ONWARD

ANNUAL REPORT 2011

Year Ended February 28, 2011

ONWARD HOLDINGS CO., LTD.

PROFILE

A Leading Company in the Apparel Industry

Since its establishment in 1947, Onward has been a top apparel manufacturer in Japan and has played a leading role in the fashion industry. In September 2007, the Onward Group made the transition to a holding company structure. Today, the Group comprises 98 companies in Japan and the rest of the world.* Well-known global brands of the JOSEPH Group and the JIL SANDER Group have become members of the Onward Group, and in collaboration with the GIBO' CO. Group, which plays the role of a production platform, the Onward Group is accelerating the implementation of its global strategy.

The corporate philosophy of the Onward Group is to create new value and lifestyles by proposing fashions that become an integral part of our living culture and, thereby, contribute to the enrichment of life for all people. Looking to the future, the Onward Group will continue to work to increase customer satisfaction as it aims for global growth by working to secure stable growth in net income in its activities in Japan and by aggressively expanding its overseas business operations.

*As of February 28, 2011

CONTENTS

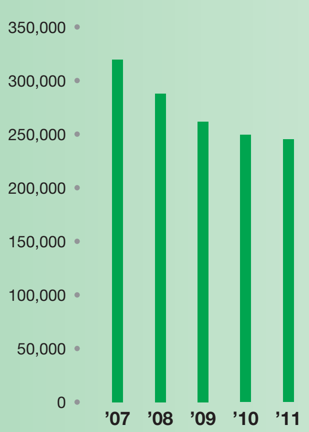
FINANCIAL HIGHLIGHTS

ONWARD HOLDINGS CO., LTD. and Subsidiaries
Years ended February 28, 2010 and 2011

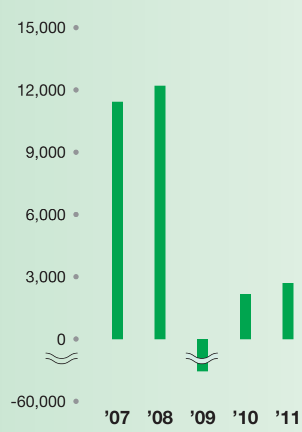
	Millions of yen		Thousands of U.S. dollars
	2010	**2011**	**2011**
At year-end:			
Total current assets	¥100,680	**¥ 95,545**	**$1,169,314**
Total current liabilities	90,929	**82,677**	**1,011,840**
Short-term loans	31,881	**27,354**	**334,765**
Total shareholders' equity	175,450	**174,454**	**2,135,038**
For the year:			
Net sales	¥248,635	**¥244,551**	**$2,992,911**
Operating income	4,384	**8,929**	**109,272**
Net income	2,188	**2,723**	**33,320**
	Yen		U.S. dollars
Per share:			
Net income—basic	¥13.97	**¥17.38**	**$0.21**
Cash dividends	24.00	**24.00**	**0.29**
ROE (%)	1.4	**1.7**	
Operating income margin (%)	1.8	**3.7**	

Note: Yen amounts have been translated, for convenience only, at ¥81.71=US$1, the approximate exchange rate on February 28, 2011.

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

A MESSAGE TO OUR SHAREHOLDERS

Takeshi Hirouchi
Chairman and President

We are working to increase "brand value" as we respect tradition and constantly evolve with the times. At the same time, we are pursuing a global development strategy and aiming to aggressively expand earnings from our overseas business activities.

Performance in Fiscal 2011

During the fiscal year ended February 28, 2011, consolidated net sales amounted to ¥244,551 million, 1.6% lower than for the previous fiscal year. Consolidated operating income was ¥8,929 million, 103.7% higher than in the previous fiscal year, and the Group reported consolidated net income of ¥2,723 million, 24.4% higher than in the prior year.

Apparel market trends in Japan in fiscal 2011 became slightly more favorable for the Group—which targets medium- to high-end clothing—as consumers showed signs of growing weary of thriftiness and returning to fashionable, high-quality merchandise. As a result of steady increases in sales of major core brand apparel, the Group's gross margin rose, and, as a consequence of the efficient allocation of expenditures, profitability was higher than in the previous fiscal year.

Focusing on Brand-Leveraged Management

To be successful in competition with other global corporations, we have positioned Brand-Leveraged Management as our basic strategy, and its objective is to maximize the value of our brands. Our core distribution channel in Japan is department stores. To increase brand value through this channel, we are working to enhance our operational and merchandising capabilities, marketing capabilities, and our sales area environments, focusing on our high-margin, major core brands. In addition, we are working to expand sales by stepping up our “item strategy” across our brands and by implementing “attractive and effective sales tactics.”

To implement our item strategy, we are putting our craftsmanship skills into practice to create products that do not currently exist on the market, literally from scratch. By continuing to add value to new materials and offering them to customers, we are aiming to increase customer support for Onward products. Examples of products that were created under this item strategy that have been well received by customers are our “AIR JACKET” and “2-Tension Pants.” The AIR JACKET was developed in collaboration with a fabric manufacturer, sewing plants, and other partners. Our 2-Tension Pants, which are made from a stretching fabric, were developed together with a material producer. Also, as part of our drive to implement attractive and effective sales tactics, we are continuing our “Color Campaign,” which focuses on the concept of “color,” which is a sine qua non in creating successful fashion goods.

In our overseas business activities, in Europe, which is a key to future growth, we are realizing additional synergies by shifting the commissioned production of the Onward Group as a whole, including that of JIL SANDER and JOSEPH, to the GIBO’ CO. Group. Especially through the development of the JIL SANDER Group’s new “JIL SANDER NAVY” lineup, we are aiming for additional synergies and increased profitability.

In Asia, we are moving forward with aggressive business expansion by developing new brands and expanding our sales outlets.

Ready for the Trends of the Times

Today, when so-called “fast fashion” has become popular, it is indispensable that the Onward Group, which is an enterprise that has grown through wholesaling mainly medium- to high-end apparel, increase its brand value. The Group is aggressively taking the initiative in drawing on its sales and promotion know-how in retailing to breathe new life into its wholesale operations. The first step in this direction has been the development of directly managed flagship stores.

Our NIJYUSANKU GINZA store that we opened on Tokyo’s Ginza Street is one of the leading fashion shopping districts in Asia. This new store has become a flagship for our presence in Asia, and it has raised our profile for transmitting our “brand message” throughout the rest of Asia.

Our e-commerce business is off to a strong start, and we are planning to accelerate expansion. Plans also call for developing Web-based business in the rest of Asia.

In our production activities, we have a flexible policy of shifting production to areas that are best suited to the times. For example, we have invested capital in leading factories in the Shanghai area, established exclusive production lines there dedicated to Onward apparel production, and, thereby, secured stable supply capabilities. At the same time, we are moving forward with expanding production bases in Vietnam and areas other than China.

Moving Forward after the Crisis

The Great East Japan Earthquake struck on March 11, 2011. Since it caused unbelievably heavy damage and dealt a serious blow to the Japanese economy, conditions are believed likely to remain difficult for the foreseeable future. In the apparel industry also, the disaster itself and its side effects, such as electric power conservation and rolling blackouts, are forecast to have an adverse effect on consumer spending and other economic activities.

To estimate the impact of the earthquake on Group performance, we have made assumptions regarding the side effects by area and by time frame. In our domestic operations, we estimate that the disaster will reduce our net sales by ¥8.7 billion. Our policy will be to implement measures to minimize the impact by allocating our expenditures more efficiently. We believe, however, that the earthquake will not have any impact on our overseas activities.

The fiscal year ended in February 2011 was the final year of our Three-Year Medium-Term Management Plan that we began to implement in fiscal 2009. We are planning to newly announce our Second Medium-Term Management Plan after we have reviewed and checked the figures once again.

Toward a New Onward where People Are the Key Resource

Onward positions the allocation of a portion of profits to shareholders as one of its most-important priorities. Our basic policy is to set a target dividend payout ratio of 35% or more and to make stable and appropriate distributions of profits, taking account of our performance. For the fiscal year ended February 2011, after giving full consideration to performance and the operating environment going forward, we have set the cash dividend for the full year at ¥24 per share, which is the same as in the previous fiscal year.

For the fiscal year ending February 2012, we are targeting consolidated net sales of ¥244.8 billion, an increase of 0.1%; operating income of ¥10.2 billion, an increase of 14.2%; and net income of ¥3.5 billion, an increase of 28.6%.

Even though events beyond anything we could have imagined have occurred, we are continuing to conduct business as usual. The resources that keep us moving steadily forward are "our people" and our corporate DNA that we have nurtured since the Company was founded. The Onward Group is proceeding to work to increase efficiency and implement its corporate strategies with the aim of increasing corporate and shareholder value. We want to thank you, our shareholders, for your continued understanding and support.

May 2011

Takeshi Hirouchi

Takeshi Hirouchi
Chairman and President

BASIC MANAGEMENT POLICIES IN FISCAL 2012

Implementing a Global Strategy

Securing stable profitability in Japan while aggressively expanding overseas earnings

JAPAN: MAKE STRONG BUSINESSES EVEN STRONGER, STEP UP DEVELOPMENT OF NEW BUSINESS FIELDS

- ▶ Continue to relocate and expand store size: "Rainbow Strategy"
- ▶ Strengthen operations of directly managed flagship stores
- ▶ Aggressive expansion of e-commerce with a view to global opportunities

OVERSEAS: SHIFT MAIN FOCUS FROM IMPROVING PROFITABILITY TO GROWTH

- ▶ In Europe, improve profitability of subsidiaries and realize greater Group synergies to expand income
- ▶ In Asia: Accelerate growth through investment and expansion of marketing network

Net Sales (Actual in Fiscal 2011 and Planned for Fiscal 2012)

	Fiscal 2011	Fiscal 2012
Total	¥259.4 billion	¥262.1 billion
Domestic	217.9 billion	212.9 billion
Overseas	41.5 billion	49.2 billion
Europe	32.0 billion	39.1 billion
Asia (excl. Japan)	6.4 billion	6.8 billion
Americas	2.9 billion	3.1 billion

Simple total (before eliminations)

Assumptions regarding the impact of the Great East Japan Earthquake

The following effects are assumed by area and time frame:

- ▶ Kanto area: The impact will continue through the first quarter, depending on the status of rolling electric power blackouts, etc.
- ▶ Tohoku area: The impact will continue through the end of fiscal 2012, depending on the status of repairs on stores that have been closed, the effects of the nuclear accidents, and other factors.
- ▶ Other areas: No impact is expected after April 2011.

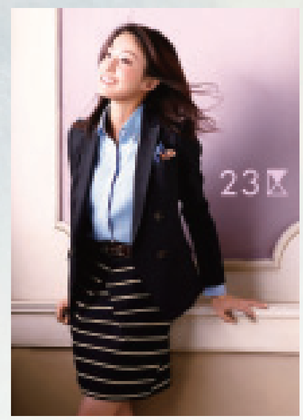
DOMESTIC APPAREL-RELATED BUSINESS

Make strong businesses even stronger, step up development of new business fields

▶ **Increase brand value, aim for recovery principally in sales of major core brand products**

▶ **Concentrate corporate resources on high-margin brands and items to increase overall profit ratio**

In domestic business activities, we will continue to focus corporate resources in ONWARD KASHIYAMA on major core brands and work to raise brand value and increase earnings. We will strengthen the operations of flagship stores and raise our profile for transmitting our brand messages. We will also expand sales by developing major new brands for shopping center malls. In e-commerce, we will draw on the Onward Group's wide range of capabilities to aggressively expand the scope of this business area from a global perspective.



ONWARD KASHIYAMA

▶ **Improve gross profit by making a major reduction in royalty payments (Accompanying the renewal of licenses Calvin Klein, Paul Smith, Dream Girl by Anna Sui, etc., reductions in manufacturing costs)**

▶ **Implement our "Rainbow Strategy" in department stores and new distribution channels: build new sales areas, renovate existing areas, and close certain areas**

▶ **Further expand e-commerce business**

Plans for Sales Area in Department Stores and New Distribution Channels (Fiscal 2012)

	Sales area (m^2)	Change year on year (%)
Department stores	164,680	1.6
New distribution channels	84,817	0.9

TOPIC 1

Grand opening of the NIJYUSANKU GINZA brand store

A brand message transmission center for all of Asia

TOPIC 2

Revival of KUMIKYOKU brand

Opened 100m^2 flagship sales area in the Ikebukuro store of Seibu Department Stores, accompanied by advertising and promotional campaign

OTHER MAJOR SUBSIDIARIES

▶ Each subsidiary clarifies its area of professional competence.

