ONWARD

ANNUAL REPORT 2009

Year Ended February 28, 2009

ONWARD HOLDINGS CO., LTD.

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.

Profile

The Onward Group has defined its business domain as "a world of fashion that gives refreshment and beauty to people's lives" and proposes "fashions" that become an integral part of all aspects of our living culture. By creating new lifestyles and values, the Group contributes to the enrichment of life for all people. The Onward Group comprises 106 companies in Japan and the rest of the world (as of February 28, 2009), and its principal businesses are the planning, production, and sales of textile products, including fashion items for women, men, and children. The Group's activities also include services and resort businesses.

ONWARD HOLDINGS CO., LTD., which traces its lineage back to 1947, came into being in September 2007, when the Onward Group made the transition to a holding company structure—to strengthen its competitiveness and implement a growth strategy—and changed the name of the Group's core company, ONWARD KASHIYAMA CO., LTD., to ONWARD HOLDINGS. Since its founding, the Onward Group has been a top apparel manufacturer in Japan and has played a leading role in the fashion industry. In May 2005, global brand JOSEPH and, in October 2008, the JIL SANDER brand became members of the Onward Group, as the Group moved forward to expand the scope of its operations to become a truly global corporation. Looking to the future, the Group will continue to strengthen its major core brands and develop new brands as it works to acquire attractive brands through aggressive M&A activities and aim for global growth.

Financial Highlights

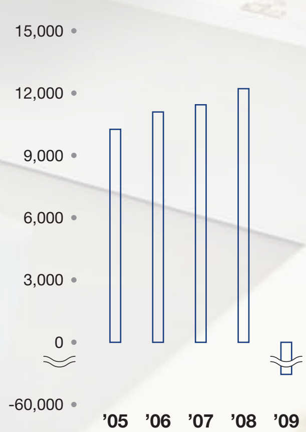
ONWARD KASHIYAMA CO., LTD. and Subsidiaries
Years ended February 29, 2008 and February 28, 2009

	Millions of yen		Thousands of U.S. dollars
	2008	**2009**	**2009**
At year-end:			
Total current assets	¥112,519	**¥ 98,946**	**$1,011,614**
Total current liabilities	93,321	**92,369**	**944,372**
Short-term loans	25,677	**28,252**	**288,846**
Total shareholders' equity	213,625	**178,023**	**1,820,090**
For the year:			
Net sales	¥287,032	**¥261,006**	**$2,668,500**
Operating income	18,628	**9,084**	**92,874**
Net income (loss)	12,214	**(30,895)**	**(315,868)**
	Yen		U.S. dollars
Per share:			
Net income (loss)—basic	¥76.5	**¥(197.21)**	**$(2.02)**
Cash dividends	30.0	**30.0**	**0.31**
ROE (%)	6.1	**(17.6)**	
Operating income margin (%)	6.5	**3.5**	

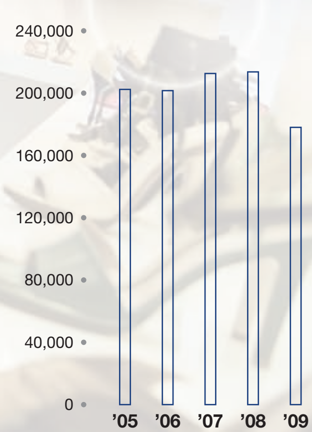
Note: Yen amounts have been translated, for convenience only, at ¥97.81=US$1, the approximate exchange rate on February 28, 2009.

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

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



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



The Onward Group has set the objective of establishing a new path to growth by promoting the creation of brand value and implementing its Brand-Leveraged Management. The business strategy of the Onward Group is to achieve stable expansion in earnings in the domestic market while aggressively developing overseas business operations.

Takeshi Hirouchi
Chairman

Performance in Fiscal 2009

During the fiscal year ended February 28, 2009, net sales amounted to ¥261,006 million, 9.1% lower than for the previous fiscal year, and operating income was ¥9,084 million, 51.2% lower than for the prior year. The Group reported a consolidated net loss of ¥30,895 million compared with net income of ¥12,214 million in the previous fiscal year.

During the fiscal year under review, the financial crisis triggered by the collapse of Lehman Brothers grew steadily worse and began to have a detrimental impact on the real economy. In the apparel industry, conditions were the most challenging ever experienced. For the Onward Group, as a result of the weakness in sales at department stores, which are the Group's principal distribution channel, ONWARD KASHIYAMA CO., LTD., reported declines in sales and net income, as just mentioned above. In overseas activities, in Europe, which are the core of the Group's operations outside Japan, the market for luxury items shrank suddenly in the second half of the fiscal year, and this, together with other factors, presented severe challenges for operating results.

As a result of the sharp decline in stock prices, the Group reported ¥22.6 billion in valuation losses on investment securities and ¥11.6 billion in impairment losses on goodwill among extraordinary losses.

No Change in Management Directions

At present, the Onward Group is implementing its Three-Year Medium-Term Management Plan (covering the period from the year ended February 2009 (fiscal 2008) through the year ending February 2011 (fiscal 2010)), which is aimed at moving onto a new growth path. Under this three-year management plan, the Group's objective is to focus its management on its brands to create additional brand value as it works to secure stable expansion in profitability in domestic business operations and aggressively expand its overseas activities.

Reflecting the deterioration in the domestic economy, the business environment confronting the Group is challenged as consumers are increasingly motivated to defend their living standards, and trends in consumer spending are reflecting underlying demographic trends toward fewer children per household and aging of the population as well as changes in consumer values. In the apparel industry also, consumer confidence has ebbed, and, as a consequence of trends toward more-similar, less-attractive products and other factors, market conditions continue to be stagnant.

Looking ahead, as in the past, the Onward Group will continue to offer products that are highly fashionable, feature high quality, and offer value for price. As a consequence of the concentration of management resources on Onward's major core brands, including NIJYUSANKU and JIYUKU, we have been successful in achieving a certain level of results even in the midst of weakness in the market. What is important in the fashion business is to continue to create products that are fresh, attractive, and give consumers a sense of excitement.

Priority Measures for Increasing Earnings

The Onward Group will move ahead with measures to increase efficiency and aim to increase earnings even in a challenging environment. To accomplish this, we will implement the following priority measures.

1. **Focus Resources on Core Brands**
   We will polish our core brands and work to evolve them further to establish a stronger market presence.
2. **Strengthen Capabilities for Product Planning that Anticipates Market Needs**
   With the keywords of "mode" (fresh pursuit of contemporary fashion), "quality" (further progress of quality), and "value for price" (offering value for price), we will continue to create goods that are fresh and attractive.
3. **Offer Something New to the Market in "New Brands"**
   We will offer new concepts to respond to the changing values of consumers.
4. **Accelerate Our Growth Strategy through M&A and Synergies**
   We will work to accelerate expansion by pursuing our M&A growth strategy and realizing synergies among existing Group companies.

Kentaro Mizuno
President

Continued Expansion Strategy in Overseas Activities

We will move forward aggressively in the management of our overseas activities, with Europe as the focal point of our growth strategy.

We will endeavor to realize powerful synergies among Group companies that will include having the JIL SANDER Group make use of the production platform of the GIBO' CO. Group. As we work to realize these synergies to the fullest, we will endeavor to establish them as top global luxury brands.

In the JOSEPH Group, the new CEO who joined us in May 2008, Sara Ferrero, is moving forward steadily with the implementation of a new growth strategy and results of the introduction of new product lines and major renovations of street-level stores.

At the same time, in Asia outside Japan, we will continue our expansionary policies by responding swiftly to changing market trends, focusing especially on the rapidly growing Chinese market.

Solid but Also Aggressive

For the fiscal year ending February 2010, the Onward Group is planning for net sales of ¥252.6 billion, a decline of 3.2% from the previous fiscal year; operating income of ¥8.0 billion, 11.9% lower than in the prior year, and net income of ¥3.6 billion (versus a net loss of ¥30,895 million in the previous fiscal year).

Onward believes that allocating a portion of profits to shareholders is one of its more important priorities. Our basic policy is to set a target payout ratio of 35% or more and to make stable and appropriate distributions of profits, taking account of our performance. For fiscal 2010, we have set the cash dividend for the full fiscal year at ¥30 per share. In addition, we intend to conduct buybacks of Company shares, taking account of funding demand and other issues.

The Onward Group will continue to work to secure stable expansion in profitability in domestic business operations and aggressively expand its overseas activities, with the objective of increasing corporate and shareholder value.

We wish to express our heartfelt thanks to you, our shareholders, for your continued understanding and support.

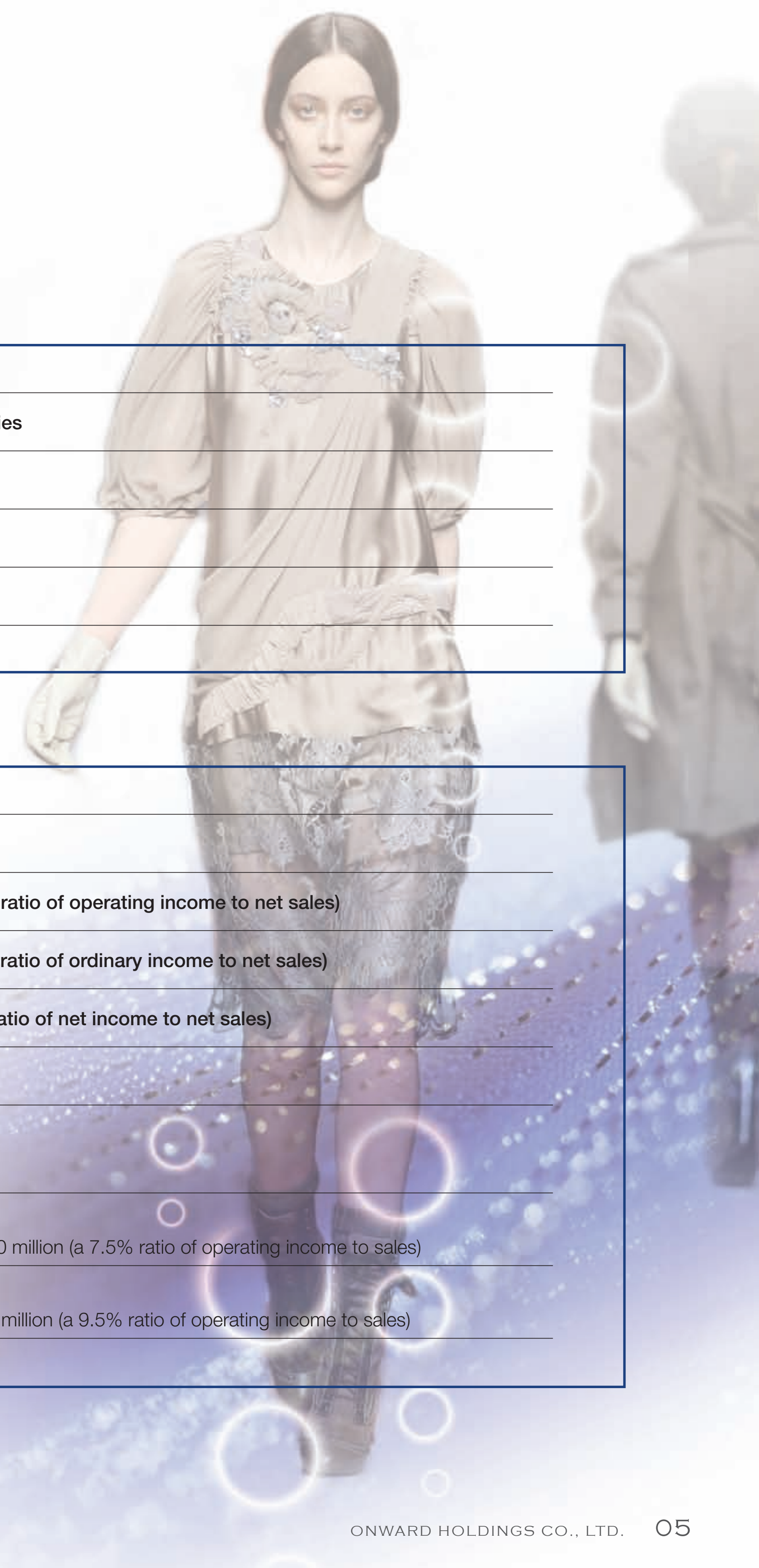
May 2009

Takeshi Hirouchi, Chairman

Kentaro Mizuno, President

Three-Year Medium-Term Management Plan

The Onward Group is currently aiming to move onto a firm growth path through the implementation of its Three-Year Medium-Term Management Plan covering the three-year period from fiscal 2008 through 2010. Following the direction set by this plan, the Group will continue to manage its business activities actively.



Business Policies of the Onward Holdings Group

- Implementing expansionary strategies for Group companies
- Realizing synergies among businesses
- Expanding business domains
- Contributing to stakeholders

Quantitative Objectives for Fiscal 2011

Net sales	¥350,000 million
Operating income	¥30,000 million (an 8.6% ratio of operating income to net sales)
Ordinary income	¥35,000 million (a 10.0% ratio of ordinary income to net sales)
Net income	¥18,000 million (a 5.1% ratio of net income to net sales)
Return on equity	8% or higher

Domestic vs. Overseas Operations

Domestic operations

Sales: ¥280,000 million	Operating income: ¥21,000 million (a 7.5% ratio of operating income to sales)

Overseas operations

Sales: ¥100,000 million	Operating income: ¥9,500 million (a 9.5% ratio of operating income to sales)

Domestic Strategy for Apparel-Related Businesses

Creating Brands with Presence

Focus Resources on Major Core Brands

To strengthen major core brands, we will polish them thoroughly to increase their brand value and establish them as brands with a strong presence in the market by working to create fresh and attractive products through strengthening our planning and production capabilities. Taking account of market trends, we will endeavor to differentiate our products by strengthening our capabilities for product design, our production technologies, and our capabilities for procurement as well as, thereby, work to further enhance the originality and creativity of our brands.

Also, we want to draw attention and create a buzz by implementing major advertising and publicity campaigns to promote our products and to stimulate a desire among consumers for our brands and their market presence. Since last year, for promoting NIJYUSANKU and JIYUKU, we have featured popular actresses in our advertisements, chosen from those appealing to the targeted customer segments, and this has been quite effective. Going forward also, we will communicate effectively the value of our brands and work to significantly raise their value as major core brands.

Each year, the *Textile Research Newspaper (Senken Shimbun)*, in its Nationwide Department Store Buyers Awards, selects the brands that contributed most to the sales of Japan's major department stores. In the fiscal 2008 awards, NIJYUSANKU won the first prize in the young career division and JIYUKU the first prize in the missy and misses division.

