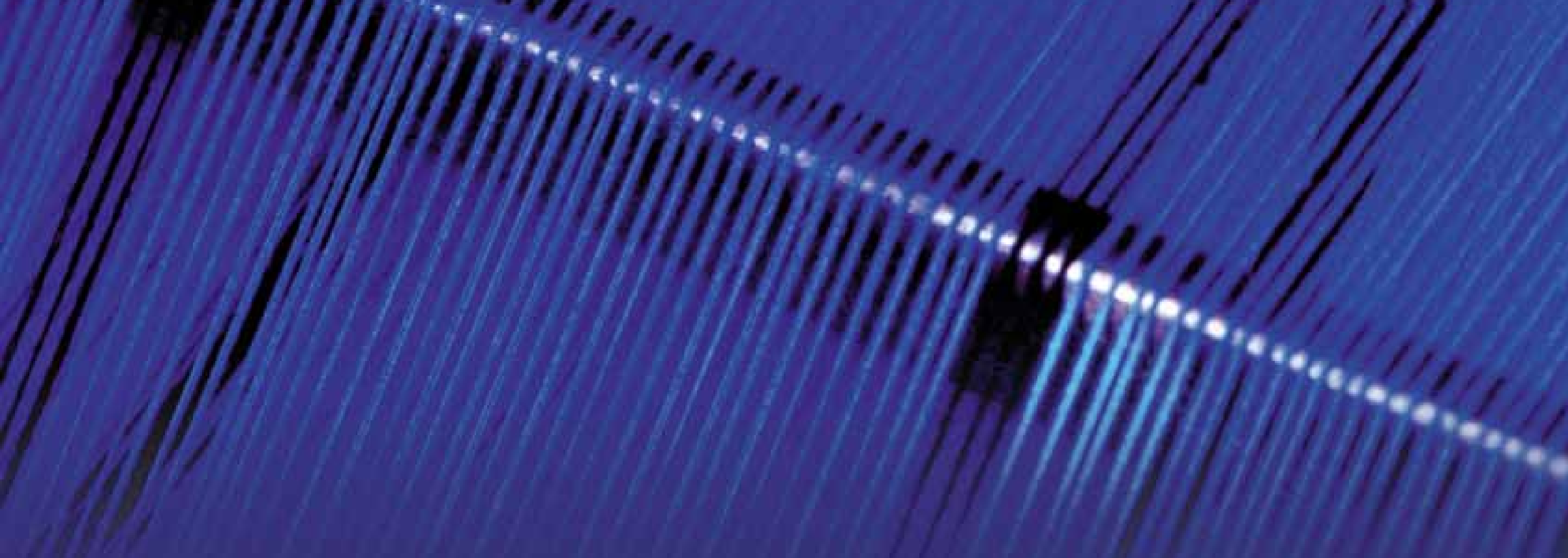


Annual Report 2007

Year Ended February 28, 2007

CREATING TOMORROW'S LIFESTYLES

ONWARD

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.

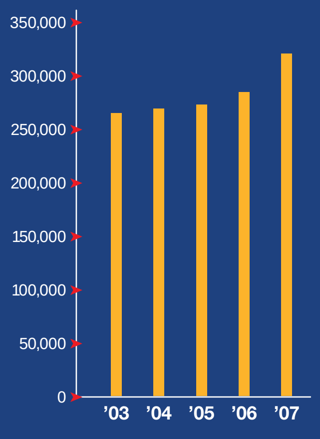
Financial Highlights

ONWARD KASHIYAMA Co., Ltd. and Subsidiaries
Years ended February 28, 2006 and 2007

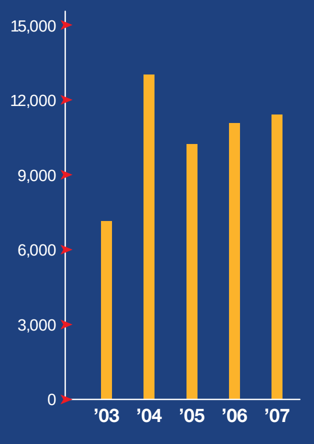
	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
At year-end:			
Total current assets	¥135,769	**¥135,197**	**$1,141,479**
Total current liabilities	97,617	**103,494**	**873,806**
Short-term loans	26,419	**26,916**	**227,256**
Total shareholders' equity	201,599	**212,600**	**1,795,006**
For the year:			
Net sales	¥283,111	**¥318,691**	**$2,690,735**
Operating income	24,708	**25,431**	**214,720**
Net income	11,091	**11,438**	**96,572**
	Yen		U.S. dollars
Per share:			
Net income—basic	¥63.8	**¥70.5**	**$0.595**
Cash dividends	24.0	**26.0**	**0.220**
ROE (%)	5.4	**5.3**	
Operating income margin (%)	8.7	**7.9**	

Note: Yen amounts have been translated, for convenience only, at ¥118.44=US$1, the approximate exchange rate on February 28, 2007.

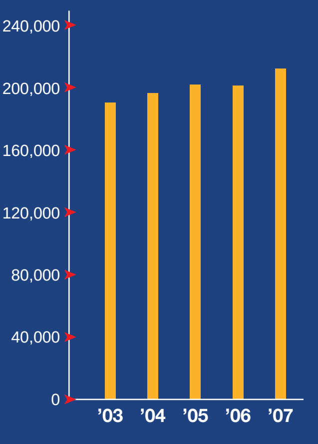
Net Sales (Millions of yen)
Years ended February 28 or 29



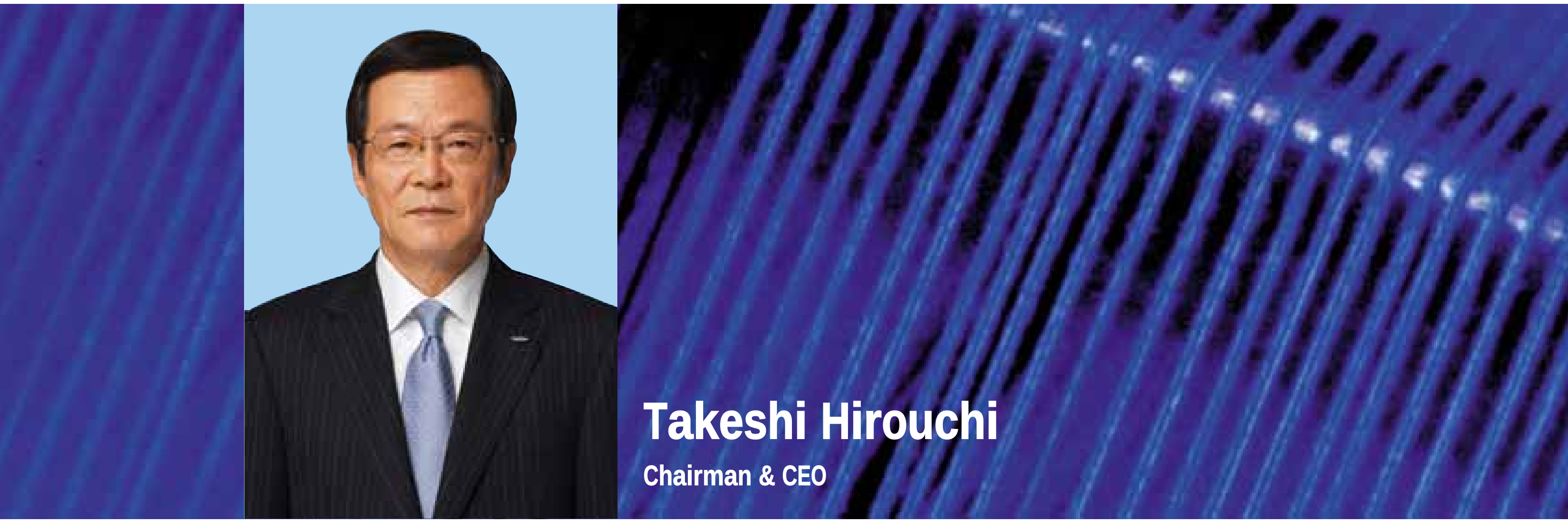
Net Income (Millions of yen)
Years ended February 28 or 29



Total Shareholders' Equity (Millions of yen)
At February 28 or 29



A Message to Our Shareholders



Takeshi Hirouchi
Chairman & CEO

In fiscal 2007, ended February 28, 2007, ONWARD KASHIYAMA Co., Ltd., recorded increases over the previous year in consolidated revenues and profits, as net sales, ordinary income, and net income all posted further gains.

Onward will work to attain a dominant competitive advantage through the aggressive implementation of its policy of Brand-Leveraged Management, which aims at maximizing the value of its brands.

Performance in Fiscal 2007

During the fiscal year under review, the Japanese economy remained on a moderate recovery trend but, as a result of weakness in income growth, consumer spending failed to attain a full-scale recovery. The operating environment for Japan's apparel industry presented tough challenges because of sudden changes in consumption trends, more intense competition with other companies, including foreign brands, and the unexpectedly severe impact of unseasonable weather conditions.

Amid these operating conditions, we actively implemented our Channel-Specific Brand Strategy, continuing to develop brands appropriate for different distribution channels, and worked to enhance the accuracy and success ratios of product planning and merchandising through our more finely tuned Eight-Season, 52-Week Merchandising policy.

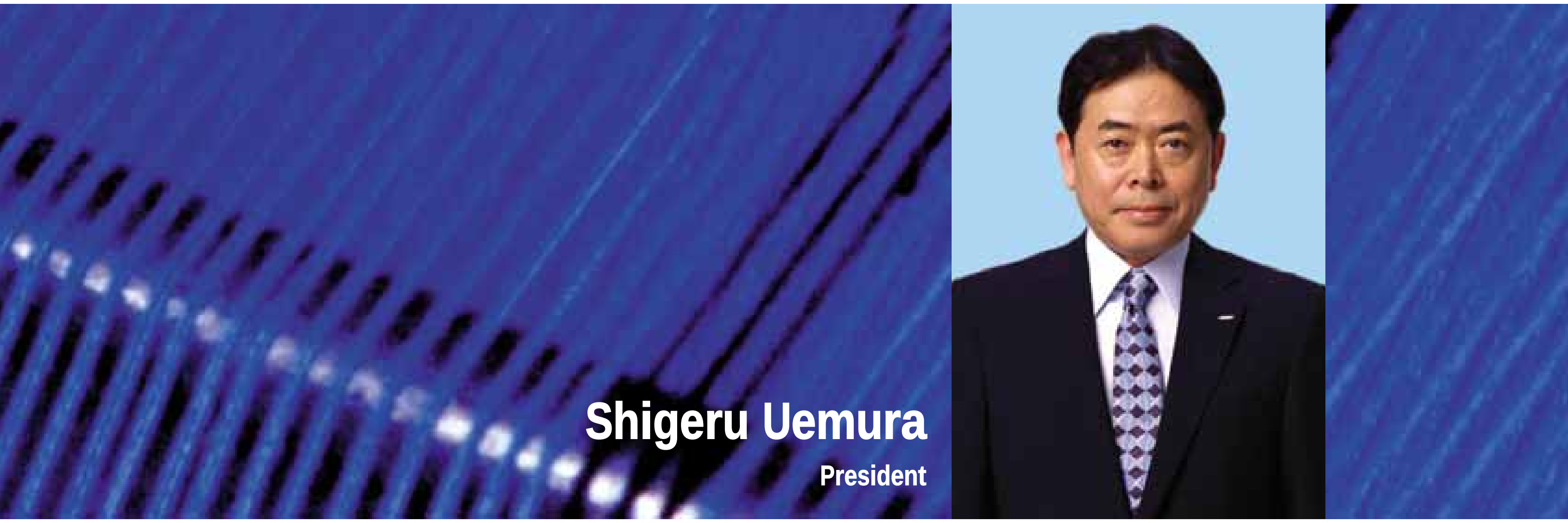
For the fiscal year, we expanded our market share, principally in department stores, and attained our net sales target. Nevertheless, because of unseasonable weather conditions and other factors, market conditions were extremely tough and, as a consequence of the rise in inventories at fiscal year-end, inventory valuation losses rose above those of the previous year, leading to a decline in the gross profit margin.

In the fiscal year under review, 19 additional subsidiaries in Europe, Asia, and North America were included within the scope of consolidation. In Europe, based on the power of their respective brands, the GIBO' CO. Group and the JOSEPH Group reported especially smooth expansion in sales and contributed to consolidated net sales and net income.

As a consequence, in fiscal 2007 we were able to record further increases in revenues and income. Net sales posted a gain of 12.6%, to ¥318,691 million, operating income was up 2.9%, to ¥25,431 million, and ordinary income increased 0.9%, to ¥27,407 million.

Policies and Strategies in Fiscal 2008

Regarding the economic environment, we anticipate a further gradual recovery in the Japanese economy supported by favorable revenue and income performances in the corporate sector. In the apparel industry, competition among companies already operating in the industry and from new entrants from other sectors is likely to grow more intense, as leading foreign brands enter the Japanese market and new IT-based sales channels, such as sales via portable



phones, are introduced. These various factors mean we must continue to closely monitor developments in the operating environment.

The Onward Group plans to continue to implement its growth strategy while realigning Group companies, strengthening its governance systems, speeding up strategic decision making, and further enhancing management efficiency.

We will maintain and steadily implement our policy of Brand-Leveraged Management and make increasing earnings our highest-priority objective.

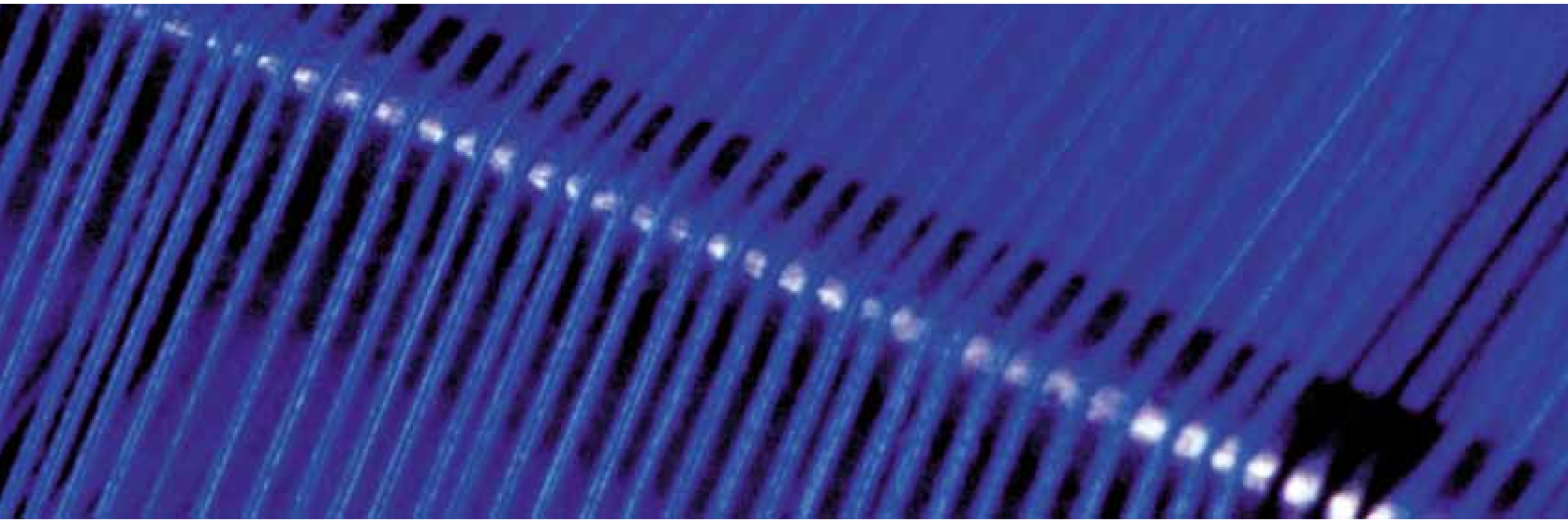
To further strengthen our operating base, we will move forward with measures to combine our planning and production departments to establish product supply capabilities that can respond quickly to market changes, with the objective of expanding sales and income. In the development of new brands, we will work to further boost our share of the core department store market, create brands that can establish a presence by seizing and responding to market changes in new distribution channels, and optimize organizational units tasked with augmenting revenues from new and existing brands. We will implement these basic strategies in subsidiaries and affiliates in Japan and endeavor to strengthen their revenue-generating capabilities. For overseas subsidiaries and affiliates, we will deal with and resolve issues in North America and aggressively pursue further expansion in Europe and Asia, with the aim of increasing revenues.

Looking to fiscal 2008, we have set a target for net sales of ¥296,000 million, 7.1% below the fiscal year under review, but are aiming for 2.2% expansion in ordinary income, to ¥28,000 million, and 22.4% growth in net income, to ¥14,000 million.

Accelerating Our Growth Strategy

In April 2007, the Board of Directors of Onward decided to respond positively to an indication of agreement from the board of directors of IMPACT 21 CO., LTD., a domestic Onward subsidiary, to allow a takeover bid of IMPACT 21's shares by Polo Ralph Lauren Corporation, of the United States. Onward also requested that Onward Group companies holding shares in IMPACT 21 make all these shares available for sale in the takeover bid. Our judgment was that if IMPACT 21 becomes a subsidiary of Polo and a member of the Polo Ralph Lauren Group, that group would be positioned to strengthen and further develop the business activities of IMPACT 21 going forward.

Accompanying the sale of Onward's interest in IMPACT 21, Onward's consolidated sales and operating income will decline, but Onward will continue to have a relationship in certain businesses with Polo Ralph Lauren in the United States. In addition, Onward's non-operating income will increase because of the consolidation of a portion of the net income of Daido Limited, an affiliate newly consolidated under the equity method; accordingly, Onward is planning for an increase in ordinary income and net income from this source. Please note that as a result of the sale of all IMPACT



21 shares, Onward is scheduled to report an extraordinary gain for fiscal 2008, amounting to ¥13.3 billion on a non-consolidated basis and ¥6.8 billion on a consolidated basis. The improvement in Onward's cash flow as a result of the de-consolidation of IMPACT 21 will be allocated to the implementation of Onward's growth strategy, including M&A.

Transition to a Holding-Company Structure

As of September 1, 2007, the apparel business divisions and trading business divisions of Onward will be split off and continued by wholly owned subsidiaries Onward Kashiyama Split Off Implementation Co., Ltd.*1, and OAK Co., Ltd.*2, respectively. As a result, Onward will become a pure holding company, and its name will be changed to Onward Holdings Co., Ltd., as of September 1, 2007. Onward Holdings will continue to be a stock exchange listed company.

The objectives of the split-off will be to make the transition to a holding-company form of corporate group organization and thereby (1) strengthen corporate governance systems through the separation of auditing functions and business execution functions as well as (2) accelerate strategic decision making by clarifying responsibility and authority for business activities, thus improving the efficiency of the execution of business activities by making them faster and more flexible.