- ONWARD TRADING CO., LTD.: Works in collaboration with ONWARD KASHIYAMA to strengthen production bases in China and Southeast Asia and improve the Group's gross margin
- CHACOTT CO., LTD.: Strengthen product development capabilities in three main genres (ballet, ballroom dancing, and fitness) and expand sales
- CREATIVE YOKO CO., LTD.: Promote transition to handling a full lineup of pet-related products and services, differentiate directly managed stores
- BUS STOP CO., LTD.: Make the transition from being a boutique handling selected merchandise to a retailer offering lifestyle suggestions, established a more-differentiated position as a selected merchandise store
- ISLAND CO., LTD.: Establish new, large-scale shops and strengthen existing stores with the aim of expanding sales

OVERSEAS APPAREL-RELATED BUSINESSES

Shift main focus from improving profitability to growth

Plan for double-digit growth in Europe and China by increasing the number of brands and expanding sales channels

Improve profitability in Europe by working to increase brand value and realize additional synergies, in China, by strengthening the brand lineup and expanding the sales network

In overseas operations, we have improved the management base of European subsidiaries, and now entered a new stage of implementing an aggressive global growth strategy. The JIL SANDER Group launched its new JIL SANDER NAVY collection in spring 2011 and, going forward, will realize additional synergies with the GIBO' CO. Group to improve profitability. In Asia also, we will make aggressive investments in both production and sales and accelerate the implementation of our growth strategy.

EUROPE

JIL SANDER

- ▶ **Launch of JIL SANDER NAVY collection to drive sales higher**
- ▶ **Give the collection new vibrance by boosting product development systems**
- ▶ **Further leverage GIBO' CO.'s production platform to increase profitability**

JOSEPH

- ▶ **Strengthen product development that captures trends**
- ▶ **Increase sales by strengthening management at flagship and existing stores**
- ▶ **Increase advertising and promotional capabilities and transmit a stronger brand image to the world**

GIBO' CO.

- Put more emphasis on contemporary fashion segments (e.g., JIL SANDER NAVY)
- Reap increased Group synergies through boosting Group production ratio
- Use new licensing agreements to expand sales

Current Status of Group Synergies

GIBO' CO. Group	GIBO' CO. (Apparel manufacturing and sales)	CORPORATE (Apparel manufacturing and sales)	ERIKA (Knitwear manufacturing)	IRIS (Shoe manufacturing and sales)	PLANETA (Bag manufacturing)
JOSEPH	√	—	—	√	√
JIL SANDER	—	√	√	√	√

ASIA

- Increase the lineup of brands sold in China (launch JIYUKU brand and others)
- Begin e-commerce business in China (schedule launch for fall 2011)
- Invested in leading factories in Shanghai area, established exclusive production line dedicated to Onward apparel, secured stable supply capabilities for the Japanese market. Established a "Quick Response" system in Asia

Expansion in Number of Stores in the Rest of Asia

	Actual in Fiscal 2011	Planned for Fiscal 2012	Change
China	161	175	14
Hong Kong	8	7	(1)
South Korea	23	24	1
Taiwan	57	63	6
ASEAN	3	10	7
Total	252	279	27

UNITED STATES

- Revitalized the J. PRESS brand in cooperation with Yale University
- New designer hires and entry into new businesses under consideration

The Onward Group has adopted "Thinking of the Earth. Clothing Its People." as its environmental concept and conducts environmental management.

Onward Group's Environmental Concept

Thinking of the Earth. Clothing Its People.

As the pace of movement in the world around us becomes faster and faster, fashions and trends are changing at a bewildering pace. Also, recently, more and more apparel has become available at low prices. We believe that many people have sensed a growing trend toward apparel that the consumer is apparently expected "to use a few times and then dispose of."

Fashions that are both trendy and "disposable" are likely to place a gradually increasing burden on the environment in the years to come, and this may have a major impact on the lives of peoples around the world. The role of fashion is to bring refreshment and beauty to people's lives and, thereby, give them more opportunities to experience happiness. Fashion must not be something that impairs or detracts from the virtually unlimited future of the Earth's natural environment and the peoples of the world.

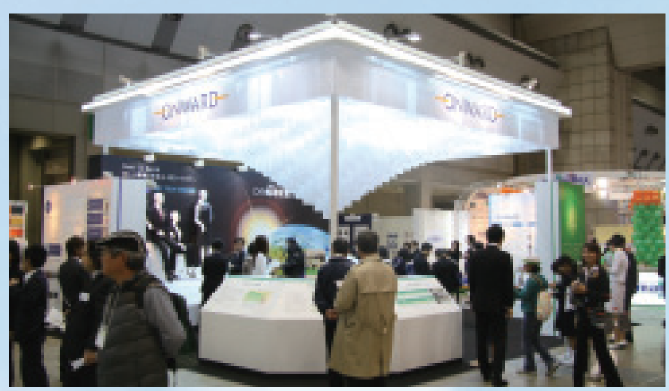
The Onward Group, as one of the leading companies in the international apparel industry that offers fashion on the global stage, has corporate social responsibilities. These include owning up to the challenge of aiming to "achieve a balance between the natural environment and the world's people" in its wide range of apparel and other products and in every aspect of its corporate activities.

We are thinking of the future of the Earth, and it is precisely because we have a responsibility to the world to offer fashionable apparel that brings refreshment and beauty to people's lives that the Onward Group is thinking seriously about what it can do about preserving the natural environment and is working to fulfill each of its responsibilities.

Highlights of Environmental Activities

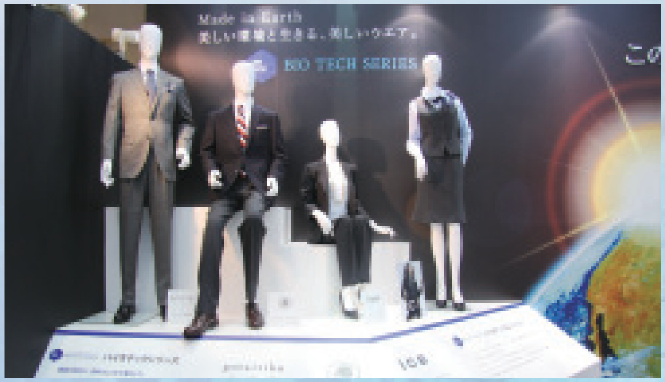
Onward Sponsors Exhibit at "Eco-Products 2010," Japan's Largest Environment-Related Trade Fair for Second Consecutive Year

As part of its environmental management activities, the Onward Group presented an exhibit in the Eco-Products 2010 trade fair, Japan's largest environmental exhibit, for the second year in a row. By introducing its many environmental initiatives, the Group aims to make an appeal for its activities in the apparel field that contribute to increasing environmental awareness and enhance its corporate image.



Expanding the "BIO TECH SERIES," the Ultimate in Ecological Wear That Can Be Recycled to Nature

Based on the concept that "apparel manufacturers should take responsibility for recycling their own products," Onward now designs products with a view to recyclability in the natural environment. The first item in this series,



launched in summer 2010, was the "BIO TECH SUIT," which was followed in winter 2010 by the introduction of the "BIO TECH JACKET" and "BIO TECH PANTS." The external appearance and durability of the products in the "BIO TECH SERIES" are the same as for regular apparel. However, while they are quite fashionable, when no longer needed, since they are biodegradable, they can be returned to nature by burying them in the ground where they will be decomposed by bacteria present in the soil. In addition, since they contain no substances that have been identified as harmful to human life, such as heavy metals, carcinogens, or allergy-causing ingredients, they leave no harmful substances behind.

Developing a Recycling System for Apparel

Compared with other products, the recycling of textile products needs to catch up with the times. At ONWARD KASHIYAMA, we are working to make the most-effective use of the world's limited resources by encouraging the recycling of apparel. One of our activities for helping to preserve the Earth's irreplaceable environment for future generations is the Onward Green Campaign, which we began in 2009. Through this campaign, Onward collects, through department stores, the used men's, women's, children's, and sportswear items that it has manufactured, and, when possible, makes these items available for recycling and reuse. Some of the items are used to make recycled thread and yarn, which are then made into blankets and work gloves and distributed as part of the Group's environmental and social activities.

Highlights of Activities Contributing to Society

Assistance to Areas Stricken by the Great East Japan Earthquake

The Great East Japan Earthquake occurred in the afternoon of Friday, March 11, 2011. To provide relief to people in the stricken areas, the Group donated a total of about 100,000 items, including blankets, gloves, and winter clothing and donations amounting to ¥100 million through the Japan Red Cross Society. The Group will continue to provide assistance flexibly to help meet the needs of these areas.

Donation of 3,300 Recycled Blankets to Communities in Kazakhstan and Elsewhere

In February 2011, ONWARD KASHIYAMA donated 3,300 blankets, which were made from items accepted for recycling during 2010 to destitute refugees, children, and local communities in Almaty, Kazakhstan. As a result of these activities, reports have been received of a decline in the incidence of illnesses due to colds during the year. In addition, information on the Group's donations has been mentioned on the Central Asian Website of the United Nations High Commissioner for Refugees.

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 corporate value, or, in other words, shareholder value are important management issues. 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

Provisions to hold extraordinary meetings of the Board of Directors whenever appropriate in light of urgent situations constitute a framework that is able to respond to rapid changes in the business environment. In addition, two outside directors have been elected as part of efforts to strengthen the supervisory functions of the Board of Directors.

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. To handle decision-making functions for the Group as a whole, the Company has formed the Group Strategic Council and the Group Management Promotion Council, which discuss important issues related to the management strategies and management of each Group company and also take steps to confirm operational execution situations.

In accordance with the audit policy task assignments determined by the Board of Auditors, each corporate auditor attends such important meetings as those of the Board of Directors, the Group Strategic Council, and the Group Management Promotion Council while also reading documents related to other important decisions and taking other measures to audit the conduct of duties of the Directors.

Furthermore, advisory contracts have been concluded with a number of lawyers, from whom legal advice is received.

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 Company's 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.

Compliance System

The Group 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 an "Onward Group Whistle Line" hotline, which is based on the Onward Group Internal Notification Regulations, and act as the reception window for 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 of 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 damage 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 and President
Takeshi Hirouchi*

Vice Chairman
Kentaro Mizuno

Vice President
Kazuya Baba

Senior Managing Director
Masaaki Yoshizawa

Managing Director
Kenichi Iizuka

Outside Directors
Hachiro Honjou
Yoshihide Nakamura

Officers

Executive Officers
Akira Okuda
Tsutomu Hagihira
Masabumi Kiyohara
Hidenobu Tanaka
Hirokazu Yoshizato
Michinobu Yasumoto
Eiji Touno

Corporate Auditors

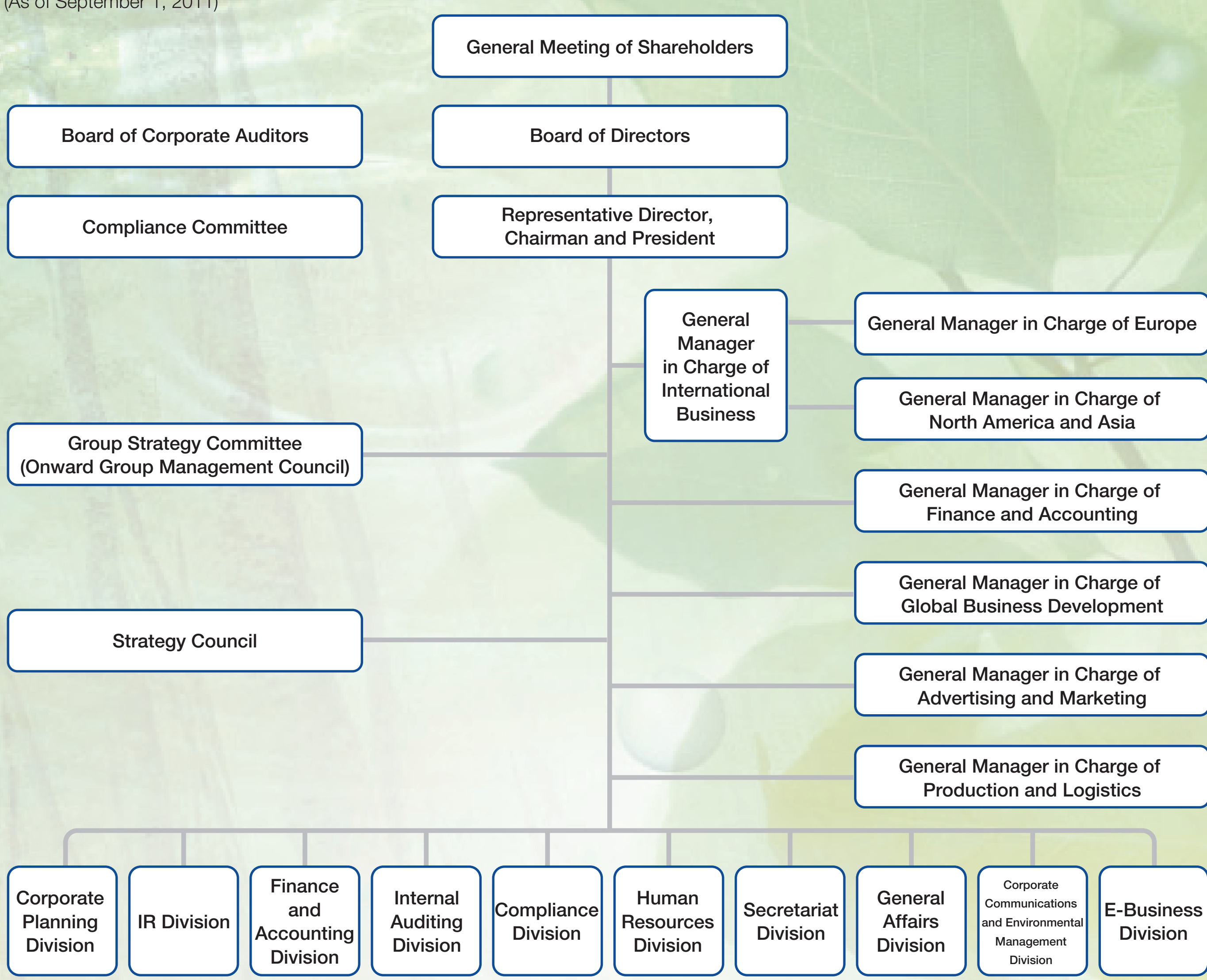
Standing Corporate Auditors
Akito Yamamoto
Hitoshi Aoyama
Jotaro Yabe**
Katsuaki Ohashi**