JIYUKU

NIJYUSANKU

Improving Capabilities for Design that Anticipates Market Needs

We are strengthening our product design capabilities under the keywords of “mode” (fresh pursuit of contemporary fashion), “quality” (further progress of quality), and “value for price” (offering value for price). Our aim is to create products that are fresh and appealing and generate excitement among our customers.

Specifically, during the fiscal year ended February 2008, we developed the materials for the shrunken jersey one-piece dresses we introduced in the JIYUKU line jointly with a textile yarn manufacturer, and it proved to be a hit item, with sales of about 10,000. This shows the importance of beginning the design process from the materials research and development stage and applying the results in product design.

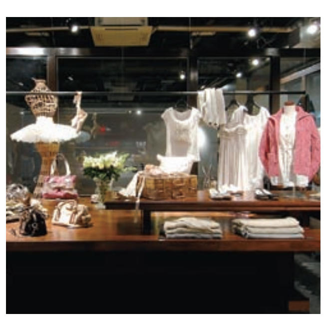
Offering “Something New” to the Market with New Brands

In recent years, as a result of the growing diversity of retail venues and changes in lifestyles, the trends in apparel buying among consumers in recent years have clearly been toward “selective consumption” patterns where consumers differentiate among purchase channels depending on their objectives. With this trend toward selective consumption in mind, the Onward Group is offering new concept brands that respond to changes in consumer values.

Department Stores

In its sales through department stores, the Onward Group will take full account of what consumers want from department stores, which is products that offer “a comfortable sense of style” and give them “confidence” and, by drawing on the strengths of department stores and apparel manufacturers, will offer original brand products that feature department store quality at relatively attractive prices.

The new brand “FØRSTE,” for women in their 20s, which will make its debut this fall, returns to the basics that items sold in department stores should offer—namely, “a comfortable sense of style” and “confidence”—and addresses issues head on that Onward and department stores have in common.



The new brand FØRSTE will make its debut in fall 2009.

New Distribution Channels (Other than Department Stores)

At shopping centers located in the suburbs and close to urban areas, there have been trends toward oversupply and the sameness of merchandise because of growth in the number of shops. As a result, consumers have begun to examine this merchandise with more critical and selective eyes. Onward is proceeding with the development of casual-brand items with the keywords “trendy” and “value for price.” Also, for buildings located near transportation centers housing a range of stores and more upmarket “fashion buildings,” Onward is developing new brands.

In addition to these initiatives, the Onward Group acquired the rights to the trendy U.S. fashion shop “Opening Ceremony,” and the first store will be opened in Japan in the Shibuya Seibu Movida, located in Tokyo’s Shibuya district, in August 2009. In addition, the Group acquired CREATIVE YOKO CO., LTD., a creator of apparel for pets, and is working to develop products in collaboration with Onward’s Japan-originated brands.

Joint press conference with representatives of U.S. fashion shop Opening Ceremony

Apparel-Related Business Operations (Overseas Strategy)

Establishing Global Brands

Strategy for Overseas Apparel

The Onward Group has subsidiaries in the world's leading fashion centers, including New York, Paris, Milan, London, Hong Kong, and Shanghai and has established a store network encompassing these cities. At present, the keystones of the Group's overseas business operations are three companies that the Group has acquired: the GIBO' CO. Group, based in Italy; the JOSEPH Group, headquartered in the United Kingdom; and the JIL SANDER Group.

Sales Targets for Fiscal 2010 (Billions of yen)

Overall*	¥270.0
Domestic	¥222.3
Overseas	¥47.7
Europe	¥38.5
Asia	¥6.0
Americas	¥3.2

*Total before eliminations among geographic areas.

Accelerating Growth Strategy through M&A and Synergies

Europe

Europe is the core of the Group's international operations, and the GIBO' CO. Group and the JOSEPH Group are steadily expanding their activities as they have moved forward with the formation of an overall platform for planning, production, and marketing. Following the acquisition of the JIL SANDER Group, the growth potential of the Onward Group's overseas business operations has increased.

In the European region, the Onward Group is working to realize synergies among its Group members, with the GIBO' CO. Group—which has functions and capabilities as a luxury apparel manufacturer—as a production platform.

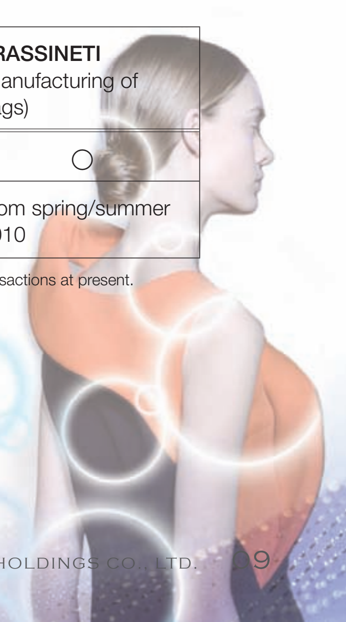
JIL SANDER's 2009 spring and summer collection

JOSEPH's Old Bond Street Store

The GIBO' CO. Group has companies within its group that have established reputations in manufacturing and marketing of exciting, top-quality fashion items, including fabrics, knits, shoes, bags, and other products. Specific activities of these companies are as follows. The JOSEPH Group is engaged in manufacturing and sales of apparel, shoes, and bags; and JIL SANDER is engaged in or planning the manufacturing of apparel (knit and woven) as well as shoes and bags.

GIBO' CO. Group	GIBO' CO. (manufacturing and sale of apparel)	CORPORATE (manufacturing and sale of apparel)	ERIKA (manufacturing of knit-wear)	IRIS (manufacturing and sale of shoes)	FRASSINETI (manufacturing of bags)
JOSEPH	○	—	—	○	○
JIL SANDER	—	From fall/winter 2009	From fall/winter 2009	From spring/summer 2010	From spring/summer 2010

Note: "O" indicates JOSEPH is already engaged in this activity, the season indicated for JIL SANDER is the scheduled time of market entry, and "—" indicates no transactions at present.



Asia

In Asia, the Onward Group is implementing measures aimed at increasing profitability from its production and marketing activities, focusing especially on the high-growth Chinese market, and will continue its growth policy.

"rosebullet" brand apparel on display in Shanghai's Pacific Department Store

In China, in addition to the marketing of national (Japanese-originated) brands, such as ICB, NIJYUSANKU, NIJYUSANKU HOMME, and rosebullet in department stores, the Group is also expanding sales of its overseas brands, including JOSEPH. In addition, the Group is beginning to adopt the strategy it has taken in Japan of introducing brand strategies for specific distribution channels. For example, in September 2008, the Group introduced the "anysis" brand for the shopping center distribution channel and is now engaging in full-scale activities to enter distribution channels other than department stores. Looking ahead, the Group will keep abreast of market changes and continue to introduce new brands.

The Americas

In the United States, J. PRESS is concentrating on retail business and Internet sales with the objective of increasing profitability by raising sales per store.

J. PRESS New York store

Apparel Business

(Manufacturing and Marketing of Men's Fashions, Women's Fashions, and Other Products)

Sales of the apparel business declined 8.9% from the previous fiscal year, to ¥245,433 million, for the fiscal year under review.

▶Men's Fashions

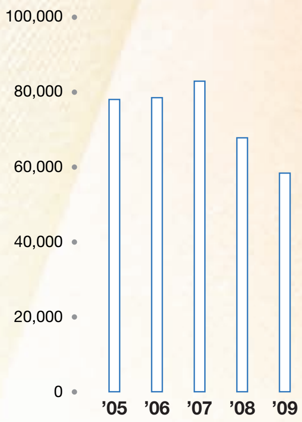
Consolidated sales of men's fashions were ¥58,259 million, a decline of 13.9% from the previous fiscal year.

▶Women's Fashions

Consolidated sales of women's fashions were ¥143,976 million, 9.8% lower than in the previous year.

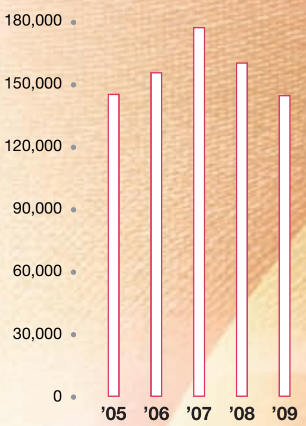
Sales of Men's Fashions

(Millions of yen)
Years ended February 28 or 29



Sales of Women's Fashions

(Millions of yen)
Years ended February 28 or 29



▶Children's Fashions, Kimonos, and Other

Children's Fashions

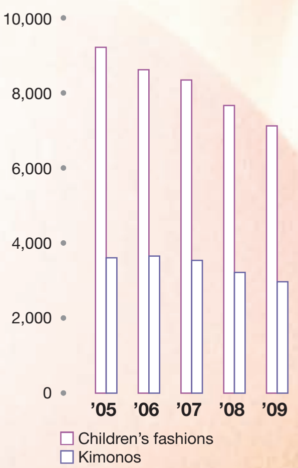
Consolidated sales of children's fashions were ¥7,150 million, 7.1% lower than in the previous fiscal year.

Kimonos

Consolidated sales of kimonos were ¥2,980 million, which was 7.7% lower than in the previous fiscal year.

Sales of Children's Fashions, Kimonos

(Millions of yen)
Years ended February 28 or 29



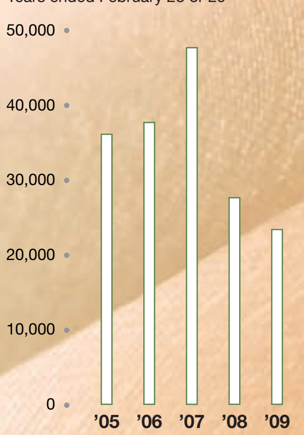
Service Businesses

(Logistics-Related Business and Management of Resort Facilities)

Consolidated sales of service businesses amounted to ¥23,260 million, 15.4% lower than in the previous fiscal year.

Service Businesses

(Millions of yen)
Years ended February 28 or 29



The Onward Group is aware that CSR management is important for being a company that earns the trust of customers and other stakeholders and increasing its corporate value. The Group engages in activities that preserve the global environment and aims to be a company that is caring and friendly toward human beings and the natural environment.

Environmental Policy

1. In all business activities at its business locations, the Group works to preserve the natural environment by promoting the conservation of energy and resources, reducing waste, and promoting recycling.
2. The Group has developed environmental management systems based on ISO14001 and endeavors to improve its environmental preservation activities and prevent pollution.
3. The Group observes legally required matters relating to the environment and other required items agreed upon in treaties and other agreements.
4. The Group establishes objectives and goals and works to attain them as well as conducts periodic reviews of these matters.
5. The Group implements measures to make its environmental policies known to personnel working in and on behalf of its business locations, takes steps to heighten the awareness of the significance and understanding of environmental preservation, and promotes the conduct of business activities that reflect care for human beings and the natural environment.
6. The Group has made its environmental policy known to the public.

Environmental Activities

• Obtaining ISO14001 Certifications

ONWARD KASHIYAMA has obtained and maintains ISO14001 certifications for its head office in Nihonbashi and its branch offices in Nagoya, Sendai, Sapporo, and Fukuoka. Each of these offices engages in activities to make improvements in environmental management activities based on the “plan-do-check-act” (PDCA) cycle.

Branch office in Sendai

• Promoting the Onward Green Campaign Activities

As part of activities to promote environmental management as one of the priority measures under its management policy, ONWARD KASHIYAMA is promoting the Onward Green Campaign. Under this campaign, ONWARD KASHIYAMA accepts the wide range of goods it has sold, including used men’s, women’s, and children’s apparel as well as sportswear, kimonos, and yukatas from its customers when they have finished using them at Onward corners in department stores. As much as possible, arrangements are made to reuse or recycle these items with the aim of using scarce resources as effectively as possible.

Logo of Onward’s Green Campaign Activities

Customers bring used articles for reuse and recycling.

• **Conducting Forest Preservation Activities in the "Tosayama Onward 'Rainbow Forest'"**

Onward Holdings concluded a partners agreement on November 14, 2008, with Kochi City in Kochi Prefecture and the Forest Association of Kochi City regarding the Joint Forest Development Project with Environmentally Advanced Corporations, which is being promoted by Kochi Prefecture. Under this project, environmental preservation activities are being conducted on about 45 hectares of forestland of Kochi City named Tosayama Onward "Rainbow Forest." With the cooperation of members of the local community, employees of the Onward Group have begun activities that include the thinning of the forest area. Through these forest-related activities, members of the Group have the opportunity to develop closer ties with members of the local community.

Logo of "Rainbow Forest"


Onward volunteers participate in forest-thinning activities.

• **Portion of Sales Donated to Enviromental Foundation ALMCS**

ONWARD KASHIYAMA donated a portion of its sales for the fall and winter seasons of 2008 that resulted from a cross-brand promotional campaign of "gotairiku" and J. PRESS brand men's fashions, ICB brand women's fashions, and KUMIKYOKU and J. PRESS brand children's fashions to the Australian Landcare Management Certification System (ALMCS) in February 2009. ALMCS is using this donation in a program to protect and improve the soil environment. Onward donated a portion of sales to the ALMCS, an environmental preservation organization in Australia.

• **Introduction of a Standardized Hanger Oricon System for Department Stores**

Onward has been making extensive use of a hanger system since 1997 that uses standardized hangars from the sewing stage through to delivery to department stores. These hangers are then reused when articles are collected and cleaned. In addition, instead of using corrugated boxes for delivery, Onward has introduced containers that can be folded for reuse extensively since 2001.

• **Development of Ecology Products that Can Be Washed in Water**

Water treatment (WT) products can be washed by commercial laundering processes at washing and dry cleaning establishments and thereby prevent environmental pollution from the use of dry cleaning fluids. ONWARD KASHIYAMA sells GIGACOOL WT products in all its principal men's brand lines.


WT men's suits

• **Development of Chemical Recycling Uniforms**

ONWARD TRADING CO., LTD., is promoting "Earth Unit" fully recyclable uniforms by making proposals to collect used uniforms and return them to their original materials, instead of discarding them after use. As of January 2008, 11 of Japan's leading companies had adopted this proposal.

Corporate Governance

Basic Approach to 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 related to 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.

Framework for Business Execution and Management Surveillance

To make clear the difference between management decision-making functions and the functions related to the conduct of business activities, the Company has introduced the Executive Officer System. The Board of Directors is responsible for making strategic decisions regarding Group matters and for supervising the activities of Group companies. By separating these supervisory functions from the conduct of business activities, the Company has clarified the responsibilities and authority of Group companies and has accelerated its strategic decision-making functions. This enables the Company to conduct management quickly and execute business activities flexibly and efficiently. In addition to the Board of Directors, the Company has formed the Group Strategic Council, which meets once a month and includes the presidents of core Group companies as members. The Company has also created the Group Management Promotion Council, which meets periodically and includes the directors of Group companies as members.