Under this new form of corporate organization, Onward will work to increase the efficiency of joint corporate functions, enhance management efficiency through an optimal allocation of management resources, and, by expanding business in each operating domain, strengthen competitiveness and promote growth, thereby maximizing corporate value.

For the full fiscal year of 2007, Onward increased its dividend by ¥2 per common share, the fourth consecutive annual increase, thus bringing the total dividend to ¥26 per share. Onward is also considering share buybacks as part of its overall policy of returning a portion of profits to shareholders.

We wish to sincerely thank our shareholders for their investment in Onward and ask for their continuing support in the years ahead.

*1: Name to be changed to Onward Kashiyama Co., Ltd., as of September 1, 2007.
*2: Name to be changed to Onward Trading Co., Ltd., as of September 1, 2007.

May 2007

Takeshi Hirouchi, Chairman & CEO

Shigeru Uemura, President

Implementing Brand-Leveraged Management, Strengthening Profitability

The Onward Group is steadily implementing its Brand-Leveraged Management strategy, with increasing profitability as its highest-priority objective.

Onward has set five basic policies: "strengthening the operating base," "developing and nurturing new brands," "promoting M&A and joint ventures," "strengthening overseas business operations," and "realigning and strengthening resort business operations." In fiscal 2008, it is implementing various measures, with the highest priority on "strengthening the operating base."

Strengthening the Operating Base

Organizational Reforms

1. Reduce the number of brand business groups from 29 to 13
2. Shift the production functions to the business groups (planning departments) and integrate the systems fully, from planning through production

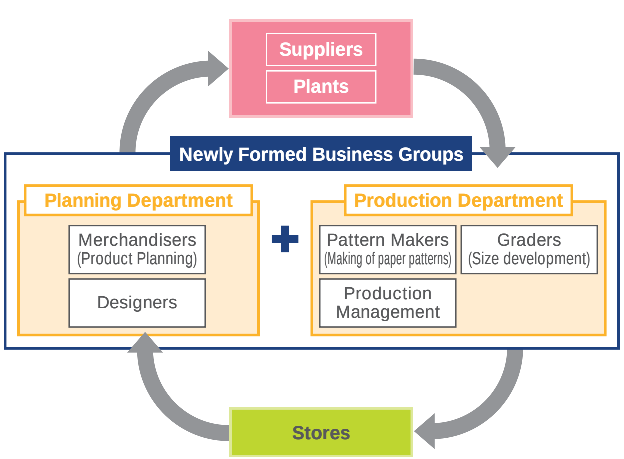
We believe that the key to the future of apparel making lies in how speedily companies can deliver creative, high-quality products that are manufactured at low cost. By combining Onward's planning and production departments, we are creating a system that can respond quickly and nimbly to product trends for each brand and establishing a product supply system that can respond more quickly to changes in the market.

Business Process Reforms

1. Through the strategic use of overseas and domestic plants, we can speed up the supply of best-selling products.
2. By shifting the warehouse distribution functions into the Company, we can improve the efficiency of distribution and shorten lead times.

We are placing emphasis on the ability to revise product plans during the season and use domestic and overseas plants strategically. In addition, by shifting warehouse distribution functions to the Company's branches, away from subcontracted distribution subsidiaries, we can take advantage of the warehousing functions of branches and supply products to store shelves as quickly as possible.

Newly Formed Business Groups: Combining the Planning and Production Departments by Business



Developing and Nurturing New Brands

We will aim to establish new core brands as quickly as possible, while confirming customers, sales venues, and hit products.

Also, in fall 2007 we are scheduled to begin the introduction of a new brand, DOLLY GIRL BY ANNA SUI, which we developed as a “next-generation young casual brand” aimed at young women between the ages of 18 and 25. This new line is scheduled to be carried in department stores, where Onward is still not yet well represented in the “young zone.”

In addition, in the “new distribution channel” area we have newly developed FULLCARAT UNISON stores for shopping centers that will offer a mixture of major core brands. The first of these stores is scheduled to open in fall 2007 with about 300 square meters of sales space.

Promoting M&A and Joint Ventures

We are aggressively forming joint ventures with newly emerging fashion companies and stepping up the pace of outlet openings in leading fashion buildings and freestanding stores at prominent street locations.

We commenced these initiatives in September 2005 when we established a joint company, CANDELA INTERNATIONAL CO., LTD., with MOTHER INTERNATIONAL Co., Ltd., the developer of the Croon a Song boutiques. In summer 2007 we established J. Direction Co., Ltd., a new company with Mono Edition Co., Ltd., the developer of the Mono Edition accessory boutiques. Through these joint ventures, we are working to expand the scale of business operations through fashion buildings—which include department stores and new distribution channels—and directly operated outlets.

DOLLY GIRL BY ANNA SUI

A next-generation casual brand targeted at young people with the brand concept “sweet vintage” featuring healthy and clean styling

Croon a Song

CANDELA INTERNATIONAL (established in September 2005) completed the development of its new multi-line shops offering various goods for men and women at its nationwide chain of outlets.

FULLCARAT UNISON

A newly developed multi-line store brand concept aimed at the next generation of women, mainly in their early 20s, based on the idea of “mixed merchandise layouts”

Mono Edition

A chain of boutiques offering accessories, managed by J. Direction (established in June 2007)

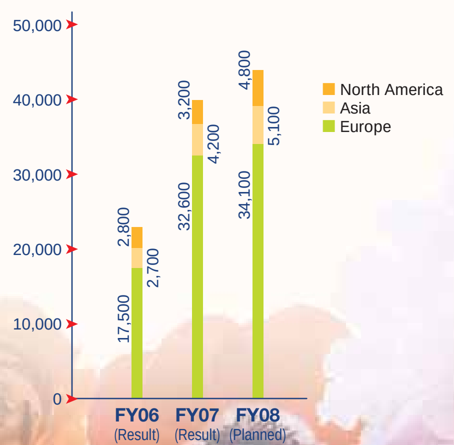
Strengthening Overseas Business Operations

Europe: Toward Further Expansion of the GIBO' CO. Group and JOSEPH Group

The GIBO' CO. Group is working to consolidate its management foundation by integrating its wide range of initiatives with designers and luxury brands into its group. GIBO' acquired the management rights to ERIKA s.r.l., a high-quality Italian knitwear manufacturer, in January 2004, and the management rights to IRIS S.p.A., a high-quality shoe manufacturer. To further strengthen its accessory product planning capabilities, in May 2007 GIBO' acquired Italian bag manufacturer Pelletteria Frassineti s.r.l.

The JOSEPH Group is working to strengthen and expand its planning and production capabilities as well as further build its brand equity. In addition, the group is implementing measures to fill out its product line to include women's shoes, bags, small leather articles, belts, and other items. In its geographical expansionary strategy, it began to open outlets in leading Italian department stores in the latter half of 2007. Plans also call for refurbishing its directly managed stores in Paris and London, which are situated in prominent street locations and have about 300 square meters of sales space, in summer 2007, with the goals of raising the profile of its brand and expanding sales.

Raising the Percentage of Overseas Sales
(Millions of yen)
Years ended February 28 or 29



Asia: Aiming to Be the Leading Japanese-Affiliated Apparel Company in the Asian Market

In China, we had formerly placed emphasis on sales mainly of the NIJYUSANKU, ICB, and rosebullet brands, but in fall 2006 we began to develop Sizesite mixed-brand shops concentrating on small and large sizes of KUMIKYOKU brand goods for young career women, and the results have been favorable. In addition, in spring 2007 we introduced KUMIKYOKU children's clothing and plan to follow up by introducing the global fashion brand JOSEPH in fall 2007. Going forward, at large commercial outlets, including department stores, which are in the midst of a boom in new openings, we will work to expand our business operations by developing a multiplicity of brands in a range of price zones, mainly in the leading commercial outlets.

Plans for expansion of the JOSEPH brand into Asian markets outside China include newly entering the South Korean and Taiwanese markets and focusing on aggressive sales development. In May 2007, we opened an outlet with a prominent street location in Taipei.

North America: Concentrating and Strengthening the J.PRESS and JOSEPH Businesses

In the J.PRESS business, we moved that brand's flagship store to a new, fully redesigned location, and plans call for expanding sales by reconstituting the product lineup to include traditional J.PRESS items and trendy new goods. For the JOSEPH brand, we are working to improve profitability in North American operations through the implementation of a full-scale expansionary policy.

Realigning and Strengthening Resort Business Operations

In our resort operations, we plan to concentrate our business base in Guam and establish a position as an all-round resort with a hotel, a water park, and golf facilities. From the current fiscal year onward, we plan to draw fully on the synergies among these various resort facilities and thereby return these operations to a profitable condition.

Business Overview

NIJYUSANKU

KUMIKYOKU

ICB

JIYUKU

gotairiku

J.PRESS

Japan's apparel industry continues to confront a challenging and competitive environment, as foreign brands enter the market and expand their operations, M&A activity within the industry increases, and companies forge operating alliances with one another. Amid this environment, the Onward Group is working to expand sales by moving forward aggressively with its Brand-Leveraged Management strategy and its initiatives to achieve greater accuracy in product targeting through its Eight-Season, 52-Week Merchandising.

In Onward's major core brand lines NIJYUSANKU, KUMIKYOKU, ICB, and JIYUKU, as a result of initiatives to improve the accuracy of its planning activities to supply the right products at the right time, the Company was able to post expansion in net sales over the previous fiscal year during the fiscal year under review. By distribution channel, we introduced new brands in urban department stores and regional shopping centers that are best suited to the needs of retailers and the competitive environment. We aimed to increase our brand business in fashion buildings* by combining leading brands appropriate for the needs of fashion buildings, formed joint ventures, and took other initiatives.

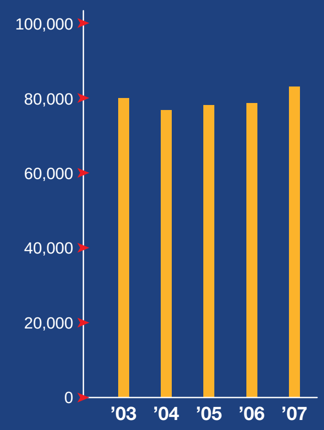
Overseas sales rose to ¥40.0 billion for the year ended February 28, 2007. Especially in Europe, sales climbed from ¥17.5 billion for the year ended February 28, 2006, to ¥32.6 billion for the year under review. Sales in Asia outside Japan, particularly in China, showed steady growth.

* Fashion buildings are multi-story facilities housing boutiques and other retail outlets.

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 age 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 age 16 to 25	—	●	—
field/dream	Lifestyle shop brand that offers a feeling of a better quality of life	●	●	—	Men and women age 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 age 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.

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



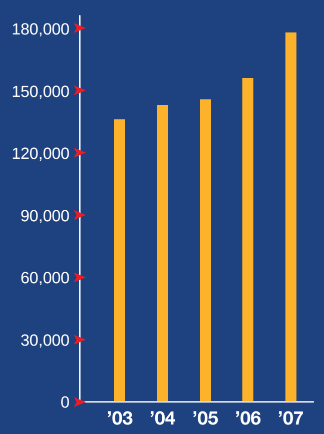
Men's Fashions

Consolidated sales of men's fashions rose 5.6%, to ¥82,757 billion, and accounted for 26.0% of net sales.

Conditions in the men's apparel market during the fiscal year under review were severe because of unseasonable weather conditions and weakness in consumer spending. In response, Onward sought to raise sales by selecting its core products on a weekly basis, expanding inventories, increasing production, and conducting sales promotions. As a result of these activities, sales for the fiscal year compare with the previous year.

In the Cool Biz and Warm Biz product segments, our activities included the development of new product lines, such as Giga Cool Suits and Giga Warm Systems, and we prepared a handbook and went online with a dedicated Website, held "talk show" events on site in department stores, and held fashion seminars aimed at corporations. As a result, although our competitors reported tough times, Onward sales reported healthy gains.

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



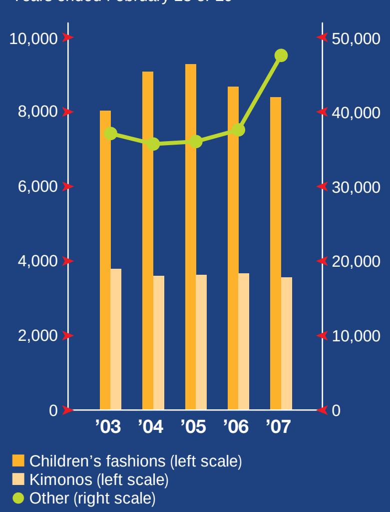
Women's Fashions

Consolidated sales of women's fashions rose 14.0%, to ¥176,547 million, and accounted for 55.4% of net sales.

Sales of women's fashions increased over the previous year as our Eight-Season, 52-Week Merchandising system came into its own, and we were able to precisely target additional production based on advance planning and the identification of hot-selling products.

Major core brands NIJYUSANKU, KUMIKYOKU, ICB, and JIYUKU as well as quasi core brands Paul Smith, MICHAEL MICHAEL KORS, prideglide, and others showed favorable performance. In addition, sales of JOSEPH were significantly above the previous fiscal year, and sales of field/dream, Feroux, and anyFAM brands through new channels also posted major gains. Sales of rosebullet in transportation station buildings and fashion buildings also rose steadily.

Sales of Children's Fashions, Kimonos, and Other
(Millions of yen)
Years ended February 28 or 29



Children's Fashions, Kimonos, and Other

Children's Fashions

Consolidated sales of children's fashions declined 3.2%, to ¥8,378 million, and accounted for 2.6% of net sales.

Sales of KUMIKYOKU brand products created in collaboration with other companies and accessories in this brand line were favorable. Also, sales in the CELINE line expanded, as we worked in our merchandising activities to encourage customers to buy higher-quality products, a strategy that increased average sales per customer.

Kimonos

Consolidated sales of kimonos declined 3.1%, to ¥3,552 million, and accounted for 1.1% of net sales.

Sales of *yukata* (casual, *kimono*-style robes) in the prideglide brand line were strong and recorded a 140% increase over the planned level.

Other Operations

Consolidated sales of other operations rose 26.6%, to ¥47,456 million, and accounted for 14.9% of net sales.

In our resort business activities, we have positioned Onward Beach Resort Guam, Inc., as an all-round resort business, and expect it to become profitable going forward. Among accessories and other items, sales of mit mitte, a retailer of designer-brand leisure bags, and NIJYUSANKU bag products were favorable, as were the sales of gold-colored items in our fashion jewelry business.

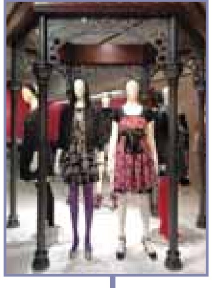
Topics

Expansion of the Onward Group’s Accessory Business

In June 2007, Onward established J. Direction, a new company in Japan, and in May 2007 the Onward Group acquired the management rights to the business of Italian bag manufacturer Pelletteria Frassineti with the goal of expanding the accessory business of the Onward Group in Japan and overseas.

J. Direction was established as a joint venture with Mono Edition, the developer of the Mono Edition accessory boutiques. J. Direction will take over the 23 Mono Edition Moda boutique stores in Japan that handle Jacono-brand bags, Newman watches, Francesca Bassi neckwear, and other items. The new company will aim to increase sales and accelerate the opening of new outlets in urban shopping facilities.

The management rights for Frassineti were acquired through the GIBO’ CO. Group. In fall 2007, Frassineti will begin to supply original bags for the JOSEPH Group, then gradually begin to supply the bag lines for companies that have alliances with the GIBO’ CO. Group, with the aim of expanding its sales. In addition, looking ahead, with a view to supplying Onward’s original bags, Frassineti will function as a manufacturing center for high-value-added bag production for the Onward Group.



Next-Generation Young Casual Brand—DOLLY GIRL BY ANNA SUI

Onward has signed a sub-licensee agreement with Isetan Co., Ltd., which is the main licensee for U.S. designer brand ANNA SUI, for the new DOLLY GIRL BY ANNA SUI casual line, which is targeted at young people, and will begin to supply mainly Isetan and other members of the All-Japan Department Store Development Organization (ADO), starting in fall 2007. The objective will be to create demand for items in the price zone for young women at department stores, where the choice of items is currently relatively limited.

The DOLLY GIRL BY ANNA SUI line will be targeted at young women between 18 and 25 years of age and will be a next-generation casual brand. The brand concept is “sweet vintage.” Based on healthy and clean styling, the brand line will offer fashions that combine cute, elegant items and sweet, casual items to create a vintage feeling.

New Multi-Line Stores for the Next Generation—FULLCARAT UNISON

FULLCARAT UNISON is a newly developed multi-line store concept that targets the next generation of women, principally in their early 20s. These stores will be based on the concept of “mixed merchandise layouts” and will offer a mixture of ladies’ wear that features an appropriate feeling of contemporary trends, fashion accessories, accessories for daily living, and other product categories and thus responds flexibly to various consumer needs. In addition to Onward brand items, the stores will offer a delightful and diverse assortment of goods in six brand areas containing goods from apparel to accessories suited to the season, including attractive goods from other manufacturers, goods produced in collaboration with well-known models, and items procured from overseas. The merchandise mix will raise the percentage of accessories where styling is an important factor. The original goods and items purchased from other manufacturers will range from bags to belts and other fashion goods as well as stationery products, CDs, and other items for daily living.

The basic size of these stores will range from 164 to 300 square meters, and they will be located in urban areas, primarily within large shopping centers, as well as regional shopping centers, fashion buildings, and other venues.

Corporate Governance

The Onward Group understands that responding promptly to changes in the management environment and establishing corporate governance systems that enhance soundness, fairness, transparency, and compliance are important management issues for increasing corporate value, or, in other words, shareholder value. We are working to establish bonds of trust with all stakeholders, especially our shareholders, and improve our corporate governance by strengthening the functions of our management systems and those of the General Meeting of Shareholders, Board of Directors, and Board of Auditors.

Under the Company's corporate governance systems, policies have been implemented to position the Board of Directors as the Company's decision-making organization. The board meets periodically to discuss and make decisions on important matters. When certain matters require quick action, the board convenes emergency sessions as appropriate to respond to rapid changes in the operating environment. In addition, in 1999, to make clear the difference between the management decision-making functions and the functions relating to the conduct of business activities, the Company introduced the Executive Officer system. Moreover, to strengthen the management surveillance functions of the Board of Directors, outside directors were appointed to the Board of Directors and outside auditors to the Board of Auditors.

Regarding internal control systems, the Company has created systems and set policies based on Japan's Company Law and the enforcement regulations of that law that "ensure that the directors perform their duties in compliance with relevant laws and the Company's Articles of Incorporation and other necessary systems as required under the regulations of Japan's Ministry of Justice to ensure the appropriateness of the conduct of the Company's operations." Under these policies, the Company is acting to structure and implement internal control systems. By reviewing these systems on a continuing basis, the Company will work to reform these systems and create corporate systems that operate efficiently and in compliance with legal regulations.