As of September 1, 2011

* Representative Director
** Outside Auditor

ORGANIZATION CHART

(As of September 1, 2011)



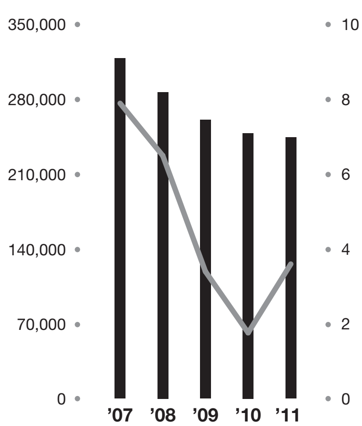
CONSOLIDATED SIX-YEAR SUMMARY

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

	Millions of yen						Thousands of U.S. dollars
	2006	2007	2008	2009	2010	**2011**	**2011**
At year-end:							
Total current assets	¥135,769	¥135,197	¥112,519	¥ 98,946	¥100,680	**¥ 95,545**	**$1,169,314**
Total property, plant and equipment	99,688	94,850	95,008	90,175	89,742	**86,623**	**1,060,125**
Total assets	329,403	347,936	309,092	296,283	292,569	**281,643**	**3,446,856**
Total current liabilities	97,617	103,494	93,321	92,369	90,929	**82,677**	**1,011,840**
Total shareholders' equity	201,599	212,600	213,625	178,023	175,450	**174,454**	**2,135,038**
For the year:							
Net sales	¥283,111	¥318,691	¥287,032	¥261,006	¥248,635	**¥244,551**	**$2,992,911**
Cost of sales	152,043	175,796	156,842	142,676	134,459	**128,726**	**1,575,397**
Selling, general and administrative expenses	106,360	117,464	111,562	109,246	109,792	**106,896**	**1,308,242**
Operating income	24,708	25,431	18,628	9,084	4,384	**8,929**	**109,272**
Income taxes, current	12,321	14,409	9,780	4,639	4,016	**5,555**	**67,988**
Net income (loss)	11,091	11,438	12,214	(30,895)	2,188	**2,723**	**33,320**
	Yen						U.S. dollars
Per share:							
Net income (loss)—basic	¥63.8	¥70.5	¥76.5	¥(197.2)	¥13.9	**17.3**	**$0.21**
Cash dividends	24.0	26.0	30.0	30.0	24.0	**24.0**	**0.29**

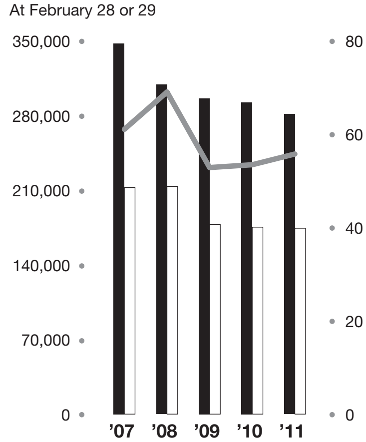
Note: Yen amounts have been translated, for convenience only, at ¥81.71=US$1, the approximate exchange rate on February 28, 2011.

Net Sales and Operating Income Margin
(Millions of yen, %)
Years ended February 28 or 29



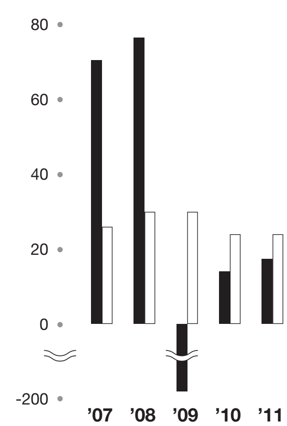
■ Net sales (left scale)
■ Operating income margin (right scale)

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

During the fiscal year under review (ended February 28, 2011), there were some signs of recovery in the Japanese economy because of the positive effects of government policies to stimulate personal consumption and expansion in demand accompanying growth in the emerging countries. However, the outlook for the economy remained uncertain because of continued difficult labor and income conditions, the sharp appreciation of the yen, prolonged deflation, and other factors.

In the apparel industry, signs of a moderate recovery emerged beginning in the fall of 2010, but in part because of the persistence of the deep-rooted economizing mood among consumers and unseasonable weather conditions, consumer spending remained weak overall, and the operating environment remained challenging. Amid these conditions, under its new growth strategy, in Japan, the Onward Group invested in its sales areas, focusing especially on profitable major core brands and worked to expand income by aggressively launching new products. In overseas markets, the Group implemented further measures to improve profitability in the European region, which is key to growth, and took steps to expand its business operations in Asia.

As a consequence of these various measures, ONWARD KASHIYAMA, the core company of the Group, and subsidiaries in Japan and overseas reported performances above the planned levels.

The Group reported net sales of ¥244.5 billion, down 1.6% from the previous fiscal year, operating income of ¥8.9 billion, which was 103.7% higher year on year, and net income of ¥2.7 billion, a 24.4% rise over the previous year.

Results of Operations

Net Sales

Sales in the Group's apparel business amounted to ¥229.7 billion, down ¥4.4 billion, or 1.9%, from the previous fiscal year, but sales of service-related businesses rose ¥0.3 billion, or 2.5%, to ¥14.8 billion. The Group's consolidated net sales amounted to ¥244.5 billion, a decrease of ¥4.0 billion, or 1.6% year on 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. The results for the fiscal year are summarized in the following paragraphs.

• Apparel and Other Textile Product Businesses

Regarding operations in Japan, ONWARD KASHIYAMA concentrated on its major core brands under its Brand-Leveraged Management strategy and worked to increase brand value through the enhancement of our operational and merchandising capabilities, our marketing capabilities, and our store environments. In addition, we worked to expand sales by stepping up our "item strategy" across our brands and by implementing "attractive and effective sales tactics." Along with this, we made an aggressive entry into the e-commerce business, and, by adopting active measures to secure members for our Website, results were above the planned levels. As a consequence of these measures, we worked to expand sales of major core brands and increase our gross profit ratio, and this, in turn, resulted in higher income. Performances of other Group apparel companies in Japan, especially ISLAND CO., LTD., were favorable and contributed to growth in income.

Overseas, in Europe, both the JOSEPH Group and JIL SANDER Group realized synergies with the GIBO' CO. Group—which plays the role of a production platform for these two groups—and this collaboration brought improvement in their business position. Also, in Asia, the Onward Group worked to attain growth as planned against the background of market expansion in this region. Group companies in North America reported steady progress toward improvement in profitability.

As a result, as previously mentioned, sales of the apparel and other textile product businesses amounted to ¥229.7 billion, a decline of 1.9% year on year, but operating income rose 97.1%, to ¥8.9 billion.

• Service-Related Businesses

Among service-related businesses, ACROSS TRANSPORT CO., LTD., which operates a logistics business, showed a decline in profitability because of a decrease in subcontracted work and the effects of high crude oil prices, but ONWARD CREATIVE CENTER CO., LTD., which designs and implements commercial facilities, reported a recovery in performance. In the resort business, improvements in results were according to plan.

Consequently, sales of this segment increased 2.8%, to ¥21.7 billion, and the operating loss expanded to ¥117 million compared with an operating loss of ¥39 million in the previous fiscal year.

The Onward Group's performance by geographic region was as follows.

• Japan

Among operations in Japan, ONWARD KASHIYAMA and ISLAND showed results well above initial plans and reported increases in sales and income.

As a consequence, sales in Japan rose 0.7%, to ¥207.7 billion, and operating income rose 21.1%, to ¥11.2 billion.

• Europe

In Europe, progress was made toward strengthening the management base of Group companies in this region and resulted in improvement in profitability. Although sales in Europe amounted to ¥30.7 billion, a decrease of 15.6% year on year, the operating loss improved substantially to ¥2,595 million, compared with ¥4,173 million in the prior fiscal year.

• Other

The Group's business operations in Asia reported steady expansion in income, and operations in the United States returned to the black as a result of activities to improve profitability.

As a result, sales amounted to ¥8.5 billion, an increase of 9.3%, and operating income returned to the black, rising to ¥80 million, compared with an operating loss of ¥902 million in the previous year.

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

Against a decline in net sales of ¥4.0 billion, or 1.6%, to ¥244.5 billion, the cost of sales decreased along with cost-cutting measures by ¥5.7 billion, or 4.3%, to ¥128.7 billion. Because of the positive effect of the relatively large decrease in cost of sales, gross profit rose ¥1.6 billion, an increase of 1.4% year on year, to ¥115.8 billion. As a consequence, the gross margin on net sales rose 1.5 percentage points, from 45.9% in the previous fiscal year to 47.4% in the fiscal year under review. This was because of the expansion in sales of higher margin products, mainly major core brand items, and the positive effects of improvement in profitability overseas in Europe, Asia, and North America.

Selling, general and administrative (SG&A) expenses decreased ¥2.9 billion, or 2.6%, to ¥106.8 billion, because of lower compensation and wage allowances as well as rental costs among administrative expenses. Although net sales decreased, the ratio of SG&A expenses to net sales declined 0.5 percentage point, from 44.2% in the previous fiscal year to 43.7% in the fiscal year under review because of the larger decline in SG&A expenses. Because of the improvement in the ratio of cost of goods sold and the ratio of SG&A expenses to net sales, the ratio of operating income to net sales rose 1.9 percentage points, from 1.8% to 3.7%. Therefore, despite the decline in sales, the profit ratios showed marked improvement, and operating income rose ¥4.6 billion, or 103.7%, to ¥8.9 billion.

Other income (expenses) amounted to expenses, net, of ¥377 million, compared with income, net, of ¥2.0 billion in the previous fiscal year, representing a deterioration of ¥2.3 billion. This was mainly because of the absence of the gain on the sale of investments in securities of ¥2.3 billion reported in the previous fiscal year, an increase in loss on write-down of investments in securities from ¥146 million in the previous fiscal year to ¥1.3 billion, a rise in impairment losses on fixed assets from ¥294 million in the prior fiscal year to ¥937 million in the fiscal year under review, and other factors. As a consequence of the matters described, the Company reported income before income taxes and minority interests of ¥8.5 billion, representing an increase of ¥2.1 billion, or 33.8%. Income taxes, inhabitants' taxes, and enterprise taxes calculated based on assumptions that include the assumption of a 40.7% effective tax rate amounted to ¥5.5 billion. Consequently, the Group reported net income of ¥2.7 billion, which was ¥535 million, or 24.5% higher than in the previous fiscal year.

Financial Position

At the end of the fiscal year, total assets amounted to ¥281.6 billion, down ¥10.9 billion from the end of the previous fiscal year. Current assets were down ¥5.1 billion, or 5.1%, to ¥95.5 billion, owing to a decrease in cash and time deposits of ¥3.4 billion, to ¥30.9 billion.

Total liabilities decreased ¥11.5 billion, or 8.6%, to ¥122.8 billion. Current liabilities declined ¥8.2 billion, to ¥82.6 billion, and long-term liabilities fell ¥3.2 billion, to ¥40.2 billion.

Shareholders' equity decreased ¥1.0 billion, or 0.6%, to ¥174.4 billion, because of a decline in retained earnings of ¥1.0 billion, to ¥117.7 billion. However, net assets, including minority interests in consolidated subsidiaries, rose ¥581 million, or 0.4%, to ¥158.7 billion. As a result, although total assets decreased, total net assets rose, and the shareholders' equity ratio at the end of the fiscal year increased to 55.8%, which was 2.3 percentage points higher than the 53.5% reported at the end of the previous fiscal year.

Cash Flows

Net cash provided by operating activities amounted to ¥11,207 million, down ¥2,851 million because of an increase in income taxes paid of ¥2,525 million and other factors.

Net cash used in investing activities amounted to ¥5,152 million, an increase of ¥5,126 million over the previous year, reflecting investments in sales space equipment, acquisition of investments in securities, and other factors.

Net cash used in financing activities amounted to ¥9,272 million, an increase of ¥4,382 million compared with the previous fiscal year. Principal factors accounting for this increase were repayments of debt and dividends paid.

As a result of the aforementioned factors, the balance of cash and cash equivalents at the end of February 2011 was ¥28,634 million, or ¥4,045 million lower than at the end of February 2010.

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 profit that are appropriate in light of trends in the Company's performance.

