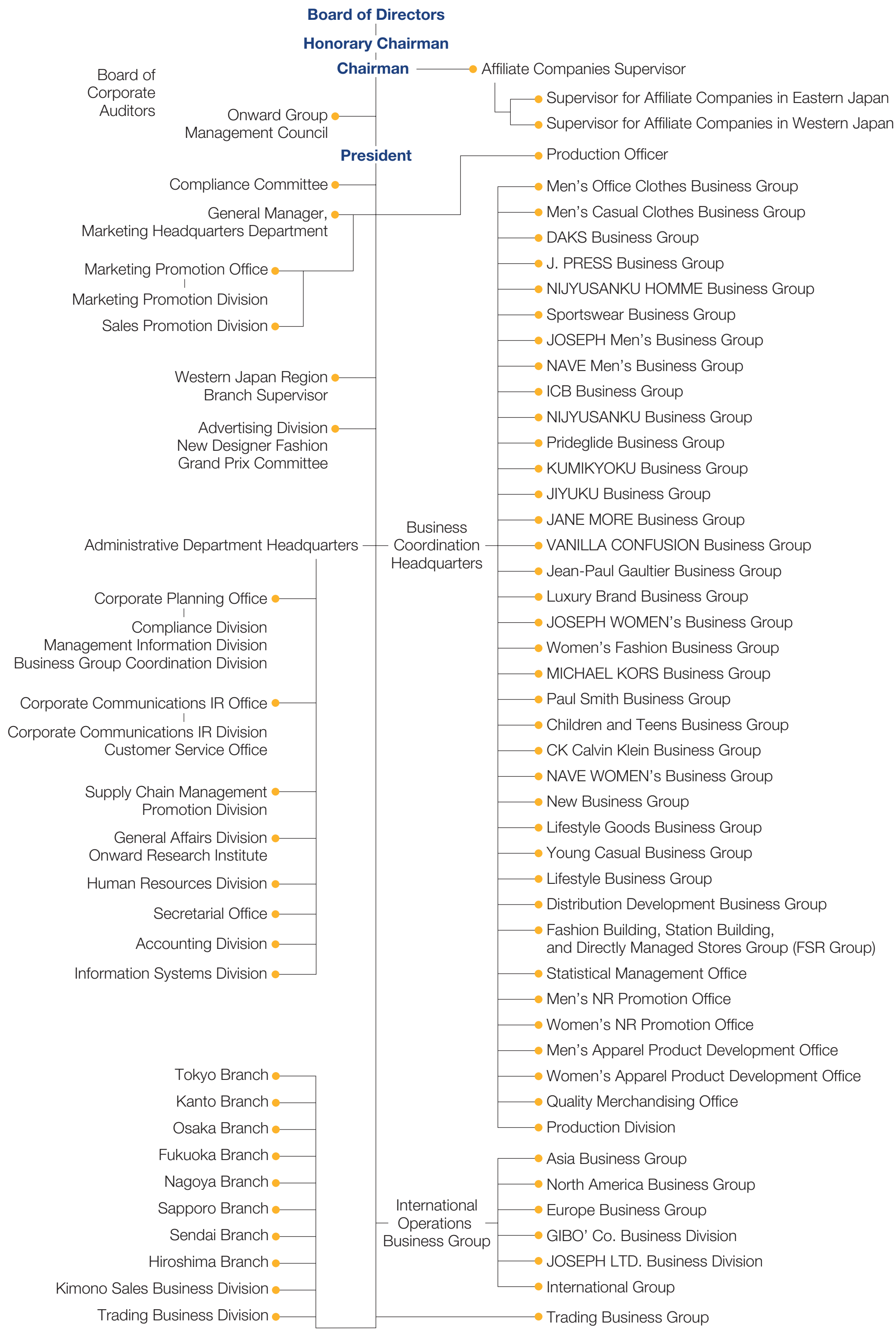
### *Officers*

**Managing Executive Officers**
Junji Nakamura
Kentaro Mizuno
Masabumi Kiyohara
Susumu Maeda
Wataru Sakai
Kenichiro Tamai
Akinori Baba
Yoshihiko Sato

**Executive Officers**
Kisaku Uragami
Shigeru Kamakari
Hideo Matsumoto
Hiroshi Ishida
Tsutomu Hagihira
Eiji Tono
Masayoshi Harazawa
Minoru Tanaka
Hitoshi Aoyama
Takahisa Suzuki
Hideo Hisamichi
Kazuo Kagatani
Manabu Nomura
Hidenobu Tanaka
Teruhiko Komatsu
Hirokazu Yoshizato
Hironobu Mitsuta
Kazuhito Kobayashi
Eihachiro Umemiya
Hisayuki Ichinose
Michio Osawa
Naoki Kamo
Tsunenori Suzuki
Takao Usui
Noriyasu Fujikawa

As of May 25, 2006

* Representative Director
** Outside Auditor



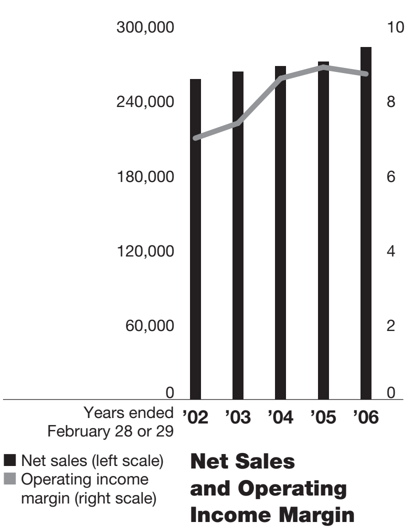

As of May 25, 2006

# Consolidated Six-Year Summary

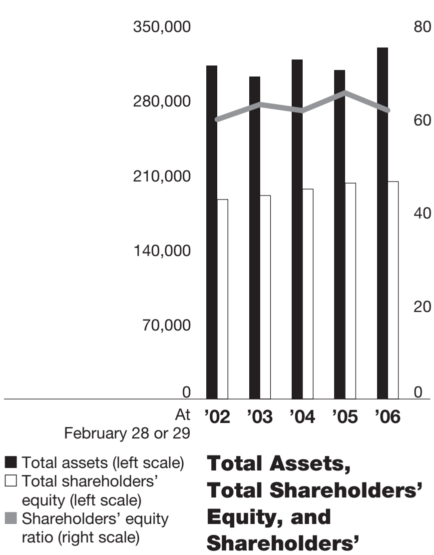
ONWARD KASHIYAMA Co., Ltd. and Subsidiaries
Years ended February 28 or 29

| | Millions of yen | | | | | | Thousands of U.S. dollars |
|---|---|---|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2004 | 2005 | **2006** | **2006** |
| **At year-end:** | | | | | | | |
| Total current assets | ¥126,151 | ¥146,080 | ¥141,468 | ¥165,931 | ¥150,969 | **¥135,769** | **$1,167,707** |
| Total property, plant and equipment | 103,581 | 99,274 | 101,188 | 96,017 | 96,394 | **99,688** | **857,380** |
| Total assets | 312,258 | 312,443 | 302,188 | 318,270 | 308,170 | **329,403** | **2,833,090** |
| Total current liabilities | 78,985 | 99,673 | 80,147 | 92,270 | 79,025 | **97,617** | **839,574** |
| Total shareholders' equity | 189,236 | 187,039 | 190,755 | 196,796 | 202,377 | **203,826** | **1,753,048** |
| **For the year:** | | | | | | | |
| Net sales | ¥245,924 | ¥257,306 | ¥263,399 | ¥267,746 | ¥271,273 | **¥283,111** | **$2,434,941** |
| Cost of sales | 143,449 | 145,687 | 143,234 | 143,921 | 146,447 | **152,043** | **1,307,667** |
| Selling, general and administrative expenses | 85,731 | 93,499 | 100,558 | 100,929 | 100,621 | **106,360** | **914,771** |
| Operating income | 16,744 | 18,120 | 19,607 | 22,896 | 24,205 | **24,708** | **212,503** |
| Income taxes, current | 4,888 | 11,176 | 6,166 | 13,868 | 7,490 | **12,321** | **105,969** |
| Net income | 4,805 | 3,802 | 7,158 | 13,053 | 10,257 | **11,091** | **95,394** |
| | Yen | | | | | | U.S. dollars |
| **Per share:** | | | | | | | |
| Net income—Basic | ¥27.9 | ¥22.1 | ¥41.6 | ¥74.1 | ¥58.1 | **¥63.8** | **$0.549** |
| Cash dividends | 16.5 | 16.5 | 16.5 | 20.0 | 22.0 | **24.0** | **0.206** |

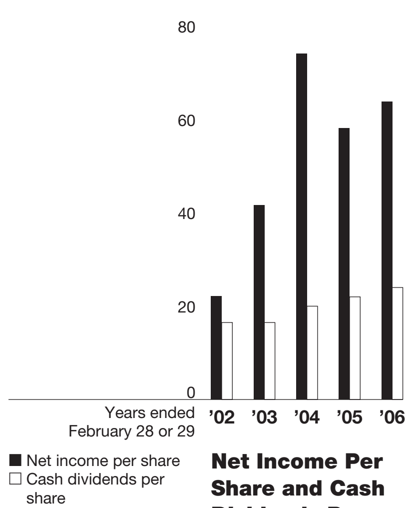
Note: Yen amounts have been translated, for convenience only, at ¥116.27=US$1, the approximate exchange rate on February 28, 2006.




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




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




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

### Overview

During the fiscal year under review (ended February 28, 2006), the Japanese economy experienced a gradual recovery as favorable trends in corporate performance began to have a positive impact on the employment and household environments, thus leading to improvement in personal consumption. In the apparel industry as well, although relatively low temperatures had a dampening effect on sales of spring clothing, the subsequent recovery in consumption and the expansion in demand for winter clothing boosted by severe winter weather brought generally strong conditions in the apparel market.

Amid this operating environment, Onward continued to implement its Brand-Leveraged Management policy and, in the first half of the fiscal year under review, introduced Eight-Season Merchandising, which offers a more finely tuned, deeper response to customer needs, while working to enhance its product planning capabilities. In addition, Onward established the Store Branding approach, which aims to enhance brand value by making retail stores the central driving force for retailing activities, and actively implemented its Channel-Specific Brand Strategy. As a consequence, sales of major core brands, including NIJYUSANKU, KUMIKYOKU, JIYUKU, and ICB, at department stores remained strong and new brands performed well, resulting in sales above the levels of the previous fiscal year. This successful performance was driven by the emergence of a considerable number of major hit items as the focus of the Company's product offerings reflected improvements in the accuracy of forward planning and the selective addition of items in best-selling product lines during periods of high demand.

In addition, sales of such core brands as Paul Smith expanded smoothly, and prideglide brand items targeting a younger customer market segment where the Company previously has not had a strong presence attracted strong support from customers. Growth in these core brands and other developments contributed to an overall expansion in women's apparel. Also, to aggressively stimulate consumer demand, the Company undertook a number of sales floor campaign activities that generated major positive results. These included introducing the "Vacance Your Style Campaign" just prior to the spring Golden Week holidays as well as the "Cool Biz Campaign" in the summer and the "All Brand Fair" and "Warm Biz Campaign" for winter.

Major overall improvements were seen in the menswear area, as the Company followed up its "Cool Biz" campaign activities in June with "Warm Biz" activities in November. Unseasonably cold winter weather provided a favorable operating environment and led to rapid expansion in demand for warm clothing.

In our new distribution channels, beginning in the latter half of the fiscal year, the Company focused on sales of its newly rejuvenated anyFAM and anySiS casual brands through urban and regional shopping centers (RSCs). As a result, even though the anyFAM line experienced difficulties at certain traditional outlets, sales of anySiS exceeded initial plans. In addition, the Company made an active entry into the rail station and fashion mall retailing channels, opening 14 rosebullet sexy-casual brand stores and two Croon a Song boutiques. Going forward, plans call for nurturing sales of core brands through these new channels.

The Company has positioned Joseph, a well-known U.K.-based global brand it acquired in May 2005, as its leading core brand and is steadily implementing an uncompromising product and outlet strategy that is proceeding according to plan.

As previously mentioned, the Company was able to report steady expansion in sales through department stores, which are its core distribution channel, and new distribution channels. As a result, both sales and profitability improved, with net sales rising 4.4%, to ¥283.1 billion, operating income increasing 2.1%, to ¥24.7 billion, and net income climbing 8.1%, to ¥11.1 billion.