In the area of compliance, the Company has prepared its Compliance Regulations, which state its basic policy for assuring the strict compliance of directors and employees with laws and internal rules and regulations. In addition, the Company has formed the Onward Group Compliance Committee to serve as the organizational unit with overall responsibility for compliance and the Compliance Division, which is responsible for implementation. The Compliance Division is working to promote the creation of compliance systems for the Onward Group based on a *Compliance Manual* that takes the Onward Group Compliance Regulations as a basis. In addition, the Onward Group Compliance Committee works together with the Compliance Division to implement appropriate activities for training and increasing the awareness of compliance issues. The committee and division also work jointly to ensure the *Compliance Manual* is properly employed throughout the Group and to design compliance systems that operate effectively and develop verification mechanisms. Moreover, the Internal Auditing Department, which was created during the fiscal year under review, has the mission of planning for and structuring business process systems that ensure operations are conducted appropriately and efficiently in compliance with relevant laws, the Articles of Incorporation, regulations, internal orders, and other directives. This department also takes responsibility for reporting to the Board of Directors on these matters.

Regarding risk management, the Board of Directors is working to design and implement systems that follow the Onward Group Risk Management Regulations, which were prepared to guide the structuring of these systems, with the Compliance Division responsible for implementation. Activities of the Compliance Division in this area include designing risk management systems, identifying issues to be addressed, preparing plans for risk management systems, reporting to the Board of Directors, and readying appropriate systems to deal with risks that may impact the continuation of the Company's operations or have a major impact on its operations, including the risk of natural disasters and information systems risk. Moreover, as necessary, the Board of Directors works together with outside specialists to strengthen the Company's capabilities for dealing with risk and establish systems to prevent risk.

Board of Directors

Directors

Chairman & CEO
Takeshi Hirouchi*

President
Shigeru Uemura*

Senior Managing Directors
Kazuya Baba*
Tsutomu Ohnuma

Managing Director
Masaaki Yoshizawa

Outside Directors
Hachiro Honjou
Yoshihide Nakamura

Corporate Auditors

Standing Corporate Auditors
Akito Yamamoto
Isao Yamane
Keiichi Ogawa**
Jotaro Yabe**

Officers

Managing Executive Officers
Ryuji Horie
Masao Ohno
Junji Nakamura
Kentaro Mizuno
Hiroshi Imai
Masabumi Kiyohara
Tadayoshi Kobayashi
Susumu Maeda
Wataru Sakai
Hiroaki Yamada
Kenichiro Tamai
Akinori Baba
Yoshihiko Sato
Hiroshi Ishida
Minoru Tanaka
Tsunenori Suzuki

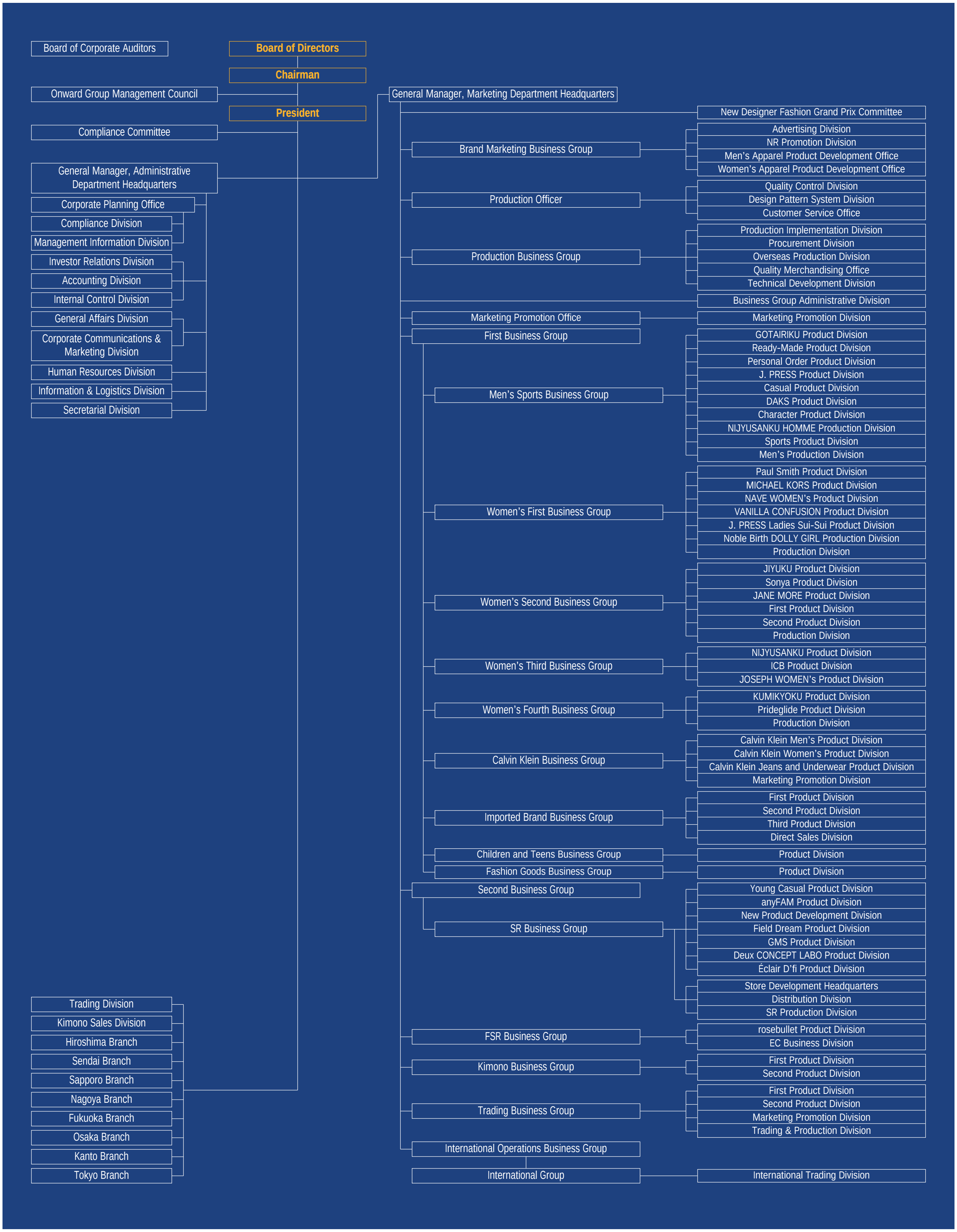
Executive Officers
Hideo Matsumoto
Tsutomu Hagihira
Hitoshi Aoyama
Takahisa Suzuki
Hideo Hisamichi
Kazuo Kagatani
Manabu Nomura
Hidenobu Tanaka
Teruhiko Komatsu
Hirokazu Yoshizato
Hironobu Mitsuta
Kazuhito Kobayashi
Eihachiro Umemiya
Hisayuki Ichinose
Michio Osawa
Naoki Kamo
Takao Usui
Noriyasu Fujikawa
Michinobu Yasumoto

As of May 24, 2007

* Representive Director

** Outside Auditor

Organization Chart (As of May 24, 2007)



Consolidated Six-Year Summary

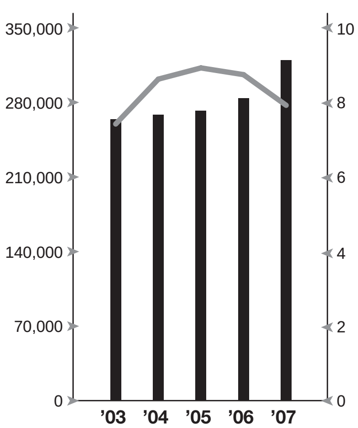
ONWARD KASHIYAMA Co., Ltd. and Subsidiaries
Years ended February 28 or 29

	Millions of yen						Thousands of U.S. dollars
	2002	2003	2004	2005	2006	**2007**	**2007**
At year-end:							
Total current assets	¥146,080	¥141,468	¥165,931	¥150,969	¥135,769	**¥135,197**	**$1,141,479**
Total property, plant and equipment	99,274	101,188	96,017	96,394	99,688	**94,850**	**800,828**
Total assets	312,443	302,188	318,270	308,170	329,403	**347,936**	**2,937,659**
Total current liabilities	99,673	80,147	92,270	79,025	97,617	**103,494**	**873,806**
Total shareholders' equity	187,039	190,755	196,796	202,377	201,599	**212,600**	**1,795,006**
For the year:							
Net sales	¥257,306	¥263,399	¥267,746	¥271,273	¥283,111	**¥318,691**	**$2,690,735**
Cost of sales	145,687	143,234	143,921	146,447	152,043	**175,796**	**1,484,255**
Selling, general and administrative expenses	93,499	100,558	100,929	100,621	106,360	**117,464**	**991,760**
Operating income	18,120	19,607	22,896	24,205	24,708	**25,431**	**214,720**
Income taxes, current	11,176	6,166	13,868	7,490	12,321	**14,409**	**121,658**
Net income	3,802	7,158	13,053	10,257	11,091	**11,438**	**96,572**
	Yen						U.S. dollars
Per share:							
Net income—basic	¥22.1	¥41.6	¥74.1	¥58.1	¥63.8	**¥70.5**	**$0.595**
Cash dividends	16.5	16.5	20.0	22.0	24.0	**26.0**	**0.220**

Note: Yen amounts have been translated, for convenience only, at ¥118.44=US$1, the approximate exchange rate on February 28, 2007.

Net Sales and Operating Income Margin

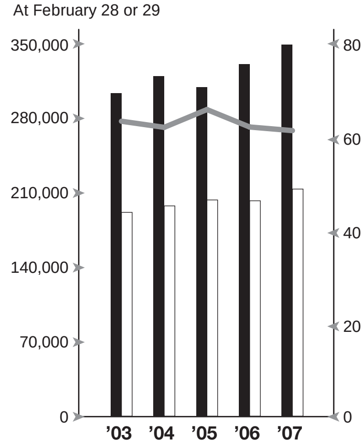
(Millions of yen, %)
Years ended February 28 or 29



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

Total Assets, Total Shareholders' Equity, and Shareholders' Equity Ratio

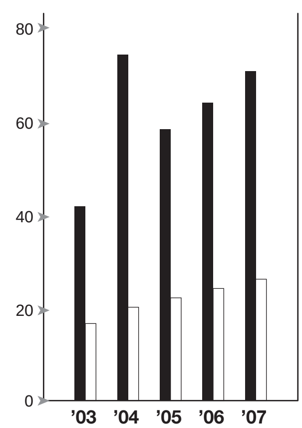
(Millions of yen, %)
At February 28 or 29



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

Net Income Per Share and Cash Dividends Per Share

(Yen)
Years ended February 28 or 29



■ Net income per share
□ Cash dividends per share

Overview

During the fiscal year under review (fiscal 2007, ended February 28, 2007), the Japanese economy continued on a gradual recovery trend as private capital investment rose along with the expansion in corporate profits, and the employment environment showed improvement. On the other hand, personal consumption failed to attain a full-scale recovery because of the impact of weak growth in individual incomes and other factors. In the apparel industry, the operating environment remained challenging because of sudden changes in consumption trends and growing competition among industry participants, including foreign brands.

Amid this operating environment, the Onward Group defined its business domain as “a world of fashion that brings refreshment and beauty to people’s lives” and sought to offer lifestyle fashions for all scenes. By creating new lifestyles and values, the Onward Group worked to contribute to people’s affluent lifestyles. Among these activities, in our core apparel and other textile product businesses segment, we continued to implement our Brand-Leveraged Management policy, which aims at maximizing the value of our brands, and, as all of our management and staff exerted their fullest efforts in working together, we moved toward our target of establishing a dominant competitive advantage. As a result of these strategic initiatives and the consolidation of 19 additional subsidiaries in the key areas of Europe, Asia, and North America as part of our global growth strategy, we reported gains in both net sales and net income. Consolidated net sales for the fiscal year under review rose 12.6% over the previous fiscal year, to ¥318.7 billion, consolidated operating income increased 2.9%, to ¥25.4 billion, and consolidated net income expanded 3.1%, to ¥11.4 billion.

Results of Operations

Net Sales

The increase of 12.6% in consolidated net sales, to ¥318.7 billion, for the fiscal year under review was the seventh consecutive annual increase in the Group’s turnover. The highlights of the Group’s performance during the fiscal year in its two principal segments, namely, apparel and other textile product businesses and service-related businesses, are presented below.

● Apparel and Other Textile Product Businesses

In the Japanese market, we continued to implement our Brand-Leveraged Management policy and worked to improve the accuracy of our product planning and production activities through our Eight-Season, 52-Week Merchandising approach. Through these activities and our basic policies of (1) strengthening the operating base, (2) developing and nurturing new brands, and (3) promoting M&A and joint ventures, we aimed for further expansion in net sales.

To strengthen the operating base, we worked to improve the accuracy of forward planning for our major core brands, including NIJYUSANKU, KUMIKYOKU, ICB, and JIYUKU, and enhance our capabilities for providing the right products at the right time. As a consequence, we were able to raise sales over the previous fiscal year.

In developing and nurturing new brands, we introduced new brands best suited to the needs and competitive conditions of differing distribution channels, including department stores and regional shopping centers.

As part of our policy of promoting M&A and joint ventures, we aimed to expand brand business in fashion buildings and moved ahead with new initiatives with leading brands suited to fashion-building shopping areas. For example, working with IMPACT 21 on the Ralph Lauren brand, we strengthened that company’s product planning capabilities to offer products suited to the climate and motivations of consumers in Japan while sustaining the product innovation capabilities of Ralph Lauren as a designer brand. As a result, IMPACT 21 was better able to create products that responded to consumer needs, and, while conditions were tough in the first half of the fiscal year under review, sales moved onto a recovery trend in the latter half.

In our overseas business activities, in Europe, JOSEPH and GIBO’ reported steady expansion in sales, drawing on their brand power, and, as a result of efforts to manage costs and increase efficiency, earnings showed major increases and both brands exceeded their initial plan targets. In addition, in Asia outside Japan, especially in China, we aggressively expanded the number of stores for our in-house brands after looking carefully at operational efficiency, and were able to report a performance above our planned levels. In North America, however, we still have certain issues to address regarding the scale of brand development and making improvements in our base infrastructure.

As a result of these and other developments, sales of the apparel and other textile product businesses segment rose 12.2% over the previous fiscal year, to ¥301.9 billion.

• Service-Related Businesses

In the Onward Group's service-related businesses, marketing efforts were strengthened to win outsourcing business from outside the Group, drawing on the Group's accumulated know-how, and as a result these businesses reported steady growth in performance. In resort business activities, we concentrated our resources on the Group's resort business in Guam and implemented measures to establish the Guam operations as an all-round resort business operating hotel, water park, and golf course facilities. As a result, we anticipate these operations will return to profitability in the next fiscal year. As a consequence of the overall improvement in the Group's service-related businesses, sales in this segment rose 15.4%, to ¥31.0 billion.

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

The consolidated cost of sales rose 15.6%, to ¥175.8 billion. This increase was mainly due to the rise in net sales. As a result of valuation losses on inventories at the end of the fiscal year, the gross margin on sales declined 1.5 percentage points, from 46.3% to 44.8%, but gross profit rose 9.0%, to ¥142.9 billion.

Selling, general and administrative (SG&A) expenses increased 10.4%, to ¥117.5 billion, despite a decline in depreciation charges. The ratio of SG&A expenses to net sales declined 0.7 percentage point, from 37.6% to 36.9%. The principal reason for the decline in the gross margin on net sales was a 0.7 percentage point deterioration in the operating income to net sales ratio, from 8.7% in the previous fiscal year to 8.0% in the fiscal year under review, but because of the positive impact of higher net sales, operating income rose 2.9%, to ¥25.4 billion, the sixth consecutive annual increase. In addition, net sales and operating income reported their highest levels to date for the sixth year running.

Other income (expenses) amounted to expenses of ¥1.9 billion for the fiscal year under review, compared with income of ¥1.2 billion for the previous fiscal year. Although other income for the period included ¥4.1 billion in gains on the sale of investments in securities and ¥9.7 billion in a gain on the cancellation of the pension trust, these were more than offset by impairment losses on fixed assets of ¥17.0 billion and other factors. As a consequence, income before income taxes declined 9.0% from the previous fiscal year, to ¥23.5 billion. The effective tax rate for the fiscal year under review was 47.8%, 3.1 percentage points below the effective tax rate of 50.9% for the previous fiscal year. Minority interests in subsidiaries declined from ¥1.6 billion in the previous fiscal year to ¥0.9 billion for the fiscal year under review. As a result of these various factors, consolidated net income increased 3.1%, to ¥11.4 billion, the second consecutive annual increase. The ratio of net income to net sales declined 0.3 percentage point, to 3.6%, and the ratio of net income to shareholders' equity slipped 0.1 percentage point, to 5.4%.

Financial Position

Total assets rose 5.6%, or ¥18.5 billion, to ¥347.9 billion. Although current assets declined 0.4%, or ¥0.6 billion, and were virtually level with the previous fiscal year-end, fixed assets climbed 9.9%, or ¥19.1 billion, to ¥212.7 billion.

The increase in fixed assets was primarily the result of an increase in investment securities, due to the acquisition of securities accompanying M&A deals, of ¥25.9 billion, to ¥63.3 billion, which offset a decline of ¥4.8 billion, to ¥94.9 billion, in tangible fixed assets owing to the recognition of impairment losses.

On the liabilities side of the balance sheets, current liabilities increased ¥5.9 billion over the previous fiscal year-end. Long-term liabilities rose ¥9.1 billion, but this was due primarily to the inclusion of deferred tax liabilities of ¥6.0 billion, owing to the reversal of deferred tax assets in connection with the revaluation of land.

In the shareholders' equity section of the balance sheets, shareholders' equity rose to ¥212.6 billion, mainly because of the increase in retained earnings, along with the reporting of net income for the period. With the inclusion of minority interests in consolidated subsidiaries, total net assets for the period amounted to ¥225.1 billion. As a result of these various factors, the ratio of shareholders' equity to total assets was down 0.1 percentage point, to 61.1%. In addition, the ratio of interest-bearing debt to shareholders' equity improved 0.4 percentage point, declining from 13.1% to 12.7%. The current ratio declined 8.5 percentage points, from 139.1% at the previous fiscal year-end to 130.6% at February 28, 2007.

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 Group's brand strategy. Going forward, the Group plans to strengthen its efforts 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 shareholders.

Cash Flows

Net cash provided by operating activities declined ¥9.4 billion from the previous fiscal year, to ¥17.4 billion for the fiscal year under review, owing to a decline in income before income taxes and minority interests of ¥2.3 billion, to ¥23.5 billion, an increase in payments for corporate income taxes and other taxes, and other factors.