For the fiscal year under review, the Company has decided to pay a cash dividend of ¥24 per share. Decisions regarding acquisitions of treasury stock are to be made based on due consideration of funding requirements and other factors. Retained earnings will be employed in a flexible manner for strategic investments that build a solid business structure, for strengthening the Company's financial position, and for other objectives while giving due consideration to maintaining a balanced demand for funds.

Outlook

Looking to future trends, in addition to the uncertainties created by the appreciation of the yen and the labor and income environments, the Great East Japan Earthquake, which occurred on March 11, 2011, left unbelievable damage in its wake and dealt a severe blow to the economy. Therefore, for the time being, difficult conditions are expected to persist in the Japanese economy.

Conditions in the industries where the Group conducts business are forecast to be adversely affected because of the negative impact on consumption and other economic activities of the earthquake and events following it, including restraints on the use of electricity, rolling blackouts, and other circumstances.

Amid this management environment, the Onward Group will implement a global strategy with the aims of securing stable profitability in domestic businesses and implementing a growth strategy to aggressively expand profit in its overseas businesses.

In domestic businesses, ONWARD KASHIYAMA will continue to focus its management resources on major core brands, work to increase brand value, and promote expansion in income. In addition, ONWARD KASHIYAMA will strengthen operations of its directly managed flagship stores to enhance their capabilities for communicating Onward's brand message and expand sales through the development of major brands for marketing in shopping center malls. Moreover, to make full use of the Onward Group's comprehensive range of capabilities, the Group plans to move ahead to establish its presence, from a global perspective, in the rapidly expanding Internet market.

In overseas business operations, the Onward Group has strengthened the management bases of its subsidiaries in Europe and has now entered a period when it is positioned to actively pursue a global growth strategy. The JIL SANDER Group launched a new collection, JIL SANDER NAVY, in spring 2011, and it will continue to pursue synergies with the GIBO' CO. Group to increase profitability. In Asia outside Japan also, the Group will make aggressive investments in both production and marketing and accelerate the implementation of its growth strategy.

As a result of the implementation of these policies, the Onward Group has prepared plans for the fiscal year ending February 28, 2012, calling for an increase in net sales of 0.1%, to ¥244.8 billion, growth in operating income of 14.2%, to ¥10.2 billion, and a gain in net income of 28.6%, to ¥3.5 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 that they should emerge. Please note that the forward-looking statements contained in this section are based on the Group's judgments as of May 31, 2011.

(1) Risks Associated with Changes in Consumer Needs

To respond accurately to customer needs regarding the fashion products, the Group works to develop original and competitive 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 adverse 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 continuing over prolonged periods 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 adverse impact on performance. In addition, unexpected natural disasters—such as earthquakes and floods, sudden fires and accidents, and outbreaks of new strains of viruses and other epidemic diseases—may make the cessation of the Group's operations unavoidable. Such circumstances may have an adverse 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 and its brand image and result in substantial expenses that may have an adverse impact on Group performance.

(4) Risks Associated with Business Partners

The Group has strengthened its internal systems for periodically confirming the operating conditions and the creditworthiness of its business partners. However, losses may occur as a result of the 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 adverse 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 adverse 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 adverse impact on Group performance.

(6) Legal Risks

The Group conducts its business activities with full regard for laws and regulations, including those related to antimonopoly policies, the treatment of subcontractors, labeling, the safety of everyday consumer products, as well as laws concerning the natural environment and recycling. The Onward Group Compliance Committee plays 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 the 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 adverse impact on the Group's performance.

(7) Risks Associated with Information

The Group works to take all necessary measures and strengthens its systems for ensuring the security of information systems, and 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 the 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 adverse 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 adverse impact on the Group's performance.

(9) Risks Associated with Business/Capital Alliances

The Group's growth strategy includes provisions for using M&A transactions and similar methods in connection with domestic and overseas investments. In the case that unexpectedly large changes in the business environment were to cause deterioration in the Group's management and financial situations, there is a risk that the Group might have to record losses on the impairment of goodwill. Such circumstances may have an adverse impact on the Group's performance.

Consolidated Balance Sheets

ONWARD HOLDINGS Co., Ltd. and Subsidiaries
February 28, 2010 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 2. (21))
ASSETS	2010	**2011**	**2011**
Current assets:			
Cash and time deposits (Notes 2.(17), 3 and 9.(1))	¥ 34,330	**¥ 30,939**	**$ 378,646**
Accounts and notes receivable (Note 3)	25,731	**25,399**	**310,846**
Inventories (Note 2. (4))	30,894	**30,358**	**371,531**
Deferred tax assets (Note 11)	4,239	**4,075**	**49,866**
Other current assets	6,348	**5,498**	**67,285**
Less: Allowance for bad debt	(862)	**(724)**	**(8,860)**
Total current assets	100,680	**95,545**	**1,169,314**
Property, plant and equipment (Note 6):			
Buildings and structures	78,589	**76,280**	**933,547**
Other depreciable property	26,340	**25,828**	**316,093**
Less: Accumulated depreciation	(68,519)	**(68,585)**	**(839,377)**
	36,410	**33,523**	**410,263**
Land (Note 12)	53,332	**53,100**	**649,862**
Total property, plant and equipment	89,742	**86,623**	**1,060,125**
Intangible assets, net:			
Goodwill	47,418	**43,732**	**535,208**
Other	3,393	**3,014**	**36,885**
Total intangible assets, net	50,811	**46,746**	**572,093**
Investments and other assets:			
Investments in securities (Notes 3 and 4)	31,194	**34,592**	**423,353**
Long-term loans receivable (Note 3)	4,969	**4,839**	**59,227**
Long-term prepaid expenses	881	**751**	**9,189**
Deferred tax assets (Note 11)	5,530	**5,628**	**68,872**
Other investments	12,002	**9,274**	**113,498**
Less: Allowance for bad debt	(3,240)	**(2,355)**	**(28,815)**
Total investments and other assets	51,336	**52,729**	**645,324**
Total assets	¥292,569	**¥281,643**	**$3,446,856**

LIABILITIES AND NET ASSETS	Millions of yen 2010	2011	Thousands of U.S. dollars (Note 2. (21)) 2011
Current liabilities:			
Accounts and notes payable (Note 3)	¥ 35,961	**¥ 32,704**	**$ 400,241**
Short-term loans payable (Notes 3 and 14)	31,881	**27,354**	**334,765**
Current portion of long-term loans payable (Notes 3 and 14)	3,817	**3,534**	**43,250**
Accrued income taxes	4,086	**4,533**	**55,483**
Accrued bonuses to directors	263	**299**	**3,664**
Accrued bonuses to employees	1,569	**1,569**	**19,199**
Allowance for sales returns	545	**870**	**10,646**
Provision for point program	126	**163**	**2,003**
Other current liabilities	12,681	**11,651**	**142,589**
Total current liabilities	90,929	**82,677**	**1,011,840**
Long-term liabilities:			
Bonds (Note 14)	518	**367**	**4,494**
Long-term loans payable (Notes 3 and 14)	24,054	**22,298**	**272,896**
Accrued retirement benefits (Note 8)	3,273	**3,468**	**42,445**
Accrued retirement benefits for directors and corporate auditors	123	**119**	**1,459**
Deferred tax liabilities—revaluation of land (Notes 11 and 12)	5,949	**5,942**	**72,715**
Other	9,559	**8,027**	**98,227**
Total long-term liabilities	43,476	**40,221**	**492,236**
Total liabilities	134,405	**122,898**	**1,504,076**
Commitments and contingent liabilities (Note 13)			
Net assets:			
Shareholders' equity:			
Common stock:			
Authorized—400,000,000 shares			
Issued—172,921,669 shares at February 28, 2010 and 2011, respectively	30,080	**30,080**	**368,127**
Capital surplus	50,043	**50,043**	**612,449**
Retained earnings (Note 15)	118,817	**117,777**	**1,441,402**
Less: Treasury stock, at cost, 16,260,739 shares and 16,238,791 shares at February 28, 2010 and 2011, respectively	(23,490)	**(23,446)**	**(286,940)**
Total shareholders' equity	175,450	**174,454**	**2,135,038**
Valuation and translation adjustments:			
Net unrealized losses on available-for-sale securities (Note 4)	(5,560)	**(2,838)**	**(34,731)**
Deferred losses on hedging instruments	(42)	**(5)**	**(70)**
Net revaluation loss of land (Note 12)	(10,993)	**(11,004)**	**(134,668)**
Foreign currency translation adjustments	(2,355)	**(3,558)**	**(43,541)**
Total valuation and translation adjustments	(18,950)	**(17,405)**	**(213,010)**
Stock acquisition rights	413	**532**	**6,514**
Minority interests in consolidated subsidiaries	1,251	**1,164**	**14,238**
Total net assets	158,164	**158,745**	**1,942,780**
Total liabilities and net assets	¥292,569	**¥281,643**	**$3,446,856**

	Yen		U.S. dollars (Note 2. (20))
Per share:			
Net assets per share	¥998.98	**¥1,002.34**	**$12.27**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

ONWARD HOLDINGS Co., Ltd. and Subsidiaries
For the years ended February 28, 2010 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 2. (21))
	2010	**2011**	**2011**
Net sales	¥248,635	**¥244,551**	**$2,992,911**
Cost of sales	134,459	**128,726**	**1,575,397**
Gross profit	114,176	**115,825**	**1,417,514**
Selling, general and administrative expenses (Note 18)	109,792	**106,896**	**1,308,242**
Operating income	4,384	**8,929**	**109,272**
Other income (expenses):			
Interest income	110	**113**	**1,390**
Dividend income	489	**373**	**4,560**
Land and house rent received	1,223	**974**	**11,919**
Interest expenses	(1,137)	**(808)**	**(9,894)**
Royalty income	909	**836**	**10,234**
Equity in earnings of investees	117	**499**	**6,114**
Foreign currency exchange loss	(643)	**(702)**	**(8,593)**
Loss on derivatives	(398)	**(282)**	**(3,456)**
Gain on sale of investments in securities, net (Note 4)	2,326	**—**	**—**
Loss on write-down of investments in securities (Note 4)	(146)	**(1,322)**	**(16,175)**
Provision for allowance for bad debt	(512)	**—**	**—**
Gain (loss) on disposal of fixed assets, net	(101)	**49**	**603**
Impairment loss on fixed assets (Note 7)	(294)	**(937)**	**(11,469)**
Other, net	63	**830**	**10,159**
Income before income taxes and minority interests	6,390	**8,552**	**104,664**
Income taxes:			
Current (Note 2. (10))	4,016	**5,555**	**67,988**
Deferred (Note 11)	158	**153**	**1,875**
Income before minority interests	2,216	**2,844**	**34,801**
Minority interests in subsidiaries	(28)	**(121)**	**(1,481)**
Net income	¥ 2,188	**¥ 2,723**	**$ 33,320**

	Yen		U.S. dollars (Note 2. (21))
Per share (Notes 15,16 and 18):			
Net income —basic	¥13.97	**¥17.38**	**$0.21**
Diluted net income per share	13.91	**17.28**	**0.21**
Cash dividends	24.00	**24.00**	**0.29**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

ONWARD HOLDINGS Co., Ltd. and Subsidiaries
For the years ended February 28, 2010 and 2011

		Millions of yen				
		Shareholders' equity				
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings (Note 15)	Treasury stock	Total
Balance as at February 28, 2009:	172,922	¥30,080	¥50,043	¥121,412	¥(23,512)	¥178,023
Cash dividends	—	—	—	(4,700)	—	(4,700)
Net income	—	—	—	2,188	—	2,188
Purchase of treasury stock	—	—	—	—	(7)	(7)
Reissuance of treasury stock	—	—	—	(1)	29	28
Reversal of net revaluation loss of land	—	—	—	(82)	—	(82)
Net changes other than shareholders' equity	—	—	—	—	—	—
Total changes during the year	—	—	—	(2,595)	22	(2,573)
Balance as at February 28, 2010	172,922	30,080	50,043	118,817	(23,490)	175,450
Cash dividends	**—**	**—**	**—**	**(3,760)**	**—**	**(3,760)**
Net income	**—**	**—**	**—**	**2,723**	**—**	**2,723**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**(30)**	**(30)**
Reissuance of treasury stock	**—**	**—**	**—**	**(16)**	**74**	**58**
Reversal of net revaluation loss of land	**—**	**—**	**—**	**11**	**—**	**11**
Increase in retained earnings resulting from merger of non-consolidated subsidiaries	**—**	**—**	**—**	**2**	**—**	**2**
Net changes other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**—**
Total changes during the year	**—**	**—**	**—**	**(1,040)**	**44**	**(996)**
Balance as at February 28, 2011	**172,922**	**¥30,080**	**¥50,043**	**¥117,777**	**¥(23,446)**	**¥174,454**

	Thousands of U.S. dollars (Note 2. (21))				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings (Note 15)	Treasury stock	Total
Balance as at February 28, 2010:	$368,127	$612,449	$1,454,129	$(287,477)	$2,147,228
Cash dividends	**—**	**—**	**(46,014)**	**—**	**(46,014)**
Net income	**—**	**—**	**33,320**	**—**	**33,320**
Purchase of treasury stock	**—**	**—**	**—**	**(367)**	**(367)**
Reissuance of treasury stock	**—**	**—**	**(192)**	**904**	**712**
Reversal of net revaluation loss of land	**—**	**—**	**133**	**—**	**133**
Increase in retained earnings resulting from merger of non-consolidated subsidiaries	**—**	**—**	**26**	**—**	**26**
Net changes other than shareholders' equity	**—**	**—**	**—**	**—**	**—**
Total changes during the year	**—**	**—**	**(12,727)**	**537**	**(12,190)**
Balance as at February 28, 2011	**$368,127**	**$612,449**	**$1,441,402**	**$(286,940)**	**$2,135,038**

See accompanying notes to consolidated financial statements.