### Results of Operations

#### *Net Sales*

The Company's net sales for the fiscal year under review increased for the sixth consecutive fiscal year, growing 4.4%, to ¥283.1 billion. Factors in the external business environment contributing to this increase were the gradual strengthening of the recovery trend in consumer spending and strong sales of winter apparel stimulated by unseasonably cold weather. Internal factors contributing to the growth in sales included the continued steady implementation of the Company's Brand-Leveraged Management policy aimed at enhancing the customer drawing power of principal brands. Sales of KUMIKYOKU, NIJYUSANKU, JIYUKU, and other original brand products at department stores were strong. In addition, the consolidated sales of Joseph, a company acquired in May 2005, made a major contribution to net sales. Among distribution channels that the Company describes as "new distribution," sales of anySiS exceeded the planned target level. In men's fashions, campaigns for Cool Biz apparel in June and Warm Biz clothing in November drew considerable attention from the public and led to substantial increases in sales of these products. Another factor contributing to sales was the addition of 16 new outlets in rail station shopping areas and fashion malls. The Clothing Segment thus reported 4.4% growth and accounted for ¥269.0 billion of net sales. Sales in the Other Segment dropped 2.3%, to ¥26.8 billion.

### *Cost of Sales, Selling, General and Administrative Expenses, and Other Income (Expenses)*

The cost of sales rose 3.8%, to ¥152.0 billion. This increase was primarily owing to the gain in sales. Also, as a result of the growth in sales and measures taken to deal with inefficient stores, including closure, gross profit increased 5.0%, to ¥131.1 billion, and the gross margin on sales improved 0.3 percentage point, rising from 46.0% to 46.3%.

Selling, general and administrative (SG&A) expenses increased 5.7%, to ¥106.4 billion. As a result of aggressive sales strategies, the ratio of SG&A expenses to net sales rose 0.5 percentage point, from 37.1%, to 37.6%. While sales increased and the gross margin on sales showed improvement, the increase in sales costs was significant, leading to a 0.2 percentage point deterioration in the ratio of operating income to sales, from 8.9% to 8.7%. Despite this, the effect of the gain in sales was substantial, leading to a 2.1% increase in operating income, to ¥24.7 billion, the fifth consecutive annual rise and the highest level in the Company's history.

Other income (expenses) amounted to income of ¥1.2 billion for fiscal 2006, up from the ¥0.1 billion reported in fiscal 2005. As a consequence, income before income taxes climbed 6.4%, to ¥25.9 billion. The effective tax rate for fiscal 2006 was 50.9%, substantially unchanged from the 49.4% reported for the previous fiscal year. Accordingly, net income for the fiscal year under review was up 8.1%, to ¥11.1 billion, the second consecutive annual increase. The ratio of net income to net sales improved 0.1 percentage point, rising to 3.9%. Also, the ratio of net income to shareholders' equity rose 0.3 percentage point, to 5.4%.

## Financial Position

Total assets rose 6.9%, or ¥21.2 billion, from the previous fiscal year-end, to ¥329.4 billion. Current assets decreased 10.1%, or ¥15.2 billion, but fixed assets were up 23.2%, or ¥36.4 billion, to ¥193.6 billion.

The decline in current assets was primarily owing to a drop in cash and deposits of ¥25.7 billion, to ¥56.1 billion. The rise in fixed assets was mainly the result of ¥24.2 billion in goodwill and an increase in investments in securities of ¥19.5 billion, to ¥37.4 billion.

On the liabilities side of the balance sheets, current liabilities rose ¥18.6 billion from the end of the previous fiscal year. This was primarily due to an increase in short-term loans of ¥10.6 billion, to ¥26.4 billion. In addition, the balance of accrued income taxes rose ¥7.0 billion, to ¥8.4 billion.

In the shareholders' equity section of the balance sheets, although the Company reported an increase in retained earnings as a result of net income earned for the fiscal year, total shareholders' equity was up only 0.7%, or ¥1.4 billion, to ¥203.8 billion, at the fiscal year-end because of an increase in buybacks of the Company's outstanding shares. As a result, the ratio of shareholders' equity to total assets declined 3.8 percentage points, to 61.9%. In addition, the ratio of short-term loans to shareholders' equity deteriorated 5.2 percentage points, from 7.8% to 13.0%. The current ratio fell 51.9 percentage points, from 191.0% to 139.1%.

The major changes in the balance sheets as a whole were generally related to the reorganization and consolidation of subsidiaries and brands as well as acquisitions related to enhancing the Company's brand strategy. Going forward, the Company plans to maximize the efficiency of its business activities and, through selectivity and concentration in allocating resources to businesses and brand opportunities, to promote the interest of its shareholders.

### *Cash Flows*

Net cash provided by operating activities rose ¥10.8 billion, to ¥26.8 billion, reflecting in large part a decline of ¥11.1 billion in income taxes paid.

Net cash used in investing activities increased ¥24.3 billion, to ¥37.2 billion, principally owing to the acquisition of shares in Project Sloan Ltd., which was included in the scope of consolidation beginning in the fiscal year under review, and the acquisition of investments in securities.

Net cash used in financing activities rose ¥5.8 billion from the previous year, to ¥15.1 billion, reflecting the acquisition of treasury stock, payment of dividends, and other factors.

As a result of the aforementioned factors, the balance of cash and cash equivalents at the end of fiscal 2006 was ¥56.1 billion, ¥25.5 billion lower than at the end of the previous fiscal year.

## Policy on the Distribution of Profits

The management of the Onward Group has long recognized the distribution of a portion of profits to shareholders as one of its top priorities. The Company will strive to ensure continued stable dividend payments and make distributions from profits in a way that adequately takes into account the overall business environment as well as performance trends. Retained earnings will be employed in a flexible manner that strikes a balance between strategic investment for the consolidation of a solid business structure, improving the Company's financial position, and meeting financing requirements.

In view of these considerations, and taking into account the Company's performance in the year under review as well as the outlook for the business environment, the special cash dividend of ¥2 per share paid for fiscal 2005 was included in the regular dividend for fiscal 2006, and regular dividends were increased ¥2 per share, thus bringing total dividends for fiscal 2006 to ¥24 per share. As a result, the nonconsolidated dividend payout ratio for fiscal 2006 was 36.2%, and the nonconsolidated ratio of cash dividends to shareholders' equity was 2.0%.

**Outlook**

Looking ahead, the Onward Group will continue to implement its Brand-Leveraged Management policy, establish and promote its Store Branding initiatives, and work to enhance the precision and effectiveness of Eight-Season Merchandising. In our core distribution channel of department stores, efforts will continue to enhance the value of our major core brands, including NIJYUSANKU, KUMIKYOKU, JIYUKU, and ICB, and reduce the incidence of lost sales opportunities as well as to expand sales at individual department stores. Underlying the expansion in sales of core brands in fiscal 2006 were Onward's focus on promising items and improvement in capabilities for quickly meeting demand for best-selling items. In fiscal 2007, this successful approach will be applied to other Company brands, with the goal of expanding sales of existing brands and improving profitability. In the newly introduced NAVE brand, which the Company has developed in collaboration with leading designers around the world, women's fashions are being introduced in 21 principal urban department stores in the first half of the current fiscal year. Plans call for adding NAVE wear for men in the second half of the fiscal year, as we work to develop the NAVE brand into one of our core brands.

In addition, Onward is creating new women's prêt-à-porter brands that are targeted at newly affluent customers who are seeking to migrate to higher quality lifestyles; in the second half of the current fiscal year, these brands will be introduced into the prêt-à-porter zones of urban department stores. In men's fashions, the Company's policy for midsummer wear will be to draw fully on its latest original technologies to develop Giga Cool Suits offering excellent permeability and airflow for the GOTAIRIKU and J. Press men's suit lines. In addition, Onward will work to develop a new concept line to expand its share of sales in the department store Cool Biz zone under the theme "Stylish Up Line for Cool Biz." This line will offer total styling, including jackets (Bikei Jackets), shirts (Bisenaka Shirts), and pants (Bikyaku Pants).

In new distribution channels, the Company will strengthen the presence of its rosebullet brand in the rail station and fashion mall shopping areas and actively expand its Croon a Song boutiques. Also, beginning in the latter half of the current fiscal year, Onward will begin to introduce a new fashion brand in RSCs for women who value high fashion. In these and related activities in fiscal 2007, we will continue to implement a strong Channel-Specific Brand Strategy that meets the needs of new retail channels.

For the Joseph brand, as a follow-up to the opening of a store in Tokyo's fashionable Aoyama area, Onward will step up its activities for creating new outlets in leading retailing centers, including a major store in Nagoya that opened in spring 2006. Overseas, the Company plans to realize maximum synergies with Joseph's global network to enhance its product planning and design capabilities and expand the coverage of its sales network.

For the fiscal year ending February 28, 2007, along with the positive effects of the strategies described thus far will be the results of the inclusion of an additional 15 companies within the scope of consolidation. These companies are based in areas that are expected to assume substantially greater importance to our operations in the years ahead, including Europe, Asia, and North America, and will become important bases for supporting the Company's future international expansion. As a result of these and other factors, in fiscal 2007, the Company anticipates a 9.5% increase in net sales from fiscal 2006, to ¥310.0 billion, a gain of 6.9% in operating income, to ¥26.4 billion, and a substantial increase of 17.2% in net income, to ¥13.0 billion. These forecasts are based on information available to the Onward Group at the time of writing and are subject to the possibility of risks and uncertainties. Accordingly, a variety of factors may affect the Group's forecasts and cause actual results to differ significantly from these projections.

# Consolidated Balance Sheets

ONWARD KASHIYAMA Co., Ltd. and Subsidiaries
February 28, 2005 and 2006

| ASSETS | Millions of yen 2005 | Millions of yen 2006 | Thousands of U.S. dollars (Note 2. (18)) 2006 |
|---|---|---|---|
| **Current assets:** | | | |
| Cash and deposits (Notes 2. (15) and 7.(1)) | ¥ 81,821 | **¥ 56,136** | **$ 482,810** |
| Accounts and notes receivable | 26,084 | **27,675** | **238,026** |
| Inventories (Note 2. (4)) | 27,410 | **31,117** | **267,626** |
| Deferred income taxes assets (Note 9) | 4,228 | **4,175** | **35,910** |
| Other current assets | 11,733 | **16,892** | **145,281** |
| Less: Allowance for bad debt | (307) | **(226)** | **(1,946)** |
| Total current assets | 150,969 | **135,769** | **1,167,707** |
| **Property, plant and equipment** (Note 5): | | | |
| Buildings and structures | 64,528 | **68,606** | **590,056** |
| Other depreciable property | 19,037 | **22,549** | **193,933** |
| Less: Accumulated depreciation | (44,308) | **(48,658)** | **(418,489)** |
| | 39,257 | **42,497** | **365,500** |
| Land (Note 10) | 57,137 | **57,191** | **491,880** |
| Total property, plant and equipment | 96,394 | **99,688** | **857,380** |
| **Goodwill** | — | **24,158** | **207,780** |
| **Investments and advances:** | | | |
| Investments in securities (Note 3) | 17,889 | **37,430** | **321,929** |
| Long-term loans | 3,089 | **2,884** | **24,806** |
| Deferred income taxes assets (Note 9) | 5,744 | **2,216** | **19,059** |
| Deferred income taxes assets—revaluation of land (Notes 9 and 10) | 1,612 | **1,630** | **14,016** |
| Other investments | 23,307 | **17,251** | **148,366** |
| Total investments and advances | 51,641 | **61,411** | **528,176** |
| **Deferred charges and other assets** | 9,166 | **8,377** | **72,047** |
| | ¥308,170 | **¥329,403** | **$2,833,090** |

The accompanying notes are an integral part of these statements.

| LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY | Millions of yen 2005 | Millions of yen 2006 | Thousands of U.S. dollars (Note 2. (18)) 2006 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Accounts and notes payable | ¥ 45,657 | **¥ 46,927** | **$ 403,603** |
| Short-term loans (Note 17) | 15,772 | **26,419** | **227,224** |
| Accrued expenses | 6,710 | **7,117** | **61,209** |
| Accrued income taxes | 1,407 | **8,437** | **72,565** |
| Consumption tax payable | 1,308 | **1,255** | **10,795** |
| Accrued bonuses to employees | 2,592 | **2,971** | **25,554** |
| Allowance for sales returns | 1,013 | **982** | **8,447** |
| Other current liabilities | 4,566 | **3,509** | **30,177** |
| Total current liabilities | 79,025 | **97,617** | **839,574** |
| **Long-term liabilities:** | | | |
| Long-term debt | 4,694 | **5,027** | **43,234** |
| Negative goodwill on consolidation | 1,342 | **895** | **7,697** |
| Accrued retirement benefits (Note 6) | 2,088 | **2,380** | **20,471** |
| Accrued retirement benefits for directors and statutory auditors | 1,766 | **1,885** | **16,207** |
| Total long-term liabilities | 9,890 | **10,187** | **87,609** |
| Total liabilities | 88,915 | **107,804** | **927,183** |
| **Minority interests in consolidated subsidiaries** | 16,878 | **17,773** | **152,859** |
| **Commitments and contingent liabilities** (Note 11) | | | |
| **Shareholders' equity:** | | | |
| Common stock: | | | |
| Authorized—400,000,000 shares | | | |
| Issued—172,921,669 shares | | | |
| at February 28, 2005 and 2006 | 30,080 | **30,080** | **258,705** |
| Capital surplus | 50,043 | **50,044** | **430,415** |
| Retained earnings (Note 12) | 130,979 | **137,922** | **1,186,230** |
| Net revaluation loss of land (Notes 9 and 10) | (2,353) | **(2,378)** | **(20,446)** |
| Net unrealized gains on available-for-sale securities (Note 3) | 1,266 | **5,292** | **45,509** |
| Foreign currency translation adjustment | (556) | **(687)** | **(5,909)** |
| | 209,459 | **220,273** | **1,894,504** |
| Less: Treasury stock, at cost, 5,690,756 shares and 10,726,258 shares | | | |
| at February 28, 2005 and 2006, respectively | (7,082) | **(16,447)** | **(141,456)** |
| Total shareholders' equity | 202,377 | **203,826** | **1,753,048** |
| | ¥308,170 | **¥329,403** | **$2,833,090** |

| | Yen | | U.S. dollars (Note 2. (18)) |
|---|---|---|---|
| **Per share** (Note 14): | | | |
| Net assets per share | ¥1,207.3 | **¥1,253.5** | **$10.8** |

# Consolidated Statements of Income

ONWARD KASHIYAMA Co., Ltd. and Subsidiaries
For the years ended February 29, 2004 and February 28, 2005 and 2006

| | Millions of yen | | | Thousands of U.S. dollars (Note 2. (18)) |
|---|---|---|---|---|
| | 2004 | 2005 | **2006** | **2006** |
| **Net sales** | ¥267,746 | ¥271,273 | **¥283,111** | **$2,434,941** |
| **Cost of sales** | 143,921 | 146,447 | **152,043** | **1,307,667** |
| **Gross profit** | 123,825 | 124,826 | **131,068** | **1,127,274** |
| **Selling, general and administrative expenses** (Notes 2. (10) and 15) | 100,929 | 100,621 | **106,360** | **914,771** |
| **Operating income** | 22,896 | 24,205 | **24,708** | **212,503** |
| **Other income (expenses):** | | | | |
| Interest income | 149 | 131 | **122** | **1,052** |
| Interest expenses | (128) | (102) | **(294)** | **(2,535)** |
| Loss on disposal of property, net | (1,169) | (352) | **(146)** | **(1,254)** |
| Gain on sale of investments in securities, net (Note 3. (1)) | 1,016 | 883 | **3** | **26** |
| Loss on write-down of investments in securities | (15) | (112) | **(11)** | **(92)** |
| Royalty income | 899 | 741 | **598** | **5,143** |
| Loss on liquidation of subsidiaries and affiliates | (34) | (536) | — | — |
| Additional retirement payments | (54) | (1,554) | — | — |
| Provision for allowance for bad debt | (2,744) | — | **(107)** | **(920)** |
| Provision for loss on guarantee obligations | — | — | **(293)** | **(2,520)** |
| Foreign currency exchange gain (loss) | (794) | (127) | **676** | **5,814** |
| Gain on the settlement of the substitutional portion of governmental pension fund (Note 2. (11)) | 10,471 | — | — | — |
| Valuation losses on investments in unconsolidated subsidiaries and affiliates | (1,611) | (300) | **(744)** | **(6,397)** |
| Valuation losses on fixed assets | (2,103) | — | — | — |
| Other, net | 304 | 1,431 | **1,355** | **11,652** |
| **Income before income taxes and minority interests** | 27,083 | 24,308 | **25,867** | **222,472** |
| **Income taxes**: | | | | |
| Current (Note 2. (10)) | 13,868 | 7,490 | **12,321** | **105,969** |
| Deferred (Note 9) | (2,466) | 4,507 | **842** | **7,244** |
| **Income before minority interests** | 15,681 | 12,311 | **12,704** | **109,259** |
| **Minority interests in subsidiaries** | (2,628) | (2,054) | **(1,613)** | **(13,865)** |
| **Net income** | ¥ 13,053 | ¥ 10,257 | **¥ 11,091** | **$ 95,394** |

| | Yen | | | U.S. dollars (Note 2. (18)) |
|---|---|---|---|---|
| **Per share** (Notes 2. (14),13 and 14): | | | | |
| Net income—Basic | ¥74.1 | ¥58.1 | **¥63.8** | **$0.549** |
| Cash dividends | 20.0 | 22.0 | **24.0** | **0.206** |

Diluted net income per share is not disclosed because there were no securities with dilutive effect.

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Shareholders' Equity

ONWARD KASHIYAMA Co., Ltd. and Subsidiaries
For the years ended February 29, 2004 and February 28, 2005 and 2006

| | | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of shares of common stock (thousands) | Common stock | Capital surplus | Retained earnings (Note 12) | Net revaluation loss of land (Notes 9 and 10) | Net unrealized gains (losses) on available-for-sale-securities (Note 3) | Foreign currency translation adjustment | Treasury stock |
| **Balance as at February 28, 2003:** | 172,293 | ¥30,080 | ¥49,135 | ¥114,791 | ¥(2,347) | ¥ (175) | ¥(637) | ¥ (92) |
| Cash dividends | — | — | — | (2,841) | — | — | — | — |
| Directors' bonuses | — | — | — | (401) | — | — | — | — |
| Gain on sales of treasury stock | — | — | 0 | — | — | — | — | 2 |
| Increase in treasury stock | — | — | — | — | — | — | — | (5,283) |
| Net income | — | — | — | 13,053 | — | — | — | — |
| Increase in net revaluation loss of land due to statutory tax rate change | — | — | — | — | (53) | — | — | — |
| Reversal of reserve for land revaluation | — | — | — | (27) | 27 | — | — | — |
| Net unrealized gains on available-for-sale securities | — | — | — | — | — | 982 | — | — |
| Foreign currency translation adjustment | — | — | — | — | — | — | 10 | — |
| Issuance of new stock in exchange for Oak Co., Ltd.'s stock | 629 | — | 572 | — | — | — | — | — |
| **Balance as at February 29, 2004:** | 172,922 | 30,080 | 49,707 | 124,575 | (2,373) | 807 | (627) | (5,373) |
| Cash dividends | — | — | — | (3,356) | — | — | — | — |
| Directors' bonuses | — | — | — | (477) | — | — | — | — |
| Gain on sales of treasury stock | — | — | 2 | — | — | — | — | 5 |
| Increase in treasury stock | — | — | — | — | — | — | — | (3,495) |
| Exchange of treasury stock for Chacott Co., Ltd.'s stock | — | — | 334 | — | — | — | — | 1,781 |
| Net income | — | — | — | 10,257 | — | — | — | — |
| Reversal of reserve for land revaluation | — | — | — | (20) | 20 | — | — | — |
| Net unrealized gains on available-for-sale securities | — | — | — | — | — | 459 | — | — |
| Foreign currency translation adjustment | — | — | — | — | — | — | 71 | — |
| **Balance as at February 28, 2005:** | 172,922 | 30,080 | 50,043 | 130,979 | (2,353) | 1,266 | (556) | (7,082) |
| Cash dividends | **—** | **—** | **—** | **(3,679)** | **—** | **—** | **—** | **—** |
| Directors' bonuses | **—** | **—** | **—** | **(494)** | **—** | **—** | **—** | **—** |
| Gain on sales of treasury stock | **—** | **—** | **1** | **—** | **—** | **—** | **—** | **4** |
| Increase in treasury stock | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **(9,369)** |
| Net income | **—** | **—** | **—** | **11,091** | **—** | **—** | **—** | **—** |
| Reversal of reserve for land revaluation | **—** | **—** | **—** | **25** | **(25)** | **—** | **—** | **—** |
| Net unrealized gains on available-for-sale securities | **—** | **—** | **—** | **—** | **—** | **4,026** | **—** | **—** |
| Foreign currency translation adjustment | **—** | **—** | **—** | **—** | **—** | **—** | **(131)** | **—** |
| **Balance as at February 28, 2006** | **172,922** | **¥30,080** | **¥50,044** | **¥137,922** | **¥(2,378)** | **¥5,292** | **¥(687)** | **¥(16,447)** |

| | Thousands of U.S. dollars (Note 2. (18)) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common stock | Capital surplus | Retained earnings (Note 12) | Net revaluation loss of land (Notes 9 and 10) | Net unrealized gains on available-for-sale-securities (Note 3) | Foreign currency translation adjustment | Treasury stock |
| **Balance as at February 28, 2005:** | $258,705 | $430,407 | $1,126,511 | $(20,230) | $10,881 | $(4,782) | $(60,916) |
| Cash dividends | **—** | **—** | **(31,642)** | **—** | **—** | **—** | **—** |
| Directors' bonuses | **—** | **—** | **(4,249)** | **—** | **—** | **—** | **—** |
| Gain on sales of treasury stock | **—** | **8** | **—** | **—** | **—** | **—** | **31** |
| Increase in treasury stock | **—** | **—** | **—** | **—** | **—** | **—** | **(80,571)** |
| Net income | **—** | **—** | **95,394** | **—** | **—** | **—** | **—** |
| Reversal of reserve for land revaluation | **—** | **—** | **216** | **(216)** | **—** | **—** | **—** |
| Net unrealized gains on available-for-sale securities | **—** | **—** | **—** | **—** | **34,628** | **—** | **—** |
| Foreign currency translation adjustment | **—** | **—** | **—** | **—** | **—** | **(1,127)** | **—** |
| **Balance as at February 28, 2006** | **$258,705** | **$430,415** | **$1,186,230** | **$(20,446)** | **$45,509** | **$(5,909)** | **$(141,456)** |

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Cash Flows

ONWARD KASHIYAMA Co., Ltd. and Subsidiaries
For the years ended February 29, 2004 and February 28, 2005 and 2006

| | Millions of yen | | | Thousands of U.S. dollars (Note 2. (18)) |
|---|---|---|---|---|
| | 2004 | 2005 | **2006** | **2006** |
| **Cash flows from operating activities:** | | | | |
| Income before income taxes and minority interests | ¥27,083 | ¥24,308 | **¥25,867** | **¥222,472** |
| Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 7,531 | 7,042 | **7,054** | **60,668** |
| Net amortization of goodwill on consolidation | (441) | (462) | **172** | **1,483** |
| Increase (decrease) in provision for allowance for bad debt | 2,683 | (2,863) | **14** | **118** |
| Increase (decrease) in provision for accrued retirement benefits | (2,792) | (1,110) | **292** | **2,516** |
| Net interest and dividend income | (46) | (81) | **18** | **154** |
| Loss on disposal of property, net | 1,169 | 352 | **146** | **1,254** |
| Gain on sale of investments in securities, net | (1,016) | (883) | **(3)** | **(26)** |
| Loss on write-down of investments in securities | 15 | 112 | **11** | **92** |
| Valuation losses on investments in unconsolidated subsidiaries and affiliates | 1,611 | 300 | **744** | **6,397** |
| (Increase) decrease in trade receivable | (2,746) | 5,734 | **(1,032)** | **(8,877)** |
| Increase in inventories | (1,035) | (1,230) | **(1,574)** | **(13,533)** |
| Increase (decrease) in trade payables | 4,942 | (2,128) | **115** | **991** |
| Other, net | (1,495) | 4,359 | **77** | **658** |
| Subtotal | 35,463 | 33,450 | **31,901** | **274,367** |
| Interest and dividends received | 178 | 326 | **547** | **4,706** |
| Interest paid | (130) | (101) | **(295)** | **(2,537)** |
| Income taxes paid | (4,996) | (17,683) | **(6,560)** | **(56,422)** |
| Income taxes refund | — | — | **1,166** | **10,031** |
| Net cash provided by operating activities | 30,515 | 15,992 | **26,759** | **230,145** |
| **Cash flows from investing activities:** | | | | |
| Increase in time deposits | (498) | (2,278) | **(3,078)** | **(26,473)** |
| Decrease in time deposits | 493 | 288 | **278** | **2,391** |
| Decrease in investments in securities | — | 4,400 | **—** | **—** |
| Acquisition of property, plant and equipment | (4,183) | (5,288) | **(5,567)** | **(47,879)** |
| Proceeds from sale of property, plant and equipment | 1,208 | 50 | **156** | **1,342** |
| Acquisition of investments in securities | (412) | (7,570) | **(13,332)** | **(114,668)** |
| Proceeds from sale of investments in securities | 1,907 | 1,546 | **312** | **2,685** |
| Payments for long-term prepaid expenses | (2,444) | (2,723) | **(1,854)** | **(15,945)** |
| Payments for deposits | (1,320) | (874) | **(484)** | **(4,163)** |
| Proceeds from deposits | 668 | 685 | **947** | **8,145** |
| Payment for acquisition of consolidated subsidiaries with change within the scope of consolidation (Note 7. (2)) | — | — | **(16,886)** | **(145,229)** |
| Increase in batch trust beneficiary right | — | — | **(5,019)** | **(43,169)** |
| Income from the cancellation of the non-tax qualified pension plan | — | — | **8,056** | **69,288** |
| Other, net | (4,123) | (1,185) | **(739)** | **(6,359)** |
| Net cash used in investing activities | (8,704) | (12,949) | **(37,210)** | **(320,034)** |