Net cash used in investing activities decreased ¥23.4 billion, to ¥13.8 billion. Principal investments during the fiscal year under review included acquisitions of securities and investments in stores and sales areas.

Net cash used in financing activities declined ¥9.3 billion, to ¥5.8 billion. Principal cash outflows related to financing activities were dividend payments.

As a result of the aforementioned factors, the balance of cash and cash equivalents at the end of fiscal 2007 was ¥57.3 billion, compared with ¥56.1 billion at the end of fiscal 2006.

Policy on the Distribution of Profits

The management of the Onward Group recognizes the distribution of a portion of profits to shareholders as one of its top priorities. The basic policy of the Company is to strive to continue 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 among strategically investing in the consolidation of a solid business structure, improving the Company's financial position, and meeting financial requirements.

Please note that after taking into consideration the operating environment and the Company's performance, the Company has decided to increase the cash dividend to be paid for fiscal 2007 by ¥2 per share, to ¥26 per share.

Outlook

Looking ahead, management believes that the gradual recovery in the domestic economy accompanying the improvement in overall corporate profits will continue for the time being. In the apparel industry, competition among current industry participants and companies newly entering the industry from other sectors will further intensify as new foreign brands enter the domestic market and new sales channels, including IT-based marketing via portable phones, become more common. Accordingly, developments in the operating environment will continue to require careful attention and monitoring.

The Onward Group is committed to implementing its growth strategy and making further improvements in management efficiency as it works to realign Group companies, strengthen its corporate governance systems, and accelerate strategic decision making. The recent public bid for the shares of IMPACT 21 by Polo Ralph Lauren is fully compatible with the Group's strategy of accelerating its growth by structuring a portfolio of brands through acquisitions of attractive brands, both in Japan and overseas. The Onward Group intends to move forward decisively with the implementation of its Brand-Leveraged Management policy while placing maximum priority on increasing earnings.

Among measures to strengthen the operating base, the Group is moving forward with measures to unify its planning and production departments, establish product supply systems that respond immediately to changes in the market, and thereby further expand net sales and net income. In developing and nurturing new brands, the Group will work to expand its presence in the core department store market, cultivate brands with a high-profile presence that can move with the market trends in the new distribution channels and markets, and further expand profitable units, including existing brands.

The Company's associated companies in Japan will pursue similar basic strategies and strengthen their earnings bases. Associated companies overseas will also work to increase profitability by resolutely addressing the issues we confront in North America and moving ahead with aggressive expansion in Europe and Asia.

Regarding results for the fiscal year ending February 28, 2007, net sales and operating income were lower than they would have been otherwise as a result of the sale of Impact 21 shares; however, the Group is continuing a portion of its business activities with Polo Ralph Lauren, and overseas subsidiaries accounted for under the equity method made contributions to consolidated performance. In addition, the asset impairment losses will be absent in the year ending February 29, 2008. As a consequence, we are anticipating substantial increases in net income. Specific targets for the year ending February 29, 2008, are as follows: consolidated net sales to decline 7.1%, to ¥296.0 billion, operating income to fall 6.8%, to ¥23.7 billion, and net income to expand 22.4%, to ¥14.0 billion. (Please note that these targets for future performance are judgments that are based on information available at the time these figures were prepared and they are subject to latent risks and uncertainties. Therefore, if the factors that form the basis for these forecasts differ from assumed conditions, actual performance may differ substantially from the target levels.)

Consolidated Balance Sheets

ONWARD KASHIYAMA Co., Ltd. and Subsidiaries
February 28, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 2. (21))
ASSETS	2006	**2007**	**2007**
Current assets:			
Cash and deposits (Notes 2. (15) and 7. (1))	¥ 56,136	**¥ 57,390**	**$ 484,552**
Accounts and notes receivable	27,675	**32,308**	**272,778**
Inventories (Note 2. (4))	31,117	**37,098**	**313,218**
Deferred tax assets (Note 9)	4,175	**4,192**	**35,392**
Other current assets	16,892	**4,373**	**36,923**
Less: Allowance for bad debt	(226)	**(164)**	**(1,384)**
Total current assets	135,769	**135,197**	**1,141,479**
Property, plant and equipment (Note 5):			
Buildings and structures	68,606	**75,623**	**638,491**
Other depreciable property	22,549	**26,532**	**224,011**
Less: Accumulated depreciation	(48,658)	**(61,028)**	**(515,264)**
	42,497	**41,127**	**347,238**
Land (Note 10)	57,191	**53,723**	**453,590**
Total property, plant and equipment	99,688	**94,850**	**800,828**
Intangible assets, net:			
Goodwill	24,158	**24,311**	**205,257**
Other	2,609	**2,783**	**23,503**
Total intangible assets, net	26,767	**27,094**	**228,759**
Investments and other assets:			
Investments in securities (Note 3)	37,430	**63,308**	**534,512**
Long-term loans	2,884	**4,267**	**36,030**
Long-term prepaid expenses	5,768	**3,708**	**31,305**
Deferred tax assets (Note 9)	2,216	**5,815**	**49,096**
Deferred tax assets—revaluation of land (Notes 9 and 10)	1,630	—	—
Other investments	17,635	**14,692**	**124,051**
Less: Allowance for bad debt	(384)	**(995)**	**(8,401)**
Total investments and advances	67,179	**90,795**	**766,593**
Total assets	¥329,403	**¥347,936**	**$2,937,659**

LIABILITIES AND NET ASSETS	Millions of yen 2006	Millions of yen 2007	Thousands of U.S. dollars (Note 2. (21)) 2007
Current liabilities:			
Accounts and notes payable	¥ 46,927	**¥ 51,692**	**$ 436,443**
Short-term loans (Note 17)	26,419	**26,916**	**227,256**
Accrued expenses	7,117	**7,258**	**61,280**
Accrued income taxes	8,437	**8,234**	**69,522**
Consumption taxes payable	1,255	**936**	**7,901**
Accrued bonuses to employees	2,971	**2,694**	**22,746**
Allowance for sales returns	982	**1,028**	**8,674**
Other current liabilities	3,509	**4,736**	**39,984**
Total current liabilities	97,617	**103,494**	**873,806**
Long-term liabilities:			
Negative goodwill	895	**447**	**3,778**
Accrued retirement benefits (Note 6)	2,380	**4,950**	**41,792**
Accrued retirement benefits for directors and statutory auditors	1,885	**274**	**2,315**
Deferred tax liabilities—revaluation of land (Notes 9 and 10)	—	**5,992**	**50,589**
Other	5,027	**7,641**	**64,516**
Total long-term liabilities	10,187	**19,304**	**162,990**
Total liabilities	107,804	**122,798**	**1,036,796**
Commitments and contingent liabilities (Note 11)			
Net assets:			
Shareholders' equity:			
Common stock:			
Authorized—400,000,000 shares			
Issued—172,921,669 shares at February 28, 2006 and 2007	30,080	**30,080**	**253,965**
Capital surplus	50,044	**50,045**	**422,538**
Retained earnings (Note 12)	137,922	**148,954**	**1,257,632**
Less: Treasury stock, at cost, 10,726,258 shares and 10,744,252 shares at February 28, 2006 and 2007, respectively	(16,447)	**(16,479)**	**(139,129)**
Total shareholders' equity	201,599	**212,600**	**1,795,006**
Valuation and translation adjustments:			
Net unrealized gains on available-for-sale securities (Note 3)	5,292	**3,813**	**32,198**
Deferred gains on hedging instruments	—	**21**	**177**
Net revaluation loss of land (Notes 9 and 10)	(2,378)	**(11,012)**	**(92,979)**
Foreign currency translation adjustment	(687)	**(1,578)**	**(13,320)**
Total valuation and translation adjustments	2,227	**(8,756)**	**(73,924)**
Stock acquisition rights	—	**73**	**615**
Minority interests in consolidated subsidiaries	17,773	**21,221**	**179,166**
Total net assets	221,599	**225,138**	**1,900,863**
Total liabilities and net assets	¥329,403	**¥347,936**	**$2,937,659**

	Yen 2006	Yen 2007	U.S. dollars (Note 2. (21)) 2007
Per share (Note 13):			
Net assets per share	¥1,253.5	**¥1,256.9**	**$10.6**

See accompanying notes to financial statements.

Consolidated Statements of Income

ONWARD KASHIYAMA Co., Ltd. and Subsidiaries
For the years ended February 28, 2005, 2006 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 2. (21))
	2005	2006	**2007**	**2007**
Net sales	¥271,273	¥283,111	**¥318,691**	**$2,690,735**
Cost of sales	146,447	152,043	**175,796**	**1,484,255**
Gross profit	124,826	131,068	**142,895**	**1,206,480**
Selling, general and administrative expenses (Notes 2. (10) and 15)	100,621	106,360	**117,464**	**991,760**
Operating income	24,205	24,708	**25,431**	**214,720**
Other income (expenses):				
Interest income	131	122	**257**	**2,168**
Interest expenses	(102)	(294)	**(850)**	**(7,172)**
Loss on disposal of property, net	(352)	(146)	**(82)**	**(692)**
Gain on sale of investments in securities, net (Note 3. (1))	883	3	**4,051**	**34,202**
Loss on write-down of investments in securities	(112)	(11)	**(40)**	**(340)**
Royalty income	741	598	**473**	**3,996**
Loss on liquidation of subsidiaries and affiliates	(536)	—	—	—
Additional retirement payments	(1,554)	—	—	—
Provision for allowance for bad debt	—	(107)	**(378)**	**(3,194)**
Provision for loss on guarantee obligations	—	(293)	—	—
Foreign currency exchange gain (loss)	(127)	676	**(137)**	**(1,156)**
Gain on cancellation of the pension trust	—	—	**9,665**	**81,599**
Valuation losses on investments in unconsolidated subsidiaries and affiliates	(300)	(744)	—	—
Impairment losses on fixed assets	—	—	**(16,968)**	**(143,259)**
Other, net	1,431	1,355	**2,113**	**17,837**
Income before income taxes and minority interests	24,308	25,867	**23,535**	**198,709**
Income taxes:				
Current (Note 2. (10))	7,490	12,321	**14,409**	**121,658**
Deferred (Note 9)	4,507	842	**(3,170)**	**(26,767)**
Income before minority interests	12,311	12,704	**12,296**	**103,818**
Minority interests in subsidiaries	(2,054)	(1,613)	**(858)**	**(7,246)**
Net income	¥ 10,257	¥ 11,091	**¥ 11,438**	**$ 96,572**

	Yen			U.S. dollars (Note 2. (21))
Per share (Note 13):				
Net income—basic	¥58.1	¥63.8	**¥70.5**	**$0.595**
Diluted net income per share	—	—	**70.5**	**0.595**
Cash dividends	22.0	24.0	**26.0**	**0.220**

See accompanying notes to financial statements.

Consolidated Statements of Changes in Net Assets

ONWARD KASHIYAMA Co., Ltd. and Subsidiaries
For the years ended February 28, 2005, 2006 and 2007

		Millions of yen					
		Shareholders' equity					
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings (Note 12)	Treasury stock	Total
Balance as at February 29, 2004:	172,922	¥30,080	¥49,707	¥124,575	¥ (5,373)	¥198,989
Gain on sales of treasury stock	—	—	2	—	5	7
Cash dividends	—	—	—	(3,356)	—	(3,356)
Bonuses to directors and statutory auditors	—	—	—	(477)	—	(477)
Net income	—	—	—	10,257	—	10,257
Reversal of reserve for land revaluation	—	—	—	(20)	—	(20)
Increase in treasury stock	—	—	—	—	(3,495)	(3,495)
Exchange of treasury stock for Chacott Co., Ltd.'s stock	—	—	334	—	1,781	2,115
Net changes other than shareholders' equity	—	—	—	—	—	—
Total changes during the year	—	—	336	(6,404)	(1,709)	5,031
Balance as at February 28, 2005:	172,922	30,080	50,043	130,979	(7,082)	204,020
Gain on sales of treasury stock	—	—	1	—	4	5
Cash dividends	—	—	—	(3,679)	—	(3,679)
Bonuses to directors and statutory auditors	—	—	—	(494)	—	(494)
Net income	—	—	—	11,091	—	11,091
Reversal of reserve for land revaluation	—	—	—	25	—	25
Increase in treasury stock	—	—	—	—	(9,369)	(9,369)
Net changes other than shareholders' equity	—	—	—	—	—	—
Total changes during the year	—	—	1	6,943	(9,365)	(2,421)
Balance as at February 28, 2006:	172,922	30,080	50,044	137,922	(16,447)	201,599
Cash dividends	**—**	**—**	**—**	**(3,893)**	**—**	**(3,893)**
Bonuses to directors and statutory auditors	**—**	**—**	**—**	**(531)**	**—**	**(531)**
Net income	**—**	**—**	**—**	**11,438**	**—**	**11,438**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**(42)**	**(42)**
Reissuance of treasury stock	**—**	**—**	**1**	**—**	**10**	**11**
Reversal of reserve for land revaluation	**—**	**—**	**—**	**554**	**—**	**554**
Increase resulting from newly consolidated subsidiaries	**—**	**—**	**—**	**3,464**	**—**	**3,464**
Net changes other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**—**
Total changes during the year	**—**	**—**	**1**	**11,032**	**(32)**	**11,001**
Balance as at February 28, 2007	**172,922**	**¥30,080**	**¥50,045**	**¥148,954**	**¥(16,479)**	**¥212,600**

	Thousands of U.S. dollars (Note 2. (21))				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings (Note 12)	Treasury stock	Total
Balance as at February 28, 2006:	$253,965	$422,529	$1,164,496	$(138,864)	$1,702,126
Cash dividends	**—**	**—**	**(32,866)**	**—**	**(32,866)**
Bonuses to directors and statutory auditors	**—**	**—**	**(4,479)**	**—**	**(4,479)**
Net income	**—**	**—**	**96,572**	**—**	**96,572**
Purchase of treasury stock	**—**	**—**	**—**	**(352)**	**(352)**
Reissuance of treasury stock	**—**	**9**	**—**	**87**	**96**
Reversal of reserve for land revaluation	**—**	**—**	**4,674**	**—**	**4,674**
Increase resulting from newly consolidated subsidiaries	**—**	**—**	**29,235**	**—**	**29,235**
Net changes other than shareholders' equity	**—**	**—**	**—**	**—**	**—**
Total changes during the year	**—**	**9**	**93,136**	**(265)**	**92,880**
Balance as at February 28, 2007	**$253,965**	**$422,538**	**$1,257,632**	**$(139,129)**	**$1,795,006**

See accompanying notes to financial statements.

(Continued)

	Millions of yen							
	Valuation and translation adjustment							
	Net unrealized gains on available-for-sale securities (Note 3)	Deferred gains on hedging instruments	Net revaluation loss of land (Notes 9, 10)	Foreign currency translation adjustment	Total	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total net assets
Balance as at February 29, 2004:	¥ 807	¥—	¥ (2,373)	¥ (627)	¥ (2,193)	¥—	¥17,770	¥214,566
Gain on sales of treasury stock	—	—	—	—	—	—	—	7
Cash dividends	—	—	—	—	—	—	—	(3,356)
Bonuses to directors and statutory auditors	—	—	—	—	—	—	—	(477)
Net income	—	—	—	—	—	—	—	10,257
Reversal of reserve for land revaluation	—	—	20	—	20	—	—	—
Increase in treasury stock	—	—	—	—	—	—	—	(3,495)
Exchange of treasury stock for Chacott Co., Ltd.'s stock	—	—	—	—	—	—	—	2,115
Net changes other than shareholders' equity	459	—	—	71	530	—	(892)	(362)
Total changes during the year	459	—	20	71	550	—	(892)	4,689
Balance as at February 28, 2005:	1,266	—	(2,353)	(556)	(1,643)	—	16,878	219,255
Gain on sales of treasury stock	—	—	—	—	—	—	—	5
Cash dividends	—	—	—	—	—	—	—	(3,679)
Bonuses to directors and statutory auditors	—	—	—	—	—	—	—	(494)
Net income	—	—	—	—	—	—	—	11,091
Reversal of reserve for land revaluation	—	—	(25)	—	(25)	—	—	—
Increase in treasury stock	—	—	—	—	—	—	—	(9,369)
Net changes other than shareholders' equity	4,026	—	—	(131)	3,895	—	895	4,790
Total changes during the year	4,026	—	(25)	(131)	3,870	—	895	2,344
Balance as at February 28, 2006:	5,292	—	(2,378)	(687)	2,227	—	17,773	221,599
Cash dividends	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(3,893)**
Bonuses to directors and statutory auditors	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(531)**
Net income	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**11,438**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(42)**
Reissuance of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**11**
Reversal of reserve for land revaluation	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**554**
Increase resulting from newly consolidated subsidiaries	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**3,464**
Net changes other than shareholders' equity	**(1,479)**	**21**	**(8,634)**	**(891)**	**(10,983)**	**73**	**3,448**	**(7,462)**
Total changes during the year	**(1,479)**	**21**	**(8,634)**	**(891)**	**(10,983)**	**73**	**3,448**	**3,539**
Balance as at February 28, 2007	**¥3,813**	**¥21**	**¥(11,012)**	**¥(1,578)**	**¥ (8,756)**	**¥73**	**¥21,221**	**¥225,138**

	Thousands of U.S. dollars (Note 2. (21))							
	Valuation and translation adjustment							
	Net unrealized gains on available-for-sale securities (Note 3)	Deferred gains on hedging instruments	Net revaluation loss of land (Notes 9, 10)	Foreign currency translation adjustment	Total	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total net assets
Balance as at February 28, 2006:	$44,675	$ —	$(20,072)	$ (5,800)	$ 18,803	$ —	$150,058	$1,870,987
Cash dividends	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(32,866)**
Bonuses to directors and statutory auditors	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(4,479)**
Net income	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**96,572**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(352)**
Reissuance of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**96**
Reversal of reserve for land revaluation	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**4,674**
Increase resulting from newly consolidated subsidiaries	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**29,235**
Net changes other than shareholders' equity	**(12,477)**	**177**	**(72,907)**	**(7,520)**	**(92,727)**	**615**	**29,108**	**(63,004)**
Total changes during the year	**(12,477)**	**177**	**(72,907)**	**(7,520)**	**(92,727)**	**615**	**29,108**	**29,876**
Balance as at February 28, 2007	**$32,198**	**$177**	**$(92,979)**	**$(13,320)**	**$(73,924)**	**$615**	**$179,166**	**$1,900,863**

See accompanying notes to financial statements.