(Continued)

	Millions of yen							
	Valuation and translation adjustments							
	Net unrealized losses on available-for- sale securities (Note 4)	Deferred losses on hedging instruments	Net revaluation loss of land (Note 12)	Foreign currency translation adjustments	Total	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total net assets
Balance as at February 28, 2009:	¥(6,930)	¥(75)	¥(11,075)	¥(3,077)	¥(21,157)	¥294	¥1,258	¥158,418
Cash dividends	—	—	—	—	—	—	—	(4,700)
Net income	—	—	—	—	—	—	—	2,188
Purchase of treasury stock	—	—	—	—	—	—	—	(7)
Reissuance of treasury stock	—	—	—	—	—	—	—	28
Reversal of net revaluation loss of land	—	—	—	—	—	—	—	(82)
Net changes other than shareholders' equity	1,370	33	82	722	2,207	119	(7)	2,319
Total changes during the year	1,370	33	82	722	2,207	119	(7)	(254)
Balance as at February 28, 2010	(5,560)	(42)	(10,993)	(2,355)	(18,950)	413	1,251	158,164
Cash dividends	—	—	—	—	—	—	—	**(3,760)**
Net income	—	—	—	—	—	—	—	**2,723**
Purchase of treasury stock	—	—	—	—	—	—	—	**(30)**
Reissuance of treasury stock	—	—	—	—	—	—	—	**58**
Reversal of net revaluation loss of land	—	—	—	—	—	—	—	**11**
Increase in retained earnings resulting from merger of non-consolidated subsidiaries	—	—	—	—	—	—	—	**2**
Net changes other than shareholders' equity	**2,722**	**37**	**(11)**	**(1,203)**	**1,545**	**119**	**(87)**	**1,577**
Total changes during the year	**2,722**	**37**	**(11)**	**(1,203)**	**1,545**	**119**	**(87)**	**581**
Balance as at February 28, 2011	**¥(2,838)**	**¥(5)**	**¥(11,004)**	**¥(3,558)**	**¥(17,405)**	**¥532**	**¥1,164**	**¥158,745**

	Thousands of U.S. dollars (Note 2. (21))							
	Valuation and translation adjustments							
	Net unrealized losses on available-for- sale securities (Note 4)	Deferred losses on hedging instruments	Net revaluation loss of land (Note 12)	Foreign currency translation adjustments	Total	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total net assets
Balance as at February 28, 2010:	$(68,040)	$(519)	$(134,534)	$(28,820)	$(231,913)	$5,049	$15,312	$1,935,676
Cash dividends	—	—	—	—	—	—	—	**(46,014)**
Net income	—	—	—	—	—	—	—	**33,320**
Purchase of treasury stock	—	—	—	—	—	—	—	**(367)**
Reissuance of treasury stock	—	—	—	—	—	—	—	**712**
Reversal of net revaluation loss of land	—	—	—	—	—	—	—	**133**
Increase in retained earnings resulting from merger of non-consolidated subsidiaries	—	—	—	—	—	—	—	**26**
Net changes other than shareholders' equity	**33,309**	**449**	**(134)**	**(14,721)**	**18,903**	**1,465**	**(1,074)**	**19,294**
Total changes during the year	**33,309**	**449**	**(134)**	**(14,721)**	**18,903**	**1,465**	**(1,074)**	**7,104**
Balance as at February 28, 2011	**$(34,731)**	**$ (70)**	**$(134,668)**	**$(43,541)**	**$(213,010)**	**$6,514**	**$14,238**	**$1,942,780**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ONWARD HOLDINGS Co., Ltd. and Subsidiaries
For the years ended February 28, 2010 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 2. (21))
	2010	**2011**	**2011**
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 6,390	**¥ 8,552**	**$104,664**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	5,747	**5,642**	**69,054**
Impairment loss on fixed assets	294	**937**	**11,469**
Net amortization of goodwill on consolidation	3,403	**3,638**	**44,520**
Increase (decrease) in provision for allowance for bad debt	929	**(439)**	**(5,367)**
Decrease in provision for accrued retirement benefits	781	**431**	**5,272**
Interest and dividend income	(599)	**(486)**	**(5,949)**
Interest expense	1,137	**808**	**9,894**
Equity in earnings of investees	(117)	**(500)**	**(6,114)**
(Gain) loss on disposal of fixed assets, net	101	**(49)**	**(603)**
Gain on sale of investments in securities, net	(2,326)	—	—
Loss on write-down of investments in securities	146	**1,322**	**16,175**
Valuation losses on investments in unconsolidated subsidiaries and affiliates	126	—	—
Decrease (increase) in trade receivables	2,015	**(589)**	**(7,211)**
Decrease (increase) in inventories	3,711	**(315)**	**(3,859)**
Decrease in trade payables	(4,499)	**(2,429)**	**(29,726)**
Other, net	(2,575)	**(1,545)**	**(18,912)**
Subtotal	14,664	**14,978**	**183,307**
Interest and dividends received	624	**693**	**8,486**
Interest paid	(1,241)	**(770)**	**(9,428)**
Income taxes paid	(2,294)	**(4,819)**	**(58,986)**
Refunded income taxes	2,305	**1,125**	**13,774**
Net cash provided by operating activities	14,058	**11,207**	**137,153**
Cash flows from investing activities:			
Increase in time deposits	(443)	**(318)**	**(3,888)**
Decrease in time deposits	891	**1,652**	**20,214**
Acquisition of property, plant and equipment	(2,976)	**(3,090)**	**(37,811)**
Proceeds from sale of property, plant and equipment	8	**113**	**1,378**
Acquisition of investments in securities	(7,128)	**(1,837)**	**(22,481)**
Proceeds from sale of investments in securities	12,858	**14**	**174**
Payments for long-term prepaid expenses	(553)	**(773)**	**(9,462)**
Payments for security deposits	(421)	**(754)**	**(9,233)**
Proceeds from security deposits	835	**761**	**9,317**
Payment for acquisition of consolidated subsidiaries resulting in a change in the scope of consolidation (Note 9. (2))	(2,336)	—	—
Other, net	(761)	**(920)**	**(11,260)**
Net cash used in investing activities	(26)	**(5,152)**	**(63,052)**

(Continued)

	Millions of yen		Thousands of U.S. dollars (Note 2. (21))
	2010	**2011**	**2011**
Cash flows from financing activities:			
Increase (decrease) in short-term loans payable	3,703	**(2,984)**	**(36,525)**
Proceeds from long-term loans payable	334	**2,080**	**25,456**
Repayments of long-term loans payable	(3,816)	**(4,118)**	**(50,400)**
Acquisition of treasury stock	(7)	**(9)**	**(107)**
Dividends paid by the parent company	(4,700)	**(3,760)**	**(46,015)**
Dividends paid to minority shareholders	(94)	**(29)**	**(355)**
Other, net	(310)	**(453)**	**(5,527)**
Net cash (used in) provided by financing activities	(4,890)	**(9,272)**	**(113,473)**
Effect of exchange rate changes on cash and cash equivalents	211	**(829)**	**(10,141)**
Net increase (decrease) in cash and cash equivalents	9,353	**(4,046)**	**(49,513)**
Increase in cash and cash equivalents resulting from merger with non-consolidated subsidiaries	—	**1**	**12**
Cash and cash equivalents at beginning of year	23,326	**32,679**	**399,936**
Cash and cash equivalents at end of year (Note 9. (1))	¥32,679	**¥28,634**	**$350,435**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ONWARD HOLDINGS Co., Ltd. and Subsidiaries
For the years ended February 28, 2010 and 2011

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.

Previously, the Company was allowed to use the financial statements of its foreign subsidiaries which had been prepared in conformity with the financial accounting standards of the countries of their domicile. From the year ended February 28, 2010, the Company adopted “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (ASBJ Practical Issues Task Force (PITF) No. 18, May 17, 2006). This PITF requires that for the preparation of consolidated financial statements, the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should be unified, in principle, and financial statements prepared by foreign subsidiaries in accordance with IFRSs or the generally accepted accounting principles in the United States (U.S. GAAP) tentatively may be used for the consolidation process; however, the items listed in the PITF should be adjusted in the consolidation process so that net income is accounted for in accordance with Japan GAAP unless they are not material. The Company made necessary modifications to the consolidated financial statements according to the PITF. The effect of the change on operating income and income before income taxes and minority interests was immaterial.

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 75 subsidiaries as at February 28, 2011 (80 as at February 28, 2010). The accompanying consolidated financial statements include the accounts of the Company and 64 of its subsidiaries (68 for 2010). 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
Island 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

ONWARD KASHIYAMA SINGAPORE PTE, LTD. was established during the year ended February 28, 2011; therefore, ONWARD KASHIYAMA SINGAPORE PTE, LTD. became a consolidated subsidiary of the Company.

In the Jil Sander AG Group, Jil Sander BV and Jil Sander SA were liquidated. Jil Sander AG merged with Jil Sander Collection GMBH and Jil Sander Women’s Wear GMBH. In the Joseph Group, Joseph at Wimbledon Ltd. was liquidated, Joseph at Wimbledon Ltd. became an unconsolidated subsidiary of the Company. Also, Onward Creative Center Co., Ltd. merged with Voice dam Co., Ltd., an unconsolidated 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 11 subsidiaries (12 for 2010) 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. A total of 20 companies (20 companies for 2010) are accounted for by the equity method for the year ended February 28, 2011.

The Company did not apply the equity method to 10 unconsolidated subsidiaries (11 in 2010) and 1 affiliate (1 in 2010) as at February 28, 2011, as the effect on net income or retained earnings of their consolidated financial statements are not material individually or in the aggregate.

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 held for sale in the ordinary course of business are measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses, determined principally by the specific identification method. For the year ended February 28, 2011, the recorded write-downs were ¥10,307 million ($126,141 thousand). For the year ended February 28, 2010, the recorded write-downs were ¥11,593 million.

From the year ended February 28, 2010, the Company adopted "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 5, 2006), and inventories held for sale in the ordinary course of business are measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses, determined principally by the average method. The change did not have a material impact on the Companies' results of operations.

(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.

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

The useful lives of property, plant and equipment are summarized as follows:

Buildings and structures	3 to 50 years
Other	2 to 20 years

(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 doubtful accounts, including trade notes and accounts receivable and certain investments and other assets, is provided against probable future losses on collection. The Company and subsidiaries designate certain accounts as highly doubtful accounts and provide a specific allowance for these accounts based on the management’s detailed credit analysis. Other than these accounts, the Company provides an allowance for doubtful accounts based on the Company’s historical average charge-off ratio.

(12) Allowances for Sales Returns

An allowance for sales returns is provided for the estimated losses based on the actual percentage of sales return in prior years and gross profit margin.

(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 Point Program

The provision for point program was provided for the future cost generating from the utilization of points that customers of certain consolidated subsidiaries have earned under the point service program which is for sales promotions. The Company reserves an amount considered appropriate to cover possible utilization of the points during and after the next fiscal year.

(15) Accounting for Leases

Previously, finance leases, except for those where the legal title of the underlying property is transferred from the lessor to the lessee at the end of the lease term, are accounted for similarly to operating leases. On March 30, 2007, the ASBJ issued ASBJ Statement No.13, “Accounting Standard for Lease Transactions,” which revised the former accounting standard for lease transactions issued on June 17, 1993, and ASBJ Guidance No.16, “Guidance on Accounting Standard for Lease Transactions,” which revised the former guidance issued on January 18, 1994. From the year ended February 28, 2010, the Company adopted the revised accounting standards. The revised accounting standards require that all finance lease transactions shall be capitalized. Leased assets related to finance lease transactions without title transfer are depreciated on a straight-line basis, over the lease periods as their useful lives and no residual value. Regarding finance leases transactions without title transfer for which the starting date for the lease transactions is prior to the initial fiscal year in which these new accounting standards apply, the Company and its domestic consolidated subsidiaries have continued to recognize lease payments as expenses. The change did not have a material impact on the Companies’ results of operations.

(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) Accrued Bonuses to Employees

Allowance for bonuses to employees are provided by the estimated amounts, which are obligated to pay to employees after the fiscal year-end, based on services provided during the current period.

(20) 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.

(21) United States Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside of Japan. The rate of ¥81.71=US$1, the rate of exchange as of February 28, 2011, 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.

(22) 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, 2011.

(23) Goodwill

Goodwill is evaluated on an individual basis and amortized on a straight-line basis within 20 years.