**(Continued)**

| | Millions of yen | | | Thousands of U.S. dollars (Note 2. (18)) |
|---|---|---|---|---|
| | 2004 | 2005 | **2006** | **2006** |
| **Cash flows from financing activities:** | | | | |
| Net repayments of short-term loans | ¥(2,385) | ¥(1,719) | **¥(1,290)** | **$ (11,097)** |
| Acquisition of treasury stock | (5,281) | (3,495) | **(9,368)** | **(80,571)** |
| Dividends paid | (2,841) | (3,356) | **(3,679)** | **(31,642)** |
| Dividends paid to minority stockholders | (337) | (770) | **(758)** | **(6,521)** |
| Other, net | (3) | 3 | **2** | **19** |
| Net cash used in financing activities | (10,847) | (9,337) | **(15,093)** | **(129,812)** |
| **Effect of exchange rate changes on cash and cash equivalents** | (61) | 26 | **59** | **512** |
| **Net increase (decrease) in cash and cash equivalents** | 10,903 | (6,268) | **(25,485)** | **(219,189)** |
| **Cash and cash equivalents at beginning of year** | 76,908 | 87,811 | **81,543** | **701,328** |
| **Cash and cash equivalents at end of year** (Note 7. (1)) | ¥87,811 | ¥81,543 | **¥56,058** | **$482,139** |

The accompanying notes are an integral part of these statements.

# Notes to Consolidated Financial Statements

ONWARD KASHIYAMA Co., Ltd. and Subsidiaries

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

The accompanying consolidated financial statements have been prepared from the accounts maintained by ONWARD KASHIYAMA Co., Ltd. (the "Company"), and its consolidated subsidiaries in accordance with the provisions set forth in the Commercial Code of Japan (the "Code") and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards.

Certain items presented in the consolidated financial statements submitted to the Director of the Kanto Finance Bureau in Japan have been reclassified for the convenience of readers outside Japan.

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

**2. Summary of Significant Accounting Policies**

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

The Company had 67 subsidiaries as at February 28, 2006 (42 as at February 28, 2005, 47 as at February 29, 2004). The accompanying consolidated financial statements include the accounts of the Company and 36 subsidiaries (16 for 2005, 17 for 2004). The 36 subsidiaries which have been consolidated with the Company are listed below (the Company and these consolidated subsidiaries are together referred to as the "Companies"):

| Name of subsidiary | Equity ownership percentage | Closing date |
|---|---|---|
| Impact 21 Co., Ltd. | 41.0% | February 28 |
| Onward Life Design Network Co., Ltd. | 100.0 | February 28 |
| Freed of London Ltd. | 100.0 | December 31 |
| O & K Co., Ltd. | 100.0 | February 28 |
| Onward Beach Resort Co., Ltd. | 100.0 | December 31 |
| Donna Karan Japan K.K. | 100.0 | December 31 |
| Onward Creative Center Co., Ltd. | 100.0 | February 28 |
| Excel Co., Ltd. | 100.0 | February 28 |
| Across Transport Co., Ltd. | 100.0 | February 28 |
| Onward Marine Co., Ltd. | 100.0 | February 28 |
| Personal Order Japan Co., Ltd. | 100.0 | February 28 |
| Onward Beach Resort Guam, Inc. | 100.0 | December 31 |
| Bus Stop Co., Ltd. | 100.0 | February 28 |
| Oak Co., Ltd. | 100.0 | February 28 |
| Chacott Co., Ltd. | 100.0 | February 28 |
| BOOKLET CORP. | 100.0 | February 28 |
| Project Sloane Ltd. | 100.0 | November 30 |
| Joseph Ltd. | 100.0 | November 30 |
| Joseph Tricot Ltd. | 100.0 | November 30 |
| Joseph at Old Bond Street Ltd. | 51.0 | November 30 |
| Joseph at Wimbledon Ltd. | 51.0 | November 30 |
| Joseph London EURL | 100.0 | November 30 |
| Joseph Tricot Cannes SARL | 100.0 | November 30 |
| Joseph E France SARL | 65.0 | November 30 |
| Joseph Production EURL | 100.0 | November 30 |
| SCI Joseph | 65.0 | November 30 |
| Joseph UK Inc.(New York) | 100.0 | November 30 |
| Joseph at Richmond Ltd. | 100.0 | November 30 |
| Joseph at Notting Hill Ltd. | 100.0 | November 30 |
| Joseph at Brooks Street Ltd. | 100.0 | November 30 |
| Joseph Eyewear Ltd. | 100.0 | November 30 |
| Joe's Cafes Ltd. | 100.0 | November 30 |
| Lynxmead Inc. | 100.0 | November 30 |
| Bridge UK Inc. | 100.0 | November 30 |
| Medtown Ltd. | 51.0 | November 30 |
| Joblin Ltd. | 51.0 | November 30 |

All shares of Project Sloane Ltd. were acquired on May 16, 2005 and Joseph group including Project Sloane Ltd. and its twenty subsidiaries became consolidated subsidiaries of the Company.

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

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

The financial statements of Donna Karan Japan K.K., Onward Beach Resort Co., Ltd., Onward Beach Resort Guam, Inc. and Freed of London Ltd., which have a fiscal year-end of December 31, and Twenty Joseph Group companies, which have a fiscal year-end of November 30, have been used for consolidation.

Significant transactions between December 1 and February 28, and January 1 and February 28 are reflected in the consolidated financial statements.

The remaining 31 subsidiaries (26 for 2005 and 30 for 2004) were not consolidated because their combined assets, net sales, net income and retained earnings in the aggregate were not material compared with those of the consolidated financial statements of the Companies.

***(2) Consolidation and Elimination***

For the purposes of preparing the consolidated financial statements of the Companies, all significant intercompany transactions, account balances and unrealized profits among the Companies have been entirely eliminated, and the portion attributable to minority interests is credited/charged thereto.

The assets and liabilities of consolidated subsidiaries are incorporated into the financial statements at fair value at the time of acquisition, and the differences between the cost of investments in consolidated subsidiaries and the equity in their net assets at dates of acquisition are amortized as goodwill equally over 5-year or 20-year periods. The Company started to amortize the goodwill by the acquisition of Project Sloane Ltd. from the second half of this year due to its fiscal year-end is November 30 and the estimated acquisition date was May 30, 2005.

***(3) Investments in Unconsolidated Subsidiaries and Affiliates***

Although the Company had 31 unconsolidated subsidiaries (26 in 2005 and 30 in 2004) and 6 affiliates (5 in 2005 and 2004) as at February 28, 2006, the equity method was not applied to any of those subsidiaries and affiliates except for Polo Ralph Lauren Japan Co., Ltd. and Gailyglen Ltd. These were because investment in the unconsolidated subsidiaries and affiliates would not have had a material effect on the stocks of consolidated financial statements and net income of consolidated financial statements.

Since the Company acquired shares of Project Sloane Ltd. in this fiscal year, the Company applied the equity method to Gailyglen Ltd., an affiliate of Project Sloane Ltd. Although the fiscal year-end of Gailyglen Ltd. is November 30, the Company applied the equity method by using the financial statement of Gailyglen Ltd. as of November 30.

***(4) Inventories***

Inventories are stated at cost, cost being determined generally by the last purchase invoice price method. Merchandise and finished goods held at retail stores is valued at the retail cost method.

When the net realizable value of certain classes of inventories (consisting primarily of seasonal merchandise which remains unsold after the end of such seasons) is substantially less than the carrying value (cost), and the decline of value is not expected to be recovered in the near future, appropriate write-downs are recorded on such inventory items. The amount of write-down is determined based on the experience of sales of merchandise similar to those unsold items during three years. At February 28, 2005 and 2006, the recorded write-downs were ¥10,489 million and ¥9,423 million ($81,044 thousand), respectively.

***(5) Investments in Securities***

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

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

Investments in unconsolidated subsidiaries and affiliates are stated at cost determined by the moving-average method.

***(6) Derivative Transactions***

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

***(7) Hedge Accounting***

All gains or losses arising from changes in fair values of the derivatives designated as “hedging instruments” are deferred as assets or liabilities and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognized. For foreign exchange forward contracts, if they meet conditions for hedge accounting, the difference between the contract rate and spot rate at the date of the contract is recognized over the period from the contract date to the settlement date.

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

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

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

The Company and its domestic consolidated subsidiaries adopt a declining-balance method and overseas consolidated subsidiaries adopt a straight-line method respectively for depreciation.

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

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

***(9) Amortization***

Intangible assets and long-term prepaid expenses are amortized on a straight-line method.

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

***(10) Income Taxes***

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

*Presentation of External Standard Taxation Portion in the Corporate Business Tax on the Income Statement*

Since “Law for the Partial Revision of Local Tax, etc. (No. 9, 2003)” was announced on March 31, 2003, the rule of the external standard taxation has been applied from fiscal years commencing on and after April 1, 2004. Subsequently, the added value portion and capital portion of corporate business tax have been recorded in selling, general and administrative expenses, respectively, from this point in accordance with “Practical Treatment of the Disclosure of External Standard Taxation Portion in the Corporate Business Tax on the Profit and Loss Statement (February 13, 2004, Accounting Standards Board of Japan, Business Related Report No. 12).” As a result, selling general and administrative expenses increased by ¥559 million ($4,804 thousand), while operating income and income before income taxes and minority interests decreased by ¥559 million ($4,804 thousand) for the year ended February 28, 2006.

***(11) Allowances***

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

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

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

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

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

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

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

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

The provision for loss on guarantee obligations was provided in case the Company is obliged to pay for the guaranteed subsidiaries. In estimating the provision the Company considers the financial condition of each subsidiary.

***(12) Accounting for Leases***

For the Company and its domestic consolidated subsidiaries, finance leases other than those which are deemed to transfer the ownership of the lease assets to lessees are accounted for by a method similar to that applicable to ordinary operating leases.

***(13) Accounting for Consumption Tax***

The consumption tax withheld upon sale and the consumption tax paid by the Companies on the purchase of goods and services are not included in the accompanying consolidated statements of income.

***(14) Cash dividends***

Under the resolution of the general meeting of shareholders held on May 25, 2006, the Board of Directors declared a cash dividend of ¥3,893 million ($33,480 thousand), or ¥24.0 ($0.206) per share, which was applicable to earnings of the year ended February 28, 2006 and payable to shareholders on the register on February 28, 2006.

***(15) Cash and Cash Equivalents***

Cash and cash equivalents in the consolidated statement of cash flows are composed of cash on hand, bank deposits which can be withdrawn on demand, and short-term investments which are readily convertible into cash or with an original maturity of three months or less, which represent insignificant risk of changes in value.

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

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

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

The Company has not yet applied this new standard nor has determined the effect of applying it on the company's consolidated financial statements.

***(17) Reclassification of Accounts***

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

***(18) United States Dollar Amounts***

Amounts in U.S. dollars are included solely for the convenience of readers outside of Japan. The rate of ¥116.27=US$1, the rate of exchange as of February 28, 2006, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at that rate or any other rate.