Consolidated Statements of Cash Flows

ONWARD KASHIYAMA Co., Ltd. and Subsidiaries
For the years ended February 28, 2005, 2006 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 2. (21))
	2005	2006	**2007**	**2007**
Cash flows from operating activities:				
Income before income taxes and minority interests	¥24,308	¥25,867	**¥23,535**	**$198,709**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	7,042	7,054	**6,697**	**56,538**
Impairment loss on fixed assets	—	—	**16,968**	**143,259**
Net amortization of goodwill on consolidation	(462)	172	**903**	**7,627**
Increase (decrease) in provision for allowance for bad debt	(2,863)	14	**541**	**4,569**
Increase (decrease) in provision for accrued retirement benefits	(1,110)	292	**(1,346)**	**(11,370)**
Interest and dividend income	(81)	18	**255**	**2,153**
Loss on disposal of property, net	352	146	**82**	**692**
Gain on sale of investments in securities, net	(883)	(3)	**(4,051)**	**(34,202)**
Loss on write-down of investments in securities	112	11	**40**	**340**
Valuation losses on investments in unconsolidated subsidiaries and affiliates	300	744	**127**	**1,072**
Gain on cancellation of the pension trust	—	—	**(9,665)**	**(81,599)**
(Increase) decrease in trade receivables	5,734	(1,032)	**(1,397)**	**(11,794)**
Increase in inventories	(1,230)	(1,574)	**(3,337)**	**(28,177)**
Increase (decrease) in trade payables	(2,128)	115	**1,206**	**10,185**
Other, net	4,359	77	**1,952**	**16,479**
Subtotal	33,450	31,901	**32,510**	**274,481**
Interest and dividends received	326	547	**957**	**8,079**
Interest paid	(101)	(295)	**(864)**	**(7,295)**
Income taxes paid	(17,683)	(6,560)	**(15,321)**	**(129,356)**
Refunded income taxes	—	1,166	**80**	**680**
Net cash provided by operating activities	15,992	26,759	**17,362**	**146,589**
Cash flows from investing activities:				
Increase in time deposits	(2,278)	(3,078)	**(87)**	**(735)**
Decrease in time deposits	288	278	**81**	**684**
Acquisition of property, plant and equipment	(5,288)	(5,567)	**(7,687)**	**(64,903)**
Proceeds from sale of property, plant and equipment	50	156	**1,517**	**12,810**
Acquisition of investments in securities	(7,570)	(13,332)	**(12,933)**	**(109,197)**
Proceeds from sale of investments in securities	1,546	312	**6,585**	**55,594**
Payments for long-term prepaid expenses	(2,723)	(1,854)	**(2,021)**	**(17,065)**
Payments for deposits	(874)	(484)	**(928)**	**(7,837)**
Proceeds from deposits	685	947	**948**	**8,007**
Payment for acquisition of consolidated subsidiaries resulting in a change in the scope of consolidation (Note 7. (2))	—	(16,886)	**(4,737)**	**(39,992)**
Other, net	3,215	2,298	**5,413**	**45,705**
Net cash used in investing activities	(12,949)	(37,210)	**(13,849)**	**(116,929)**

See accompanying notes to financial statements.

(Continued)

	Millions of yen			Thousands of U.S. dollars (Note 2. (21))
	2005	2006	**2007**	**2007**
Cash flows from financing activities:				
Net repayments of short-term loans	(1,719)	(1,290)	**(1,139)**	**(9,616)**
Acquisition of treasury stock	(3,495)	(9,368)	**(42)**	**(352)**
Dividends paid	(3,356)	(3,679)	**(3,893)**	**(32,866)**
Dividends paid to minority stockholders	(770)	(758)	**(773)**	**(6,530)**
Other, net	3	2	**10**	**81**
Net cash used in financing activities	(9,337)	(15,093)	**(5,837)**	**(49,283)**
Effect of exchange rate changes on cash and cash equivalents	26	59	**364**	**3,075**
Net decrease in cash and cash equivalents	(6,268)	(25,485)	**(1,960)**	**(16,548)**
Cash and cash equivalents at beginning of year	87,811	81,543	**56,058**	**473,306**
Effect of newly consolidated subsidiaries	—	—	**3,208**	**27,085**
Cash and cash equivalents at end of year (Note 7. (1))	¥81,543	¥56,058	**¥57,306**	**$483,843**

See accompanying notes to financial 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 Corporation Law of Japan (the "Corporation Law") 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 69 subsidiaries as at February 28, 2007 (67 as at February 28, 2006, 42 as at February 28, 2005). The accompanying consolidated financial statements include the accounts of the Company and 55 subsidiaries (36 for 2006, 16 for 2005). The 55 subsidiaries that have been consolidated by the Company are listed below (the Company and these consolidated subsidiaries are collectively 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	February 28
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
Gibo' & Co. S.p.A.	84.0	November 30
Maglificio Erika S.r.l.	60.0	November 30
Iris S.p.A.	60.0	November 30

Gibo' USA Inc.	100.0	November 30
Gibo' France SARL	100.0	November 30
Iris Sud S.r.l.	59.7	November 30
Rediris SARL	54.0	November 30
Iris France SARL	60.0	November 30
O.K.N. Amsterdam B.V.	100.0	December 31
Onward Kashiyama Korea Co., Ltd.	100.0	December 31
Onward Kashiyama Hong Kong Ltd.	100.0	December 31
Shanghai Onward Fashion Co., Ltd.	100.0	December 31
Onward Trading (Shanghai) Co., Ltd.	100.0	December 31
J. Press, Inc.	100.0	December 31
Onward Retail, L.L.C.	100.0	December 31
Agana Resort Club L.P.S.	80.8	December 31
Onward Kashiyama Guam, Inc.	100.0	December 31
Onward Golf Resort Guam, Inc.	100.0	December 31
Onward Mangilao Guam, Inc.	100.0	December 31

Europe, Asia and North America areas became more important for the Company's growth strategy. In the year ended February 28, 2007, the following 19 subsidiaries located in these areas were added to the scope of consolidation:

Gibo' & Co. S.p.A.
Maglificio Erika S.r.l.
Iris S.p.A.
Gibo' USA Inc.
Gibo' France SARL
Iris Sud S.r.l.
Rediris SARL
Iris France SARL
O.K.N. Amsterdam B.V.
Onward Kashiyama Korea Co., Ltd.
Onward Kashiyama Hong Kong Ltd.
Shanghai Onward Fashion Co., Ltd.
Onward Trading (Shanghai) Co., Ltd.
J. Press, Inc.
Onward Retail, L.L.C.
Agana Resort Club L.P.S.
Onward Kashiyama Guam, Inc.
Onward Golf Resort Guam, Inc.
Onward Mangilao Guam, Inc.

All shares of Project Sloane Ltd. were acquired on May 16, 2005 and the Joseph group including Project Sloane Ltd. and its 20 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. reduced its common stock to ¥400 million on July 1, 2004.

The financial statements of the aforementioned subsidiaries with fiscal year-ends of December 31 or November 30 have been used for consolidation. All material transactions that occurred in the periods from such fiscal year-ends and February 28, the Company's fiscal year-end, have been adjusted.

The remaining 14 subsidiaries (31 for 2006 and 26 for 2005) were not consolidated because their total assets, net sales, net income and retained earnings were not material individually or in the aggregate 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 newly acquired subsidiaries are measured at fair value at the time of acquisition, and the differences between the cost of investments in the consolidated subsidiaries and the equity in their net assets at fair value are accounted for as goodwill, which is amortized on a straight-line basis over 5-year or 20-year periods.

(3) Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates are accounted for by the equity method. Twenty-three companies (2 companies for 2006, 1 company for 2005) are accounted for by the equity method for the year ended February 28, 2007. In the year ended February 28, 2007, the Company acquired more than 15% of Daido Limited, and applied the equity method to 21 Daido Limited Group companies.

The Company did not apply the equity method to 14 unconsolidated subsidiaries (31 in 2006 and 26 in 2005) and 6 affiliates (6 in 2006 and 5 in 2005) as at February 28, 2007, as the effect on net income or retained earnings of their consolidated financial statements would not be material.

The Company applied the equity method by using the November 30 financial statements of Gailyglen Ltd., which has a fiscal year-end of November 30. Also, the financial statements of Daido Limited, which has a fiscal year-end of March 31, prepared on a basis similar to that for year-end closing, were used for consolidation purposes.

(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 are measured using 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 in 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 last three years. For the years ended February 28, 2006 and 2007, the recorded write-downs were ¥9,423 million and ¥11,262 million ($95,083 thousand), respectively.

(5) Investments in Securities

Debt securities and equity securities classified as available-for-sale 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 net assets, net of applicable taxes.

Available-for-sale 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 impairment loss is charged to income. Realized gains and losses are determined using the moving-average method and are reflected in income.

(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,” which were formerly deferred as assets or liabilities, are deferred as a component of net assets, net of applicable taxes, due to the adoption of a new accounting standard described in Note 2. (18). The gains or losses on the hedging instruments are included in net income in the same period during which the gains and losses on the hedge 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 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 of utilizing 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 provide depreciation by 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 (other than improvements) acquired on and after April 1998, which are depreciated by the straight-line method pursuant to an amendment to Japanese income tax law.

Overseas consolidated subsidiaries provide depreciation by the straight-line method.

(9) Amortization

Intangible assets and long-term prepaid expenses are amortized by the 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.

The accounting standards for income taxes require that deferred income taxes be accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled, and the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Since the “Law for the Partial Revision of Local Tax, etc. (No. 9, 2003)” was announced on March 31, 2003, the rule of 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 from this point in accordance with “Practical Treatment of the Disclosure of the 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, while operating income and income before income taxes and minority interests decreased by ¥559 million, for the year ended February 28, 2006.

(11) Allowances

An allowance for bad debt is provided for estimated losses on known bad debt and those on doubtful accounts using the historical write-off ratio 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 or 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.

The Company has an excess of plan assets at fair value for the retirement benefit obligations. The Company cancelled a part of assets set in the pension trust for the year ended February 28, 2007, and recognized the prior years’ unrecognized actuarial differences corresponding to the cancellation of ¥9,665 million ($81,599 thousand) as a gain on cancellation of the pension trust in the consolidated statements of income. The Company and certain consolidated subsidiaries obtained applicable approvals from Japan’s Ministry of Health, Labour and Welfare for exemption for the return of the past 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).

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 directors or statutory auditors upon retirement under the approval of the general meeting of shareholders.

At the general meeting of shareholders held on May 25, 2006, abolishment of the retirement benefit system for directors and corporate auditors of the parent company was approved, and the directors and the corporate auditors were entitled to lump-sum payments up to the date of the abolishment when they leave the Company. The amount to be paid is included in other long-term liabilities. Certain subsidiaries still have unfunded defined benefit pension plans for directors and corporate auditors. Under the plans, directors and corporate auditors are entitled to lump-sum payments based on the current rate of pay and length of service when they leave the subsidiaries. Related accruals of the subsidiaries are included in accrued retirement benefits for directors and statutory auditors.

(12) Provision for Loss on Guarantee Obligations

The provision for loss on guarantee obligations was provided for the estimated losses on the Company's obligations to pay for the guaranteed debts of subsidiaries. In estimating the provision, the Company considers the financial condition of each of the subsidiaries.

(13) 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 as operating leases.

(14) Accounting for Japanese Consumption Taxes

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

(15) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements 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) Impairment of Long-Lived Assets

Effective March 1, 2006, the Company and its domestic consolidated subsidiaries adopted a new accounting standard for the impairment of fixed assets ("Opinion Concerning the Establishment of an Accounting Standard for the Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the "Implementation Guidance on the Accounting Standard for the Impairment of Fixed Assets" (Business Accounting Standard Implementation Guidance No. 6 issued on October 31, 2003).

The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to be generated from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The effect of adoption of the standard was to decrease income before income taxes and minority interests by ¥16,968 million ($143,259 thousand) for the year ended February 28, 2007.

The ¥16,968 million impairment loss was recognized for land (¥3,855 million), buildings and structures (¥8,181 million) and other fixed assets (¥4,932 million).

(17) Directors' Bonuses

During the year ended February 28, 2007, the Company and its domestic consolidated subsidiaries adopted the "Accounting Standard for Directors' Bonuses" (Accounting Standards Board of Japan Statement No. 4, issued by the Accounting Standards Board of Japan on November 29, 2005).

Under the standard, directors' bonuses are accounted for as an expense when such bonuses are accrued, instead of being accounted for as an appropriation of retained earnings upon approval at a general meeting of shareholders. The effect of adoption of the new standard was to decrease income before income taxes and minority interests by ¥517 million ($4,361 thousand).

(18) Presentation of Net Assets on the Balance Sheet

During the year ended February 28, 2007, the Company adopted the "Accounting Standard for Presentation of Net Assets on the Balance Sheet" (Accounting Standards Board of Japan Statement No. 5, issued by the Accounting Standards Board of Japan on December 9, 2005) and the "Guidance on Accounting Standard for Presentation of Net Assets on the Balance Sheet" (Accounting Standards Board of Japan Guidance No. 8, issued by the Accounting Standards Board of Japan on December 9, 2005).

Under the standard, "Shareholders' equity" is presented as a component of "Net assets" along with the other components of "Valuation and translation adjustments", "Stock acquisition rights" and "Minority interests in consolidated subsidiaries." "Deferred gains/losses on hedging instruments" formerly presented as assets or liabilities are presented as a component of "Valuation and translation adjustments." "Minority interests in consolidated subsidiaries" formerly listed after "Liabilities" are also included in "Net assets." Shareholders' equity based on the previous classification amounted to ¥203,824 million ($1,720,905 thousand).

(19) Stock Options

During the year ended February 28, 2007, the Company adopted the "Accounting Standard for Share-Based Payment" (Accounting Standards Board of Japan Statement No. 8, issued by the Accounting Standards Board of Japan on December 27, 2005) and "Guidance on Accounting Standard for Share-Based Payment" (Accounting Standards Board of Japan Guidance No. 11, issued by the Accounting Standards Board of Japan, revised on May 31, 2006).

These standards provide that stock options should be recognized as an expense and presented as "Stock acquisition rights" as a component of net assets. The standards are applied to stock options that are granted on and after May 1, 2006. The effect of adoption of the new standards was immaterial.

(20) Reclassifications

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

(21) United States Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside of Japan. The rate of ¥118.44=US$1, the rate of exchange as of February 28, 2007, 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, 2007

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

Investments in securities whose fair values were readily determinable at February 28, 2007 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Fair value (Carrying value)	Unrealized gain (loss)	Acquisition cost	Fair value (Carrying value)	Unrealized gain (loss)
Securities with unrealized gains:						
Equity securities	**¥34,583**	**¥42,398**	**¥7,815**	**$291,988**	**$357,967**	**$65,979**
Total	**34,583**	**42,398**	**7,815**	**291,988**	**357,967**	**65,979**
Securities with unrealized losses:						
Equity securities	**9,218**	**7,883**	**(1,335)**	**77,826**	**66,562**	**(11,264)**
Total	**9,218**	**7,883**	**(1,335)**	**77,826**	**66,562**	**(11,264)**
Total	**¥43,801**	**¥50,281**	**¥6,480**	**$369,814**	**$424,529**	**$54,715**

(b) Available-for-sale securities sold during the year ended February 28, 2007:

	Millions of yen	Thousands of U.S. dollars
Proceeds from sale of securities	**¥6,565**	**$55,425**
Gross realized gain on sale of securities	**4,060**	**34,275**
Gross realized loss on sale of securities	**9**	**73**

(c) Major securities which were not stated at fair value as of February 28, 2007:

	Millions of yen	Thousands of U.S. dollars
Available-for-sale securities:		
Non-marketable equity securities	**¥345**	**$2,913**

(d) The aggregate carrying amount of investments in unconsolidated subsidiaries and affiliates as of February 28, 2007 was ¥12,683 million ($68,025 thousand).

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

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

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

	Millions of yen		
	Acquisition cost	Fair value (Carrying value)	Unrealized gain (loss)
Securities with unrealized gains:			
Equity securities	¥16,649	¥25,668	¥9,019
Total	16,649	25,668	9,019
Securities with unrealized losses:			
Equity securities	1,004	967	(37)
Total	1,004	967	(37)
Total	¥17,653	¥26,635	¥8,982

(b) Available-for-sale securities sold during the year ended February 28, 2006:

	Millions of yen
Proceeds from sale of securities	¥312
Gross realized gain on sale of securities	3
Gross realized loss on sale of securities	—

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

	Millions of yen
Available-for-sale securities:	
Non-marketable equity securities	¥2,886

(d) The aggregate carrying amount of investments in unconsolidated subsidiaries and affiliates as of February 28, 2006 was ¥7,909 million.

4. Derivative Transactions

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

The Company and its consolidated subsidiaries applied hedge accounting for all derivative transactions as of February 28, 2006 and 2007; therefore, market value information on those derivatives is not applicable.

5. Property, Plant and Equipment

The Japanese tax regulations allow a company to defer capital gains on the sale of qualified 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, 2006 and 2007 were reduced by ¥8,493 million and ¥8,420 million ($71,087 thousand), respectively, representing accumulated deferred gains from eligible 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, 2006 and 2007 is analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	February 28,		February 28,
	2006	**2007**	**2007**
Projected benefit obligations	¥(36,456)	**¥(37,366)**	**$(315,483)**
Plan assets (including employee retirement benefit fund)	58,067	**36,589**	**308,928**
Funded status	21,611	**(776)**	**(6,555)**
Unrecognized prior service costs	(188)	**(146)**	**(1,232)**
Unrecognized actuarial differences	1,010	**(4,029)**	**(34,005)**
Unrecognized pension assets	(16,635)	**—**	**—**
Subtotal	5,798	**(4,950)**	**(41,792)**
Prepaid pension cost	8,178	**—**	**—**
Accrued retirement benefits	¥ (2,380)	**¥ (4,950)**	**$ (41,792)**

The net periodic pension expenses for the years ended February 28, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Service cost	¥1,413	**¥1,669**	**$14,092**
Interest cost	641	**674**	**5,688**
Expected return on plan assets	(437)	**(592)**	**(5,001)**
Amortization of unrecognized prior service costs	(43)	**(43)**	**(359)**
Amortization of unrecognized actuarial differences	349	**(1,061)**	**(8,957)**
Net periodic pension expenses	¥1,923	**¥ 647**	**$ 5,463**

Actuarial assumptions used in the calculation of the aforementioned information were as follows:

	As of February 28, 2006	**As of February 28, 2007**
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	0.7~2.0%	0.6~2.5%
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, 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	February 28,		February 28,
	2006	**2007**	**2007**
Cash and time deposits	¥56,136	**¥57,390**	**$484,552**
Time deposits with maturities of more than three months	(78)	**(84)**	**(709)**
Cash and cash equivalents	¥56,058	**¥57,306**	**$483,843**

(2) Payment for acquisition of consolidated subsidiaries resulting in a change in the scope of consolidation

For the year ended February 28, 2007, due to the acquisition of shares of Onward Mangilao Guam, Inc., Onward Mangilao Guam, Inc. was newly consolidated. The assets and liabilities of the company at the time of initial consolidation, additional cash paid for the acquisition, cash and cash equivalents held by the subsidiary and net payment for acquisition of the subsidiary were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 627	$ 5,297
Fixed assets	3,937	33,248
Goodwill on consolidation	754	6,365
Current liabilities	(108)	(921)
Cash paid for acquisition of the subsidiary	5,210	43,989
Cash and cash equivalents held by the subsidiary	(473)	(3,997)
Payment for acquisition of the subsidiary	¥4,737	$39,992

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

	Millions of yen
Current assets	¥ 3,658
Fixed assets	2,870
Goodwill on consolidation	24,778
Current liabilities	(13,372)
Long-term liabilities	(788)
Minority interests in the consolidated subsidiaries	(73)
Cash paid for acquisition of the subsidiaries	17,073
Cash and cash equivalents held by the subsidiaries	(187)
Payment for acquisition of the subsidiaries	¥16,886

8. Lease Transactions

The Companies' finance lease contracts that are not deemed to transfer the ownership of the leased assets to lessees are accounted for as operating leases, which is permitted by Japanese accounting principles. Certain key information on such lease contracts of the Companies for the years ended February 28, 2006 and 2007 is as follows.