3. Financial Instruments

1. Matters pertaining to the status of financial instruments

(1) Policy on financial instruments

The Company and its subsidiaries invest their funds in short-term deposits and meet their financing needs through bank loans. The Company and its subsidiaries utilize derivatives to hedge various risks as described in detail below and do not enter into derivatives for trading or speculative purposes.

(2) Financial instruments and risks

Accounts and notes receivable are exposed to credit risk of customers. Trade receivables denominated in foreign currencies, being subject to risks associated with changes in the foreign currency exchange rates, are hedged by forward exchange contracts.

Investment securities mainly comprise stocks of companies with which the Company and its subsidiaries have business alliances and are exposed to risks associated with fluctuations of their market prices.

Accounts and notes payable are due within one year. Trade payables denominated in foreign currencies, being subject to risks associated with changes in foreign currency exchange rates, are hedged by forward exchange contracts, currency swaps, and currency option trading. The purpose for loans is for working capital (mainly short-term) and funds of capital investment (long-term). Interest-rate swaps are used to fix interest expenses for interest rate risk of a portion of long-term loans payable.

Regarding derivatives, forward foreign exchange contracts, currency swap, and currency option trading are used to hedge the foreign exchange rate fluctuation risk associated with the operating receivables and payables, and interest rate swap is used to mitigate the interest rate risk for loans payable.

(3) Risk management for financial instruments

(a) Monitoring of credit risk (the default risk for customers and counterparties)

In accordance with the internal policies of the Company and its consolidated subsidiaries for managing credit risk arising from notes and accounts receivable, the Company and its subsidiaries monitor creditworthiness of their main customers and counterparties on a periodical basis and monitor due dates and outstanding balances by individual customers. Additionally, as means to mitigate credit risks, derivative transactions are only conducted with high-credit worthy financial institutions as counterparties.

(b) Monitoring of market risk (the risk arising from fluctuations in foreign exchange rates, interest rates and others)

The Company and its consolidated subsidiaries hedge risks associated with changes in the foreign currency exchange rates, arising from trade receivable and payable denominated in foreign currencies mainly by forward exchange contracts. Additionally, interest rate swap contracts are used to mitigate the risks associated with fluctuations in the interest payments on the long-term loans payable.

For investment securities, the Company and its consolidated subsidiaries periodically review their fair values and the financial position of the issuers. Additionally, the Company and its consolidated subsidiaries continuously evaluate whether securities should be maintained taking into account their fair values and relationships with the issues.

In derivative transactions, the division in charge of each derivative transaction follows the internal management policies within the actual demand. Additionally, the Company and its consolidated subsidiaries monthly review transactions balance and the valuation gain (loss).

(c) Monitoring of liquidity risk related to fund procurement (the risk that the Company and its consolidated subsidiaries may not be able to meet their obligations on scheduled due dates)

In order to manage liquidity risk, the Company and its consolidated subsidiaries timely prepare and update the cash flow plans based upon the report and maintain fund liquidity.

(4) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price if available. When no quoted market price is available, fair value is reasonably estimated. Since various variable assumptions are reflected in estimating the fair value, different assumptions could result in different fair values.

2. Matters related to fair values of financial instruments

The following are the consolidated balance sheet amounts, the fair values and the differences between them as of February 28, 2011 (the closing date of the consolidated account).

	Millions of yen			Thousands of U.S. dollars		
	Book value	Fair value	Difference	Book value	Fair value	Difference
(a) Cash and time deposits	¥ 30,939	¥ 30,939	¥ —	$ 378,646	$ 378,646	$ —
(b) Accounts and notes receivable	25,399	25,399	—	310,846	310,846	—
(c) Investment in securities						
Available-for-sale securities	26,782	26,782	—	327,764	327,764	—
Investment to affiliates	7,041	5,240	(1,801)	86,172	64,134	(22,038)
(d) Accounts and notes payable	(32,704)	(32,704)	—	(400,241)	(400,241)	—
(e) Short-term loans payable	(27,354)	(27,354)	—	(334,765)	(334,765)	—
(f) Long-term loans payable(Cover current portion of long-term loans payable)	(25,832)	(25,838)	6	(316,146)	(316,221)	75
(g) Derivative transactions	(1,469)	(1,469)	—	(17,984)	(17,984)	—

Notes:

1. Fair value measurement of financial instruments, including securities and derivatives

(a) Cash and time deposits and (b) Accounts and notes receivable

Since these items are settled in a short period of time, their book value approximates fair value.

(c) Investment in securities

The fair value of equity securities is calculated by the quoted market price.

(d) Accounts and notes payable and (e) Short-term loans payable

Since these items are settled in a short period of time, their book value approximates fair value.

(f) Long-term loans payable

The fair values of long-term loans payable are measured as present values obtained by discounting the total amount of principal and interest at the estimated interest rate if similar loans payable were newly made. Of long-term loans payable that have a variable interest rate, the book value is used as fair value, as they are deemed to reflect market interest rates within a short time.

(g) Derivative transactions

The fair value is calculated on the basis of the price quoted by the financial institutions.

2. Book values of financial instruments deemed extremely difficult to determine their fair value as of February 28, 2011 are as follows:

	Millions of yen	Thousands of U.S. dollars
Classification	February 28, 2011	February 28, 2011
Investment securities		
Unlisted equity securities	¥769	$9,416

The fair values of these items are not included in (3) “Investment securities” because their market prices are not available and whose fair values are deemed extremely difficult to determine.

3. The redemption schedule for monetary receivables and marketable securities with maturities as of February 28, 2011 is as follows:

	Millions of yen				Thousands of U.S. dollars			
	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and time deposits	¥30,939	¥ —	¥ —	¥ —	$378,646	$ —	$—	$ —
Accounts and notes receivable	25,399	1	—	—	310,846	7	—	—
Marketable and investment securities								
Available for sale securities with maturities	—	58	—	600	—	710	—	7,343
Total	¥56,338	¥ 59	¥ —	¥600	$689,492	$717	$—	$7,343

4. Expected repayment amounts of long-term loans payable subsequent to the balance sheet date

See Note 14. “Short-Term Loans payable and Long-Term Loans payable”.

(Additional information)

Effective from March 1, 2010, the Company and its consolidated subsidiaries have adopted the “Accounting Standard for Financial Instruments” (ASBJ Statement No.10, March, 10, 2008) and the “Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ No.19 Guidance, March 10, 2008).

4. Investments in Securities

(1) Information as of and for the Year Ended February 28, 2011

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

Investments in securities whose fair values were readily determinable at February 28, 2011 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities with unrealized gains:						
Equity securities	**¥12,356**	**¥ 9,994**	**¥ 2,362**	**$152,220**	**$122,311**	**$ 29,909**
Other	**42**	**35**	**7**	**517**	**423**	**94**
Total	**12,398**	**10,029**	**2,369**	**151,737**	**122,734**	**30,003**
Securities with unrealized losses:						
Equity securities	**14,165**	**17,468**	**(3,303)**	**173,354**	**213,781**	**(40,427)**
Other	**218**	**291**	**(73)**	**2,673**	**3,562**	**(889)**
Total	**14,383**	**17,759**	**(3,376)**	**176,027**	**217,343**	**(41,316)**
Total	**¥26,781**	**¥27,788**	**¥ (1,007)**	**$328,764**	**$340,077**	**$ (11,313)**

Note: Non-Marketable equity securities of ¥337 million ($4,124 thousand) are not included in the above table because there were no quoted market prices available and they are extremely difficult to determine the fair value.

(b) Available-for-sale securities sold during the year ended February 28, 2011:

	Millions of yen	Thousands of U.S. dollars
Proceeds from sale of securities	**¥14**	**$174**
Realized gain on sale of securities	—	—
Realized loss on sale of securities	—	—

(c) Losses on impairment of available-for-sale securities recognized to reflect declines in market value considered to be other than temporary were ¥1,321 million ($16,175 thousand) for the year ended February 28, 2011.

(d) The aggregate carrying amount of investments in unconsolidated subsidiaries and affiliates as of February 28, 2011 was ¥7,473 million ($91,455 thousand).

(2) Information as of and for the Year Ended February 28, 2010

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

Investments in securities whose fair values were readily determinable at February 28, 2010 are summarized as follows:

	Millions of yen		
	Acquisition cost	Fair value (carrying value)	Unrealized gain (loss)
Securities with unrealized gains:			
Equity securities	¥ 8,173	¥ 9,309	¥ 1,136
Other	55	63	8
Total	8,228	9,372	1,144
Securities with unrealized losses:			
Equity securities	18,740	13,887	(4,853)
Other	271	224	(47)
Total	19,011	14,111	(4,900)
Total	¥27,239	¥23,483	¥(3,756)

Losses on impairment of available-for-sale securities recognized to reflect declines in market value considered to be other than temporary were ¥146 million for the year ended February 28, 2010.

(b) Available-for-sale securities sold during the year ended February 28, 2010:

	Millions of yen
Proceeds from sale of securities	¥12,858
Realized gain on sale of securities	2,361
Realized loss on sale of securities	34

(c) Major securities which were not stated at fair value as of February 28, 2010:

	Millions of yen
Available-for-sale securities:	
Non-marketable equity securities	¥338

(d) The aggregate carrying amount of investments in unconsolidated subsidiaries and affiliates as of February 28, 2010 was ¥7,372 million.

5. 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 contract or notional amounts and fair value of derivative financial instruments held as of February 28, 2011 are summarized as follows:

(1) Derivative transactions not subject to hedge accounting:

	Millions of yen		
	Contract or notional amounts	Fair value	Valuation gain (loss)
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar	**¥ 3,276**	**¥ (422)**	**¥ (422)**
Euro	**1,824**	**(68)**	**(68)**
To sell foreign currency:			
U.S. dollar	**572**	**(8)**	**(8)**
Currency swap agreements:			
U.S. dollars received for Japanese yen	**2,347**	**(307)**	**(307)**
Currency option contracts:			
Buy: U.S. dollar call	**2,622**	**94**	**94**
Sell: U.S. dollar put	**3,358**	**(718)**	**(718)**
Buy: Euro dollar call	**148**	**3**	**3**
Sell: Euro dollar put	**296**	**(27)**	**(27)**
	¥14,443	**¥(1,453)**	**¥(1,453)**
Interest rate swap agreements:			
Variable rate received for fixed rate	**¥300**	**¥ 4**	**¥ 4**
Variable rate received for variable rate	**536**	**(7)**	**(7)**
Fixed rate received for variable rate	**100**	**(4)**	**(4)**
	¥936	**¥(7)**	**¥(7)**

	Thousands of U.S. dollars		
	Contract or notional amounts	Fair value	Valuation gain (loss)
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar	**$ 40,090**	**$ (5,168)**	**$ (5,168)**
Euro	**22,325**	**(828)**	**(828)**
To sell foreign currency:			
U.S. dollar	**7,000**	**(104)**	**(104)**
Currency swap agreements:			
U.S. dollars received for Japanese yen	**28,721**	**(3,756)**	**(3,756)**
Currency option contracts:			
Buy: U.S. dollar call	**32,086**	**1,155**	**1,155**
Sell: U.S. dollar put	**41,100**	**(8,788)**	**(8,788)**
Buy: Euro dollar call	**1,811**	**34**	**34**
Sell: Euro dollar put	**3,621**	**(328)**	**(328)**
	$176,754	**$(17,783)**	**$(17,783)**
Interest rate swap agreements:			
Variable rate received for fixed rate	**$ 3,671**	**$ 49**	**$ 47**
Variable rate received for variable rate	**6,560**	**(86)**	**(86)**
Fixed rate received for variable rate	**1,224**	**(49)**	**(48)**
	$11,455	**$(86)**	**$(87)**

(2) Derivative transactions processed by hedge accounting:

	Millions of yen		
	Hedged Items	Contract or notional amounts	Fair value
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar	**Accounts payable**	**¥189**	**¥(7)**
Euro	**Accounts payable**	**758**	**(2)**
Bond	**Accounts payable**	**13**	**0**
		¥960	**¥(9)**

	Thousands of U.S. dollars		
	Hedged Items	Contract or notional amounts	Fair value
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar	**Accounts payable**	**$ 2,314**	**$ (94)**
Euro	**Accounts payable**	**9,275**	**(20)**
Bond	**Accounts payable**	**155**	**0**
		$11,744	**$(114)**

The contract or notional amounts and fair value of derivative financial instruments held as of February 28, 2010 are summarized as follows:

	Millions of yen		
	Contract or notional amounts	Fair value	Valuation gain (loss)
Forward exchange contracts:			
To buy foreign currency:	¥ 2,744	¥2,452	¥(292)
U.S. dollar			
To sell foreign currency:			
U.S. dollar	446	441	5
Yen	223	223	(0)
Currency swap agreements:			
U.S. dollars received for Japanese yen	3,403	(214)	(214)
Currency option contracts:			
Buy: U.S. dollar call	3,016	178	178
Sell: U.S. dollar put	3,876	(701)	(701)
Buy: Euro dollar call	817	14	14
Sell: Euro dollar put	570	(67)	(67)
	¥15,095	¥2,326	¥(1,077)
Interest rate swap agreements:			
Variable rate received for fixed rate	¥ 300	¥ 4	¥ 4
Variable rate received for variable rate	905	(20)	(20)
Fixed rate received for variable rate	100	(4)	(4)
	¥1,305	¥(20)	¥(20)

6. Property, Plant and Equipment

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

Property, plant and equipment at February 28, 2010 and 2011 were reduced by ¥8,232 million and ¥8,178 million ($100,091 thousand), respectively, representing accumulated deferred gains from eligible sales.