**3. Investments in Securities**

***(1) Information as of and for the Year Ended February 28, 2006***

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

Investments in securities whose fair values were available at February 28, 2006, are analyzed as follows:

| | Millions of yen | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|
| | Acquisition cost | Fair value (Carrying value) | Difference | Acquisition cost | Fair value (Carrying value) | Difference |
| Securities with unrealized gains: | | | | | | |
| Equity securities | **¥16,649** | **¥25,668** | **¥9,019** | **$143,191** | **$220,763** | **$77,572** |
| Total | **16,649** | **25,668** | **9,019** | **143,191** | **220,763** | **77,572** |
| Securities with unrealized losses: | | | | | | |
| Equity securities | **1,004** | **967** | **(37)** | **8,636** | **8,316** | **(320)** |
| Total | **1,004** | **967** | **(37)** | **8,636** | **8,316** | **(320)** |
| Total | **¥17,653** | **¥26,635** | **¥8,982** | **$151,827** | **$229,079** | **$77,252** |

(b) Other securities sold during the year ended February 28, 2006:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Proceeds from sale of other securities | **¥312** | **$2,658** |
| Gross realized gain on sale of other securities | **3** | **26** |
| Gross realized loss on sale of other securities | — | — |

(c) Major securities which were not stated at fair value as of February 28, 2006:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Other securities: | | |
| Non-listed equity securities | **¥ 2,886** | **$24,825** |
| Investments in equity securities of unconsolidated subsidiaries and affiliates | **7,909** | **68,025** |
| Total | **¥10,795** | **$92,850** |

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

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

Investments in securities whose fair values were available at February 28, 2005, are analyzed as follows:

| | Millions of yen | | |
|---|---|---|---|
| | Acquisition cost | Fair value (Carrying value) | Difference |
| Securities with unrealized gains: | | | |
| Equity securities | ¥5,738 | ¥7,902 | ¥2,164 |
| Total | 5,738 | 7,902 | 2,164 |
| Securities with unrealized losses: | | | |
| Equity securities | 217 | 211 | (6) |
| Total | 217 | 211 | (6) |
| Total | ¥5,955 | ¥8,113 | ¥2,158 |

(b) Other securities sold during the year ended February 28, 2005:

| | Millions of yen |
|---|---|
| Proceeds from sale of other securities | ¥1,541 |
| Gross realized gain on sale of other securities | 883 |
| Gross realized loss on sale of other securities | — |

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

| | Millions of yen |
|---|---|
| Other securities: | |
| Non-listed equity securities | ¥3,208 |
| Investments in equity securities of unconsolidated subsidiaries and affiliates | 6,568 |
| Total | 9,776 |

**4. Derivative Transactions**

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

The Company and its consolidated subsidiaries applied hedge accounting for all derivative transactions as of February 28, 2005 and 2006, therefore, no market value information is disclosed.

**5. Property, Plant and Equipment**

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

Property, plant and equipment at February 28, 2005 and 2006, were reduced by ¥8,573 million and ¥8,493 million ($73,049 thousand), respectively, representing accumulated deferred gains from eligible prior sales.

**6. Retirement Plan and Retirement Benefits**

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

The reserve for retirement benefits as of February 28, 2005 and 2006, is analyzed as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| Projected benefit obligations | ¥(34,942) | **¥(36,456)** | **$(313,546)** |
| Plan assets (including employee retirement benefit fund) | 40,266 | **58,067** | **499,417** |
| Funded status | 5,324 | **21,611** | **185,871** |
| Unrecognized prior service costs | (231) | **(188)** | **(1,621)** |
| Unrecognized actuarial differences | 652 | **1,010** | **8,690** |
| Unrecognized pension assets | — | **(16,635)** | **(143,070)** |
| Subtotal | 5,745 | **5,798** | **49,870** |
| Prepaid pension cost | 7,833 | **8,178** | **70,341** |
| Accrued retirement benefits | ¥ (2,088) | **¥ (2,380)** | **$ (20,471)** |

The net pension expense for the year ended February 28, 2005 and 2006, was as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| Service cost | ¥1,376 | **¥1,413** | **$12,153** |
| Interest cost | 643 | **641** | **5,511** |
| Expected return on plan assets | (382) | **(437)** | **(3,760)** |
| Amortization of unrecognized prior service costs | (41) | **(43)** | **(366)** |
| Amortization of unrecognized actuarial differences | 548 | **349** | **2,998** |
| Net pension expense | ¥2,144 | **¥1,923** | **$16,536** |

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

| | As of February 28, 2005 | **As of February 28, 2006** |
|---|---|---|
| Method of attributing the projected benefits to periods of service | Straight-line basis | **Straight-line basis** |
| Discount rate | 2.0% | **2.0%** |
| Expected rate of return on plan assets | 0.8～2.0% | **0.7～2.0%** |
| Amortization of unrecognized prior service costs | 5～10 years | **5～10 years** |
| Amortization of unrecognized actuarial differences | 5～10 years | **5～10 years** |

## 7. Notes to Consolidated Statements of Cash Flows

(1) Cash and cash equivalents at February 28, 2005 and 2006, consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| Cash and time deposits | ¥81,821 | **¥56,136** | **$482,810** |
| Time deposits with maturities of more than three months | (278) | **(78)** | **(671)** |
| Cash and cash equivalents | ¥81,543 | **¥56,058** | **$482,139** |

(2) Payment for acquisition of consolidated subsidiaries with change within the scope of consolidation

For the year ended February 28, 2006, due to the acquisition of shares of Project Sloane Ltd., Joseph group including Project Sloane Ltd. and it's twenty subsidiaries are newly consolidated. The assets and liabilities of these companies at the time of initial consolidation, additional acquisition, cash and cash equivalents held by consolidated subsidiaries, and net payment for acquisition of consolidated subsidiaries were as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Current assets | ¥ 3,658 | $ 31,458 |
| Fixed assets | 2,870 | 24,684 |
| Goodwill on consolidation | 24,778 | 213,108 |
| Current liabilities | (13,372) | (115,005) |
| Long-term liabilities | (788) | (6,774) |
| Minority interests in consolidated subsidiaries | (73) | (629) |
| Cash paid for acquisition of consolidated subsidiaries | 17,073 | 146,842 |
| Cash and cash equivalents held by consolidated subsidiaries | (187) | (1,613) |
| Payment for acquisition of consolidated subsidiaries | ¥16,886 | $145,229 |

## 8. Lease Transactions

The Companies' finance lease contracts which are not deemed to transfer the ownership of the leased assets to lessees are not capitalized, which is permitted by Japanese accounting principles. Certain key information on such lease contracts of the Companies for the years ended February 28, 2005 and 2006 are as follows.

(Lessee)

Assumed data as to acquisition cost, accumulated depreciation and net book value of the leased assets, which included the portion of interest thereon, as of February 28, 2005 and 2006, are summarized as follows:

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2005 | | | **2006** | | | **2006** | | |
| | Tools, furniture, and fixtures | Other | Total | **Tools, furniture, and fixtures** | **Other** | **Total** | **Tools, furniture, and fixtures** | **Other** | **Total** |
| Acquisition cost | ¥2,446 | ¥1,290 | ¥3,736 | **¥2,290** | **¥896** | **¥3,186** | **$19,689** | **$7,707** | **$27,396** |
| Accumulated depreciation | (1,458) | (773) | (2,231) | **(1,360)** | **(486)** | **(1,846)** | **(11,693)** | **(4,180)** | **(15,873)** |
| Net book value | ¥ 988 | ¥ 517 | ¥1,505 | **¥ 930** | **¥410** | **¥1,340** | **$ 7,996** | **$3,527** | **$11,523** |

The scheduled maturities of future lease payments on such lease contracts as of February 28, 2005 and 2006, are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| Scheduled maturities of future leases: | | | |
| Due within one year | ¥ 725 | **¥ 592** | **$ 5,093** |
| Due over one year | 808 | **813** | **6,992** |
| | ¥1,533 | **¥1,405** | **$12,085** |

The lease expenses for the year and depreciation of the lease assets as of February 28, 2005 and 2006, are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| Lease expenses for the year | ¥839 | **¥753** | **$6,482** |
| Depreciation | 839 | **753** | **6,482** |

(Lessor)

Assumed data as to acquisition cost, accumulated depreciation and net book value of the leased assets, which included the portion of interest thereon, as of February 28, 2005 and 2006, are summarized as follows:

| | Millions of yen | | | | Thousands of U.S. dollars | |
|---|---|---|---|---|---|---|
| | 2005 | | **2006** | | **2006** | |
| | Other | Total | **Other** | **Total** | **Other** | **Total** |
| Acquisition cost | ¥83 | ¥83 | **¥90** | **¥90** | **$774** | **$774** |
| Accumulated depreciation | (51) | (51) | **(62)** | **(62)** | **(532)** | **(532)** |
| Net book value | ¥32 | ¥32 | **¥28** | **¥28** | **$242** | **$242** |

The scheduled maturities of future lease income on such lease contracts as of February 28, 2005 and 2006, are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| Due within one year | ¥35 | **¥49** | **$ 420** |
| Due over one year | 60 | **81** | **700** |
| | ¥95 | **¥130** | **$1,120** |

Lease income for the year and the depreciation of the lease assets as of February 28, 2005 and 2006, are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| Lease income for the year | ¥18 | **¥20** | **$170** |
| Depreciation | 19 | **17** | **146** |

## 9. Income Taxes

Deferred income taxes assets and liabilities as at February 28, 2005 and 2006, consisted of the following elements:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| Deferred income taxes assets: | | | |
| Valuation loss on inventories | ¥ 2,890 | **¥ 2,553** | **$ 21,959** |
| Evaluation loss on investments in unconsolidated subsidiaries | 1,939 | **1,749** | **15,043** |
| Excess amount of tax-deductible accrued bonuses to employees | 1,061 | **1,213** | **10,428** |
| Excess amount of tax-deductible accrued employees' retirement benefits | 6,626 | **6,819** | **58,650** |
| Accrued retirement benefits for directors and corporate auditors | 730 | **765** | **6,583** |
| Tax loss carryforwards | 7,325 | **5,921** | **50,924** |
| Other | 2,273 | **2,598** | **22,347** |
| Subtotal | 22,844 | **21,618** | **185,934** |
| Valuation allowance | (8,550) | **(8,173)** | **(70,295)** |
| Total deferred income taxes assets | 14,294 | **13,445** | **115,639** |
| Deferred income taxes liabilities: | | | |
| Gain on securities contributed to an employee retirement benefit trust | (3,474) | **(3,474)** | **(29,878)** |
| Net unrealized gains on available-for-sale securities | (880) | **(3,655)** | **(31,441)** |
| Provision for deferred capital gains on real property | (23) | **(22)** | **(193)** |
| Other | (34) | **(24)** | **(204)** |
| Total deferred income taxes liabilities | (4,411) | **(7,175)** | **(61,716)** |
| Net deferred income taxes assets | ¥ 9,883 | **¥ 6,270** | **$ 53,923** |

The reconciliation of the difference between the statutory tax rate and the effective tax rate for the year ended February 28, 2006, is as follows:

| | % |
|---|---|
| Statutory tax rate | **40.7%** |
| Reconciliation: | |
| Nondeductible items (entertainment expenses, etc.) | **2.0** |
| Losses of consolidated subsidiaries to which deferred income taxes assets are not recognized | **1.9** |
| Change in valuation allowance | **5.1** |
| Other | **1.2** |
| Effective tax rate | **50.9%** |

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

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

### 10. Revaluation of Land

In the year ended February 28, 2002, the Company revaluated land for its business use at a market value as a result of the application of the law, which permits a one-time revaluation of land for business use.

In the year ended February 28, 2006, the revaluation loss amounted to ¥4,008 million ($34,462 thousand), the related deferred tax asset recognized is ¥1,630 million ($14,016 thousand) and the net revaluation loss of ¥2,378 million ($20,446 thousand) is presented as a separate component of shareholders' equity as a "net revaluation loss of land."

The difference between the market value of land subject to the revaluation and the book value was ¥7,929 million ($68,198 thousand) as at February 28, 2006.

### 11. Commitments and Contingent Liabilities

The Company was contingently liable as a guarantor for certain affiliates' bank loans. The outstanding balance guaranteed as at February 28, 2005 and 2006, aggregated ¥2,733 million and ¥2,192 million ($18,857 thousand), respectively.

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

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

The appropriation of retained earnings reflected in the accompanying consolidated statements of income represents the result of such an appropriation applicable to the preceding fiscal period.

Under Japanese accounting practices, bonuses to directors and statutory auditors are paid out of retained earnings instead of being charged to income of the year and constitute a part of the appropriation explained above.

The Commercial Code of Japan requires that an amount equal to at least 10% of any payment by way of appropriation of retained earnings be set aside as a legal reserve until the total additional paid-in capital and a legal reserve equals 25% of paid-in capital. Additional paid-in capital and/or a legal reserve in excess of 25% of stated capital in total may be reduced by resolution of the shareholders.

### 13. Subsequent Events

(1) Subsequent to February 28, 2006, the Company's Board of Directors proposed a plan for the appropriation of retained earnings applicable to the year ended February 28, 2006, which was approved at the general meeting of shareholders held on May 25, 2006.