Since the Company has adopted the Board of Auditor governance model, the corporate auditors attend important meetings of the Board of Directors and monitor the conduct of duties of the Directors from an independent perspective, while working to improve management surveillance functions. In addition, outside directors and outside auditors have been appointed to enhance the transparency of management.

Strengthening Internal Control Systems

To substantially strengthen internal control systems, revisions in certain parts of the basic policy for designing and implementing internal control systems were approved by the Board of Directors in April 2008. The Company is now working to swiftly design internal control systems based on this revised policy and will conduct continuing reviews to make needed improvements to create efficient corporate systems in compliance with legal regulations.

Strengthening Internal Control Systems

The Company has prepared its Compliance Regulations, which state its basic compliance policy, and has formed the Onward Group Compliance Committee. The Compliance Division, which has primary responsibility for compliance matters, has prepared a Compliance Manual that takes the Onward Group Compliance Regulations as a basis and works to promote the creation and improvement of compliance systems for the Onward Group. 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 the division also work jointly to ensure the Compliance Manual is properly employed throughout the Group and to verify the upgrading and improvement of compliance systems. In addition, the committee and the division have established a “hotline,” which is based on the Onward Group Internal Information Transmission Regulations, and act as the conduit for transmitting confidential information regarding compliance matters.

The Internal Auditing Department has the responsibility for planning for and structuring business process systems that ensure operations in all departments are conducted appropriately and efficiently in compliance with relevant laws, the Articles of Incorporation, regulations, manuals, internal orders, and other directives. This department is also responsible for reporting to the Board of Directors on these matters.

Risk Management Systems

The Group has designed and operates systems to improve its risk management, as provided for in its Onward Group Risk Management Regulations. The Compliance Division is in overall charge of related matters, and its responsibilities 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 establishing systems to prevent risk.

Matters Related to Corporate Takeovers

The General Meeting of Shareholders, which convened in May 2008, approved the introduction of the “Policy for Responding to Large-Scale Purchases of the Company’s Shares (TOB Defense Policy).” This policy established rules to be followed by parties that make large-scale purchases of the Company’s shares. It also clarifies specified cases where there is a possibility that purchasers of the Company’s shares may incur damages as a result of defensive actions taken by the Company and, by making appropriate disclosure, enables the Company to issue warnings to such purchasers whose behavior does not contribute to enhancing corporate value and may be contrary to the common interests of the shareholders. Please note that, when the provisions of this policy are applied, the policy calls for the formation of a committee that is independent of the Board of Directors to eliminate arbitrary judgments by the Board and for maximum compliance with the recommendations of this committee.

Board of Directors

Directors

Chairman
Takeshi Hirouchi*

President
Kentaro Mizuno*

Vice President
Kazuya Baba*

Managing Directors
Masaaki Yoshizawa
Minoru Tanaka

Outside Directors
Hachiro Honjou
Yoshihide Nakamura

Officers

Executive Officers
Hitoshi Aoyama
Hidenobu Tanaka
Hirokazu Yoshizato
Michinobu Yasumoto

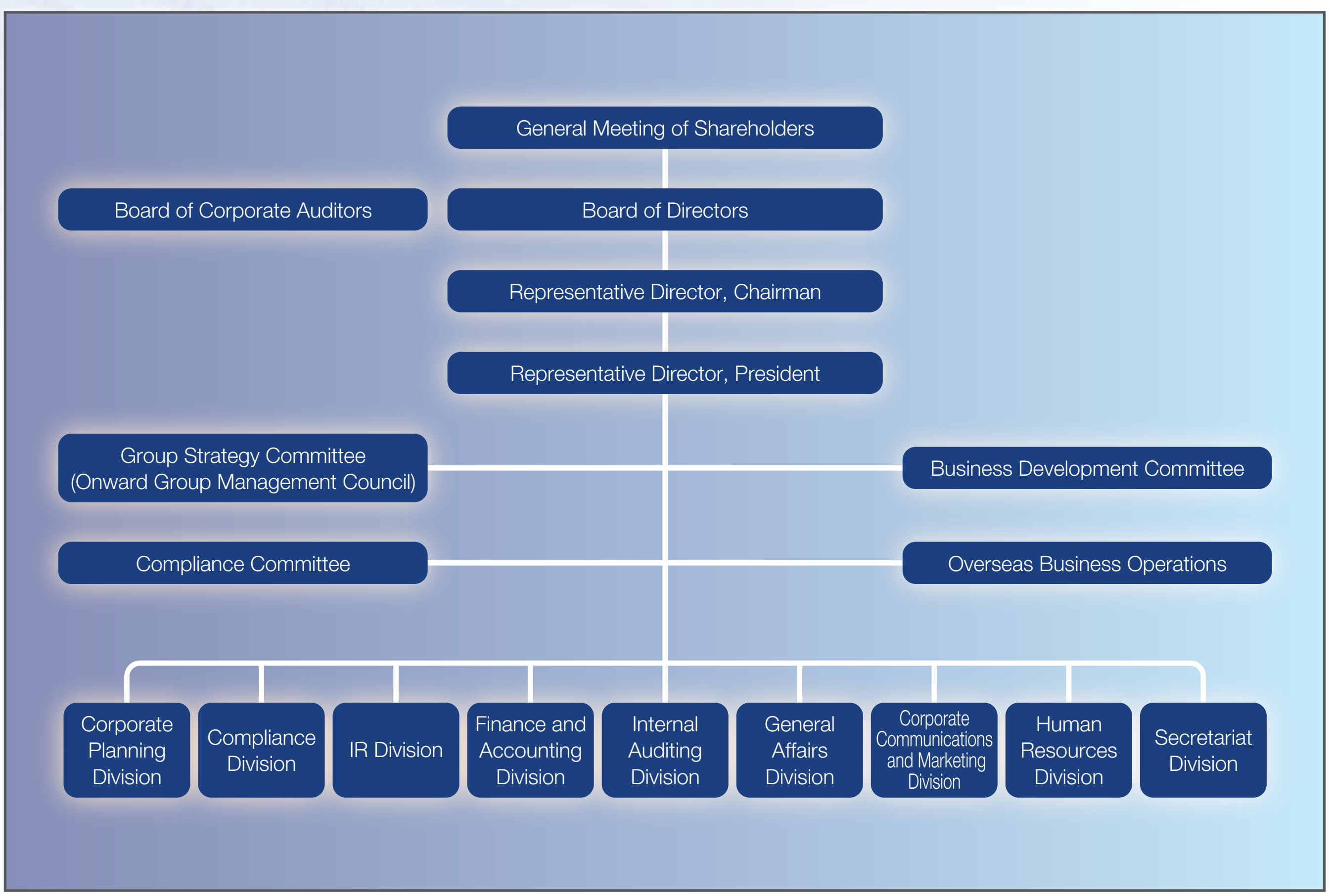
Corporate Auditors

Standing Corporate Auditors
Akito Yamamoto
Hideo Matsumoto
Keiichi Ogawa**
Jotaro Yabe**

As of May 28, 2009

* Representative Director
** Outside Auditor

Organization Chart (As of March 1, 2009)



Consolidated Six-Year Summary

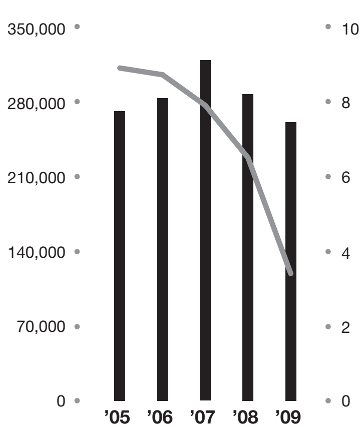
ONWARD KASHIYAMA CO., LTD. and Subsidiaries
Years ended February 28 or 29

	Millions of yen						Thousands of U.S. dollars
	2004	2005	2006	2007	2008	**2009**	**2009**
At year-end:							
Total current assets	¥165,931	¥150,969	¥135,769	¥135,197	¥112,519	**¥ 98,946**	**$1,011,614**
Total property, plant and equipment	96,017	96,394	99,688	94,850	95,008	**90,175**	**921,941**
Total assets	318,270	308,170	329,403	347,936	309,092	**296,283**	**3,029,169**
Total current liabilities	92,270	79,025	97,617	103,494	93,321	**92,369**	**944,372**
Total shareholders' equity	196,796	202,377	201,599	212,600	213,625	**178,023**	**1,820,090**
For the year:							
Net sales	¥267,746	¥271,273	¥283,111	¥318,691	¥287,032	**¥261,006**	**$2,668,500**
Cost of sales	143,921	146,447	152,043	175,796	156,842	**142,676**	**1,458,706**
Selling, general and administrative expenses	100,929	100,621	106,360	117,464	111,562	**109,246**	**1,116,920**
Operating income	22,896	24,205	24,708	25,431	18,628	**9,084**	**92,874**
Income taxes, current	13,868	7,490	12,321	14,409	9,780	**4,639**	**47,429**
Net income (loss)	13,053	10,257	11,091	11,438	12,214	**(30,895)**	**(315,868)**
	Yen						U.S. dollars
Per share:							
Net income (loss)—basic	¥74.1	¥58.1	¥63.8	¥70.5	¥76.5	**¥(197.2)**	**$(2.02)**
Cash dividends	20.0	22.0	24.0	26.0	30.0	**30.0**	**0.31**

Note: Yen amounts have been translated, for convenience only, at ¥97.81=US$1, the approximate exchange rate on February 28, 2009.

Net Sales and Operating Income Margin

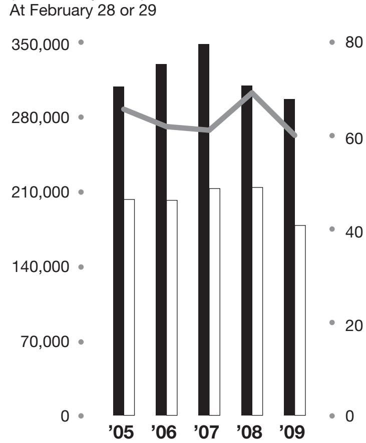
(Millions of yen, %)
Years ended February 28 or 29



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

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

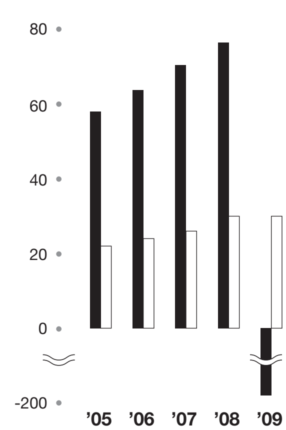
(Millions of yen, %)
At February 28 or 29



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

Net Income (Loss) Per Share and Cash Dividends Per Share

(Yen)
Years ended February 28 or 29



■ Net income (loss) per share
□ Cash dividends per share

Overview

During the fiscal year under review (ended February 28, 2009), in Japan the real economy and corporate profitability deteriorated rapidly as the financial crisis triggered by the collapse of Lehman Brothers deepened. In addition, as the credit contraction in financial markets progressed, fund-raising became increasingly more difficult. As a result, private capital investment decelerated and employment conditions worsened, leading to stagnation in economic conditions.

In the apparel industry, along with changes in consumer values, a trend emerged among consumers toward maintaining their lifestyles, reflecting the deterioration in the economy. As a consequence, consumer behavior became increasingly more cautious, and conditions were more challenging than any experienced in the recent past.

Amid this economic environment, the Onward Group began to implement its Three-Year Medium-Term Management Plan, which has the objective of moving onto a new growth path. Under the plan, the Onward Group is working to implement its Brand-Leveraged Management strategy, which targets polishing and strengthening the Group's brands, with the aims of achieving stable expansion in profitability in Japan, and expanding aggressively into overseas markets. As part of its growth strategy, the Group made two corporate acquisitions during the fiscal year. In Europe, the Group acquired JIL SANDER S.p.A., a luxury brand, and, in Japan, CREATIVE YOKO CO., LTD., a one-of-its-kind enterprise in the pet-related products market. Looking ahead, the Group will endeavor to develop these companies as key sources of earnings, realize synergies with them through strong teamwork, and work toward the goal of enhancing corporate value.

In domestic business activities, ONWARD KASHIYAMA CO., LTD., worked to concentrate its management resources with the aims of strengthening its core brands and improving efficiency. However, the sudden deterioration in consumer confidence in September and subsequent months brought stagnation in sales at department stores, which are the Group's main distribution channel, and resulting declines in sales and income.

In overseas business activities, in Europe, which is the core of the Group's operations outside Japan, the luxury market showed a sharp contraction in the second half of the fiscal year. This, together with adverse foreign currency rate movements, resulted in tough conditions for sales and income.

Among other factors influencing performance, the Group reported valuation losses of ¥22.6 billion on securities holdings as a consequence of the sharp decline in stock market prices and impairment losses on goodwill amounting to ¥11.6 billion.

As a consequence of these factors, the Group reported net sales of ¥261.0 billion, 9.1% lower than for the previous fiscal year, and a net loss of ¥30.9 billion, compared with net income of ¥12.2 billion in the prior fiscal year.

Results of Operations

Net Sales

Sales in the Group's apparel business amounted to ¥245.4 billion, 8.9% lower than in the previous fiscal year, and sales of service-related businesses were ¥23.3 billion, 15.4% less than in the prior year. After the elimination of intersegment sales amounting to ¥7.7 billion, net sales for the Group were ¥261.0 billion, representing a 9.1% decline from the previous year. The business activities of the Onward Group are divided into two principal segments: namely, apparel and other textile product businesses and service-related businesses.

• Apparel and Other Textile Product Businesses

In the Japanese market, ONWARD KASHIYAMA concentrated its management resources on major core brands NIJYUSANKU and JIYUKU and other core brands sold through the department store distribution channel, and, under weak market conditions, achieved a certain level of results; however, this business, as a whole, encountered challenging operating conditions. In new distribution channels, we conducted a review of the efficiency of existing stores and implemented measures to improve profitability, principally for core brands. As a result, we have established a base for expansion in income going forward.

In overseas markets, in the European region, sales and income declined, but we continued to make necessary investments in GIBO' CO. S.p.A., which is the growth engine for the Group's overseas business. Performance of the JOSEPH Group remained firm in the first half of the fiscal year, but beginning in September, profitability declined along with the weakening of market conditions; however, JOSEPH created the base for its new growth strategy. In Asia, although growth slowed in the second half of the fiscal year, performance remained generally steady. In the North American market, we worked to improve performance by focusing business operations on the retail store and Internet sales activities of J. PRESS.

As a result of these activities, sales of the apparel and other textile product businesses declined 8.9%, to ¥245.4 billion, and operating income decreased 55.6%, to ¥9.0 billion.