(Lessee)

Assumed data as to acquisition cost, accumulated depreciation, accumulated impairment loss and net book value of the leased assets, which included the portion of interest thereon, as of February 28, 2006 and 2007 are summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	February 28,						**February 28, 2007**		
	2006			**2007**					
	Tools, furniture, and fixtures	Other	Total	**Tools, furniture, and fixtures**	**Other**	**Total**	**Tools, furniture, and fixtures**	**Other**	**Total**
Acquisition cost	¥2,290	¥896	¥3,186	**¥2,531**	**¥856**	**¥3,387**	**$21,366**	**$7,231**	**$28,597**
Accumulated depreciation	(1,360)	(486)	(1,846)	**(1,169)**	**(447)**	**(1,616)**	**(9,867)**	**(3,777)**	**(13,644)**
Accumulated impairment loss	—	—	—	**(145)**	**—**	**(145)**	**(1,222)**	**—**	**(1,222)**
Net book value	¥ 930	¥410	¥1,340	**¥1,217**	**¥409**	**¥1,626**	**$10,277**	**$3,454**	**$13,731**

The scheduled maturities of future lease payments on such lease contracts as of February 28, 2006 and 2007 is as follows:

	Millions of yen		Thousands of U.S. dollars
	February 28,		**February 28, 2007**
	2006	**2007**	
Scheduled maturities of future leases:			
Due within one year	¥ 592	**¥ 695**	**$ 5,863**
Due over one year	813	**1,074**	**9,070**
	¥1,405	**¥1,769**	**$14,933**

The balance of accumulated impairment losses of leased assets as of February 28, 2006 and 2007 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Impairment losses of leased assets	¥—	**¥85**	**$720**

Lease expenses, reversal of impairment loss of leased assets, depreciation and impairment loss for the years ended February 28, 2006 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Lease expenses for the year	¥753	**¥688**	**$5,809**
Reversal of impairment loss of leased assets	—	**60**	**502**
Depreciation	753	**688**	**5,809**
Impairment loss	—	**145**	**1,222**

The Company's operating lease contracts:

The scheduled maturities of future lease payments on such lease contracts as of February 28, 2006 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	February 28,		**February 28, 2007**
	2006	**2007**	
Scheduled maturities of future leases:			
Due within one year	¥—	**¥119**	**$1,006**
Due over one year	—	**363**	**3,067**
	¥—	**¥482**	**$4,073**

(Lessor)

Acquisition cost, accumulated depreciation and net book value of the leased assets as of February 28, 2006 and 2007 are summarized as follows:

	Millions of yen				Thousands of U.S. dollars	
	February 28,				February 28, 2007	
	2006		2007			
	Other	Total	Other	Total	Other	Total
Acquisition cost	¥90	¥90	¥ 80	¥ 80	$677	$677
Accumulated depreciation	(62)	(62)	(60)	(60)	(507)	(507)
Net book value	¥28	¥28	¥ 20	¥ 20	$170	$170

The scheduled maturities of future lease income on such lease contracts as of February 28, 2006 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	February 28,		February 28, 2007
	2006	2007	
Due within one year	¥ 49	¥ 71	$ 601
Due over one year	81	134	1,127
	¥130	¥205	$1,728

Lease income and depreciation for the years ended February 28, 2006 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Lease income for the year	¥20	¥17	$141
Depreciation	¥17	¥11	$ 95

9. Income Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as at February 28, 2006 and 2007 consisted of the following elements:

	Millions of yen		Thousands of U.S. dollars
	February 28,		February 28,
	2006	2007	2007
Deferred tax assets:			
Valuation loss on inventories	¥ 2,553	**¥ 2,143**	**$ 18,094**
Evaluation loss on investments in unconsolidated subsidiaries	1,749	**1,033**	**8,721**
Excess amount of tax-deductible accrued bonuses to employees	1,213	**1,011**	**8,536**
Excess amount of tax-deductible accrued employees' retirement benefits	6,819	**5,923**	**50,008**
Accrued retirement benefits for directors and corporate auditors	765	**1,080**	**9,119**
Allowance for bad debt	—	**1,182**	**9,980**
Tax loss carryforwards	8,542	**11,273**	**95,179**
Impairment loss	—	**8,599**	**72,602**
Other	3,054	**2,514**	**21,226**
Subtotal	24,695	**34,758**	**293,465**
Less : Valuation allowance	(11,250)	**(14,783)**	**(124,814)**
Total deferred tax assets	13,445	**19,975**	**168,651**
Deferred tax liabilities:			
Gain on securities contributed to an employee retirement benefit trust	(3,474)	**(3,474)**	**(29,331)**
Gain on securities returned from an employee retirement benefit trust	—	**(3,931)**	**(33,186)**
Net unrealized gains on available-for-sale securities	(3,655)	**(2,638)**	**(22,274)**
Provision for deferred capital gains on real property for tax purposes	(22)	**(22)**	**(186)**
Other	(24)	**(95)**	**(807)**
Total deferred tax liabilities	(7,175)	**(10,160)**	**(85,784)**
Net deferred tax assets	¥ 6,270	**¥ 9,815**	**$ 82,867**

The reconciliation of the difference between the statutory tax rate and the effective tax rate for the years ended February 28, 2006 and 2007 is as follows:

	%	
	2006	2007
Statutory tax rate	40.7	**40.7**
Reconciliation:		
Non-deductible items (entertainment expenses, etc.)	2.0	**2.9**
Change in valuation allowance	5.1	**5.5**
Losses of consolidated subsidiaries to which deferred tax assets are not recognized	1.9	—
Other	1.2	**(1.3)**
Effective tax rate	50.9	**47.8**

10. Revaluation of Land

On February 28, 2002, the Company revaluated land for business use at market value as a result of the application of the Land Revaluation Law, which permits a one-time revaluation of land for business use.

As of February 28, 2007, the accumulated revaluation loss amounted to ¥17,004 million ($143,568 thousand), for which the related deferred tax liability of ¥5,992 million ($50,589 thousand) is recognized. The net revaluation loss of ¥11,012 million ($92,979 thousand) is presented as a separate component of net assets as “Net revaluation loss of land.”

The difference between the market value of land subject to the revaluation and the book value was ¥5,810 million ($49,053 thousand) as at February 28, 2007.

11. Commitments and Contingent Liabilities

The Company was contingently liable as a guarantor for certain affiliates’ bank loans. The outstanding balance of such bank loans guaranteed as at February 28, 2006 and 2007 aggregated to ¥2,192 million and ¥1,339 million ($11,303 thousand), respectively.

12. Shareholders’ Equity

On May 1, 2006, a new corporation law (the "Corporation Law") became effective, which reformed and replaced the Commercial Code of Japan with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. Under the Corporation Law, the entire amount of the issue price of shares is required to be designated as a stated common stock account, although a company in Japan may, by resolution of its Board of Directors, account for an amount not exceeding 50% of the issue price of new shares as additional paid-in capital.

The Corporation Law provides that an amount equal to 10% of distributions from retained earnings paid by the Company and its Japanese subsidiaries be appropriated as a legal reserve. No further appropriations are required when the total amount of the additional paid-in capital and the legal reserve equals 25% of their respective stated capital. The Corporation Law also provides that additional paid-in capital and the legal reserve are available for appropriations by a resolution of the shareholders. Balances of the legal reserve are included in retained earnings in the accompanying consolidated balance sheets.

Cash dividends charged to retained earnings for the years ended February 28, 2007 and 2006 represent dividends paid out during those years. The amount available for dividends is based on the amount recorded in the Company’s non-consolidated books of account in accordance with the Corporation Law.

Dividends to be paid after the balance sheet date, which were approved by the general meeting of shareholders held on May 24, 2007, are as follows:

(a) Total dividends	¥4,217 million ($35,601 thousand)
(b) Source of dividends	Retained earnings
(c) Cash dividends per common share	¥26 ($0.22)
(d) Date to determine shareholders receive the dividends	February 28, 2007
(e) Effective date	May 25, 2007

13. Per Share Information

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 basic and diluted net income per share for the years ended February 28, 2006 and 2007 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Net income	¥11,091	**¥11,438**	**$96,572**
Less: Components not pertaining to common shareholders—bonuses to directors and corporate auditors	(516)	—	—
Net income pertaining to common stock	¥10,575	**¥11,438**	**$96,572**
Average outstanding shares of common stock (shares)	165,790,111	**162,187,211**	
Effect of dilutive stock options (shares)	—	**43,814**	

14. Related-Party Transactions

Year Ended February 28, 2007

The Company leased land from Mr. Hirouchi, Chairman of Onward Kashiyama Co., Ltd., during the year and the rental fee was ¥7 million ($61 thousand). Also, Mr. Hirouchi paid a rental fee of ¥21 million ($178 thousand) to the Company for a house. The rental fees were determined by the market average amounts.

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. Also, Mr. Hirouchi paid a rental fee of ¥21 million to the Company for a house. The rental fees were determined by the market average amounts.

15. Stock Options

The Company has a stock option plan for 12 directors and 2 corporate auditors. The options were granted on June 20, 2006 and are exercisable in the period from July 1, 2006 to June 30, 2036. The terms of the options include certain limitations on the exercisability under which grantees can exercise their options during a five-year period starting a year after they lose their positions as directors or corporate auditors.

A summary of information for the Company's stock option plan is as follows:

Exercise price	¥1 ($0.01)
Fair value at the grant date	¥1,541 ($13.01)
Number of stock options granted	63,000 shares

The cost recognized for the stock options for the year ended February 28, 2007 is ¥73 million ($615 thousand), which is included in selling, general and administrative expenses.

A summary of scale and movement of the Company's stock option plan as of February 28, 2007 is as follows:

Stock options not exercisable:

	2006 stock option plan
Outstanding at February 28, 2006	—
Granted	63,000
Forfeited	—
Vested	—
Outstanding at February 28, 2007	63,000

The fair value of the stock options granted for the year ended February 28, 2007 is estimated using the Black-Scholes option-valuation model with the following assumptions:

Expected volatility	33.507%
Expected lives	7 years and 6 months
Expected dividend	¥24 per share
Risk-free interest rate	1.6000%

The number of rights vested is calculated based on the actual forfeited number of stock options because it is difficult to estimate forfeiture in the future.

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 year ended February 28, 2007 is as follows:

For the year ended February 28, 2007	Millions of yen				
	Industry segment			Elimination of intersegment sales	Consolidated total
	Clothing	Other	Total		
Sales to outside customers	**¥301,845**	**¥16,845**	**¥318,690**	**¥ —**	**¥318,690**
Intersegment sales	**24**	**14,131**	**14,155**	**(14,155)**	**—**
Total	**301,869**	**30,976**	**332,845**	**(14,155)**	**318,690**
Costs and expenses	**277,086**	**30,277**	**307,363**	**(14,104)**	**293,259**
Operating income	**¥ 24,783**	**¥ 699**	**¥ 25,482**	**¥ (51)**	**¥ 25,431**
Assets	**¥337,035**	**¥52,807**	**¥389,842**	**¥(41,906)**	**¥347,936**
Depreciation and amortization	**¥ 5,917**	**¥ 844**	**¥ 6,761**	**¥ (65)**	**¥ 6,696**
Impairment loss	**¥ 4,371**	**¥12,597**	**¥ 16,968**	**¥ —**	**¥ 16,968**
Capital expenditures	**¥ 10,020**	**¥ 597**	**¥ 10,617**	**¥ (111)**	**¥ 10,506**

For the year ended February 28, 2007	Thousands of U.S. dollars				
	Industry segment			Elimination of intersegment sales	Consolidated total
	Clothing	Other	Total		
Sales to outside customers	**$2,548,510**	**$142,224**	**$2,690,734**	**$ —**	**$2,690,734**
Intersegment sales	**205**	**119,313**	**119,518**	**(119,518)**	**—**
Total	**2,548,715**	**261,537**	**2,810,252**	**(119,518)**	**2,690,734**
Costs and expenses	**2,339,463**	**255,631**	**2,595,094**	**(119,080)**	**2,476,014**
Operating income	**$ 209,252**	**$ 5,906**	**$ 215,158**	**$ (438)**	**$ 214,720**
Assets	**$2,845,616**	**$445,855**	**$3,291,471**	**$(353,812)**	**$2,937,659**
Depreciation and amortization	**$ 49,954**	**$ 7,128**	**$ 57,082**	**$ (544)**	**$ 56,538**
Impairment loss	**$ 36,904**	**$106,355**	**$ 143,259**	**$ —**	**$ 143,259**
Capital expenditures	**$ 84,598**	**$ 5,043**	**$ 89,641**	**$ (935)**	**$ 88,706**

Segment information classified by industry segment of the Companies for the year 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

(2) Geographic Segment Information

The sales in Europe were over 10% of total segment sales for the year ended February 28, 2007; therefore, the Company disclosed geographic segment information.

The major countries or regions in the respective divisions are as follows:

Europe: United Kingdom, Italy and France

Other: U.S.A., China and Korea

Segment information classified by geographic segment of the Company for the year ended February 28, 2007 is as follows:

For the year ended February 28, 2007	Millions of yen					
	Geographic segment					
	Japan	Europe	Other	Total	Elimination of intersegment sales	Consolidated total
Sales to outside customers	**¥280,169**	**¥31,395**	**¥ 7,126**	**¥318,690**	**¥ —**	**¥318,690**
Intersegment sales	**1,138**	**1,109**	**122**	**2,369**	**(2,369)**	**—**
Total	**281,307**	**32,504**	**7,248**	**321,059**	**(2,369)**	**318,690**
Costs and expenses	**258,126**	**29,277**	**8,334**	**295,737**	**(2,478)**	**293,259**
Operating income (loss)	**¥ 23,181**	**¥ 3,227**	**¥ (1,086)**	**¥ 25,322**	**¥ 109**	**¥ 25,431**
Assets	**¥321,911**	**¥31,595**	**¥18,041**	**¥371,547**	**¥(23,611)**	**¥347,936**

For the year ended February 28, 2007	Thousands of U.S. dollars					
	Geographic segment					
	Japan	Europe	Other	Total	Elimination of intersegment sales	Consolidated total
Sales to outside customers	**$2,365,497**	**$265,074**	**$ 60,163**	**$2,690,734**	**$ —**	**$2,690,734**
Intersegment sales	**9,610**	**9,360**	**1,032**	**20,002**	**(20,002)**	**—**
Total	**2,375,107**	**274,434**	**61,195**	**2,710,736**	**(20,002)**	**2,690,734**
Costs and expenses	**2,179,386**	**247,189**	**70,362**	**2,496,937**	**(20,923)**	**2,476,014**
Operating income (loss)	**$ 195,721**	**$ 27,245**	**$ (9,167)**	**$ 213,799**	**$ 921**	**$ 214,720**
Assets	**$2,717,927**	**$266,760**	**$152,321**	**$3,137,008**	**$(199,349)**	**$2,937,659**

Geographic segment information for the year ended February 28, 2006 was omitted because more than 90% of total sales and total assets related to only the domestic segment.

(3) Overseas Sales

Overseas sales were over 10% of consolidated sales for the year ended February 28, 2007; therefore, the Company disclosed overseas sales information.

The major countries or regions in the respective divisions are as follows:

Europe: United Kingdom, Italy and France

Other: U.S.A., China and Korea

The overseas sales are sales except for sales to the Japan area of the Company and its consolidated subsidiaries.

Segment information classified as overseas sales of the Company for the year ended February 28, 2007 is as follows:

For the year ended February 28, 2007	Millions of yen		
	Overseas sales		
	Europe	Other	Total
Overseas sales	**¥23,985**	**¥13,925**	**¥ 37,910**
Consolidated sales			**318,690**
Percentage of overseas sales against consolidated sales	**7.5%**	**4.4%**	**11.9%**

For the year ended February 28, 2007	Thousands of U.S. dollars		
	Overseas sales		
	Europe	Other	Total
Overseas sales	**$202,508**	**$117,570**	**$ 320,078**
Consolidated sales			**2,690,734**
Percentage of overseas sales against consolidated sales	**7.5%**	**4.4%**	**11.9%**

Overseas sales information for the year ended February 28, 2006 was omitted because the total overseas sales of the Companies were under 10% of consolidated sales.

17. Loans

Short-term loans at February 28, 2006 and 2007 represented loans, principally from banks. The weighted-average interest rate on these loans was 1.1% in 2006 and 3.1% in 2007.

18. Subsequent Events

At the Board of Directors' meeting held on April 13, 2007, it was approved that the Company tender its shares in Impact 21 Co., Ltd. ("Impact 21") in the takeover bid for that company by PRL Japan Kabushiki Kaisha, a wholly-owned subsidiary of Polo Ralph Lauren Corporation. The Company also required its related companies to tender their shares of Impact 21 in the takeover bid, and the related companies agreed to tender their shares.

The takeover bid was completed on May 21, 2007, and Impact 21 is no longer a consolidated subsidiary of the Company.

On May 29, 2007, 8,110,150 shares of Impact 21 (41.0% of the issued and outstanding shares of Impact 21) were transferred. Proceeds from the transfer amounted to ¥21,086 million ($178,034 thousand) and the gain on the transfer of shares was ¥6,840 million ($57,752 thousand).

ERNST & YOUNG SHINNIHON

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Report of Independent Auditors

The Board of Directors
ONWARD KASHIYAMA Co., Ltd.

We have audited the accompanying consolidated balance sheets of ONWARD KASHIYAMA Co., Ltd. and consolidated subsidiaries as of February 28, 2007, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated balance sheets of ONWARD KASHIYAMA Co., Ltd. for the year ended February 28, 2006, and the related consolidated statements of income, changes in net assets, and cash flows for each of the two years in the period ended February 28, 2006 were audited by other auditors whose report dated May 25, 2006, expressed an unqualified opinion on those statements.