The approved appropriations of retained earnings is shown below:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Reversal of a reserve for deferred capital gains on real property | | |
| Appropriations: | ¥ 0 | $ 5 |
| Cash dividends (¥24.0 per share) | (3,893) | (33,480) |
| Directors' bonuses | (450) | (3,870) |
| Arbitrary reserves: | | |
| General reserve | (6,000) | (51,604) |
| | ¥10,343 | $(88,949) |

(2) The Company concluded a business alliance agreement with Daido Limited on December 7, 2004, and built friendly capital business alliance relations, but the Company strengthened each other's cooperation more, as a part of a further alliance effect pursuit such as reinforcement of business and development/attemptability of sales, merchandise and joint ownership of the production system agreed the business and the capital alliance that assumed the following a purpose on May 12, 2006.

(a) The Company dispatched the adviser Takaharu Torikoshi to Daido Limited as Special Counsel on May 15, 2006 and he was elected as a director in the ordinary general meeting of stockholders of Daido Limited on June 29, 2006 and is decided to president formally in the Board of Directors of Daido Limited scheduled on the same day.

Led by Takaharu Torikoshi, president of Daido Limited, the Company will strengthen partnership and will examine the possibility of tie-ups in various fields in the future.

(b) The Company now holds about 8% of the issued shares of total number of Daido Limited, and Daido Limited now holds about 1% of the issued shares of total number of the Company. The Company is planning to hold more than 15% of the issued shares of total number of Daido Limited in the future.

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

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

The basis for the calculation of net income—basic per share for the years ended February 28, 2005 and 2006, is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| Net income | ¥10,257 | **¥11,091** | **$95,394** |
| Less: Components not pertaining to common shareholders—Bonuses to directors and corporate auditors | (487) | **(516)** | **(4,437)** |
| Net income pertaining to common stock | ¥ 9,770 | **¥10,575** | **$90,957** |
| Average outstanding shares of common stock (shares) | 168,160,781 | **165,790,111** | |

## 15. Related Party Transaction

**Year ended February 28, 2006**

The Company leased land from Mr. Hirouchi, Chairman of Onward Kashiyama Co., Ltd., during the year and the rental fee was ¥7 million ($62 thousand). At the same time, Mr. Hirouchi, Chairman of Onward Kashiyama Co., Ltd., paid a rental fee for a house to the Company of ¥21 million ($181 thousand). The rental fees were determined by the market average amount.

**Year ended February 28, 2005**

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

## 16. Segment Information

***(1) Industry Segment Information***

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

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

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

Segment information classified by industry segment of the Companies for the two years ended February 28, 2006, is as follows:

| **For the year ended February 28, 2006** | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Industry segment | | | Elimination of intersegment sales | Consolidated total |
| | Clothing | Other | Total | | |
| Sales to outside customers | **¥268,968** | **¥14,143** | **¥283,111** | **¥ —** | **¥283,111** |
| Intersegment sales | **18** | **12,706** | **12,724** | **(12,724)** | — |
| Total | **268,986** | **26,849** | **295,835** | **(12,724)** | **283,111** |
| Costs and expenses | **244,943** | **26,210** | **271,153** | **(12,750)** | **258,403** |
| Operating income | **¥ 24,043** | **¥ 639** | **¥ 24,682** | **¥ 26** | **¥ 24,708** |
| Assets | **¥308,170** | **¥39,929** | **¥348,099** | **¥ (18,696)** | **¥329,403** |
| Depreciation and amortization | **6,320** | **799** | **7,119** | **(65)** | **7,054** |
| Capital expenditures | **7,732** | **365** | **8,097** | **(44)** | **8,053** |

| For the year ended February 28, 2006 | Thousands of U.S. dollars | | | | |
|---|---|---|---|---|---|
| | Industry segment | | | Elimination of intersegment sales | Consolidated total |
| | Clothing | Other | Total | | |
| Sales to outside customers | **$2,313,307** | **$121,634** | **$2,434,941** | **$ —** | **$2,434,941** |
| Intersegment sales | **158** | **109,282** | **109,440** | **(109,440)** | **—** |
| Total | **2,313,465** | **230,916** | **2,544,381** | **(109,440)** | **2,434,941** |
| Costs and expenses | **2,106,681** | **225,418** | **2,332,099** | **(109,661)** | **2,222,438** |
| Operating income | **$ 206,784** | **$ 5,498** | **$ 212,282** | **$ 221** | **$ 212,503** |
| Assets | **$2,650,473** | **$343,417** | **$2,993,890** | **$(160,800)** | **$2,833,090** |
| Depreciation and amortization | **54,354** | **6,875** | **61,229** | **(561)** | **60,668** |
| Capital expenditures | **66,497** | **3,144** | **69,641** | **(376)** | **69,265** |

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

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

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

Geographic segment information is omitted because more than 90% of total sales and total assets relate to only the domestic segment.

***(3) Overseas Sales***

Overseas sales information is omitted because the total overseas sales of the Companies is under 10% of consolidated sales.

### 17. Loans

Short-term loans at February 28, 2005 and 2006 represented loans, principally from banks. The weighted-average interest rate on these loans was 0.6% in 2005 and 1.1% in 2006.

ChuoAoyama PricewaterhouseCoopers

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## Report of Independent Auditors

To The Board of Directors and shareholders of
ONWARD KASHIYAMA Co., Ltd.

We have audited the accompanying consolidated balance sheets of ONWARD KASHIYAMA Co., Ltd. and its consolidated subsidiaries as of February 28, 2005 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended February 28, 2006, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ONWARD KASHIYAMA Co., Ltd. and its consolidated subsidiaries as of February 28, 2005 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended February 28, 2006, in conformity with accounting principles and practices generally accepted in Japan (see Note 1).

As discussed in Note 13 to the consolidated financial statements, the Company agreed a business alliance and a capital alliance with Daido Limited on May 12, 2006.

The amounts expressed in U.S. dollars, provided solely for the convenience of the reader, have been translated on the basis set forth in Note 2(18) to the accompanying consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers
Tokyo, Japan
May 25, 2006

# Non-Consolidated Balance Sheets

ONWARD KASHIYAMA Co., Ltd.
February 28, 2005 and 2006

| | Millions of yen | | Thousands of U.S. dollars (Note 2. (14)) |
|---|---|---|---|
| **ASSETS** | 2005 | **2006** | **2006** |
| **Current assets:** | | | |
| Cash | ¥ 8,324 | **¥ 16,376** | **$ 140,846** |
| Deposits | 35,308 | **4,018** | **34,558** |
| Accounts and notes receivable: | | | |
| Notes | 1,746 | **1,756** | **15,101** |
| Accounts | 16,116 | **17,034** | **146,503** |
| | 17,862 | **18,790** | **161,604** |
| Inventories (Notes 2. (1) and 3) | 20,887 | **22,475** | **193,300** |
| Advance payments | 1,478 | **1,504** | **12,935** |
| Deferred income taxes assets (Note 9) | 3,102 | **3,220** | **27,690** |
| Prepaid pension cost | 7,833 | **8,178** | **70,341** |
| Other current assets | 1,306 | **5,804** | **49,922** |
| Less: Allowance for bad debt | (206) | **(47)** | **(404)** |
| Total current assets | 95,894 | **80,318** | **690,792** |
| **Property, plant and equipment** (Note 5): | | | |
| Buildings and structures | 48,256 | **48,751** | **419,292** |
| Machinery and equipment | 1,381 | **1,410** | **12,127** |
| Tools, furniture and fixtures | 9,793 | **10,225** | **87,945** |
| | 59,430 | **60,386** | **519,364** |
| Less: Accumulated depreciation | (31,486) | **(33,570)** | **(288,732)** |
| | 27,944 | **26,816** | **230,632** |
| Land (Note 6) | 44,028 | **44,080** | **379,118** |
| Construction in progress | - | **1,640** | **14,108** |
| Total property, plant and equipment | 71,972 | **72,536** | **623,858** |
| **Investments and advances:** | | | |
| Investments in securities | 10,377 | **28,718** | **246,991** |
| Investments in and advances to subsidiaries and affiliates (Note 8) | 31,441 | **51,307** | **441,272** |
| Long-term loans to employees | 184 | **159** | **1,371** |
| Deferred income taxes assets (Note 9) | 8,341 | **5,478** | **47,113** |
| Deferred income taxes assets—revaluation of land (Notes 6 and 9) | 1,612 | **1,630** | **14,016** |
| Long-term deposits | 4,000 | **5,500** | **47,304** |
| Other investments | 16,549 | **8,293** | **71,324** |
| Less: Allowance for bad debt | (953) | **(1,441)** | **(12,392)** |
| Total investments and advances | 71,551 | **99,644** | **856,999** |
| **Deferred charges and other assets** | 5,520 | **5,316** | **45,725** |
| Total assets | ¥244,937 | **¥257,814** | **$ 2,217,374** |

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

| LIABILITIES AND SHAREHOLDERS' EQUITY | Millions of yen 2005 | Millions of yen 2006 | Thousands of U.S. dollars (Note 2. (14)) 2006 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Accounts and notes payable: | | | |
| Notes | ¥ 26,412 | **¥ 13,971** | **$ 120,161** |
| Accounts | 6,942 | **21,777** | **187,295** |
| | 33,354 | **35,748** | **307,456** |
| Non-trade payables | 1,917 | **2,586** | **22,243** |
| Accrued expenses | 5,136 | **5,247** | **45,131** |
| Accrued income taxes | — | **7,134** | **61,357** |
| Consumption tax payable | 997 | **777** | **6,678** |
| Accrued bonuses to employees | 1,810 | **2,254** | **19,386** |
| Allowance for sales returns | 875 | **869** | **7,474** |
| Other current liabilities | 414 | **372** | **3,195** |
| Total current liabilities | 44,503 | **54,987** | **472,920** |
| **Long-term liabilities:** | | | |
| Accrued retirement benefits | 294 | **390** | **3,357** |
| Accrued retirement benefits for directors and statutory auditors | 1,463 | **1,591** | **13,684** |
| Provision for loss on guarantee obligations | 1,800 | **2,493** | **21,441** |
| Long-term guarantee money deposited | 2,307 | **2,543** | **21,870** |
| Total long-term liabilities | 5,864 | **7,017** | **60,352** |
| Total liabilities | 50,367 | **62,004** | **533,272** |
| **Commitments and contingent liabilities** (Note 10) | | | |
| **Shareholders' equity:** | | | |
| Common stock: | | | |
| Authorized—400,000,000 shares | | | |
| Issued—172,921,669 shares | | | |
| at February 28, 2005 and 2006 | 30,080 | **30,080** | **258,705** |
| Capital surplus | 51,552 | **51,553** | **443,389** |
| Legal reserve (Note 11) | 5,483 | **5,483** | **47,153** |
| General reserve | 102,209 | **108,709** | **934,970** |
| Special reserve | 33 | **33** | **287** |
| Retained earnings (Note 11) | 14,681 | **14,860** | **127,810** |
| Net revaluation loss of land (Note 6) | (2,353) | **(2,378)** | **(20,446)** |
| Net unrealized gains on available-for-sale securities | 1,092 | **5,041** | **43,358** |
| Less: Treasury stock, at cost, 5,690,756 shares and 10,726,258 shares | | | |
| at February 28, 2005 and 2006, respectively | (8,207) | **(17,571)** | **(151,124)** |
| Total shareholders' equity | 194,570 | **195,810** | **1,684,102** |
| Total liabilities and shareholders' equity | ¥244,937 | **¥257,814** | **$ 2,217,374** |

| | Yen | | U.S. dollars (Note 2. (14)) |
|---|---|---|---|
| Per share: | | | |
| Net assets per share (Note 13) | ¥ 1,161.0 | **¥ 1,204.5** | **$10.4** |