• Service-Related Businesses

In the Onward Group's service-related businesses, although the fashion distribution and logistics business of ACROSS TRANSPORT CO., LTD., reported a decline in sales, this company attained its planned increase in income as a result of improvements in efficiency. At ONWARD CREATIVE CENTER CO., LTD., a subsidiary engaged in the design and implementation of stores, the number of orders declined, reflecting the impact of restraints on investment in commercial facilities. In the resort business, the golf business made strenuous efforts to maintain its performance, but results in the hotel business were below the level of the previous year because of the impact of the sharp rise in airfares and the downturn in the world economy, which reduced the number of visitors to Guam, where these facilities are located. As a consequence of these circumstances, sales of this segment declined 15.4%, to ¥23.3 billion, and an operating loss of ¥0.1 billion was reported versus operating profit of ¥0.3 billion in the previous fiscal year.

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

The consolidated cost of sales declined 9.0%, to ¥142.7 billion, accompanying the decline in net sales. Gross profit decreased 9.1%, to ¥118.3 billion, largely because of the drop in net sales, but the gross margin on net sales remained virtually the same, declining only 0.1 percentage point, to 45.3%, compared with 45.4% in the previous fiscal year.

Selling, general and administrative (SG&A) expenses were down 2.1% from the previous fiscal year, to ¥109.2 billion. The ratio of SG&A expenses to net sales increased 2.9 percentage points, to 41.8%, versus 38.9% in the prior fiscal year, mainly because of the substantial decline in net sales. Although the gross margin on net sales remained virtually the same, the ratio of operating income to net sales decreased 3.0 percentage points, to 3.5%, compared with 6.5% in the previous fiscal year. This was mainly because of an increase in the ratio of SG&A expenses to net sales. Also, because of the substantial impact of the decline in net sales, operating income fell 51.2%, to ¥9.1 billion.

Other income (expenses) amounted to expenses of ¥39.7 billion compared with income of ¥9.3 billion for the previous fiscal year. Principal factors accounting for this were (a) the reporting of a loss of ¥0.3 billion in equity in losses of investees compared with equity in earnings of investees amounting to ¥1.7 billion in the previous fiscal year, (b) a foreign currency exchange loss of ¥5.3 billion, (c) the absence of a gain of ¥6.9 billion from the sale of the Group's equity interest in an affiliated company, IMPACT 21, reported in the previous fiscal year, (d) the recognition of valuation losses on investment securities of ¥22.6 billion, and (e) a major increase in impairment losses on goodwill, from ¥1.3 billion in the previous fiscal year to ¥13.0 billion for the fiscal year under review due to reporting of losses on goodwill of a U.K. subsidiary amounting to ¥11.6 billion.

As a result of these factors, the Company reported a loss before income taxes and minority interests of ¥30.6 billion, compared with income before income taxes and minority interests of ¥27.9 billion for the previous fiscal year. Income taxes, inhabitants' taxes, and enterprise taxes offset income taxes current and deferred, resulting in a net loss of ¥30.9 billion, which represented a deterioration of ¥43.1 billion from the previous fiscal year.

Financial Position

Total assets declined ¥12.8 billion, to ¥296.3 billion. Current assets were down ¥13.6 billion, mainly because of a decline in cash and time deposits. Fixed assets rose ¥0.8 billion, despite a decrease in investments in securities because of an increase in goodwill resulting from M&A.

Liabilities rose ¥26.4 billion, to ¥137.9 billion. Current liabilities declined ¥1.0 billion. Long-term liabilities rose ¥27.4 billion because of an increase in long-term borrowings and other factors.

Net assets decreased ¥39.2 billion, to ¥158.4 billion, as shareholders' equity declined ¥35.6 billion because of the reporting of a net loss for the fiscal year and other factors. Valuation and translation adjustments decreased ¥2.4 billion owing to declines in net unrealized gains on available-for-sale securities and foreign currency translation adjustments. In addition, minority interests in consolidated subsidiaries decreased ¥1.4 billion because the Company purchased all the shares of GIBO' CO. S.p.A. and due to other factors.

Cash Flows

Net cash provided by operating activities amounted to ¥10.8 billion, ¥1.7 billion lower than for the previous fiscal year. Although the loss before income taxes and minority interests was ¥30.6 billion, this loss was primarily due to valuation losses on securities of ¥22.6 billion and impairment losses of ¥13.0 billion, neither of which was accompanied by cash outflows.

Net cash used in investing activities was ¥41.0 billion, ¥20.3 billion higher than the previous fiscal year. This increase was due to the acquisition of two companies, one in Japan and the other overseas.

Net cash provided by financing activities amounted to ¥18.0 billion, compared with net cash used in financing activities of ¥12.6 billion in the previous fiscal year. This increase was due to a rise in borrowings to finance the previously mentioned acquisitions.

As a result of the aforementioned factors, the balance of cash and cash equivalents at the end of fiscal 2009 was ¥23.3 billion, ¥13.4 billion lower than at the end of fiscal 2008.

Policy on 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 set a target dividend payout ratio of 35% or more and strive to make stable distributions from profits that are appropriate to trends in the Company's performance.

The Company pays dividends once each fiscal year, based on a decision made at the annual General Meeting of Shareholders. For the fiscal year under review, the Company has decided to pay a cash dividend of ¥30 per share, the same as that for the previous fiscal year.

Retained earnings will be employed in a flexible manner that strikes a balance between strategic investments for the consolidation of a solid business structure, improving the Company's financial position, and other factors.

Outlook

Looking to future economic prospects, tough management conditions are forecast as a result of the weakness in the world economy. In addition, we believe that consumer spending will continue to be lackluster. Amid this management environment, the Onward Group will not change the directions set under its Three-Year Medium-Term Management Plan and will pursue the aggressive development of its business activities.

In the domestic apparel industry, the Company believes that the weakness in market conditions will persist because of the trend toward families with fewer children and the demographic aging of the population; changes in the structure of consumption, including those resulting from a growing diversity of values; and the rising trend toward maintaining lifestyles as a result of the economic downturn. Amid these circumstances, ONWARD KASHIYAMA has selected these keywords, "mode," "quality," and "value for price," and is working to develop products that have a fresh look and are overflowing with attractiveness. In addition, Onward will aggressively expand sales per store by enhancing the interiors and ambience of its retail stores. We will draw fully on the market support for our major core brands NIJYUSANKU and JIYUKU and work to expand and evolve our other core brands. In developing new brands, we have created a new brand for women, "FØRSTE," to be introduced this fall through department stores, which is based on new concepts and responds to the changing values of consumers. In addition, we will introduce our new business line "Opening Ceremony," which emerged from the implementation of our international strategy in the United States and is drawing worldwide attention for its new worldview, through our large-scale, urban street-level stores. In addition, with an eye to future business expansion, we are moving ahead with the development of new brands for new distribution channels. In our other domestic business activities, under our basic policy of raising profitability, we will implement aggressive measures to further expand our activities especially in the growing pet-related markets through our newly acquired company Creative Yoko.

In overseas business activities, we are forecasting that conditions will remain challenging because of the global economic downturn. However, we will continue to pursue an aggressive business strategy, principally in Europe, which will be the main support of our growth strategy. In the JOSEPH Group, the implementation of our new growth strategy is proceeding under the new chief executive officer (CEO) who was appointed last year, and we are seeing results from newly design products and major renovations of our core street-level stores. Looking ahead, we are convinced that the aggressive implementation of our new global strategy will lead to significant growth.

We will proceed with the development of the GIBO' CO. Group and the JIL SANDER Group from a global perspective, and, by drawing on the capabilities of the GIBO' CO. Group's product planning and manufacturing platform, we will undertake more in-depth initiatives with both of these groups. As a consequence, we will take steps toward increasing profitability and enhancing the brand power of these two groups as we realize greater synergies with them. Also, in Asia, principally in China, with its strong growth potential, we will manage our activities to respond quickly to changes in the market and continue our policy of expansion.

As a result of the implementation of these policies, the Onward Group has prepared plans for the fiscal year ending February 28, 2010, calling for a decline in net sales of 3.2%, to ¥252.6 billion, and a decrease in operating income of 11.9%, to ¥8.0 billion. Compared with the net loss of ¥30.9 billion during the fiscal year under review, the Group is targeting net income of ¥3.6 billion. (Please note that these plans 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.)

Description of Business Risks

The businesses of the Onward Group may be influenced by a number of risks, which are described in the following paragraphs. Based on its awareness of the possibility that these risks may emerge, the Group conducts its business operations in a manner to avoid such risks and minimize their effects in the event they should emerge. Please note that forward-looking statements contained in this section are based on the Group's judgments as of May 29, 2009.

(1) Risks Associated with Changes in Consumer Needs

To respond accurately to customer needs regarding the fashion products supplied by the Onward Group, the Group works to achieve originality and competitiveness of its products through the implementation of its Brand-Leveraged Management policy. However, the Group may not be able to attain the performance targets in its business plans because of a number of factors, including stagnation in consumer spending as a result of fluctuations in economic conditions, competition with other companies, and sudden changes in fashion trends. This failure to meet targets may have an impact on Group performance.

(2) Risks Associated with Weather Conditions and Natural Disasters

Since sales of the Group's core fashion products may vary because of weather conditions, the Group works to strengthen its systems for planning and production on a short turnaround cycle. However, cool weather in the summers and warm weather in the winters as well as other unexpected developments of this kind as well as a series of typhoons may result in the loss of sales opportunities during peak seasons, and there is a possibility that such developments may have an impact on performance. In addition, unexpected natural disasters—such as earthquakes and floods, sudden fires and accidents, and such illegal activities as acts of terrorism—may make cessation of the Group's operations unavoidable. Such circumstances may have an impact on Group performance.

(3) Quality Risk

The Group has established "quality management standards" and works to manage the quality of its products through the observance of these standards. However, despite the establishment of systems for quality management, incidents may occur related to product liability as a result of matters relating to the Group and its business partners. Such incidents may damage the Group's brand image and result in substantial expenses that may have an impact on Group performance.

(4) Risks Associated with Business Partners

The Group has strengthened its internal systems for confirming the operating conditions and the creditworthiness of its business partners. However, losses may occur as a result of non-payment of obligations caused by a series of defaults during times of credit instability and unexpected bankruptcies of large commercial facilities. Such circumstances may have an impact on Group performance.

(5) Risks Associated with Intellectual Property

The Group owns trademarks and other intellectual property in Japan and overseas. The Group works to safeguard the rights to this property based on legal regulations, but the Group and its brand image may be damaged and its capabilities for product development may be impaired in the event of infringement of these rights by third parties. Accordingly, such circumstances may have an impact on Group performance. In addition, the Group obtains rights to the use of intellectual property owned by its alliance partners based overseas and conducts business activities based on licensed brands. If the related contracts are unexpectedly cancelled or if the terms of such contracts become unfavorable when they are renewed, then such circumstances may have an impact on Group performance.

(6) Legal Risks

The Group conducts its business activities will full regard for laws and regulations, including those related to antimonopoly policies, the treatment of subcontractors, and labeling as well as laws concerning the natural environment and recycling. The Onward Group Compliance Committee takes a central role in providing information related to the importance of compliance with laws and regulations as well as internal control procedures with the aim of ensuring proper compliance management. However, despite the establishment of these compliance systems, issues may arise as a result of illegal behavior of employees and the actions of business partners. Such issues may impair the trust placed in the Group by society and result in the payment of substantial expenses for indemnities, etc. Such circumstances may have an impact on the Group's performance.

(7) Risks Associated with Information

The Group works to take all necessary measures and strengthens systems for ensuring the security of information systems, and, as provided for under the guidelines of Japan's Personal Information Protection Law, has prepared its *Guidelines for the Personal Information Protection Law*. The Group has taken steps to ensure all management and staff are aware of information security matters and strengthened its systems for management and supervision of information. However, issues may arise if there are leakages of information resulting from improper access to computer systems and criminal activities. Such issues may impair the trust placed in the Group by society and result in the payment of related expenses. Such circumstances may have an impact on the Group's performance.

(8) Risks Associated with Overseas Business Operations

The Group's overseas operations may be exposed to a range of risks resulting from natural disasters; political, social, and economic conditions; wars and terrorism; fluctuations in foreign currency exchange rates; lawsuits related to intellectual property; and communicable diseases. When such risks emerge, the Group may have difficulty in continuing its business operations. Such circumstances may have an impact on the Group's performance.

Consolidated Balance Sheets

ONWARD HOLDINGS Co., Ltd. and Subsidiaries
February 29, 2008 and February 28, 2009

	Millions of yen		Thousands of U.S. dollars (Note 2. (20))
ASSETS	2008	**2009**	**2009**
Current assets:			
Cash and time deposits (Notes 2. (17) and 8. (1))	¥ 36,849	**¥ 23,415**	**$ 239,393**
Accounts and notes receivable	28,323	**26,421**	**270,126**
Inventories (Note 2. (4))	33,233	**33,758**	**345,138**
Deferred tax assets (Note 10)	3,953	**3,914**	**40,016**
Other current assets	10,329	**11,600**	**118,597**
Less: Allowance for bad debt	(168)	**(162)**	**(1,656)**
Total current assets	112,519	**98,946**	**1,011,614**
Property, plant and equipment (Note 5):			
Buildings and structures	77,814	**76,818**	**785,380**
Other depreciable property	26,373	**25,221**	**257,857**
Less: Accumulated depreciation	(62,340)	**(64,906)**	**(663,593)**
	41,847	**37,133**	**379,644**
Land (Note 11)	53,161	**53,042**	**542,296**
Total property, plant and equipment	95,008	**90,175**	**921,941**
Intangible assets, net:			
Goodwill	23,084	**47,475**	**485,380**
Other	2,860	**2,899**	**29,639**
Total intangible assets, net	25,944	**50,374**	**515,019**
Investments and other assets:			
Investments in securities (Note 3)	50,773	**33,825**	**345,824**
Long-term loans receivable	4,732	**4,507**	**46,079**
Long-term prepaid expenses	1,861	**1,271**	**9,529**
Deferred tax assets (Note 10)	6,436	**5,749**	**58,777**
Other investments	12,986	**14,159**	**148,226**
Less: Allowance for bad debt	(1,167)	**(2,723)**	**(27,840)**
Total investments and other assets	75,621	**56,788**	**580,595**
Total assets	¥309,092	**¥296,283**	**$3,029,169**