7. Impairment Loss on Fixed Assets

For the years ended February 28, 2010 and 2011, the Company reviewed its long-lived assets for impairment and, as a result, recognized an impairment loss as follows:

February 28, 2011

Location	Usage	Description	Millions of yen	Thousands of U.S. dollars
Tokyo metropolitan area and other	Business assets	Buildings and structures	**¥264**	**$3,234**
		Other intangible assets	**426**	**5,211**
		Other	**230**	**2,822**
Osaka Prefecture	Lease assets	Land	**17**	**202**

February 28, 2010

Location	Usage	Description	Millions of yen
Tokyo metropolitan area and other	Business assets	Buildings and structures	¥ 50
		Other	200
Kanagawa Prefecture	Idle assets	Buildings and structures	15
		Land	17
		Other	12
United States	Business assets	Buildings and structures	—
		Other	1

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 book value to the respective net realizable value of each asset.

The impairment loss on long-lived assets for the years ended February 28, 2010 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	February 28, 2010	**February 28, 2011**	**February 28, 2011**
Buildings and structures	¥ 64	**¥264**	**$ 3,234**
Land	17	**17**	**202**
Other Intangible assets	—	**426**	**5,211**
Other	213	**230**	**2,822**
Total	¥294	**¥937**	**$11,469**

The net realizable value for these assets is based on their net selling price or their value in use. The net selling price is estimated by using their estimated disposal price. 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 28, 2010 and 2011, respectively.

8. Retirement Plan and Retirement Benefits

The Company and its certain 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, tax-qualified pension plans and plans for lump-sum retirement benefits.

The reserve for retirement benefits as of February 28, 2010 and 2011 is analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	February 28, 2010	**February 28, 2011**	**February 28, 2011**
Projected benefit obligations	¥(37,507)	**¥(37,616)**	**$(460,366)**
Plan assets (including employee retirement benefit fund)	25,463	**26,295**	**321,812**
Funded status	(12,044)	**(11,321)**	**(138,554)**
Unrecognized prior service costs	(72)	**(38)**	**(461)**
Unrecognized actuarial differences	9,014	**7,907**	**96,764**
Subtotal	(3,102)	**(3,452)**	**(42,251)**
Prepaid pension cost	171	**16**	**194**
Accrued retirement benefits	¥ (3,273)	**¥ (3,468)**	**$ (42,445)**

The net periodic pension expenses for the years ended February 28, 2010 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	**2011**	**2011**
Service cost	¥1,593	**¥1,611**	**$19,722**
Interest cost	644	**509**	**6,230**
Expected return on plan assets	(144)	**(173)**	**(2,122)**
Amortization of unrecognized prior service costs	(35)	**(35)**	**(422)**
Amortization of unrecognized actuarial differences	1,318	**1,242**	**15,194**
Net periodic pension expenses	¥3,376	**¥3,154**	**$38,602**

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

	As of February 28, 2010	**As of February 28, 2011**
Method of attributing the projected benefits to periods of service	Straight-line basis	**Straight-line basis**
Discount rate	1.5%	**1.5%**
Expected rate of return on plan assets	0.2~1.5%	**0.2~1.5%**
Amortization of unrecognized prior service costs	5~10 years	**5~10 years**
Amortization of unrecognized actuarial differences	5~10 years	**5~10 years**

9. Notes to Consolidated Statements of Cash Flows

(1) Cash and cash equivalents at February 28, 2010 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	February 28, 2010	**February 28, 2011**	**February 28, 2011**
Cash and time deposits	¥34,330	**¥30,939**	**$378,646**
Time deposits with maturities of more than three months	(1,651)	**(2,305)**	**(28,211)**
Cash and cash equivalents	¥32,679	**¥28,634**	**$350,435**

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

For the year ended February 28, 2010, due to the acquisition of shares of the below company, the below company was newly consolidated. The assets and liabilities of the company at the time of initial consolidation, additional cash paid for the acquisition, cash and cash equivalents held by the subsidiary and net payment for acquisition of the subsidiary were as follows:

(Island Co., Ltd.)

	Millions of yen
Current assets	**¥2,745**
Fixed assets	**801**
Goodwill on consolidation	**3,389**
Current liabilities	**(1,974)**
Long-term liabilities	**(1,801)**
Cash paid for acquisition of the subsidiary	**3,160**
Cash and cash equivalents held by the subsidiary	**(824)**
Payment for acquisition of the subsidiary	**¥2,336**

10. Lease Transactions

Certain 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 still permitted by Japanese accounting principles. Certain key information on such lease contracts of the Companies for the years ended February 28, 2010 and 2011 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 28, 2010 and 2011 are summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	February 28, 2010			**February 28, 2011**			**February 28, 2011**		
	Tools, furniture, and fixtures	Other	Total	Tools, furniture, and fixtures	Other	Total	Tools, furniture, and fixtures	Other	Total
Acquisition cost	¥ 1,727	¥ 681	¥ 2,408	**¥ 889**	**¥ 528**	**¥ 1,417**	**$ 10,876**	**$ 6,458**	**$17,334**
Accumulated depreciation	(1,184)	(417)	(1,601)	**(636)**	**(376)**	**(1,012)**	**(7,785)**	**(4,597)**	**(12,382)**
Accumulated impairment loss	(145)	—	(145)	**(145)**	—	**(145)**	**(1,771)**	—	**(1,771)**
Net book value	¥ 398	¥ 264	¥ 662	**¥ 108**	**¥ 152**	**¥ 260**	**$ 1,320**	**$ 1,861**	**$ 3,181**

The scheduled maturities of future lease payments on such lease contracts as of February 28, 2010 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	February 28, 2010	**February 28, 2011**	**February 28, 2011**
Scheduled maturities of future leases:			
Due within one year	¥389	**¥227**	**$2,775**
Due over one year	418	**178**	**2,176**
	¥807	**¥405**	**$4,951**

Lease expenses, reversal of impairment loss of leased assets, depreciation and impairment loss for the years ended February 28, 2010 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	February 28, 2010	**February 28, 2011**	**February 28, 2011**
Lease expenses for the year	¥637	**¥380**	**$4,654**
Reversal of impairment loss of leased assets	17	—	—
Depreciation	637	**380**	**4,654**

The Companies' operating lease contracts:

The scheduled maturities of future lease payments on operating lease contracts as of February 28, 2011 are as follows:

	Millions of yen	Thousands of U.S. dollars
Scheduled maturities of future leases:		
Due within one year	**¥102**	**$1,251**
Due over one year	**171**	**2,088**
	¥273	**$3,339**

(Lessor)

The scheduled maturities of future lease income on such lease contracts as of February 28, 2010 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	February 28, 2010	**February 28, 2011**	**February 28, 2011**
Due within one year	¥ 63	**¥ 33**	**$ 405**
Due over one year	56	**23**	**285**
	¥119	**¥ 56**	**$ 690**

11. Income Taxes

The tax effects of temporary differences that give rise to significant components of the deferred tax assets and liabilities as at February 28, 2010 and 2011 consisted of the following elements:

	Millions of yen		Thousands of U.S. dollars
	February 28, 2010	**February 28, 2011**	**February 28, 2011**
Deferred tax assets:			
Valuation loss on inventories	¥ 2,648	**¥ 2,201**	**$ 26,931**
Evaluation loss on investments in unconsolidated subsidiaries	177	**173**	**2,117**
Accrued bonuses to employees	645	**647**	**7,922**
Accrued retirement benefits	3,489	**3,664**	**44,838**
Accrued retirement benefits for directors and corporate auditors	64	**57**	**696**
Allowance for bad debt	1,310	**1,087**	**13,308**
Tax loss carryforwards	11,872	**10,187**	**124,672**
Impairment loss	5,993	**7,257**	**88,808**
Investments in securities	747	**742**	**9,079**
Net unrealized gains on available-for-sale securities	4	**38**	**463**
Other	4,097	**3,688**	**45,150**
Subtotal	31,046	**29,741**	**363,984**
Less: Valuation allowance	(19,325)	**(18,804)**	**(230,125)**
Total deferred tax assets	11,721	**10,937**	**133,859**
Deferred tax liabilities:			
Gain on securities contributed to an employee retirement benefit trust	(699)	**(161)**	**(1,976)**
Provision for deferred capital gains on real property for tax purposes	(21)	**(20)**	**(251)**
Other	(1,590)	**(1,335)**	**(16,332)**
Total deferred tax liabilities	(2,310)	**(1,516)**	**(18,559)**
Net deferred tax assets	¥ 9,411	**¥ 9,421**	**$ 115,300**

The reconciliation of the difference between the statutory tax rate and the effective tax rate for the years ended February 28, 2010 and 2011 is as follows:

	%	
	2010	**2011**
Statutory tax rate	40.7	**40.7**
Reconciliation:		
Non-deductible items (entertainment expenses, etc.)	4.3	**3.9**
Income not credited for tax purposes (dividends received, etc.)	(1.5)	**(1.0)**
Goodwill and amortization	14.1	**12.3**
Other	7.7	**10.9**
Effective tax rate	65.3	**66.8**

12. 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, 2011, the net accumulated revaluation loss amounted to ¥11,004 million ($134,668 thousand), which is presented as a separate component of net assets as “Net revaluation loss of land.” Related deferred tax liabilities of ¥5,942 million ($72,715 thousand) is recognized.

As of February 28, 2010, the net accumulated revaluation loss amounted to ¥10,993 million, which is presented as a separate component of net assets as “Net revaluation loss of land.” Related deferred tax liabilities of ¥5,949 million is recognized.

The difference between the market value of land subject to the revaluation and the book value was ¥1,729 million ($21,156 thousand) as at February 28, 2011.

13. Commitments and Contingent Liabilities

The Company was contingently liable as a guarantor for certain affiliates’ bank loans. The outstanding balance of such bank loans guaranteed as at February 28, 2010 and 2011 aggregated to ¥48 million and ¥23 million ($286 thousand), respectively.

14. Short-Term Loans payable and Long-Term Loans payable

Short-term loans payable at February 28, 2010 and 2011 represented loans, principally from banks. The weighted-average interest rate on these loans was 1.5% in 2010 and 1.2% in 2011.

Long-term loans payable at February 28, 2010 and 2011 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	February 28, 2010	**February 28, 2011**	**February 28, 2011**
Unsecured loans, principally from banks, maturing in installments through 2014 with weighted average interest of 1.0% at February 28, 2011	¥27,871	**¥25,832**	**$316,146**
Less current portion	3,817	**3,534**	**43,250**
	¥24,054	**¥22,298**	**$272,896**

Lease obligations at February 28, 2011 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Lease obligations	**¥1,016**	**$12,439**
Less current portion of lease obligations	**304**	**3,722**
	¥ 712	**$ 8,717**

The aggregate annual maturities of long-term loans payable after February 29, 2012 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending February 28 or 29:		
2013	**¥ 3,446**	**$ 42,180**
2014	**18,849**	**230,676**
2015	**3**	**40**
2016	—	—

The aggregate annual maturities of lease obligations after February 29, 2012 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending February 28 or 29:		
2013	**¥304**	**$3,724**
2014	**276**	**3,379**
2015	**124**	**1,514**
2016	**8**	**100**

Bonds at February 28, 2010 and 2011 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	February 28, 2010	**February 28, 2011**	**February 28, 2011**
0.80% unsecured yen bonds issued by a subsidiary, due 2010	¥ 20	**¥ —**	**$—**
1.73% unsecured yen bonds issued by a subsidiary, due 2012	150	**150**	**1,836**
1.08% unsecured yen bonds issued by a subsidiary, due 2011	75	**25**	**303**
0.56% unsecured yen bonds issued by a subsidiary, due 2013	70	**50**	**612**
0.82% unsecured yen bonds issued by a subsidiary, due 2012	100	**67**	**820**
0.72% unsecured yen bonds issued by a subsidiary, due 2012	100	**66**	**815**
0.90% unsecured yen bonds issued by a subsidiary, due 2014	200	**160**	**1,958**
0.79% unsecured yen bonds issued by a subsidiary, due 2010	8	**—**	**—**
	723	**518**	**6,344**
Less current portion	205	**151**	**1,850**
	¥518	**¥367**	**$4,494**

The aggregate annual maturities of bonds after February 29, 2012 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending February 28 or 29:		
2013	**¥277**	**$3,392**
2014	**50**	**612**
2015	**40**	**490**
2016	**—**	**—**

15. Shareholders' Equity

Under the Corporation Law of Japan, 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 of Japan 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 of Japan 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, 2011 and 2010 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 of Japan.