# Non-Consolidated Statements of Income and Retained Earnings

ONWARD KASHIYAMA Co., Ltd.
For the years ended February 29, 2004 and February 28, 2005 and 2006

| | Millions of yen | | | Thousands of U.S. dollars (Note 2. (14)) |
|---|---|---|---|---|
| | 2004 | 2005 | **2006** | **2006** |
| **Net sales** | ¥ 184,914 | ¥ 197,230 | **¥ 203,539** | **$ 1,750,572** |
| **Cost of sales** | 96,782 | 105,161 | **106,999** | **920,262** |
| | 88,132 | 92,069 | **96,540** | **830,310** |
| **Reversal of allowance for sales returns, net** (Note 2. (8)) | 147 | 265 | **6** | **52** |
| **Gross profit** | 88,279 | 92,334 | **96,546** | **830,362** |
| **Selling, general and administrative expenses** (Notes 2. (7) and 2. (8)) | 70,416 | 74,349 | **77,744** | **668,653** |
| **Operating income** | 17,863 | 17,985 | **18,802** | **161,709** |
| **Other income (expenses):** | | | | |
| Interest and dividend income | 409 | 674 | **1,347** | **11,582** |
| Loss on disposal of property, net | (86) | (286) | **(90)** | **(776)** |
| Loss on write-down of investments in securities | (15) | (112) | **(11)** | **(92)** |
| Royalty income | 467 | 420 | **377** | **3,242** |
| Loss on liquidation of subsidiaries and affiliates | (4,750) | (536) | **—** | **—** |
| Provision for allowance for bad debt | (2,744) | — | **(508)** | **(4,369)** |
| Provision for loss on guarantee obligations | — | (1,800) | **(693)** | **(5,960)** |
| Rents received | 1,123 | 1,058 | **1,209** | **10,400** |
| Gain on sale of investments in securities, net | 1,016 | 883 | **—** | **—** |
| Gain on the settlement of the substitutional potion of governmental pension fund (Note 2. (8)) | 8,616 | — | **—** | **—** |
| Reversal of allowance for bad debt | — | 37 | **37** | **323** |
| Other, net | (3,756) | 325 | **(632)** | **(5,438)** |
| | 280 | 663 | **1,036** | **8,912** |
| **Income before income taxes** | 18,143 | 18,648 | **19,838** | **170,621** |
| **Income taxes** (Notes 2. (7) and 9): | | | | |
| Current | 10,522 | 4,847 | **9,063** | **77,945** |
| Deferred | (2,582) | 3,153 | **21** | **183** |
| | 7,940 | 8,000 | **9,084** | **78,128** |
| **Net income** | 10,203 | 10,648 | **10,754** | **92,493** |
| **Retained earnings:** | | | | |
| Balance at beginning of year | 10,342 | 13,830 | **14,681** | **126,263** |
| Reversal of reserve for deferred capital gains on property due to adoption of deferred tax accounting | 1 | 1 | **0** | **6** |
| Reversal of reserve for land revaluation | (27) | (20) | **25** | **216** |
| Appropriations (Note 11): | | | | |
| Cash dividends | (2,841) | (3,356) | **(3,679)** | **(31,643)** |
| Directors' bonuses | (348) | (421) | **(421)** | **(3,621)** |
| Reserve for deferred capital gains on property due to adoption of deferred tax accounting | — | (1) | **—** | **—** |
| Transfer to general reserve | (3,500) | (6,000) | **(6,500)** | **(55,904)** |
| | (6,689) | (9,778) | **(10,575)** | **(90,946)** |
| **Balance at end of year** | ¥ 13,830 | ¥ 14,681 | **¥ 14,860** | **$ 127,810** |

| | Yen | | | U.S. dollars (Note 2. (14)) |
|---|---|---|---|---|
| **Per share** (Notes 2. (11), 12 and 13): | | | | |
| Net income—Basic | ¥57.6 | ¥60.49 | **¥62.2** | **$0.535** |
| Cash dividends | 20.0 | 22.0 | **24.0** | **0.206** |

Diluted net income per share is not disclosed because there were no securities with dilutive effect.

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

# Non-Consolidated Statements of Shareholders' Equity

ONWARD KASHIYAMA Co., Ltd.
For the years ended February 29, 2004 and February 28, 2005 and 2006

| | Number of shares of common stock (thousands) | Millions of yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Common stock | Capital surplus | Legal reserve (Note 11) | General reserve | Special reserve | Retained earnings (Note 11) | Net revaluation loss of land (Note 6) | Net unrealized gains (losses) on available-for-sale-securities | Treasury stock |
| **Balance as at February 28, 2003:** | 172,293 | ¥30,080 | ¥49,135 | ¥5,483 | ¥ 92,709 | ¥34 | ¥10,342 | ¥(2,347) | ¥ (173) | ¥ (92) |
| Reversal of reserve for deferred capital gains on property | — | — | — | — | — | (1) | 1 | — | — | — |
| Increase in net revaluation loss of land due to statutory tax rate change | — | — | — | — | — | — | — | (53) | — | — |
| Reversal of reserve for land revaluation | — | — | — | — | — | — | (27) | 27 | — | — |
| Cash dividends | — | — | — | — | — | — | (2,841) | — | — | — |
| Directors' bonuses | — | — | — | — | — | — | (348) | — | — | — |
| Transfer to general reserve | — | — | — | — | 3,500 | — | (3,500) | — | — | — |
| Net income | — | — | — | — | — | — | 10,203 | — | — | — |
| Net unrealized gains on available-for-sale securities | — | — | — | — | — | — | — | — | 938 | — |
| Issuance of new stock in exchange for Oak Co., Ltd.'s stock | 629 | — | 1,480 | — | — | — | — | — | — | — |
| Gain on sales of treasury stock | — | — | 0 | — | — | — | — | — | — | 2 |
| Increase in treasury stock | — | — | — | — | — | — | — | — | — | (5,283) |
| **Balance as at February 29, 2004:** | 172,922 | 30,080 | 50,615 | 5,483 | 96,209 | 33 | 13,830 | (2,373) | 765 | (5,373) |
| Reversal of reserve for deferred capital gains on property | — | — | — | — | — | (1) | 1 | — | — | — |
| Reversal of reserve for land revaluation | — | — | — | — | — | — | (20) | 20 | — | — |
| Cash dividends | — | — | — | — | — | — | (3,356) | — | — | — |
| Directors' bonuses | — | — | — | — | — | — | (421) | — | — | — |
| Reserve for deferred capital gains on property due to adoption of deferred tax accounting | — | — | — | — | — | 1 | (1) | — | — | — |
| Transfer to general reserve | — | — | — | — | 6,000 | — | (6,000) | — | — | — |
| Net income | — | — | — | — | — | — | 10,648 | — | — | — |
| Net unrealized gains on available-for-sale securities | — | — | — | — | — | — | — | — | 327 | — |
| Exchange of treasury stock for Chacott Co., Ltd.'s stock | — | — | 936 | — | — | — | — | — | — | 4,164 |
| Gain on sales of treasury stock | — | — | 1 | — | — | — | — | — | — | 5 |
| Increase in treasury stock | — | — | — | — | — | — | — | — | — | (7,003) |
| **Balance as at February 28, 2005:** | 172,922 | 30,080 | 51,552 | 5,483 | 102,209 | 33 | 14,681 | (2,353) | 1,092 | (8,207) |
| Reversal of reserve for deferred capital gains on property | — | — | — | — | — | **(0)** | **0** | — | — | — |
| Reversal of reserve for land revaluation | — | — | — | — | — | — | **25** | **(25)** | — | — |
| Cash dividends | — | — | — | — | — | — | **(3,679)** | — | — | — |
| Directors' bonuses | — | — | — | — | — | — | **(421)** | — | — | — |
| Transfer to general reserve | — | — | — | — | **6,500** | — | **(6,500)** | — | — | — |
| Net income | — | — | — | — | — | — | **10,754** | — | — | — |
| Net unrealized gains on available-for-sale securities | — | — | — | — | — | — | — | — | **3,949** | — |
| Gain on sales of treasury stock | — | — | **1** | — | — | — | — | — | — | **4** |
| Increase in treasury stock | — | — | — | — | — | — | — | — | — | **(9,364)** |
| **Balance as at February 28, 2006** | **172,922** | **¥30,080** | **¥51,553** | **¥5,483** | **¥108,709** | **¥33** | **¥14,860** | **¥(2,378)** | **¥5,041** | **¥(17,571)** |

| | Thousand of U.S.Dollars (Note 2. (14)) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Common stock | Capital surplus | Legal reserve (Note 11) | General reserve | Special reserve | Retained earnings (Note 11) | Net revaluation loss of land (Note 6) | Net unrealized gains on available-for-sale-securities | Treasury stock |
| **Balance as at February 28, 2005:** | $258,705 | $443,385 | $47,153 | $879,066 | $293 | $126,263 | $(20,230) | $ 9,388 | $ (70,589) |
| Reversal of reserve for deferred capital gains on property | — | — | — | — | **(6)** | **6** | — | — | — |
| Reversal of reserve for land revaluation | — | — | — | — | — | **216** | **(216)** | — | — |
| Cash dividends | — | — | — | — | — | **(31,643)** | — | — | — |
| Directors' bonuses | — | — | — | — | — | **(3,621)** | — | — | — |
| Transfer to general reserve | — | — | — | **55,904** | — | **(55,904)** | — | — | — |
| Net income | — | — | — | — | — | **92,493** | — | — | — |
| Net unrealized gains on available-for-sale securities | — | — | — | — | — | — | — | **33,970** | — |
| Gain on sales of treasury stock | — | **4** | — | — | — | — | — | — | **36** |
| Increase in treasury stock | — | — | — | — | — | — | — | — | **(80,571)** |
| **Balance as at February 28, 2006** | **$258,705** | **$443,389** | **$47,153** | **$934,970** | **$287** | **$127,810** | **$(20,446)** | **$43,358** | **$(151,124)** |

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

# Notes to Non-Consolidated Financial Statements

ONWARD KASHIYAMA Co., Ltd.

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

The accompanying non-consolidated financial statements have been prepared from the accounts maintained by ONWARD KASHIYAMA Co., Ltd. (the “Company”), in accordance with the provisions set forth in the Commercial Code of Japan (the “Code”) and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of international Financial Reporting Standards. Certain items presented in the non-consolidated financial statements submitted to the Director of the Kanto Finance Bureau in Japan have been reclassified for the convenience of readers outside Japan.

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

**2. Summary of Significant Accounting Policies**

***(1) Inventories***

Inventories are stated at cost, cost being determined generally by the last purchase invoice price method. Merchandise and finished goods held at retail stores is valued at the retail cost method.

When the net realizable value of certain classes of inventories (consisting primarily of seasonal merchandise which remains unsold after the end of such seasons) is substantially less than the carrying value (cost), and the decline of value is not expected to be recovered in the near future, appropriate write-downs are recorded on such inventory items. The amount of write-down is determined based on the experience of sales of merchandise similar to those unsold items during the immediately preceding three years. At February 28, 2005 and 2006, the recorded write-downs were ¥8,379 million and ¥7,021 million ($60,386 thousand), respectively.

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

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

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

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

***(3) Derivative Transactions***

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

***(4) Hedge Accounting***

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

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

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

***(6) Amortization***

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

***(7) Income Taxes***

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

*Presentation of External Standard Taxation Portion in the Corporate Business Tax on the Income Statement*

Since “Law for the Partial Revision of Local Tax, etc. (No. 9, 2003)” was announced on March 31, 2003, the rule of the external standard taxation has been applied from fiscal years commencing on and after April 1, 2004. Subsequently, the added value portion and capital portion of corporate business tax have been recorded in selling, general and administrative expenses, respectively, from this point in accordance with “Practical Treatment of the Disclosure of External Standard Taxation Portion in the Corporate Business Tax on the Profit and Loss Statement (February 13, 2004, Accounting Standards Board of Japan, Business Related Report No. 12).” As a result, selling general and administrative expenses increased by ¥470 million ($4,039 thousand), while operating income and income before income taxes decreased by ¥470 million ($4,039 thousand) for the year ended February 28, 2006.

***(8) Allowances***

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

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

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

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

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

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

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

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

The provision for loss on guarantee obligations was provided in case the Company is obliged to pay for the guaranteed subsidiaries. In estimating the provision the Company considers the financial condition of each subsidiary.

***(9) Accounting for Leases***

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

***(10) Accounting for Consumption Tax***

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

***(11) Cash Dividends***

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

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

Refer to Note 2. (16) to the consolidated financial statements.

***(13) Reclassification of Accounts***

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

***(14) United States Dollar Amounts***

Amounts in U.S. dollars are included solely for the convenience of readers outside of Japan. The rate of ¥116.27=US$1, the rate of exchange as of February 28, 2006, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at that rate or any other rate.

### 3. Inventories

Inventories at February 28, 2005 and 2006, consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| Merchandise and finished goods | ¥18,243 | **¥19,983** | **$171,868** |
| Raw materials | 1,399 | **1,192** | **10,254** |
| Work-in-process | 1,016 | **1,045** | **8,983** |
| Supplies | 229 | **255** | **2,195** |
| | ¥20,887 | **¥22,475** | **$193,300** |

### 4. Derivative Transactions

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

The Company applied hedge accounting for all derivative transactions as of February 28, 2005 and 2006, therefore, no market value information is disclosed.

### 5. Property, Plant and Equipment

Refer to Note 5 to the consolidated financial statements.

### 6. Revaluation of Land

Refer to Note 10 to the consolidated financial statements.

### 7. Lease Transactions

The Companies' finance lease contracts which are not deemed to transfer the ownership of the leased assets to lessees are not capitalized, which is permitted by Japanese accounting principles. Certain key information on such lease contracts of the Company for the years ended February 28, 2005 and 2006, is as follows.