LIABILITIES AND NET ASSETS	Millions of yen 2008	2009	Thousands of U.S. dollars (Note 2. (20)) 2009
Current liabilities:			
Accounts and notes payable	¥ 42,075	**¥ 39,621**	**$ 405,081**
Short-term loans (Note 13)	25,677	**28,252**	**288,846**
Current portion of long-term loans (Note 13)	—	**3,395**	**34,710**
Accrued income taxes	7,237	**2,262**	**23,126**
Accrued bonuses to employees	2,428	**2,187**	**22,360**
Allowance for sales returns	712	**638**	**6,523**
Other current liabilities	15,192	**16,014**	**163,726**
Total current liabilities	93,321	**92,369**	**944,372**
Long-term liabilities:			
Long-term loans (Note 13)	—	**26,746**	**273,449**
Accrued retirement benefits (Note 7)	3,487	**2,933**	**29,987**
Accrued retirement benefits for directors and statutory auditors	151	**56**	**572**
Deferred tax liabilities—revaluation of land (Notes 10 and 11)	5,949	**5,949**	**60,822**
Other	8,545	**9,812**	**100,317**
Total long-term liabilities	18,132	**45,496**	**465,147**
Total liabilities	111,453	**137,865**	**1,409,519**
Commitments and contingent liabilities (Note 12)			
Net assets:			
Shareholders' equity:			
Common stock:			
Authorized—400,000,000 shares			
Issued—172,921,669 shares at February 29, 2008 and February 28, 2009	30,080	**30,080**	**307,535**
Capital surplus	50,044	**50,043**	**511,635**
Retained earnings (Note 14)	157,016	**121,412**	**1,241,304**
Less: Treasury stock, at cost, 16,259,441 shares and 16,267,855 shares at February 29, 2008 and February 28, 2009, respectively	(23,515)	**(23,512)**	**(240,384)**
Total shareholders' equity	213,625	**178,023**	**1,820,090**
Valuation and translation adjustments:			
Net unrealized gains (losses) on available-for-sale securities (Note 3)	(5,887)	**(6,930)**	**(70,851)**
Deferred losses on hedging instruments	(17)	**(75)**	**(767)**
Net revaluation loss of land (Notes 10 and 9)	(11,075)	**(11,075)**	**(113,230)**
Foreign currency translation adjustment	(1,789)	**(3,077)**	**(31,459)**
Total valuation and translation adjustments	(18,768)	**(21,157)**	**(216,307)**
Stock acquisition rights	135	**294**	**3,006**
Minority interests in consolidated subsidiaries	2,647	**1,258**	**12,861**
Total net assets	197,639	**158,418**	**1,619,650**
Total liabilities and net assets	¥309,092	**¥296,283**	**$3,029,169**

	Yen		U.S. dollars (Note 2. (20))
Per share:			
Net assets per share	¥1,243.80	**¥1,001.36**	**$10.24**

See accompanying notes to financial statements.

Consolidated Statements of Operations

ONWARD HOLDINGS Co., Ltd. and Subsidiaries
For the years ended February 29, 2008 and February 28, 2009

	Millions of yen		Thousands of U.S. dollars (Note 2. (20))
	2008	**2009**	**2009**
Net sales	¥287,032	**¥261,006**	**$2,668,500**
Cost of sales	156,842	**142,676**	**1,458,706**
Gross profit	130,190	**118,330**	**1,209,794**
Selling, general and administrative expenses (Note 17)	111,562	**109,246**	**1,116,920**
Operating income	18,628	**9,084**	**92,874**
Other income (expenses):			
Interest income	343	**385**	**3,936**
Dividend income	933	**502**	**5,133**
Interest expenses	(397)	**(535)**	**(5,470)**
Royalty income	696	**771**	**7,883**
Equity in earnings (losses) of investees	1,693	**(256)**	**(2,617)**
Foreign currency exchange gain (loss)	140	**(5,313)**	**(54,320)**
Gain on sale of investments in securities, net (Note 3)	6,192	**857**	**8,762**
Loss on write-down of investments in securities	(16)	**(22,646)**	**(231,531)**
Provision for allowance for bad debt	(781)	**(1,338)**	**(13,680)**
Loss on disposal of property, net	(82)	**(190)**	**(1,943)**
Impairment losses on fixed assets (Note 6)	(1,333)	**(12,998)**	**(132,890)**
Loss on withdrawal of pension fund	(487)	**—**	**—**
Other, net	2,368	**1,081**	**11,052**
Income (loss) before income taxes and minority interests	27,897	**(30,596)**	**(312,811)**
Income taxes:			
Current (Note 2. (10))	9,780	**4,639**	**47,429**
Deferred (Note 10)	5,186	**(4,603)**	**(47,061)**
Income (loss) before minority interests	12,931	**(30,632)**	**(313,179)**
Minority interests in subsidiaries	(717)	**(263)**	**(2,689)**
Net income (loss)	¥ 12,214	**¥(30,895)**	**$ (315,868)**

	Yen		U.S. dollars (Note 2. (20))
Per share (Notes 14,15 and 17):			
Net income (loss)—basic	¥ 76.53	**¥(197.21)**	**$(2.02)**
Diluted net income per share	76.48	**—**	**—**
Cash dividends	30.00	**30.00**	**0.31**

See accompanying notes to financial statements.

Consolidated Statements of Changes in Net Assets

ONWARD HOLDINGS Co., Ltd. and Subsidiaries
For the years ended February 29, 2008 and February 28, 2009

		Millions of yen				
		Shareholders' equity				
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings (Note 14)	Treasury stock	Total
Balance as at February 28, 2007:	172,922	¥30,080	¥50,045	¥148,954	¥(16,479)	¥212,600
Cash dividends	—	—	—	(4,217)	—	(4,217)
Net income	—	—	—	12,214	—	12,214
Purchase of treasury stock	—	—	—	—	(7,044)	(7,044)
Reissuance of treasury stock	—	—	(1)	—	8	7
Reversal of reserve for land revaluation	—	—	—	62	—	62
Increase resulting from newly consolidated subsidiaries	—	—	—	3	—	3
Net changes other than shareholders' equity	—	—	—	—	—	—
Total changes during the year	—	—	(1)	8,062	(7,036)	1,025
Balance as at February 29, 2008:	172,922	30,080	50,044	157,016	(23,515)	213,625
Cash dividends	—	—	—	**(4,700)**	—	**(4,700)**
Net loss	—	—	—	**(30,895)**	—	**(30,895)**
Purchase of treasury stock	—	—	—	—	**(29)**	**(29)**
Reissuance of treasury stock	—	—	**(1)**	**(9)**	**32**	**22**
Net changes other than shareholders' equity	—	—	—	—	—	—
Total changes during the year	—	—	**(1)**	**(35,604)**	**3**	**(35,602)**
Balance as at February 28, 2009	**¥172,922**	**¥30,080**	**¥50,043**	**¥121,412**	**¥(23,512)**	**¥178,023**

	Thousands of U.S. dollars (Note 2. (20))				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings (Note 14)	Treasury stock	Total
Balance as at February 29, 2008:	$307,535	$511,645	$1,605,316	$(240,415)	$2,184,081
Cash dividends	**—**	**—**	**(48,052)**	**—**	**(48,052)**
Net loss	**—**	**—**	**(315,868)**	**—**	**(315,868)**
Purchase of treasury stock	**—**	**—**	**—**	**(296)**	**(296)**
Reissuance of treasury stock	**—**	**(10)**	**(92)**	**327**	**225**
Net changes other than shareholders' equity	**—**	**—**	**—**	**—**	**—**
Total changes during the year	**—**	**(10)**	**(364,012)**	**31**	**(363,991)**
Balance as at February 28, 2009	**$307,535**	**$511,635**	**$1,241,304**	**$(240,384)**	**$1,820,090**

See accompanying notes to financial statements.

(Continued)

	Millions of yen							
	Valuation and translation adjustments							
	Net unrealized gains (losses) on available-for- sale securities (Note 3)	Deferred gains (losses) on hedging instruments	Net revaluation loss of land (Notes 10, 11)	Foreign currency translation adjustment	Total	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total net assets
Balance as at February 28, 2007:	¥ 3,813	¥ 21	¥(11,012)	¥(1,578)	¥ (8,756)	¥ 73	¥21,221	¥225,138
Cash dividends	—	—	—	—	—	—	—	(4,217)
Net income	—	—	—	—	—	—	—	12,214
Purchase of treasury stock	—	—	—	—	—	—	—	(7,044)
Reissuance of treasury stock	—	—	—	—	—	—	—	7
Reversal of reserve for land revaluation	—	—	—	—	—	—	—	62
Increase resulting from newly consolidated subsidiaries	—	—	—	—	—	—	—	3
Net changes other than shareholders' equity	(9,700)	(38)	(63)	(211)	(10,012)	62	(18,574)	(28,524)
Total changes during the year	(9,700)	(38)	(63)	(211)	(10,012)	62	(18,574)	(27,499)
Balance as at February 29, 2008:	(5,887)	(17)	(11,075)	(1,789)	(18,768)	135	2,647	197,639
Cash dividends	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(4,700)**
Net loss	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(30,895)**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(29)**
Reissuance of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**22**
Net changes other than shareholders' equity	**(1,043)**	**(58)**	**—**	**(1,288)**	**(2,389)**	**159**	**(1,389)**	**(3,619)**
Total changes during the year	**(1,043)**	**(58)**	**—**	**(1,288)**	**(2,389)**	**159**	**(1,389)**	**(39,221)**
Balance as at February 28, 2009	**¥(6,930)**	**¥(75)**	**¥(11,075)**	**¥(3,077)**	**¥(21,157)**	**¥294**	**¥ 1,258**	**¥158,418**

	Thousands of U.S. dollars (Note 2. (20))							
	Valuation and translation adjustments							
	Net unrealized gains (losses) on available-for- sale securities (Note 3)	Deferred gains (losses) on hedging instruments	Net revaluation loss of land (Notes 10, 11)	Foreign currency translation adjustment	Total	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total net assets
Balance as at February 29, 2008:	$(60,188)	$(174)	$(113,230)	$(18,290)	$(191,882)	$1,380	$27,062	$2,020,641
Cash dividends	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(48,052)**
Net loss	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(315,868)**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(296)**
Reissuance of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**225**
Net changes other than shareholders' equity	**(10,663)**	**(593)**	**—**	**(13,169)**	**(24,425)**	**1,626**	**(14,201)**	**(37,000)**
Total changes during the year	**(10,663)**	**(593)**	**—**	**(13,169)**	**(24,425)**	**1,626**	**(14,201)**	**(400,991)**
Balance as at February 28, 2009	**$(70,851)**	**$(767)**	**$(113,230)**	**$(31,459)**	**$(216,307)**	**$3,006**	**$12,861**	**$1,619,650**

See accompanying notes to financial statements.

Consolidated Statements of Cash Flows

ONWARD HOLDINGS Co., Ltd. and Subsidiaries
For the years ended February 29, 2008 and February 28, 2009

	Millions of yen		Thousands of U.S. dollars (Note 2. (20))
	2008	**2009**	**2009**
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	¥27,897	**¥(30,596)**	**$(312,811)**
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	7,341	**5,986**	**61,200**
Impairment loss on fixed assets	1,333	**12,998**	**132,890**
Net amortization of goodwill on consolidation	1,051	**2,400**	**24,537**
Increase in provision for allowance for bad debt	779	**1,690**	**17,279**
Decrease in provision for accrued retirement benefits	(855)	**(590)**	**(6,032)**
Interest and dividend income	(1,275)	**(887)**	**(9,069)**
Interest expense	397	**535**	**5,470**
Equity in (earnings) losses of investees	(1,693)	**256**	**2,617**
Loss on disposal of property, net	82	**190**	**1,943**
Gain on sale of investments in securities, net	(6,192)	**(857)**	**(8,762)**
Loss on write-down of investments in securities	16	**22,645**	**231,520**
Valuation losses on investments in unconsolidated subsidiaries and affiliates	50	**260**	**2,658**
Decrease in trade receivables	515	**3,602**	**36,827**
Decrease in inventories	715	**776**	**7,934**
Decrease in trade payables	(5,121)	**(4,844)**	**(49,524)**
Other, net	(763)	**3,411**	**34,874**
Subtotal	24,277	**16,975**	**173,551**
Interest and dividends received	1,571	**1,375**	**14,058**
Interest paid	(393)	**(439)**	**(4,488)**
Income taxes paid	(13,013)	**(9,987)**	**(102,106)**
Refunded income taxes	61	**2,915**	**29,802**
Net cash provided by operating activities	12,503	**10,839**	**110,817**
Cash flows from investing activities:			
Increase in time deposits	(2,594)	**(164)**	**(1,677)**
Decrease in time deposits	2,604	**2,164**	**22,125**
Acquisition of property, plant and equipment	(8,379)	**(2,848)**	**(29,118)**
Proceeds from sale of property, plant and equipment	1,247	**55**	**562**
Acquisition of investments in securities	(6,380)	**(3,399)**	**(34,751)**
Proceeds from sale of investments in securities	2,795	**974**	**9,958**
Payments for long-term prepaid expenses	(1,404)	**(875)**	**(8,946)**
Payments for security deposits	(298)	**(536)**	**(5,480)**
Proceeds from security deposits	363	**584**	**5,971**
Payment for acquisition of consolidated subsidiaries resulting in a change in the scope of consolidation (Note 8. (2))	—	**(33,335)**	**(340,814)**
Payment related to a sale of consolidated subsidiary resulting in a change in the scope of consolidation (Note 8. (3))	(6,346)	**—**	**—**
Acquisition of minority interests in consolidated subsidiaries	—	**(3,105)**	**(31,745)**
Other, net	(2,218)	**(465)**	**(4,754)**
Net cash used in investing activities	(20,610)	**(40,950)**	**(418,669)**

See accompanying notes to financial statements.

(Continued)

	Millions of yen		Thousands of U.S. dollars (Note 2. (20))
	2008	**2009**	**2009**
Cash flows from financing activities:			
Net repayments of short-term loans	(1,301)	**(7,139)**	**(72,988)**
Proceeds from long-term debt	—	**30,000**	**306,717**
Acquisition of treasury stock	(7,044)	**(29)**	**(297)**
Dividends paid by the parent company	(4,217)	**(4,700)**	**(48,052)**
Dividends paid to minority stockholders	—	**(177)**	**(1,810)**
Other, net	(21)	**17**	**174**
Net cash provided by (used in) financing activities	(12,583)	**17,972**	**183,744**
Effect of exchange rate changes on cash and cash equivalents	159	**(1,310)**	**(13,393)**
Net decrease in cash and cash equivalents	(20,531)	**(13,449)**	**(137,501)**
Cash and cash equivalents at beginning of year	57,306	**36,775**	**375,984**
Cash and cash equivalents at end of year (Note 8. (1))	¥36,775	**¥ 23,326**	**$ 238,483**

See accompanying notes to financial statements.