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

In our opinion, the consolidated financial statements of ONWARD KASHIYAMA Co., Ltd. for the year ended February 28, 2007, referred to above present fairly, in all material respects, the consolidated financial position of ONWARD KASHIYAMA Co., Ltd. and consolidated subsidiaries as of February 28, 2007, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2(16) to the consolidated financial statements, the Company and its domestic consolidated subsidiaries adopted a new accounting standard for the impairment of fixed assets effective March 1, 2006.

In addition, as discussed in Note 18 to the consolidated financial statements, the takeover bid for Impact 21 Co., Ltd. (Impact 21) by PRL Japan Kabushiki Kaisha, a wholly-owned subsidiary of Polo Ralph Lauren Corporation, has been complete on May 21, 2007. Accordingly, Impact 21 will no longer be the Company's consolidated subsidiary.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended February 28, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2(21).

Ernst & Young ShinNihon

May 24, 2007

Non-Consolidated Balance Sheets

ONWARD KASHIYAMA Co., Ltd.
February 28, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 2. (16))
ASSETS	2006	**2007**	**2007**
Current assets:			
Cash and deposits	¥ 20,394	**¥ 11,965**	**$ 101,023**
Accounts and notes receivable:			
Notes	1,756	**1,293**	**10,916**
Accounts	17,034	**19,306**	**163,006**
	18,790	**20,599**	**173,922**
Inventories (Notes 2. (1) and 3)	22,475	**24,459**	**206,510**
Advance payments	1,504	**1,126**	**9,506**
Deferred tax assets (Note 9)	3,220	**2,893**	**24,424**
Prepaid pension cost	8,178	**—**	**—**
Other current assets	5,804	**715**	**6,037**
Less: Allowance for bad debt	(47)	**(29)**	**(251)**
Total current assets	80,318	**61,728**	**521,171**
Property, plant and equipment (Note 5):			
Buildings and structures	48,751	**47,234**	**398,801**
Machinery and equipment	1,410	**1,329**	**11,223**
Tools, furniture and fixtures	10,225	**10,379**	**87,633**
	60,386	**58,942**	**497,657**
Less: Accumulated depreciation	(33,570)	**(35,080)**	**(296,191)**
	26,816	**23,862**	**201,466**
Land (Note 6)	44,080	**40,292**	**340,191**
Construction in progress	1,640	**—**	**—**
Total property, plant and equipment	72,536	**64,154**	**541,657**
Intangible assets, net	2,493	**2,447**	**20,660**
Investments and other assets:			
Investments in securities	28,718	**49,874**	**421,090**
Investments in and advances to subsidiaries and affiliates (Note 8)	51,307	**71,876**	**606,858**
Long-term loans to employees	159	**130**	**1,097**
Long-term prepaid expenses	2,823	**2,376**	**20,065**
Deferred tax assets (Note 9)	5,478	**7,295**	**61,595**
Deferred tax assets—revaluation of land (Notes 6 and 9)	1,630	**—**	**—**
Long-term deposits	5,500	**5,500**	**5,500**
Other investments	8,293	**5,850**	**49,395**
Less: Allowance for bad debt	(1,441)	**(3,589)**	**(30,306)**
Total investments and advances	102,467	**139,312**	**1,176,231**
Total assets	¥257,814	**¥267,641**	**$2,259,719**

See accompanying notes to financial statements.

(Continued)

LIABILITIES AND NET ASSETS	Millions of yen 2006	Millions of yen 2007	Thousands of U.S. dollars (Note 2. (16)) 2007
Current liabilities:			
Accounts and notes payable:			
Notes	¥ 13,971	**¥ 12,821**	**$ 108,251**
Accounts	21,777	**23,669**	**199,839**
	35,748	**36,490**	**308,090**
Non-trade payables	2,586	**2,879**	**24,302**
Accrued expenses	5,247	**5,643**	**47,647**
Accrued income taxes	7,134	**5,572**	**47,044**
Consumption taxes payable	777	**358**	**3,023**
Accrued bonuses to employees	2,254	**2,015**	**17,013**
Allowance for sales returns	869	**792**	**6,687**
Other current liabilities	372	**778**	**6,569**
Total current liabilities	54,987	**54,527**	**460,375**
Long-term liabilities:			
Accrued retirement benefits	390	**2,376**	**20,057**
Accrued retirement benefits for directors and statutory auditors	1,591	—	—
Accrued losses on guarantee obligations	2,493	**5,781**	**48,810**
Accrued losses on investment in subsidiaries	—	**3,008**	**25,397**
Deferred tax liabilities	—	**5,992**	**50,589**
Security deposits	2,543	**2,811**	**23,737**
Long-term non-trade payables	—	**2,402**	**20,284**
Total long-term liabilities	7,017	**22,370**	**188,874**
Total liabilities	62,004	**76,897**	**649,249**
Commitments and contingent liabilities (Note 10)			
Net assets:			
Shareholders' equity:			
Common stock:			
Authorized—400,000,000 shares			
Issued—172,921,669 shares at February 28, 2006 and 2007	30,080	**30,080**	**253,965**
Capital surplus	51,553	**51,553**	**435,269**
Retained earnings (Note 11)	129,085	**132,937**	**1,122,405**
Less: Treasury stock, at cost, 10,726,258 shares and 10,744,252 shares at February 28, 2006 and 2007, respectively	(17,571)	**(17,602)**	**(148,615)**
Total shareholders' equity	193,147	**196,968**	**1,663,024**
Valuation and translation adjustments:			
Net unrealized gains on available-for-sale securities	5,041	**4,698**	**39,663**
Deferred gains on hedging instruments	—	**17**	**147**
Net revaluation loss of land (Note 6)	(2,378)	**(11,012)**	**(92,979)**
Total valuation and translation adjustments	2,663	**(6,297)**	**(53,169)**
Stock acquisition rights	—	**73**	**615**
Total net assets	195,810	**190,744**	**1,610,470**
Total liabilities and net assets	¥257,814	**¥267,641**	**$2,259,719**

	Yen 2006	Yen 2007	U.S. dollars (Note 2. (16)) 2007
Per share (Note 12):			
Net assets per share	¥1,204.5	**¥1,175.7**	**$9.9**

See accompanying notes to financial statements.

Non-Consolidated Statements of Income

ONWARD KASHIYAMA Co., Ltd.
For the years ended February 28, 2005, 2006 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 2. (16))
	2005	2006	**2007**	**2007**
Net sales	¥197,230	¥203,539	**¥215,736**	**$1,821,479**
Cost of sales	105,161	106,999	**116,474**	**983,397**
	92,069	96,540	**99,262**	**838,081**
Reversal of allowance for sales returns, net (Note 2. (8))	265	6	**77**	**650**
Gross profit	92,334	96,546	**99,339**	**878,731**
Selling, general and administrative expenses (Note 2. (7))	74,349	77,744	**81,106**	**684,784**
Operating income	17,985	18,802	**18,233**	**153,947**
Other income (expenses):				
Interest and dividend income	674	1,347	**1,615**	**13,634**
Gain (loss) on disposal of property, net	(286)	(90)	**48**	**406**
Loss on write-down of investments in securities	(112)	(11)	**(7)**	**(56)**
Royalty income	420	377	**283**	**2,392**
Loss on liquidation of subsidiaries and affiliates	(536)	—	**—**	**—**
Provision for allowance for bad debt	—	(508)	**(1,913)**	**(16,154)**
Provision for loss on guarantee obligations	(1,800)	(693)	**(3,581)**	**(30,234)**
Rent income	1,058	1,209	**1,463**	**12,351**
Gain on sale of investments in securities, net	883	—	**4,051**	**34,202**
Gain on cancellation of the pension trust	—	—	**9,664**	**81,599**
Impairment losses on fixed assets	—	—	**(10,212)**	**(86,224)**
Provision for losses on investment for subsidiaries	—	—	**(3,008)**	**(25,397)**
Reversal of allowance for bad debt	37	37	**—**	**—**
Other, net	325	(632)	**(815)**	**(6,884)**
	663	1,036	**(2,412)**	**(20,365)**
Income before income taxes	18,648	19,838	**15,821**	**133,582**
Income taxes (Notes 2. (7) and 9):				
Current	4,847	9,063	**9,907**	**83,649**
Deferred	3,153	21	**(1,727)**	**(14,584)**
	8,000	9,084	**8,180**	**69,065**
Net income	¥ 10,648	¥ 10,754	**¥ 7,641**	**$ 64,517**

	Yen			U.S. dollars (Note 2. (16))
Per share (Note 12):				
Net income—basic	¥60.5	¥62.2	**¥47.1**	**$0.398**
Diluted net income per share	—	—	**47.1**	**0.398**
Cash dividends	22.0	24.0	**26.0**	**0.220**

See accompanying notes to financial statements.

Non-Consolidated Statements of Changes in Net Assets

ONWARD KASHIYAMA Co., Ltd.
For the years ended February 28, 2005, 2006 and 2007

		Millions of yen					
		Shareholders' equity					
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings (Note 11)	Treasury stock	Total
Balance as at February 29, 2004:	172,922	¥30,080	¥50,615	¥115,555	¥ (5,373)	¥190,877
Gain on sales of treasury stock	—	—	1	—	5	6
Cash dividends	—	—	—	(3,356)	—	(3,356)
Bonuses to directors and statutory auditors	—	—	—	(421)	—	(421)
Net income	—	—	—	10,648	—	10,648
Reversal of reserve for land revaluation	—	—	—	(20)	—	(20)
Increase in treasury stock	—	—	—	—	(7,003)	(7,003)
Exchange of treasury stock for Chacott Co., Ltd.'s stock	—	—	936	—	4,164	5,100
Net changes other than shareholders' equity	—	—	—	—	—	—
Total changes during the year	—	—	937	6,851	(2,834)	4,954
Balance as at February 28, 2005:	172,922	30,080	51,552	122,406	(8,207)	195,831
Gain on sales of treasury stock	—	—	1	—	4	5
Cash dividends	—	—	—	(3,679)	—	(3,679)
Bonuses to directors and statutory auditors	—	—	—	(421)	—	(421)
Net income	—	—	—	10,754	—	10,754
Reversal of reserve for land revaluation	—	—	—	25	—	25
Increase in treasury stock	—	—	—	—	(9,368)	(9,368)
Net changes other than shareholders' equity	—	—	—	—	—	—
Total changes during the year	—	—	1	6,679	(9,364)	(2,684)
Balance as at February 28, 2006:	172,922	30,080	51,553	129,085	(17,571)	193,147
Cash dividends	**—**	**—**	**—**	**(3,893)**	**—**	**(3,893)**
Bonuses to directors and statutory auditors	**—**	**—**	**—**	**(450)**	**—**	**(450)**
Net income	**—**	**—**	**—**	**7,641**	**—**	**7,641**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**(42)**	**(42)**
Reissuance of treasury stock	**—**	**—**	**0**	**—**	**11**	**11**
Reversal of reserve for land revaluation	**—**	**—**	**—**	**554**	**—**	**554**
Net changes other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**—**
Total changes during the year	**—**	**—**	**0**	**3,852**	**(31)**	**3,821**
Balance as at February 28, 2007	**172,922**	**¥30,080**	**¥51,553**	**¥132,937**	**¥(17,602)**	**¥196,968**

	Thousands of U.S. dollars (Note 2. (16))				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings (Note 11)	Treasury stock	Total
Balance as at February 28, 2006:	$253,965	$435,266	$1,089,879	$(148,356)	$1,630,754
Cash dividends	**—**	**—**	**(32,866)**	**—**	**(32,866)**
Bonuses to directors and statutory auditors	**—**	**—**	**(3,799)**	**—**	**(3,799)**
Net income	**—**	**—**	**64,517**	**—**	**64,517**
Purchase of treasury stock	**—**	**—**	**—**	**(352)**	**(352)**
Reissuance of treasury stock	**—**	**3**	**—**	**93**	**96**
Reversal of reserve for land revaluation	**—**	**—**	**4,674**	**—**	**4,674**
Net changes other than shareholders' equity	**—**	**—**	**—**	**—**	**—**
Total changes during the year	**—**	**3**	**32,526**	**(269)**	**32,270**
Balance as at February 28, 2007	**$253,965**	**$435,269**	**$1,122,405**	**$(148,615)**	**$1,663,024**

	Millions of yen					
	Valuation and translation adjustment					
	Net unrealized gains on available-for-sale securities	Deferred gains on hedging instruments	Net revaluation loss of land (Note 6)	Total	Stock acquisition rights	Total net assets
Balance as at February 29, 2004:	¥ 765	¥—	¥ (2,373)	¥(1,608)	¥—	¥189,269
Gain on sales of treasury stock	—	—	—	—	—	6
Cash dividends	—	—	—	—	—	(3,356)
Bonuses to directors and statutory auditors	—	—	—	—	—	(421)
Net income	—	—	—	—	—	10,648
Reversal of reserve for land revaluation	—	—	20	20	—	—
Increase in treasury stock	—	—	—	—	—	(7,003)
Exchange of treasury stock for Chacott Co., Ltd.'s stock	—	—	—	—	—	5,100
Net changes other than shareholders' equity	327	—	—	327	—	327
Total changes during the year	327	—	20	347	—	5,301
Balance as at February 28, 2005:	1,092	—	(2,353)	(1,261)	—	194,570
Gain on sales of treasury stock	—	—	—	—	—	5
Cash dividends	—	—	—	—	—	(3,679)
Bonuses to directors and statutory auditors	—	—	—	—	—	(421)
Net income	—	—	—	—	—	10,754
Reversal of reserve for land revaluation	—	—	(25)	(25)	—	—
Increase in treasury stock	—	—	—	—	—	(9,368)
Net changes other than shareholders' equity	3,949	—	—	3,949	—	3,949
Total changes during the year	3,949	—	(25)	3,924	—	1,240
Balance as at February 28, 2006:	5,041	—	(2,378)	2,663	—	195,810
Cash dividends	**—**	**—**	**—**	**—**	**—**	**(3,893)**
Bonuses to directors and statutory auditors	**—**	**—**	**—**	**—**	**—**	**(450)**
Net income	**—**	**—**	**—**	**—**	**—**	**7,641**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**—**	**(42)**
Reissuance of treasury stock	**—**	**—**	**—**	**—**	**—**	**11**
Reversal of reserve for land revaluation	**—**	**—**	**—**	**—**	**—**	**554**
Net changes other than shareholders' equity	**(343)**	**17**	**(8,634)**	**(8,960)**	**73**	**(8,887)**
Total changes during the year	**(343)**	**17**	**(8,634)**	**(8,960)**	**73**	**(5,066)**
Balance as at February 28, 2007	**¥4,698**	**¥17**	**¥(11,012)**	**¥(6,297)**	**¥73**	**¥190,744**

	Thousands of U.S. dollars (Note 2. (16))					
	Valuation and translation adjustment					
	Net unrealized gains on available-for-sale securities	Deferred gains on hedging instruments	Net revaluation loss of land (Note 6)	Total	Stock acquisition rights	Total net assets
Balance as at February 28, 2006:	$42,564	$ —	$(20,072)	$ 22,492	$ —	$1,653,246
Cash dividends	**—**	**—**	**—**	**—**	**—**	**(32,866)**
Bonuses to directors and statutory auditors	**—**	**—**	**—**	**—**	**—**	**(3,799)**
Net income	**—**	**—**	**—**	**—**	**—**	**64,517**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**—**	**(352)**
Reissuance of treasury stock	**—**	**—**	**—**	**—**	**—**	**96**
Reversal of reserve for land revaluation	**—**	**—**	**—**	**—**	**—**	**4,674**
Net changes other than shareholders' equity	**(2,901)**	**147**	**(72,907)**	**(75,661)**	**615**	**(75,046)**
Total changes during the year	**(2,901)**	**147**	**(72,907)**	**(75,661)**	**615**	**(42,776)**
Balance as at February 28, 2007	**$39,663**	**$147**	**$(92,979)**	**$(53,169)**	**$615**	**$1,610,470**

See accompanying notes to 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 Corporation Law of Japan (the “Corporation Law”) 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 are measured by 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 in 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 last three years. For the years ended February 28, 2006 and 2007, the recorded write-downs were ¥7,021 million and ¥8,296 million ($70,048 thousand), respectively.

(2) Investments in Securities

Debt securities and equity securities classified as available-for-sale 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 net assets, net of applicable taxes.

Available-for-sales 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 impairment 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 are stated at cost determined by the moving-average method.

(3) 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 “(4) Hedge Accounting” below).

(4) Hedge Accounting

All gains or losses arising from changes in fair values of the derivatives designated as “hedging instruments,” which were formerly deferred as assets or liabilities, are deferred as a component of net assets, net of applicable taxes, due to the adoption of a new accounting standard described in Note 2. (13). The gains or losses on the hedging instruments are included in net income in the same period during which the gains and losses on the hedge 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 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 of utilizing hedging instruments in order to reduce the exposure to the risk of foreign currency exchange rate fluctuation.

(5) Property, Plant and Equipment

The Company provides depreciation by 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 (other than improvements) acquired on and after April 1998, which are depreciated by the straight-line method pursuant to an amendment to Japanese income tax law.

(6) Amortization

Intangible assets and long-term prepaid expenses are amortized by the straight-line method.

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

(7) Income Taxes

The income taxes of the Company consist of corporate income tax, local inhabitant taxes and enterprise taxes.

The accounting standards for income taxes require that deferred income taxes be accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled, and the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Since the “Law for the Partial Revision of Local Tax, etc. (No. 9, 2003)” was announced on March 31, 2003, the rule of 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 from this point in accordance with “Practical Treatment of the Disclosure of the 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, while operating income and income before income taxes decreased by ¥470 million, 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 using the historical write-off ratio at the balance sheet date.

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

Accrued bonuses to directors and statutory auditors are provided for at an amount determined based on the estimated bonuses to directors and statutory auditors that 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.

The Company has an excess of plan assets at fair value for the retirement benefit obligations. The Company cancelled a part of assets set in the pension trust for the year ended February 28, 2007, and recognized the prior years’ unrecognized actuarial differences corresponding to the cancellation of ¥9,665 million ($81,599 thousand) as a gain on cancellation of the pension trust in the statements of income. The Company obtained an applicable approval from Japan’s Ministry of Health, Labour and Welfare for exemption for the return of the past 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).

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.

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

At the general meeting of shareholders held on May 25, 2006, abolishment of the retirement benefit system for directors and corporate auditors was approved, and the directors and the corporate auditors were entitled to lump-sum payments up to the date of the abolishment when they leave the Company. The amount to be paid is included in long-term non-trade payables.

The provision for loss on guarantee obligations was provided for the estimated losses on the Company's obligations to pay for the guaranteed debts of subsidiaries. In estimating the provision, the Company considers the financial condition of each of the subsidiaries.