Assumed data as to acquisition cost, accumulated depreciation, net book value of the leased assets, which included the portion of interest thereon, as of February 28, 2005 and 2006 is summarized as follows:

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2005 | | | **2006** | | | **2006** | | |
| | Tools, furniture, and fixtures | Other | Total | **Tools, furniture, and fixtures** | **Other** | **Total** | **Tools, furniture, and fixtures** | **Other** | **Total** |
| Acquisition cost | ¥1,190 | ¥421 | ¥1,611 | **¥1,218** | **¥355** | **¥1,573** | **$10,478** | **$3,056** | **$13,534** |
| Accumulated depreciation | (756) | (243) | (999) | **(724)** | **(229)** | **(953)** | **(6,228)** | **(1,972)** | **(8,200)** |
| Net book value | ¥ 434 | ¥178 | ¥ 612 | **¥ 494** | **¥126** | **¥ 620** | **$ 4,250** | **$1,084** | **$ 5,334** |

The scheduled maturities of future lease payments on such lease contracts as of February 28, 2005 and 2006, are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| Scheduled maturities of future leases: | | | |
| Due within one year | ¥320 | **¥264** | **$2,267** |
| Due over one year | 292 | **356** | **3,067** |
| | ¥612 | **¥620** | **$5,334** |

The lease expenses for the year and depreciation of the lease assets as of February 28, 2005 and 2006, are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| Lease expenses for the year | ¥401 | **¥368** | **$3,167** |
| Depreciation | 401 | **368** | **3,167** |

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

Shares of subsidiaries with market value at February 28, 2005 and 2006, are as follows:

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2005 | | | **2006** | | | **2006** | | |
| | Book value | Market value | Difference | **Book value** | **Market value** | **Difference** | **Book value** | **Market value** | **Difference** |
| Shares of subsidiaries | ¥280 | ¥12,795 | ¥12,515 | **¥280** | **¥14,683** | **¥14,403** | **$2,412** | **$126,284** | **$123,872** |

**9. Income Taxes**

Deferred income taxes assets and liabilities as at February 28, 2005 and 2006, consisted of the following elements:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| Deferred income taxes assets: | | | |
| Valuation loss on inventories | ¥ 1,894 | **¥ 1,491** | **$ 12,826** |
| Evaluation loss on investments in subsidiaries | 3,797 | **4,125** | **35,482** |
| Excess amount of tax-deductible accrued employees' retirement benefits | 5,937 | **6,051** | **52,039** |
| Accrued retirement benefits for directors and corporate auditors | 595 | **647** | **5,565** |
| Provision for loss on guarantee obligations | 732 | **1,014** | **8,720** |
| Other | 2,767 | **3,452** | **29,687** |
| Subtotal | 15,722 | **16,780** | **144,319** |
| Valuation allowance | - | **(1,109)** | **(9,542)** |
| Total deferred income taxes assets | 15,722 | **15,671** | **134,777** |
| Deferred income taxes liabilities: | | | |
| Gain on securities contributed to an employee retirement benefit trust | (3,474) | **(3,474)** | **(29,878)** |
| Net unrealized gains on available-for-sales securities | (748) | **(3,456)** | **(29,721)** |
| Provision for deferred capital gains on real property | (23) | **(23)** | **(193)** |
| Other | (34) | **(21)** | **(182)** |
| Total deferred income taxes liabilities | (4,279) | **(6,974)** | **(59,974)** |
| Net deferred income taxes assets | ¥11,443 | **¥ 8,697** | **$ 74,803** |

The reconciliation of the difference between the statutory tax rate and the effective tax rate for the year ended February 28, 2006, is as follows:

| | % |
|---|---|
| Statutory tax rate | 40.7% |
| Reconciliation: | |
| Nondeductible items (entertainment expenses, etc.) | 2.0 |
| Non taxable dividend income | (2.5) |
| Change in valuation allowance | 5.6 |
| Other | 0.0 |
| Effective tax rate | 45.8% |

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

**10. Commitments and Contingent Liabilities**

The Company was contingently liable as a guarantor for certain affiliates' bank loans. The outstanding balance guaranteed as at February 28, 2005 and 2006, aggregated ¥13,984 million and ¥22,356 million ($192,274 thousand), respectively.

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

Refer to Note 12 to the consolidated financial statements.

**12. Subsequent Events**

Refer to Note 13 to the consolidated financial statements.

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

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

The basis for the calculation of net income—basic per share for the years ended February 28, 2005 and 2006, is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| Net income | ¥10,648 | **¥10,754** | **$92,493** |
| Less: Components not pertaining to common shareholders—Bonuses to directors and corporate auditors | (421) | **(450)** | **(3,870)** |
| Net income pertaining to common stock | ¥10,227 | **¥10,304** | **$88,623** |
| Average outstanding shares of common stock (shares) | 169,077,356 | **165,790,111** | |

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

Kasumigaseki Bldg. 32nd Floor
3-2-5, Kasumigaseki, Chiyoda-ku,
Tokyo 100-6088, Japan

## Report of Independent Auditors

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

We have audited the accompanying non-consolidated balance sheets of ONWARD KASHIYAMA Co., Ltd. as of February 28, 2005 and 2006, and the related non-consolidated statements of income and retained earnings, and of shareholders' equity for each of the three years in the period ended February 28, 2006, all expressed in Japanese Yen. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits.

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

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of ONWARD KASHIYAMA Co., Ltd. as of February 28, 2005 and 2006, and the results of its operations for each of the three years in the period ended February 28,2006, in conformity with accounting principles and practices generally accepted in Japan (see Note 1).

As discussed in Note 12 to the consolidated financial statements, the Company agreed a business alliance and a capital alliance with Daido Limited on May 12, 2006.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 2(14) to the accompanying non-consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers
Tokyo, Japan
May 25, 2006.

# Principal Subsidiaries

**OVERSEAS SUBSIDIARIES**

**J. PRESS INC.**
262 York Street,
New Haven, CT 06511, U.S.A.
Tel: (1) 203-772-1310

**ONWARD KASHIYAMA FRANCE S.A.**
6, Rue Vivienne,
75002 Paris, France
Tel: (33) 1-5504-8787

**ONWARD KASHIYAMA HONG KONG LTD.**
Units 1208-9, Lippo Sun Plaza,
28 Canton Road, T.S.T.,
Kowloon, Hong Kong,
People's Republic of China
Tel: (852) 2721-7068

**ONWARD KASHIYAMA U.K. LTD.**
47, Conduit Street,
W1 London, U.K.
Tel: (44) 20-7494-2074

**GIBO' CO. S.p.A.**
Via Cassia 69, Tavarnuzze,
50029 Firenze, Italy
Tel: (39) 055-237-2020

**ONWARD ITALIA S.p.A.**
Via Della Spiga 9,
20121 Milano, Italy
Tel: (39) 02-783-667

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

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

**ONWARD RETAIL L.L.C.**
530 7th Ave., 29th Floor,
New York, NY 10018, U.S.A.
Tel: (1) 212-997-3600

**ONWARD KASHIYAMA KOREA CO., LTD.**
KMD BLDG., 4F,
652-16, Shinsa-Dong,
Kangnam-ku, Seoul,
Republic of Korea
Tel: (82) 2-548-5841

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

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

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

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

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

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

**DOMESTIC SUBSIDIARIES**

**<APPAREL AND TEXTILE PRODUCTS>**

**IMPACT 21 CO., LTD.**

**OAK CO., LTD.**

**CHACOTT CO., LTD.**

**DONNA KARAN JAPAN K.K.**

**BUS STOP CO., LTD.**

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

**MARNI JAPAN CO., LTD.**

**FUSION CO., LTD.**

**<SERVICES>**

**ACROSS TRANSPORT CO., LTD.**

**ONWARD CREATIVE CENTER CO., LTD.**

**ONWARD LIFE DESIGN NETWORK CO., LTD.**

**EXCEL CO., LTD.**

**BOOKLET CORP.**

**VOICEDAM CO., LTD.**

**BIEN CO., LTD.**

**ONWARD SKYLARKS CO., LTD.**

**O･H･C CO., LTD.**

**CANDELA INTERNATIONAL CO., LTD.**

**<RESORTS>**

**O & K CO., LTD.**

**ONWARD MARINE CO., LTD.**

**ONWARD BEACH RESORT CO., LTD.**

As of February 28, 2006

# Corporate Data

(As of February 28, 2006)

**Head Office**
10-5, Nihonbashi 3-chome,
Chuo-ku, Tokyo 103-8239, Japan
Tel: (81) 3-3272-2317
Fax: (81) 3-3272-2314
URL: http://www.onward.co.jp/

**Established**
September 1947

**Paid-in Capital**
¥30,080 million

**Common Stock**
Authorized—400,000,000 shares
Issued—172,921,669 shares

**Number of Shareholders**
8,758

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

**Transfer Agent**
Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-chome,
Chiyoda-ku, Tokyo 100-8212,
Japan

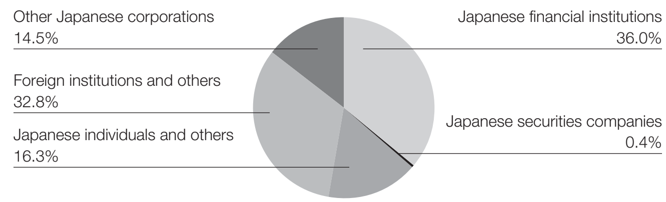
**Number of Employees**
1,656

### Major Shareholders

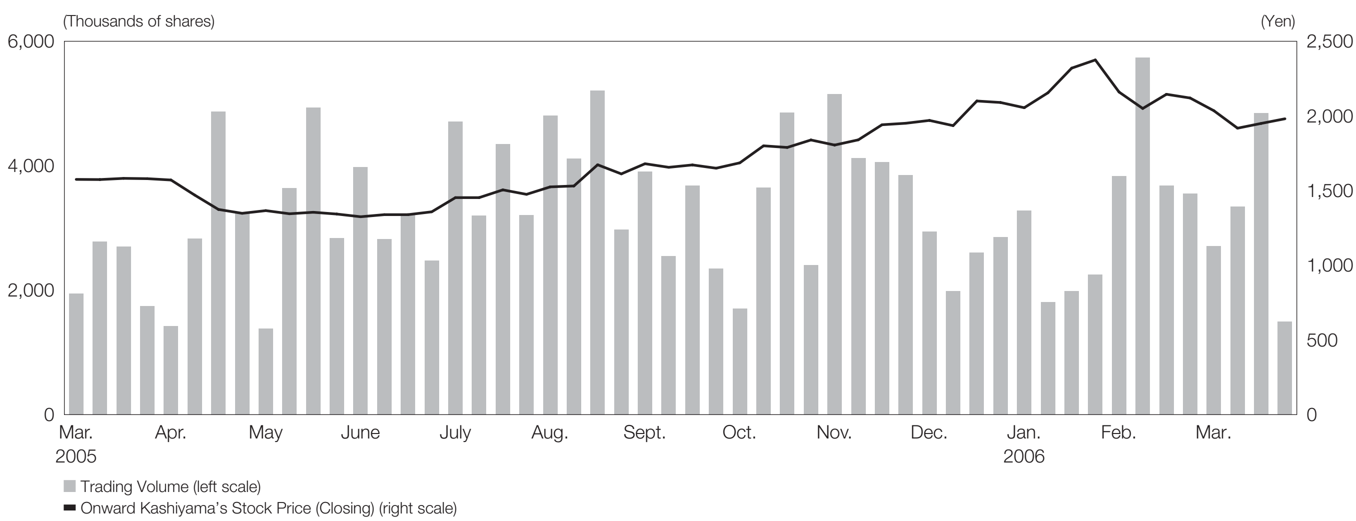
| | Percentage of Total Shares Issued |
|---|---|
| Japan Trustee Services Bank, Ltd. | 7.1% |
| The Master Trust Bank of Japan, Ltd. | 6.0 |
| Kashiyama Scholarship Foundation | 5.0 |
| Nippon Life Insurance Company | 3.6 |
| Isetan Company Limited | 2.8 |
| The Dai-ichi Mutual Life Insurance Company | 2.4 |
| The Chase Manhattan Bank, N.A., London | 1.9 |
| Caise Bank Paris Ordinary Account | 1.8 |
| Morgan Stanley & Co. International Limited | 1.7 |
| Sumitomo Mitsui Banking Corporation | 1.6 |

### Distribution of Ownership among Shareholders

(On a number of shares basis)




### Stock Price Movement



# Onward Kashiyama Co., Ltd.

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Printed in Japan