Notes to Consolidated Financial Statements

ONWARD HOLDINGS Co., Ltd. and Subsidiaries
For the years ended February 29, 2008 and February 28, 2009

1. Basis of Presentation of the Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from the accounts maintained by ONWARD HOLDINGS 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 Financial Instruments 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 82 subsidiaries as at February 28, 2009 (89 as at February 29, 2008). The accompanying consolidated financial statements include the accounts of the Company and its 70 subsidiaries (47 for 2008). Major consolidated subsidiaries are listed below (the Company and the consolidated subsidiaries are collectively referred to as the "Companies"):

Name of subsidiary	Equity ownership percentage	Closing date
Onward KASHIYAMA Co., Ltd.	100.0%	February 28
Onward Trading Co., Ltd.	100.0	February 28
Chacott Co., Ltd.	100.0	February 28
Creative Yoko Co., Ltd.	100.0	February 28
Bus Stop Co., Ltd.	100.0	February 28
Project Sloane Ltd.	100.0	November 30
Joseph Ltd.	100.0	November 30
Gibo' & Co. S.p.A.	100.0	November 30
Violine S.à r.l.	100.0	November 30
Jil Sander Italy S.p.A	100.0	November 30
Onward Fashion Trading(China) Co., Ltd.	100.0	December 31
J. Press, Inc.	100.0	December 31
Across Transport Co., Ltd.	100.0	February 28
Onward Creative Center Co., Ltd.	100.0	February 28
BOOKLET CORP.	100.0	February 28
Excel Co., Ltd.	100.0	February 28
Onward Resort & Golf Co., Ltd.	100.0	February 28
Onward Life Design Network Co., Ltd.	100.0	February 28
Onward Beach Resort Guam, Inc.	100.0	December 31
Onward Mangilao Guam, Inc.	100.0	December 31

The shares of Creative Yoko Co., Ltd. were acquired during the year ended February 28, 2009, therefore Creative Yoko and its 3 consolidated subsidiaries became a consolidated subsidiary of the Company.

The shares of Violine S.à r.l. were acquired during the year ended February 28, 2009, therefore Violine S.à r.l. and its 15 subsidiaries, Jil Sander AG Group, became a consolidated subsidiary of the Company.

The shares of Corporate S.r.l. were acquired during the year ended February 28, 2009, therefore Corporate S.r.l. became a consolidated subsidiary of the Company.

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 12 subsidiaries (15 for 2008) 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 within 20-year periods.

(3) Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates are accounted for by the equity method. 19 companies (21 companies for 2008) are accounted for by the equity method for the year ended February 28, 2009.

Daido Advance and Puppy Shaldan which were the Daido Limited Group companies were excluded from the equity method. The Company did not apply the equity method to 12 unconsolidated subsidiaries (15 in 2008) and 4 affiliates (6 in 2008) as at February 28, 2009, as the effect on net income or retained earnings of their consolidated financial statements are not 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 December 31 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 29, 2008 and February 28, 2009, the recorded write-downs were ¥9,903 million and ¥8,662 million ($88,559 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 the 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 the 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 the fair values of the derivatives are designated as “hedging instruments,” which are deferred as a component of net assets, net of applicable taxes. 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.

Effective March 1, 2008, property, plant and equipment acquired on or before March 31, 2007 which were depreciated to the allowable limit (95% of the acquisition cost) in a particular business year can be further depreciated down to ¥1 evenly over five years starting from the following business year in connection with the revision to the Japanese Corporation Tax Law. The change did not have a material impact on the Companies' results of operations.

Effective April 1, 2007, the Company and its domestic subsidiaries changed their method of depreciation of property, plant and equipment acquired on or after April 1, 2007 in connection with the revision to the Japanese Corporation Tax Law. The change did not have a material impact on the Companies' results of operations.

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 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. A valuation allowance is provided to reduce deferred tax assets to the amount that is realizable.

(11) Allowances for Bad Debt

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.

(12) Allowances for Sales Returns

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

(13) Retirement Benefits

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.

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.

(14) 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 and other applicable factors of each of the subsidiaries.

(15) 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.

(16) 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 operations.

(17) 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.

(18) Impairment of Long-Lived Assets

The standard of impairment of long-lived assets 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.

(19) Directors' Bonuses

Under the standard of directors' bonuses, directors' bonuses are accounted for as an expense as incurred, instead of being accounted for as an appropriation of retained earnings upon approval at a general meeting of shareholders.

(20) United States Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside of Japan. The rate of ¥97.81=US$1, the rate of exchange as of February 28, 2009, 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.

(21) Reclassifications

Certain reclassifications have been made to the prior year's consolidated financial statements to conform with the presentation used for the year ended February 28, 2009.

3. Investments in Securities

(1) Information as of and for the Year Ended February 28, 2009

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

Investments in securities whose fair values were readily determinable at February 28, 2009 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	¥ 936	¥ 1,230	¥ 294	$ 9,569	$ 12,575	$ 3,006
Other	8	10	2	82	102	20
Total	944	1,240	296	9,651	12,677	3,026
Securities with unrealized losses:						
Equity securities	29,694	24,535	(5,159)	303,589	250,844	(52,745)
Other	282	209	(73)	2,883	2,137	(746)
Total	29,976	24,744	(5,232)	306,472	252,981	(53,491)
Total	¥30,920	¥25,984	¥ (4,936)	$ 316,123	$ 265,658	$ (50,465)

Losses on impairment of available-for-sale securities recognized to reflect declines in market value considered to be other than temporary were ¥22,646 million ($231,525 thousand) and ¥16 million for the years ended February 29, 2009 and February 28, 2008, respectively

(b) Available-for-sale securities sold during the year ended February 28, 2009:

	Millions of yen	Thousands of U.S. dollars
Proceeds from sale of securities	**¥ 8**	**$ 82**
Gross realized gain on sale of securities	**—**	**—**
Gross realized loss on sale of securities	**5**	**55**

(c) Major securities which were not stated at fair value as of February 28, 2009:

	Millions of yen	Thousands of U.S. dollars
Available-for-sale securities:		
Non-marketable equity securities	**¥341**	**$3,486**

(d) The aggregate carrying amount of investments in unconsolidated subsidiaries and affiliates as of February 28, 2009 was ¥7,500 million ($76,679 thousand).

(2) Information as of and for the Year Ended February 29, 2008

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

Investments in securities whose fair values were readily determinable at February 29, 2008 are summarized as follows:

	Millions of yen		
	Acquisition cost	Fair value (carrying value)	Unrealized gain (loss)
Securities with unrealized gains:			
Equity securities	¥ 6,783	¥ 9,225	¥ 2,442
Total	6,783	9,225	2,442
Securities with unrealized losses:			
Equity securities	43,120	30,756	(12,364)
Total	43,120	30,756	(12,364)
Total	¥49,903	¥39,981	¥ (9,922)

(b) Available-for-sale securities sold during the year ended February 29, 2008:

	Millions of yen
Proceeds from sale of securities	¥ 15
Gross realized gain on sale of securities	11
Gross realized loss on sale of securities	—

(c) Major securities which were not stated at fair value as of February 29, 2008:

	Millions of yen
Available-for-sale securities:	
Non-marketable equity securities	¥ 341

(d) The aggregate carrying amount of investments in unconsolidated subsidiaries and affiliates as of February 29, 2008 was ¥10,451 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 29, 2008; therefore, disclosure requirements of market value information on those derivatives were not applicable.

The contract or notional amounts and fair value of derivative financial instruments held as of February 28, 2009 are summarized as follows:

	Millions of yen		
	Contract or notional amounts	Fair value	Valuation gain (loss)
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar	**¥3,495**	**¥3,348**	**¥ (147)**
Euro	**189**	**139**	**(50)**
Currency swap agreement:			
U.S. dollar received for Japanese yen	**3,872**	**(5)**	**(5)**
Currency option contracts:			
Euro call / U.S. dollar put	**US$ 3,885 thousand**	**(28)**	**(28)**
Buy: U.S. dollar call	**1,996**	**169**	**169**
Sell: U.S. dollar put	**1,996**	**(296)**	**(296)**
			¥ (357)
Interest rate swap agreement:			
Variable rate received for fixed rate	**¥ 300**	**¥ (12)**	**¥ (12)**
			¥ (12)

	Thousands of U.S. dollars		
	Contract or notional amounts	Fair value	Valuation gain (loss)
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar	**$35,733**	**$34,230**	**$ (1,503)**
Euro	**1,932**	**1,421**	**(511)**
Currency swap agreement:			
U.S. dollar received for Japanese yen	**39,587**	**(51)**	**(51)**
Currency option contracts:			
Euro call / U.S. dollar put	**3,885**	**(286)**	**(286)**
Buy: U.S. dollar call	**20,407**	**1,728**	**1,728**
Sell: U.S. dollar put	**20,407**	**(3,027)**	**(3,027)**
			$ (3,650)
Interest rate swap agreement:			
Variable rate received for fixed rate	**$ 3,067**	**$ (123)**	**$ (123)**
			$ (123)

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 29, 2008 and February 28, 2009, were reduced by ¥8,353 million and ¥8,290 million ($84,756 thousand), respectively, representing accumulated deferred gains from eligible sales.

6. Impairment losses on fixed assets

For the years ended February 29, 2008 and February 28, 2009, the Company reviewed its long-lived assets for impairment and, as a result, recognized an impairment loss as follows:

February 28, 2009

Location	Usage	Description	Millions of yen	Thousands of U.S. dollars
UK	Goodwill	Goodwill	**¥ 11,592**	**$ 118,515**
Tokyo Prefecture and other	Business asset	Buildings and structures	**492**	**5,029**
		Other	**626**	**6,403**
Kanagawa Prefecture	Idle asset	Buildings and structures	**72**	**739**
		Other	**111**	**1,134**
United States	Business asset	Buildings and structures	**64**	**656**
		Other	**41**	**414**

February 29, 2008

Location	Usage	Description	Millions of yen
Tokyo Prefecture	Business asset	Buildings and structures	¥ 68
		Other	1,244
Nara Prefecture	Business asset	Buildings and structures	15
Osaka Prefecture	Business asset	Buildings and structures	4
		Other	2

The long-lived assets are basically grouped by brand, and assets for lease and idle assets are grouped individually by each item. The Company has recognized a loss on impairment on assets for lease and idle assets due to a significant decline in their market value, and on business assets due to a continuous loss generated from their operating activities, by reducing their carrying amount to the respective net realizable value of each asset.

Impairment loss on long-lived assets for the years ended February 29, 2008 and February 28, 2009 consisted of the followings:

	Millions of yen		Thousands of U.S. dollars
	February 29, 2008	**February 28, 2009**	**February 28, 2009**
Buildings and structures	¥ 86	**¥ 628**	**$ 6,424**
Goodwill	—	**11,592**	**118,515**
Other	1,247	**778**	**7,951**
Total	¥1,333	**¥12,998**	**$ 132,890**

The net realizable value is based on their net selling price or their value in use. The net selling price is estimated by using their appraisal value or reasonable estimated price based on actual transactions. The value in use is calculated by discounting the future cash flow with 5.0% and 6.5% discount rates for the years ended February 29, 2008 and February 28, 2009, respectively.

7. 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 29, 2008 and February 28, 2009 is analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	February 29, 2008	**February 28, 2009**	**February 28, 2009**
Projected benefit obligations	¥ (35,870)	**¥ (35,820)**	**$ (366,220)**
Plan assets (including employee retirement benefit fund)	30,144	**22,843**	**233,545**
Funded status	(5,726)	**(12,977)**	**(132,675)**
Unrecognized prior service costs	(117)	**(107)**	**(1,094)**
Unrecognized actuarial differences	2,602	**10,748**	**109,886**
Subtotal	(3,241)	**(2,336)**	**(23,883)**
Prepaid pension cost	246	**597**	**6,104**
Accrued retirement benefits	¥ (3,487)	**¥ (2,933)**	**$ (29,987)**

The net periodic pension expenses for the years ended February 29, 2008 and February 28, 2009, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	**2009**	**2009**
Service cost	¥ 1,544	**¥ 1,445**	**$ 14,773**
Interest cost	649	**646**	**6,605**
Expected return on plan assets	(504)	**(450)**	**(4,601)**
Amortization of unrecognized prior service costs	(29)	**(41)**	**(419)**
Amortization of unrecognized actuarial differences	(71)	**455**	**4,652**
Net periodic pension expenses	¥ 1,589	**¥ 2,055**	**$ 21,010**

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

	As of February 29, 2008	**As of February 28, 2009**
Method of attributing the projected benefits to periods of service	Straight-line basis	**Straight-line basis**
Discount rate	2.0%	**1.5~2.0%**
Expected rate of return on plan assets	0.7~2.8%	**0.3~2.4%**
Amortization of unrecognized prior service costs	5~10 years	**5~10 years**
Amortization of unrecognized actuarial differences	5~10 years	**5~10 years**

8. Notes to Consolidated Statements of Cash Flows

(1) Cash and cash equivalents at February 29, 2008 and February 28, 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	February 29, 2008	**February 28, 2009**	**February 28, 2009**
Cash and time deposits	¥36,849	**¥23,415**	**$239,393**
Time deposits with maturities of more than three months	(74)	**(89)**	**(910)**
Cash and cash equivalents	¥36,775	**¥23,326**	**$238,483**

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

For the year ended February 28, 2009, due to the acquisition of shares of the below companies, the below companies were newly consolidated. The assets and liabilities of the companies at the time of initial consolidation, additional cash paid for the acquisition, cash and cash equivalents held by the subsidiaries and net payment for acquisition of the subsidiaries were as follows:

(Creative Yoko Co., Ltd.)

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 3,048	$ 31,162
Fixed assets	3,588	36,683
Goodwill on consolidation	4,210	43,043
Current liabilities	(2,819)	(28,821)
Long-term liabilities	(345)	(3,527)
Minority interests in the subsidiary	5	51
Revaluation gain of land	(83)	(848)
Cash paid for acquisition of the subsidiary	7,604	77,743
Cash and cash equivalents held by the subsidiary	(933)	(9,539)
Payment for acquisition of the subsidiary	¥ 6,671	$ 68,204

(Violine S.à r.l.)

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 8,210	$ 83,938
Fixed assets	19,814	202,576
Goodwill on consolidation	17,146	175,299
Current liabilities	(7,684)	(78,560)
Long-term liabilities	(10,178)	(104,059)
Cash paid for acquisition of the subsidiary	27,308	279,194
Cash and cash equivalents held by the subsidiary	(699)	(7,146)
Payment for acquisition of the subsidiary	¥ 26,609	$ 272,048

(Corporate S.r.l.)