The provision for loss on investment in subsidiaries was provided for the estimated losses resulting from those investments.

(9) Accounting for Leases

For the Company, finance leases other than those that are deemed to transfer the ownership of the lease assets to lessees are accounted for as operating leases.

(10) Accounting for Japanese Consumption Taxes

The Japanese consumption taxes withheld upon sale of goods and services and the consumption taxes paid by the Company on the purchase of goods and services are not included in the accompanying non-consolidated statements of income.

(11) Impairment of Long-Lived Assets

Effective March 1, 2006, the Company adopted a new accounting standard for the impairment of fixed assets ("Opinion Concerning the Establishment of an Accounting Standard for the Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the "Implementation Guidance on the Accounting Standard for the Impairment of Fixed Assets" (Business Accounting Standard Implementation Guidance No. 6 issued on October 31, 2003).

The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to be generated from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The effect of adoption of the standard was to decrease income before income taxes by ¥10,212 million ($86,224 thousand) for the year ended February 28, 2007.

The ¥10,212 million impairment loss was recognized for land (¥2,791 million), buildings and structures (¥5,329 million) and other fixed assets (¥2,092 million).

(12) Directors' Bonuses

During the year ended February 28, 2007, the Company adopted the "Accounting Standard for Directors' Bonuses" (Accounting Standards Board of Japan Statement No. 4, issued by the Accounting Standards Board of Japan on November 29, 2005).

Under the standard, directors' bonuses are accounted for as an expense when such bonuses are accrued, instead of being accounted for as an appropriation of retained earnings upon approval at a general meeting of shareholders. The effect of adoption of the new standard was to decrease income before income taxes and minority interests by ¥426 million ($3,597 thousand).

(13) Presentation of Net Assets on the Balance Sheets

During the year ended February 28, 2007, the Company adopted the "Accounting Standard for Presentation of Net Assets on the Balance Sheet" (Accounting Standards Board of Japan Statement No. 5, issued by the Accounting Standards Board of Japan on December 9, 2005) and the "Guidance on Accounting Standard for Presentation of Net Assets on the Balance Sheet" (Accounting Standards Board of Japan Guidance No. 8, issued by the Accounting Standards Board of Japan on December 9, 2005).

Under the standard, "Shareholders' equity" is presented as a component of "Net assets" along with the other components of "Valuation and translation adjustments" and "Stock acquisition rights." "Deferred gains/losses on hedging instruments" formerly presented as assets or liabilities are presented as a component of "Valuation and translation adjustments." The statements of retained earnings formerly included in the statements of income and retained earnings have been incorporated into the statements of changes in net assets. Shareholders' equity based on the previous classification amounted to ¥190,654 million ($1,609,708 thousand).

(14) Stock Options

During the year ended February 28, 2007, the Company adopted the "Accounting Standard for Share-Based Payment" (Accounting Standards Board of Japan Statement No. 8, issued by the Accounting Standards Board of Japan on December 27, 2005) and "Guidance on Accounting Standard for Share-Based Payment" (Accounting Standards Board of Japan Guidance No. 11, issued by the Accounting Standards Board of Japan, revised on May 31, 2006).

These standards provide that stock options should be recognized as an expense and presented as "Stock acquisition rights" as a component of net assets. The standards are applied to stock options that are granted on and after May 1, 2006. The effect of adoption of the new standards was immaterial.

(15) Reclassifications

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

(16) United States Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside of Japan. The rate of ¥118.44=US$1, the rate of exchange as of February 28, 2007, 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, 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	February 28,		February 28,
	2006	**2007**	**2007**
Merchandise and finished goods	¥19,983	**¥22,117**	**$186,740**
Raw materials	1,192	**1,148**	**9,694**
Work in process	1,045	**1,015**	**8,566**
Supplies	255	**179**	**1,510**
	¥22,475	**¥24,459**	**$206,510**

4. Derivative Transactions

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

The Company applied hedge accounting for all derivative transactions as of February 28, 2006 and 2007; therefore, market value information on those derivatives is not applicable.

5. Property, Plant and Equipment

The Japanese tax regulations allow a company to defer capital gains on the sale of qualified 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, 2006 and 2007 were reduced by ¥8,493 million and ¥8,420 million ($71,087 thousand), respectively, representing accumulated deferred gains from eligible sales.

6. Revaluation of Land

On February 28, 2002, the Company revaluated land for business use at market value as a result of the application of the Land Revaluation Law, which permits a one-time revaluation of land for business use.

As of February 28, 2007, the accumulated revaluation loss amounted to ¥17,004 million ($143,568 thousand), for which the related deferred tax liability of ¥5,992 million ($50,589 thousand) is recognized. The net revaluation loss of ¥11,012 million ($92,979 thousand) is presented as a separate component of net assets as “Net revaluation loss of land.”

The difference between the market value of land subject to the revaluation and the book value was ¥5,810 million ($49,053 thousand) as at February 28, 2007.

7. Lease Transactions

The Company’s finance lease contracts that are not deemed to transfer the ownership of the leased assets to lessees are accounted for as operating leases. Certain key information on such lease contracts of the Company's for the years ended February 28, 2006 and 2007 is as follows.

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, 2006 and 2007 are summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	February 28,						**February 28, 2007**		
	2006			**2007**					
	Tools, furniture and fixtures	Other	Total	**Tools, furniture and fixtures**	**Other**	**Total**	**Tools, furniture and fixtures**	**Other**	**Total**
Acquisition cost	¥1,218	¥355	¥1,573	**¥1,443**	**¥274**	**¥1,717**	**$12,182**	**$2,316**	**$14,498**
Accumulated depreciation	(724)	(229)	(953)	**(502)**	**(145)**	**(648)**	**(4,239)**	**(1,230)**	**(5,469)**
Net book value	¥ 494	¥126	¥ 620	**¥ 941**	**¥129**	**¥1,069**	**$ 7,943**	**$1,086**	**$ 9,029**

The scheduled maturities of future lease payments on such lease contracts as of February 28, 2006 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	February 28,		**February 28, 2007**
	2006	**2007**	
Scheduled maturities of future leases:			
Due within one year	¥264	**¥ 394**	**$3,325**
Due over one year	356	**675**	**5,704**
	¥620	**¥1,069**	**$9,029**

The lease expenses and depreciation of the leased assets for the years ended February 28, 2006 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	February 28,		**February 28, 2007**
	2006	**2007**	
Lease expenses for the year	¥368	**¥425**	**$3,586**
Depreciation	368	**425**	**3,586**

8. Investments in and Advances to Subsidiaries and Affiliates

Investments in subsidiaries and affiliates of which shares were publicly traded at February 28, 2006 and 2007 are as follows:

	Millions of yen						Thousands of U.S. dollars		
	February 28,						**February 28, 2007**		
	2006			**2007**					
	Book value	Market value	Difference	**Book value**	**Market value**	**Difference**	**Book value**	**Market value**	**Difference**
Investment in subsidiaries	¥280	¥14,683	¥14,403	**¥ 280**	**¥10,960**	**¥10,680**	**$ 2,368**	**$92,535**	**$90,167**
Investment in affiliates	—	—	—	**10,329**	**9,979**	**(350)**	**87,209**	**84,255**	**(2,954)**

9. Income Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as at February 28, 2006 and 2007 consisted of the following elements:

	Millions of yen		Thousands of U.S. dollars
	February 28,		February 28,
	2006	**2007**	**2007**
Deferred tax assets:			
Valuation loss on inventories	¥1,491	**¥ 1,439**	**$12,152**
Evaluation loss on investments in subsidiaries	4,125	**4,679**	**39,505**
Excess amount of tax-deductible accrued employees' retirement benefits	6,051	**5,493**	**46,377**
Allowance for bad debt	—	**1,471**	**12,420**
Accrued retirement benefits for directors and statutory auditors	647	**977**	**8,249**
Accrued losses on guarantee obligations	1,014	**2,351**	**19,851**
Impairment loss	—	**3,550**	**29,975**
Accrued losses on investment in subsidiaries	—	**1,224**	**10,329**
Other	3,452	**2,670**	**22,541**
Subtotal	16,780	**23,854**	**201,399**
Less: Valuation allowance	(1,109)	**(2,975)**	**(25,115)**
Total deferred tax assets	15,671	**20,879**	**176,284**
Deferred tax liabilities:			
Gain on securities contributed to an employee retirement benefit trust	(3,474)	**(3,474)**	**(29,331)**
Gain on securities returned from an employee retirement benefit trust	—	**(3,931)**	**(33,186)**
Net unrealized gains on available-for-sale securities	(3,456)	**(3,220)**	**(27,188)**
Provision for deferred capital gains on real property for tax purposes	(23)	**(22)**	**(186)**
Other	(21)	**(44)**	**(374)**
Total deferred tax liabilities	(6,974)	**(10,691)**	**(90,265)**
Net deferred tax assets	¥8,697	**¥10,188**	**$86,019**

The reconciliation of the difference between the statutory tax rate and the effective tax rate for the years ended February 28, 2006 and 2007 is as follows:

	%	
	2006	**2007**
Statutory tax rate	40.7	**40.7**
Reconciliation:		
Non-deductible items (entertainment expenses, etc.)	2.0	**3.8**
Non-taxable dividend income	(2.5)	**(3.6)**
Change in valuation allowance	5.6	**11.7**
Other	0.0	**(0.9)**
Effective tax rate	45.8	**51.7**

10. Commitments and Contingent Liabilities

The Company was contingently liable as a guarantor for certain affiliates' bank loans. The outstanding balance of such bank loans guaranteed as at February 28, 2006 and 2007 aggregated to ¥22,356 million and ¥20,089 million ($169,611 thousand), respectively.

11. Shareholders' Equity

Refer to Note 12 to the consolidated financial statements.

12. Per Share Information

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 represent dividends declared as applicable to the respective years rather than those paid during the years.

The basis for the calculation of basic and diluted net income per share for the years ended February 28, 2006 and 2007 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Net income	¥10,754	**¥7,641**	**$64,518**
Less: Components not pertaining to common shareholders—bonuses to directors and corporate auditors	(450)	—	—
Net income pertaining to common stock	¥10,304	**¥7,641**	**$64,518**
Average outstanding shares of common stock (shares)	165,790,111	**162,187,211**	
Effect of dilutive stock options (shares)	—	**43,814**	

13. Subsequent Events

At the Board of Directors' meeting held on April 13, 2007, it was decided that on September 1, 2007, the Company would transfer its Clothing business to a wholly-owned subsidiary, ONWARD KASHIYAMA Bunkatsujyunbi Co., Ltd. (which would change its name to (new) ONWARD KASHIYAMA Co., Ltd. on the same date) and its Trading business to Oak Co., Ltd. (which would change its name to ONWARD Trading Co., Ltd. on the same date) under the provision of the Japanese Corporation Law. As a result, the Company will be reorganized as a pure holding company, and change its name to ONWARD Holdings Co., Ltd. on September 1, 2007. These reorganizations were approved by the general meeting of shareholders of the Company held on May 24, 2007.

At the Board of Directors' meeting held on April 13, 2007, it was approved that the Company tender its shares in Impact 21 Co., Ltd. ("Impact 21") in the takeover bid for that company by PRL Japan Kabushiki Kaisha, a wholly-owned subsidiary of Polo Ralph Lauren Corporation.

The takeover bid was completed on May 21, 2007, and Impact 21 is no longer a consolidated subsidiary of the Company. On May 29, 2007, 5,243,950 shares of Impact 21 (26.5% of the issued and outstanding shares of Impact 21) were transferred. Proceeds from the transfer amounted to ¥13,634 million ($115,115 thousand) and the gain on the transfer of shares was ¥13,354 million ($112,748 thousand).

ERNST & YOUNG SHINNIHON

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Report of Independent Auditors

The Board of Directors
ONWARD KASHIYAMA Co., Ltd.

We have audited the accompanying non-consolidated balance sheets of ONWARD KASHIYAMA Co., Ltd. as of February 28, 2007, and the related non-consolidated statements of income and change in net assets for the year then ended, all expressed in yen. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The non-consolidated financial statements of ONWARD KASHIYAMA Co., Ltd. for each of the two years ended February 28, 2006, were audited by other auditors whose report dated May 25, 2006, expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements of ONWARD KASHIYAMA Co., Ltd. for the year ended February 28, 2007, referred to above present fairly, in all material respects, the financial position of ONWARD KASHIYAMA Co., Ltd. at February 28, 2007, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2(11) to the financial statements, the Company adopted a new accounting standard for the impairment of fixed assets effective March 1, 2006.

In addition, as discussed in Note 13 to the financial statements, the Board of Directors decided to reorganize the Company as a pure holding company under the Japanese Corporation Law on April 13, 2007, and it was approved by the shareholders' meeting held on May 24, 2007. As also discussed in Note 13 to the financial statements, the takeover bid for Impact 21 Co., Ltd. ("Impact 21") by PRL Japan Kabushiki Kaisha, a wholly-owned subsidiary of Polo Ralph Lauren Corporation, has been completed on May 21, 2007. Accordingly, Impact 21 will no longer be the Company's consolidated subsidiary.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended February 28, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2(16).

Ernst & Young ShinNihon

May 24, 2007

Principal Subsidiaries

Overseas Subsidiaries

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

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

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 FASHION TRADING
(China) 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.
GF, Hwankyoung B/D,
1-118, Jangchung-Dong, Chung-ku,
Seoul 100-391, 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

ONWARD GOLF RESORT
GUAM, INC.
#825, Route 4A Talofofo,
Guam 96915, U.S.A.
Tel: (1) 671-789-5555

FREED OF LONDON LTD.
94, St. Martin's Lane,
London WC2N 4AT, U.K.
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JOSEPH LTD.
Unit 11, 50 Carnwath Road,
London SW6 3JX, U.K.
Tel: (44) 20-7736-2522

IRIS S.p.A.
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

FRASSINETI s.r.l.
Via E. Fermi 7,
Loc. Scopeti - Rufina,
50068 Firenze, Italy
Tel: (39) 055-8397385
Fax: (39) 055-8395040

Domestic Subsidiaries

APPAREL AND TEXTILE PRODUCTS

ONWARD TRADING CO., LTD.

CHACOTT CO., LTD.

BUS STOP CO., LTD.

DONNA KARAN JAPAN K.K.

MARNI JAPAN CO., LTD.

FUSION CO., LTD.

CANDELA INTERNATIONAL CO., LTD.

J. DIRECTION CO., LTD.

SERVICES

ACROSS TRANSPORT CO., LTD.

ONWARD LIFE DESIGN NETWORK CO., LTD.

ONWARD CREATIVE CENTER CO., LTD.

VOICEDAM CO., LTD.

BIEN CO., LTD.

ONWARD SKYLARKS CO., LTD.

EXCEL CO., LTD.

BOOKLET CORP.

RESORTS

O & K CO., LTD.

ONWARD RESORT & GOLF CO., LTD.

As of February 28, 2007

Corporate Data

(As of February 28, 2007)

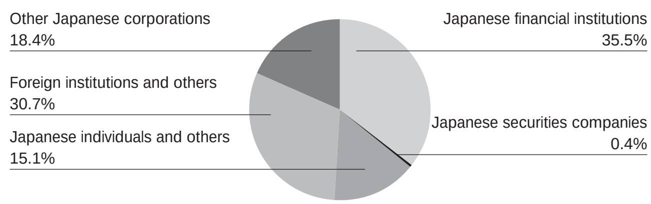
Head Office	10-5, Nihonbashi 3-chome, Chuo-ku, Tokyo 103-8239, Japan Tel: (81) 3-3272-2317 Fax: (81) 3-3272-2314 URL: http://www.onward.co.jp/
Established	September 1947
Paid-in Capital	¥30,080 million
Common Stock	Authorized—400,000,000 shares Issued—172,921,669 shares
Number of Shareholders	6,056
Stock 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	1,646

Major Shareholders

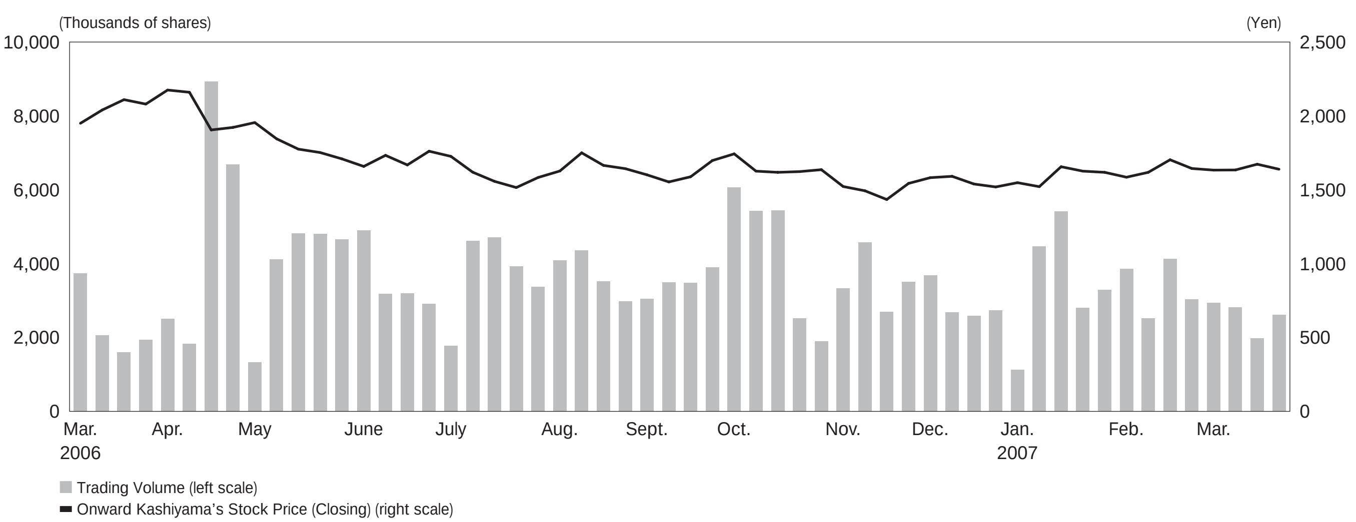
	Percentage of Total Shares Issued
Japan Trustee Services Bank, Ltd.	6.5%
Kashiyama Scholarship Foundation	5.0
The Master Trust Bank of Japan, Ltd.	4.0
Nippon Life Insurance Company	3.6
Isetan Company, Limited	2.8
The Dai-ichi Mutual Life Insurance Company	2.4
Sumitomo Mitsui Banking Corporation	1.6
JPMorgan Chase Bank	1.6
National Mutual Insurance Federation of Agricultural Cooperatives	1.6
Morgan Stanley & Co. International Limited	1.5

Distribution of Ownership among Shareholders

(On a number of shares basis)



Stock Price Movement



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