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 224	$ 2,290
Fixed assets	113	1,155
Goodwill on consolidation	49	501
Current liabilities	(282)	(2,883)
Long-term liabilities	(49)	(501)
Cash paid for acquisition of the subsidiary	55	562
Cash and cash equivalents held by the subsidiary	(0)	(0)
Payment for acquisition of the subsidiary	¥ 55	$ 562

(3) Payment related to a sale of consolidated subsidiary resulting in a change in the scope of consolidation

For the year ended February 29, 2008, due to a sale of shares of Impact 21 Co., Ltd., Impact 21 Co., Ltd. was excluded from consolidation. The assets and liabilities of the company were as follows:

	Millions of yen
Current assets	¥ 33,112
Fixed assets	5,802
Current liabilities	(7,041)
Long-term liabilities	(705)
Minority interests in the subsidiary	(18,966)
Gain on sale of investments in securities	6,885
Cash income from the sale of the subsidiary	19,087
Cash and cash equivalents held by the subsidiary	(25,433)
Payment for selling of the subsidiary	¥ (6,346)

9. 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 29, 2008 and February 28, 2009 are 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 29, 2008 and February 28, 2009 are summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	February 29, 2008			**February 28, 2009**			**February 28, 2009**		
	Tools, furniture, and fixtures	Other	Total	Tools, furniture, and fixtures	Other	Total	Tools, furniture, and fixtures	Other	Total
Acquisition cost	¥2,388	¥ 772	¥3,160	**¥2,375**	**¥ 880**	**¥3,255**	**$ 24,282**	**$ 8,997**	**$ 33,279**
Accumulated depreciation	(1,145)	(372)	(1,517)	**(1,386)**	**(445)**	**(1,831)**	**(14,170)**	**(4,550)**	**(18,720)**
Accumulated impairment loss	(145)	—	(145)	**(145)**	**—**	**(145)**	**(1,483)**	**—**	**(1,483)**
Net book value	¥1,098	¥ 400	¥1,498	**¥ 844**	**¥ 435**	**¥1,279**	**$ 8,629**	**$ 4,447**	**$ 13,076**

The scheduled maturities of future lease payments on such lease contracts as of February 29, 2008 and February 28, 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	February 29, 2008	**February 28, 2009**	**February 28, 2009**
Scheduled maturities of future leases:			
Due within one year	¥ 678	**¥ 659**	**$ 6,738**
Due over one year	965	**765**	**7,821**
	¥1,643	**¥1,424**	**$14,559**

The balance of accumulated impairment losses of leased assets as of February 29, 2008 and February 28, 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	February 29, 2008	**February 28, 2009**	**February 28, 2009**
Impairment losses of leased assets	¥32	**¥17**	**$174**

Lease expenses, reversal of impairment loss of leased assets, depreciation and impairment loss for the years ended February 29, 2008 and February 28, 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	February 29, 2008	**February 28, 2009**	**February 28, 2009**
Lease expenses for the year	¥715	**¥738**	**$7,545**
Reversal of impairment loss of leased assets	53	**14**	**143**
Depreciation	715	**738**	**7,545**
Impairment loss	—	**—**	**—**

The Companies' operating lease contracts:

The scheduled maturities of future lease payments on operating lease contracts as of February 29, 2008 are as follows:

	Millions of yen
Scheduled maturities of future leases:	
Due within one year	¥ 2
Due over one year	—
	¥ 2

(Lessor)

Acquisition cost, accumulated depreciation and net book value of the leased assets as of February 29, 2008 are summarized as follows:

	Millions of yen	
	Other	Total
Acquisition cost	¥ 83	¥ 83
Accumulated depreciation	(68)	(68)
Net book value	¥ 15	¥ 15

The scheduled maturities of future lease income on such lease contracts as of February 29, 2008 and February 28, 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	February 29, 2008	**February 28, 2009**	**February 28, 2009**
Due within one year	¥ 73	**¥ 81**	**$ 828**
Due over one year	144	**112**	**1,145**
	¥217	**¥ 193**	**$ 1,973**

Lease income and depreciation for the year ended February 29, 2008 are as follows:

	Millions of yen
Lease income for the year	¥18
Depreciation	¥11

10. Income Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as at February 29, 2008 and February 28, 2009 consisted of the following elements:

	Millions of yen		Thousands of U.S. dollars
	February 29, 2008	**February 28, 2009**	**February 28, 2009**
Deferred tax assets:			
Valuation loss on inventories	¥ 1,434	**¥ 2,262**	**$ 23,126**
Evaluation loss on investments in unconsolidated subsidiaries	28	**192**	**1,963**
Accrued bonuses to employees	987	**891**	**9,109**
Accrued retirement benefits	5,937	**3,129**	**31,991**
Accrued retirement benefits for directors and auditors	62	**56**	**572**
Allowance for bad debt	503	**690**	**7,054**
Tax loss carryforwards	12,200	**18,266**	**186,750**
Impairment loss	7,582	**6,635**	**67,836**
Investments in securities	396	**1,535**	**15,694**
Net unrealized gains on available-for-sale securities	4,035	**16**	**164**
Other	2,657	**2,917**	**29,823**
Subtotal	35,821	**36,589**	**374,082**
Less: Valuation allowance	(17,848)	**(25,195)**	**(257,591)**
Total deferred tax assets	17,973	**11,394**	**116,491**
Deferred tax liabilities:			
Gain on securities contributed to an employee retirement benefit trust	(3,474)	**(699)**	**(7,146)**
Gain on securities returned from an employee retirement benefit trust	(3,930)	**—**	**—**
Provision for deferred capital gains on real property for tax purposes	(22)	**(21)**	**(215)**
Business tax refundable	(237)	**(17)**	**(174)**
Other	(155)	**(999)**	**(10,214)**
Total deferred tax liabilities	(7,818)	**(1,736)**	**(17,749)**
Net deferred tax assets	¥ 10,155	**¥ 9,658**	**$ 98,742**

The reconciliation of the difference between the statutory tax rate and the effective tax rate for the year ended February 29, 2008 was as follows:

	%
Statutory tax rate	40.7
Reconciliation:	
Non-deductible items (entertainment expenses, etc.)	1.7
Change in valuation allowance	(3.4)
Deductible losses on sales of investments in subsidiaries and affiliates which are eliminated for consolidation	15.9
Other	(1.3)
Effective tax rate	53.6

The reconciliation for the year ended February 28, 2009 is omitted because a loss before income taxes and minority interests was recorded.

11. Revaluation of Land

On February 28, 2002, the Company revaluated its 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, 2009, the accumulated revaluation loss amounted to ¥17,024 million ($174,052 thousand), for which the related deferred tax liability of ¥5,949 million ($60,822 thousand) is recognized. The net revaluation loss of ¥11,075 million ($113,230 thousand) is presented as a separate component of net assets as "Net revaluation loss of land."

As of February 29, 2008, the accumulated revaluation loss amounted to ¥17,024 million, for which the related deferred tax liability of ¥5,949 million is recognized. The net revaluation loss of ¥11,075 million is presented as a separate component of net assets as "Net revaluation loss of land."

12. 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 29, 2008 and February 28, 2009 aggregated to ¥96 million and ¥89 million ($910 thousand), respectively.

13. Short-term Loans and Long-term Debt

Short-term loans at February 29, 2008 and February 28, 2009 represented loans, principally from banks. The weighted-average interest rate on these loans was 3.8% in 2008 and 1.2% in 2009.

Long-term loans at February 28, 2009 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Loans, principally from banks, maturing in installments through 2013 with weighted average interest of 1.4% at February 28, 2009, partially secured by mortgage of time deposits, lease deposits, buildings and land	**¥30,141**	**$308,159**
Less current portion	**3,395**	**34,710**
	¥26,746	**$273,449**

The aggregate annual maturities of long-term loans after February 28, 2010 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending February 28 or 29:		
2011	**¥ 3,346**	**$ 34,209**
2012	**3,300**	**33,739**
2013	**3,300**	**33,739**
2014	**16,800**	**171,762**

At February 28, 2009, time deposits of ¥11 million ($112 thousand), lease deposits of ¥59 million ($603 thousand), buildings of ¥234 million ($2,392 thousand) and land of ¥83 million ($849 thousand) are mortgaged to secure short-term loans of ¥820 million ($8,384 thousand) and long-term loans of ¥85 million ($869 thousand).

Bonds at February 28, 2009 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
1.23% unsecured yen bonds issued by a subsidiary, due 2009	**¥150**	**$1,534**
0.79% unsecured yen bonds issued by a subsidiary, due 2010	**24**	**245**
	174	**1,779**
Less current installments	**166**	**1,697**
	¥ 8	**$ 82**

The aggregate annual maturities of bonds after February 28, 2010 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending February 28 or 29:		
2011	**¥ 8**	**$ 82**
2012	**—**	**—**
2013	**—**	**—**
2014	**—**	**—**

14. Shareholders' Equity

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, 2009 and February 29, 2008 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 29, 2009, are as follows:

(a) Total dividends	¥4,700 million ($48,052 thousand)
(b) Source of dividends	Retained earnings
(c) Cash dividends per common share	¥30.00 ($0.31)
(d) Date to determine which shareholders receive the dividends	February 28, 2009
(e) Effective date	May 29, 2009

15. Per Share Information

Net income (loss) 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 operations 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 (loss) per share for the years ended February 29, 2008 and February 28, 2009 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	**2009**	**2009**
Net income (loss)	¥12,214	**¥(30,895)**	**$(315,867)**
Less: Components not pertaining to common shareholders	—	—	—
Net income (loss) pertaining to common stock	¥12,214	**¥(30,895)**	**$(315,867)**
Average outstanding shares of common stock (thousand shares)	159,602	**156,659**	**156,659**
Effect of dilutive stock options (thousand shares)	87	—	—

16. Related-Party Transactions

Year Ended February 28, 2009

The Company leased land from Mr. Hirouchi, Chairman and CEO of ONWARD HOLDINGS Co., Ltd., during the year and the rental fee was ¥7 million ($72 thousand). Also, Mr. Hirouchi paid a rental fee of ¥16 million ($164 thousand) to the Company for a house. The rental fees were determined by the average market prices.

Year Ended February 29, 2008

The Company leased land from Mr. Hirouchi, Chairman and CEO of ONWARD HOLDINGS Co., Ltd., during the year and the rental fee was ¥7 million. Also, Mr. Hirouchi paid a rental fee of ¥17 million to the Company for a house. The rental fees were determined by the average market prices.

17. Stock Options

The cost recognized for the stock options for the year ended February 28, 2009 and February 29, 2008 was ¥145 million ($1,482 thousand) and ¥63 million, respectively, which is included in selling, general and administrative expenses.

2008 Stock Option Plan (No. 4)

Under the 2008 stock option plan (No. 4), stock options were granted to 12 directors and 21 executive officers of the Company's subsidiary on June 20, 2008. They are exercisable in the period from June 21, 2008 to February 28, 2038. 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 executive officers of the Company's subsidiary.

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

Exercise price	¥1 ($0.01)
Fair value at the grant date	¥905 ($9.25)
Number of stock options granted	91,100 shares

A summary of the scale and movement of the stock option plan for the year ended February 28, 2009 is as follows:

	2008 stock option plan (No.4)
Non-vested:	
Outstanding at February 29, 2008	—
Granted	91,100
Forfeited	—
Vested	—
Outstanding at February 28, 2009	91,100

The fair value of the 2008 stock options (No. 4) was estimated using the Black-Scholes option-valuation model with the following assumptions:

Expected volatility	32.434%
Expected lives	8 years and 11 months
Expected dividend	¥30 per share
Risk-free interest rate	1.7326%

The number of rights to vest in the future periods is determined based on the actual forfeited number of the stock option because it is difficult to estimate forfeiture in the future.

2008 Stock Option Plan (No. 3)

Under the 2008 stock option plan (No. 3), stock options were granted to 5 directors on July 20, 2008. They are exercisable in the period from June 21, 2008 to June 20, 2038. 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.

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

Exercise price	¥1 ($0.01)
Fair value at the grant date	¥944 ($9.65)
Number of stock options granted	70,000 shares

A summary of the scale and movement of the stock option plan for the year ended February 28, 2009 is as follows:

	2008 stock option plan (No.3)
Non-vested:	
Outstanding at February 29, 2008	—
Granted	70,000
Forfeited	—
Vested	—
Outstanding at February 28, 2009	70,000

The fair value of the 2008 stock options (No. 3) was estimated using the Black-Scholes option-valuation model with the following assumptions:

Expected volatility	29.320%
Expected lives	7 years and 4 months
Expected dividend	¥30 per share
Risk-free interest rate	1.5614%

The number of rights to vest in the future periods is determined based on the actual forfeited number of the stock option because it is difficult to estimate forfeiture in the future.

2007 Stock Option Plan (No. 2)

Under the 2007 stock option plan, stock options were granted to 5 directors and 2 corporate auditors on July 20, 2007. They are exercisable in the period from July 21, 2007 to July 20, 2037. 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 stock option plan is as follows:

Exercise price	¥1 ($0.01)
Fair value at the grant date	¥1,284 ($13.13)
Number of stock options granted	40,000 shares

A summary of the scale and movement of the stock option plan for the year ended February 28, 2009 is as follows:

	2007 stock option plan
Non-vested:	
Outstanding at February 29, 2008	40,000
Granted	—
Forfeited	—
Vested	—
Outstanding at February 28, 2009	40,000

The number of rights to vest in the future periods is determined based on the actual forfeited number of the stock option because it is difficult to estimate forfeiture in the future.

2006 Stock Option Plan (No. 1)

Under the 2006 stock option plan, stock options were granted to 12 directors and 2 corporate auditors on June 20, 2006. They 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 stock option plan is as follows:

Exercise price	¥1 ($0.01)
Fair value at the grant date	¥1,541 ($15.76)
Number of stock options granted	63,000 shares

A summary of the scale and movement of the Company's stock option plan for the year ended February 28, 2009 is as follows:

	2006 stock option plan
Non-vested:	
Outstanding at February 29, 2008	63,000
Granted	—
Forfeited	—
Vested	26,500
Outstanding at February 28, 2009	36,500
Vested:	
Outstanding at February 29, 2008	—
Vested	26,500
Exercised	3,000
Forfeited	—
Outstanding at February 28, 2009	23,500

The number of rights to vest in the future periods is determined based on the actual forfeited number of the stock option because it is difficult to estimate forfeiture in the future.

18. Segment Information

(1) Industry Segment Information

The Company and its consolidated subsidiaries operate principally in two industrial segments, "Apparel" and "Other."

The Apparel 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.

On September 1, 2007, the Company was reorganized as a pure holding company; therefore, the Group management expenses and the assets used for management activity which were included in the Apparel segment have been transferred to Elimination of intersegment sales.

Segment information classified by industry segment of the Companies for the year ended February 28, 2009 is as follows:

For the year ended February 28, 2009	Millions of yen				
	Industry segment			Elimination of intersegment sales	Consolidated total
	Apparel	Other	Total		
Sales to outside customers	**¥245,422**	**¥15,584**	**¥261,006**	**¥ —**	**¥261,006**
Intersegment sales	**11**	**7,676**	**7,687**	**(7,687)**	—
Total	**245,433**	**23,260**	**268,693**	**(7,687)**	**261,006**
Costs and expenses	**236,479**	**23,380**	**259,859**	**(7,937)**	**251,922**
Operating income (loss)	**¥ 8,954**	**¥ (120)**	**¥ 8,834**	**¥ 250**	**¥ 9,084**
Assets	**¥202,727**	**¥32,496**	**¥235,223**	**¥61,060**	**¥296,283**
Depreciation and amortization	**¥ 4,946**	**¥ 730**	**¥ 5,676**	**¥ 310**	**¥ 5,986**
Impairment loss	**¥ 12,738**	**¥ 77**	**¥ 12,815**	**¥ 183**	**¥ 12,998**
Capital expenditures	**¥ 3,605**	**¥ 404**	**¥ 4,009**	**¥ 169**	**¥ 4,178**

For the year ended February 28, 2009	Thousands of U.S. dollars				
	Industry segment			Elimination of intersegment sales	Consolidated total
	Apparel	Other	Total		
Sales to outside customers	**$2,509,171**	**$159,329**	**$ 2,668,500**	**$ —**	**$2,668,500**
Intersegment sales	**112**	**78,479**	**78,591**	**(78,591)**	—
Total	**2,509,283**	**237,808**	**2,747,091**	**(78,591)**	**2,668,500**
Costs and expenses	**2,417,738**	**239,035**	**2,656,773**	**(81,147)**	**2,575,626**
Operating income (loss)	**$ 91,545**	**$ (1,227)**	**$ 90,318**	**$ 2,556**	**$ 92,874**
Assets	**$2,072,661**	**$332,236**	**$ 2,404,897**	**$ 624,272**	**$3,029,169**
Depreciation and amortization	**$ 50,567**	**$ 7,464**	**$ 58,031**	**$ 3,169**	**$ 61,200**
Impairment loss	**$ 130,232**	**$ 787**	**$ 131,019**	**$ 1,871**	**$ 132,890**
Capital expenditures	**$ 36,857**	**$ 4,130**	**$ 40,987**	**$ 1,728**	**$ 42,715**

The management expenses in Elimination of intersegment sales as of February 28, 2009 were ¥3,836 million ($39,219 thousand) and the assets used for management activity as of February 28, 2009 were ¥191,306 million ($1,955,894 thousand).

Segment information classified by industry segment of the Companies for the year ended February 29, 2008 is as follows:

For the year ended February 29, 2008	Millions of yen				
	Industry segment			Elimination of intersegment sales	Consolidated total
	Apparel	Other	Total		
Sales to outside customers	¥269,322	¥17,710	¥287,032	¥ —	¥287,032
Intersegment sales	13	9,778	9,791	(9,791)	—
Total	269,335	27,488	296,823	(9,791)	287,032
Costs and expenses	249,191	27,211	276,402	(7,998)	268,404
Operating income	¥ 20,144	¥ 277	¥ 20,421	¥ (1,793)	¥ 18,628
Assets	¥178,035	¥40,664	¥218,699	¥90,393	¥309,092
Depreciation and amortization	¥ 6,246	¥ 1,148	¥ 7,394	¥ (53)	¥ 7,341
Impairment loss	¥ 1,312	¥ 21	¥ 1,333	¥ —	¥ 1,333
Capital expenditures	¥ 8,565	¥ 1,037	¥ 9,602	¥ (36)	¥ 9,566

The management expenses transferred to Elimination of intersegment sales as of February 29, 2008, were ¥1,801 million and the assets used for management activity as of February 29, 2008, were ¥180,201 million.

(2) 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

On September 1, 2007, the Company was reorganized as a pure holding company; therefore, the Group management expense and the assets used for management activity which were included in the Japan segment have been transferred to Elimination of intersegment sales.

Segment information classified by geographic segment of the Company for the year ended February 28, 2009 is as follows:

For the year ended February 28, 2009	Millions of yen					
	Geographic segment				Elimination of intersegment sales	Consolidated total
	Japan	Europe	Other	Total		
Sales to outside customers	**¥226,449**	**¥ 26,330**	**¥ 8,227**	**¥ 261,006**	**¥ —**	**¥261,006**
Intersegment sales	**1,834**	**546**	**75**	**2,455**	**(2,455)**	**—**
Total	**228,283**	**26,876**	**8,302**	**263,461**	**(2,455)**	**261,006**
Costs and expenses	**217,529**	**28,400**	**8,866**	**254,795**	**(2,873)**	**251,922**
Operating income (loss)	**¥ 10,754**	**¥ (1,524)**	**¥ (564)**	**¥ 8,666**	**¥ 418**	**¥ 9,084**
Assets	**¥150,554**	**¥ 69,777**	**¥14,715**	**¥ 235,046**	**¥61,237**	**¥296,283**

For the year ended February 28, 2009	Thousands of U.S. dollars					
	Geographic segment				Elimination of intersegment sales	Consolidated total
	Japan	Europe	Other	Total		
Sales to outside customers	**$2,315,192**	**$ 269,196**	**$ 84,112**	**$2,668,500**	**$ —**	**$2,668,500**
Intersegment sales	**18,751**	**5,582**	**766**	**25,099**	**(25,099)**	**—**
Total	**2,333,943**	**274,778**	**84,878**	**2,693,599**	**(25,099)**	**2,668,500**
Costs and expenses	**2,223,995**	**290,359**	**90,645**	**2,604,999**	**(29,373)**	**2,575,626**
Operating income (loss)	**$ 109,948**	**$ (15,581)**	**$ (5,767)**	**$ 88,600**	**$ 4,274**	**$ 92,874**
Assets	**$1,539,250**	**$ 713,393**	**$ 150,445**	**$2,403,088**	**$ 626,081**	**$3,029,169**

The management expenses in Elimination of intersegment sales as of February 28, 2009 were ¥3,836 million ($39,219 thousand) and the assets used for management activity as of February 28, 2009 were ¥191,306 million ($1,955,894 thousand).

Segment information classified by geographic segment of the Company for the year ended February 29, 2008 is as follows:

For the year ended February 29, 2008	Millions of yen					
	Geographic segment				Elimination of intersegment sales	Consolidated Total
	Japan	Europe	Other	Total		
Sales to outside customers	¥243,199	¥34,107	¥ 9,726	¥287,032	¥ —	¥ 287,032
Intersegment sales	1,536	623	121	2,280	(2,280)	—
Total	244,735	34,730	9,847	289,312	(2,280)	287,032
Costs and expenses	226,700	31,892	10,765	269,357	(952)	268,405
Operating income (loss)	¥ 18,035	¥ 2,838	¥ (917)	¥ 19,956	¥ (1,328)	¥ 18,628
Assets	¥152,615	¥47,114	¥17,839	¥217,568	¥91,524	¥ 309,092

The management expenses transferred to Elimination of intersegment sales as of February 29, 2008, were ¥1,801 million and the assets used for management activity as of February 29, 2008, were ¥180,201 million.

(3) Overseas Sales

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, 2009 is as follows:

For the year ended February 28, 2009	Millions of yen		
	Overseas sales		
	Europe	Other	Total
Overseas sales	**¥ 18,530**	**¥ 14,945**	**¥ 33,475**
Consolidated sales			**261,006**
Percentage of overseas sales against consolidated sales	**7.1%**	**5.7%**	**12.8%**

For the year ended February 28, 2009	Thousands of U.S. dollars		
	Overseas sales		
	Europe	Other	Total
Overseas sales	**$ 189,449**	**$ 152,796**	**$ 342,245**
Consolidated sales			**2,668,500**
Percentage of overseas sales against consolidated sales	**7.1%**	**5.7%**	**12.8%**

Segment information classified as overseas sales of the Company for the year ended February 29, 2008 is as follows:

For the year ended February 29, 2008	Millions of yen		
	Overseas sales		
	Europe	Other	Total
Overseas sales	¥ 25,917	¥ 19,243	¥ 45,160
Consolidated sales			287,032
Percentage of overseas sales against consolidated sales	9.0%	6.7%	15.7%

ERNST & YOUNG

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Fax: +81 3 3503 1197

Report of Independent Auditors

The Board of Directors of
ONWARD HOLDINGS Co., Ltd.

We have audited the accompanying consolidated balance sheets of ONWARD HOLDINGS Co., Ltd. and consolidated subsidiaries as of February 28, 2009 and February 29, 2008, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in 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 referred to above present fairly, in all material respects, the consolidated financial position of ONWARD HOLDINGS Co., Ltd. and consolidated subsidiaries at February 28, 2009 and February 29, 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended February 28, 2009 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(20).

Ernst & Young ShinNihon LLC

May 28, 2009

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, Tavarnuzza,
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,
NAVE Soho Store,
New York, NY 10018, U.S.A.
Tel: (1) 212-997-3600

ONWARD KASHIYAMA KOREA CO., LTD.
GF, Hwankyoung B/D,
1-118, Jang Chung-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.
Tel: (44) 20-7240-0432

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

JIL SANDER S.p.A.
Piazza Castello 1,
20121 Milano, Italy
Tel: (39) 02-806913. 1

IRIS S.p.A.
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Fisso D'Artico,
30032 Venezia, Italy
Tel: (39) 041-5169911

ERIKA s.r.l.
Via Boschi, 42/bis,
37060 MACCARI (Verona), Italy
Tel: (39) 0442-56666

FRASSINETI s.r.l.
Via E. Fermi 7, Loc. Scopeti - Rufina,
50068 Firenze, Italy
Tel: (39) 055-839-7385

CORPORATE s.r.l.
Via Robuschi, 3 43100 Parma, Italy
Tel: (39) 0521-292-961

Domestic Subsidiaries

APPAREL AND TEXTILE PRODUCTS
ONWARD KASHIYAMA CO., LTD.
ONWARD TRADING CO., LTD.
CHACOTT CO., LTD.
CREATIVE YOKO CO., LTD.
BUS STOP CO., LTD.
DONNA KARAN JAPAN K.K.
FUSION CO., LTD.
CANDELA INTERNATIONAL CO., LTD.
J. DIRECTION CO., LTD.
O.P.S. CO., LTD.

SERVICES
ACROSS TRANSPORT CO., LTD.
ONWARD LIFE DESIGN NETWORK CO., LTD.
ONWARD CREATIVE CENTER CO., LTD.
VOICEDAM CO., LTD.
BIEN CO., LTD.
EXCEL CO., LTD.
BOOKLET CORP.

RESORTS
O & K CO., LTD.
ONWARD RESORT & GOLF CO., LTD.

As of February 28, 2009

Corporate Data

(As of February 28, 2009)

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-hd.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	10,317
Stock Listings	Tokyo, Osaka, and Nagoya stock exchanges
Transfer Agent	Mitsubishi UFJ Trust & Banking Co., Ltd. 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan
Number of Employees (Consolidated)	2,473 (As of the end of February 2009)

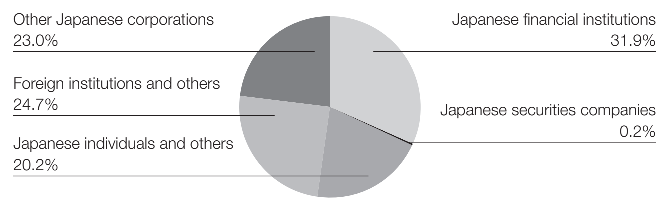
Major Shareholders

	Percentage of Total Shares Issued
Kashiyama Scholarship Foundation	5.03%
Japan Trustee Services Bank, Ltd. (Trust account)	4.62
Japan Trustee Services Bank, Ltd. (Trust account 4G)	3.98
The Master Trust Bank of Japan, Ltd. (Trust account)	3.78
Nippon Life Insurance Company	3.60
Lehman Brothers International (Europe), Limited	3.14
Isetan Company, Limited	2.89
The Dai-ichi Mutual Life Insurance Company	2.42
MARUI GROUP CO., LTD.	1.97
SUMITOMO MITSUI BANKING CORPORATION	1.69

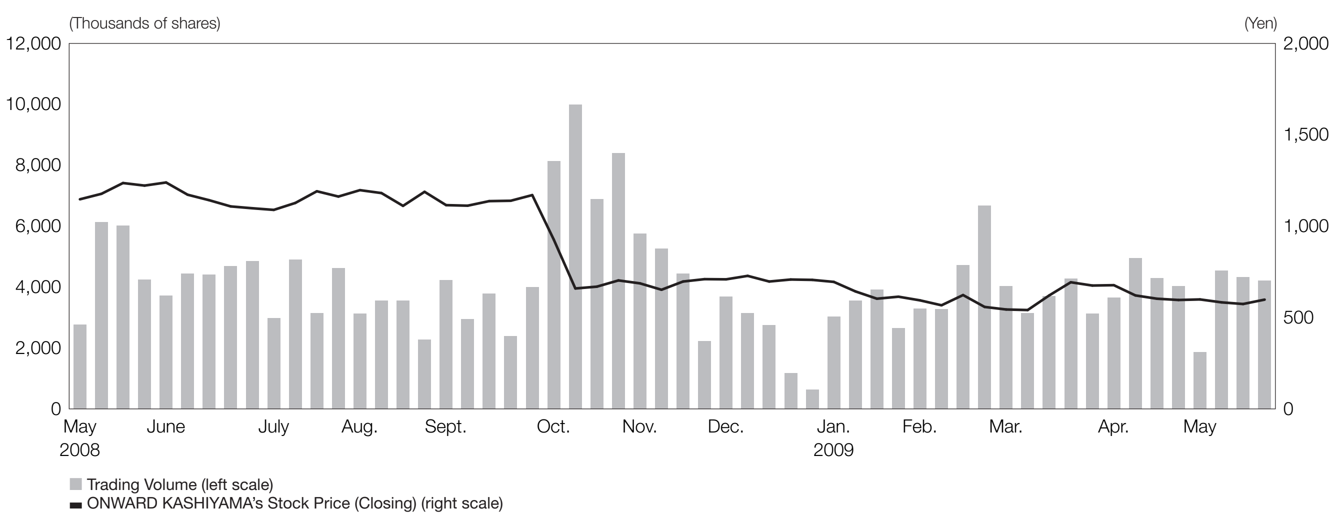
Notes: 1. The Company holds 16,267 treasury shares (9.40%) but has been excluded from the list of major shareholders.
2. The figures for percentage ownership of total shares issued have been computed to three digits and then truncated to two digits.

Distribution of Ownership among Shareholders

(On a number of shares basis)



Stock Price Movement



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