Dividends to be paid after the balance sheet date, which were approved by the general meeting of shareholders held on May 26, 2011, are as follows:

(a) Total dividends	¥3,760 million ($46,021 thousand)
(b) Source of dividends	Retained earnings
(c) Cash dividends per common share	¥24 ($0.29)
(d) Date to determine which shareholders receive the dividends	February 28, 2011
(e) Effective date	May 27, 2011

16. Per Share Information

Net income per share of common stock is computed based upon the weighted-average number of shares of common stock outstanding during each year. Cash dividends per share shown for each year in the accompanying consolidated statements of 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 per share for the years ended February 28, 2010 and 2011 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	**2011**	**2011**
Net income	¥ 2,188	**¥ 2,723**	**$ 33,320**
Less: Components not pertaining to common shareholders	—	**—**	**—**
Net income pertaining to common stock	¥ 2,188	**¥ 2,723**	**$ 33,320**
Average outstanding shares of common stock (thousand shares)	156,655	**156,680**	**156,680**
Effect of dilutive stock options (thousand shares)	628	**892**	**892**

17. Related-Party Transactions

Year Ended February 28, 2011

The Company leased land from Takeshi Hirouchi, Chairman and CEO of ONWARD HOLDINGS Co., Ltd., during the year and the rental fee was ¥7 million ($89 thousand). Also, Mr. Hirouchi paid a rental fee of ¥16 million ($199 thousand) to the Company for a house. The rental fees were determined by the average market prices.

Year Ended February 28, 2010

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 ¥16 million to the Company for a house. The rental fees were determined by the average market prices.

18. Stock Options

The cost recognized for the stock options for the years ended February 28, 2011 and 2010 was ¥162 million ($1,988 thousand) and ¥164 million, respectively, which is included in selling, general and administrative expenses.

2010 Stock Option Plan (No. 8)

Under the 2010 stock option plan (No. 8), stock options were granted to 5 directors of the Company on June 18, 2010. They are exercisable in the period from June 19, 2010 to June 18, 2040. 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 of the Company.

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

Exercise price	¥1 ($0.01)
Fair value at the grant date	¥613 ($7.50)
Number of stock options granted	115,800 shares

A summary of the scale and movement of the stock option plan for the year ended February 28, 2011 is as follows:

	2010 stock option plan (No. 8)
Non-vested:	
Outstanding at February 28, 2010	—
Granted	115,800
Forfeited	2,700
Vested	—
Outstanding at February 28, 2011	113,100

The fair value of the 2010 stock options (No. 8) was estimated using the Black-Scholes option-valuation model with the following assumptions:

Expected volatility	33.456%
Expected lives	5 years and 10 months
Expected dividend	¥24 per share
Risk-free interest rate	0.5110%

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.

2010 Stock Option Plan (No. 7)

Under the 2010 stock option plan (No. 7), stock options were granted to 8 directors and 22 executive officers of the Company's subsidiary on March 19, 2010. They are exercisable in the period from March 20, 2010 to February 29, 2040. 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 of the Company.

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

Exercise price	¥1 ($0.01)
Fair value at the grant date	¥475 ($5.81)
Number of stock options granted	194,600 shares

A summary of the scale and movement of the stock option plan for the year ended February 28, 2011 is as follows:

	2010 stock option plan (No. 7)
Non-vested:	
Outstanding at February 28, 2010	—
Granted	194,600
Forfeited	2,900
Vested	—
Outstanding at February 28, 2011	191,700

The fair value of the 2010 stock options (No. 7) was estimated using the Black-Scholes option-valuation model with the following assumptions:

Expected volatility	33.080%
Expected lives	9 years and 8 months
Expected dividend	¥30 per share
Risk-free interest rate	1.3046%

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.

2009 Stock Option Plan (No. 6)

Under the 2009 stock option plan (No. 6), stock options were granted to 5 directors of the Company on June 19, 2009. They are exercisable in the period from June 20, 2009 to June 19, 2039. 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 of the Company.

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

Exercise price	¥1 ($0.01)
Fair value at the grant date	¥432 ($5.29)
Number of stock options granted	155,000 shares

A summary of the scale and movement of the stock option plan for the year ended February 28, 2011 is as follows:

	2009 stock option plan (No. 6)
Non-vested:	
Outstanding at February 28, 2010	155,000
Granted	—
Forfeited	—
Vested	—
Outstanding at February 28, 2011	155,000

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The fair value of the 2009 stock options (No. 6) was estimated using the Black-Scholes option-valuation model with the following assumptions:

Expected volatility	32.873%
Expected lives	6 years and 10 months
Expected dividend	¥30 per share
Risk-free interest rate	1.0478%

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.

2009 Stock Option Plan (No. 5)

Under the 2009 stock option plan (No. 5), stock options were granted to 11 directors and 19 executive officers of the Company's subsidiary on March 18, 2009. They are exercisable in the period from March 19, 2009 to February 28, 2039. 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	¥362 ($4.43)
Number of stock options granted	268,900 shares

A summary of the scale and movement of the stock option plan for the year ended February 28, 2011 is as follows:

	2009 stock option plan (No. 5)
Non-vested:	
Outstanding at February 28, 2010	264,600
Granted	—
Forfeited	4,700
Vested	3,000
Outstanding at February 28, 2011	256,900
Vested:	
Outstanding at February 29, 2010	—
Vested	3,000
Exercised	—
Forfeited	—
Outstanding at February 28, 2011	3,000

The fair value of the 2009 stock options (No. 5) was estimated using the Black-Scholes option-valuation model with the following assumptions:

Expected volatility	34.842%
Expected lives	9 years and 11 months
Expected dividend	¥30 per share
Risk-free interest rate	1.3003%

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. 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)
Average stock price on the date the option was exercised	¥696 ($8.52)
Fair value at the grant date	¥905 ($11.08)
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, 2011 is as follows:

	2008 stock option plan (No. 4)
Non-vested:	
Outstanding at February 28, 2010	91,100
Granted	—
Forfeited	—
Vested	24,000
Outstanding at February 28, 2011	67,100
Vested:	
Outstanding at February 29, 2010	—
Vested	24,000
Exercised	19,000
Forfeited	—
Outstanding at February 28, 2011	5,000

2008 Stock Option Plan (No. 3)

Under the 2008 stock option plan (No. 3), stock options were granted to 5 directors of the Company on June 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 of the Company.

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

Exercise price	¥1 ($0.01)
Fair value at the grant date	¥944 ($11.55)
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, 2011 is as follows:

	2008 stock option plan (No. 3)
Non-vested:	
Outstanding at February 28, 2010	68,800
Granted	—
Forfeited	—
Vested	3,800
Outstanding at February 28, 2011	65,000
Vested:	
Outstanding at February 29, 2010	—
Vested	3,800
Exercised	—
Forfeited	—
Outstanding at February 28, 2011	3,800

2007 Stock Option Plan (No. 2)

Under the 2007 stock option plan (No. 2), stock options were granted to 5 directors and 2 corporate auditors of the Company 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)
Average stock price on the date the option was exercised	¥640 ($7.83)
Fair value at the grant date	¥1,284 ($15.71)
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, 2011 is as follows:

	2007 stock option plan (No. 2)
Non-vested:	
Outstanding at February 28, 2010	23,300
Granted	—
Forfeited	—
Vested	—
Outstanding at February 28, 2011	23,300
Vested:	
Outstanding at February 28, 2010	15,200
Vested	—
Exercised	10,500
Forfeited	—
Outstanding at February 28, 2010	4,700

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 (No. 1), stock options were granted to 12 directors and 2 corporate auditors of the Company 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)
Average stock price on the date the option was exercised	¥691 ($8.46)
Fair value at the grant date	¥1,541 ($18.86)
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, 2011 is as follows:

	2006 stock option plan (No. 1)
Non-vested:	
Outstanding at February 28, 2010	20,000
Granted	—
Forfeited	—
Vested	—
Outstanding at February 28, 2011	20,000
Vested:	
Outstanding at February 28, 2010	23,500
Vested	—
Exercised	3,000
Forfeited	—
Outstanding at February 28, 2010	20,500

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.

19. 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.

Segment information classified by industry segment of the Companies for the year ended February 28, 2011 is as follows:

For the year ended February 28, 2011	Millions of yen				
	Industry segment			Elimination of intersegment sales	Consolidated total
	Apparel	Other	Total		
Sales to outside customers	¥ 229,738	¥ 14,813	¥ 244,551	¥ —	¥ 244,551
Intersegment sales	12	6,982	6,994	(6,994)	—
Total	229,750	21,795	251,545	(6,994)	244,551
Costs and expenses	220,769	21,912	242,681	(7,059)	235,622
Operating income (loss)	¥ 8,981	¥ (117)	¥ 8,864	¥ 65	¥ 8,929
Assets	¥ 191,020	¥ 30,462	¥ 221,482	¥ 60,161	¥ 281,643
Depreciation and amortization	¥ 4,629	¥ 777	¥ 5,406	¥ 236	¥ 5,642
Impairment loss	¥ 921	¥ —	¥ 921	¥ 16	¥ 937
Capital expenditures	¥ 4,724	¥ 626	¥ 5,350	¥ 55	¥ 5,405

For the year ended February 28, 2011	Thousands of U.S. dollars				
	Industry segment			Elimination of intersegment sales	Consolidated total
	Apparel	Other	Total		
Sales to outside customers	$ 2,811,630	$ 181,281	$ 2,992,911	$ —	$ 2,992,911
Intersegment sales	144	85,450	85,594	(85,594)	—
Total	2,811,774	266,731	3,078,505	(85,594)	2,992,911
Costs and expenses	2,701,857	268,164	2,970,021	(86,382)	2,883,639
Operating income (loss)	$ 109,917	$ (1,433)	$ 108,484	$ 788	$ 109,272
Assets	$ 2,337,774	$ 372,807	$ 2,710,581	$ 736,275	$ 3,446,856
Depreciation and amortization	$ 56,653	$ 9,511	$ 66,164	$ 2,890	$ 69,054
Impairment loss	$ 11,266	$ —	$ 11,266	$ 203	$ 11,469
Capital expenditures	$ 57,819	$ 7,664	$ 65,483	$ 669	$ 66,152

The management expenses in Elimination of intersegment sales as of February 28, 2011 were ¥3,719 million ($45,509 thousand) and the assets used for management activities as of February 28, 2011 were ¥189,574 million ($2,320,083 thousand).

Segment information classified by industry segment of the Companies for the year ended February 28, 2010 is as follows:

For the year ended February 28, 2010	Millions of yen				
	Industry segment			Elimination of intersegment sales	Consolidated total
	Apparel	Other	Total		
Sales to outside customers	¥ 234,181	¥ 14,454	¥ 248,635	¥ —	¥ 248,635
Intersegment sales	21	6,743	6,764	(6,764)	—
Total	234,202	21,197	255,399	(6,764)	248,635
Costs and expenses	229,645	21,236	250,881	(6,630)	244,251
Operating income (loss)	¥ 4,557	¥ (39)	¥ 4,518	¥ (134)	¥ 4,384
Assets	¥ 201,278	¥ 31,753	¥ 233,031	¥ 59,538	¥ 292,569
Depreciation and amortization	¥ 4,735	¥ 699	¥ 5,434	¥ 313	¥ 5,747
Impairment loss	¥ 251	¥ —	¥ 251	¥ 43	¥ 294
Capital expenditures	¥ 4,777	¥ 438	¥ 5,215	¥ 579	¥ 5,794

The management expenses transferred to Elimination of intersegment sales as of February 28, 2010 were ¥3,703 million and the assets used for management activities as of February 28, 2010 were ¥186,048 million.

(2) Geographic Segment Information

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

Europe: United Kingdom, Italy, France and Germany

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

Segment information classified by geographic segment of the Company for the year ended February 28, 2011 is as follows:

For the year ended February 28, 2011	Millions of yen					
	Geographic segment				Elimination of intersegment sales	Consolidated total
	Japan	Europe	Other	Total		
Sales to outside customers	**¥ 205,876**	**¥ 30,360**	**¥ 8,315**	**¥ 244,551**	**¥ —**	**¥ 244,551**
Intersegment sales	**1,880**	**353**	**198**	**2,431**	**(2,431)**	**—**
Total	**207,756**	**30,713**	**8,513**	**246,982**	**(2,431)**	**244,551**
Costs and expenses	**196,498**	**33,308**	**8,433**	**238,239**	**(2,617)**	**235,622**
Operating income (loss)	**¥ 11,258**	**¥ (2,595)**	**¥ 80**	**¥ 8,743**	**¥ 186**	**¥ 8,929**
Assets	**¥ 148,367**	**¥ 59,784**	**¥ 12,882**	**¥ 221,033**	**¥ 60,610**	**¥ 281,643**

For the year ended February 28, 2011	Thousands of U.S. dollars					
	Geographic segment				Elimination of intersegment sales	Consolidated total
	Japan	Europe	Other	Total		
Sales to outside customers	**$2,519,594**	**$ 371,552**	**$ 101,765**	**$ 2,992,911**	**$ —**	**$2,992,911**
Intersegment sales	**23,014**	**4,325**	**2,421**	**29,760**	**(29,760)**	**—**
Total	**2,542,608**	**375,877**	**104,186**	**3,022,671**	**(29,760)**	**2,992,911**
Costs and expenses	**2,404,823**	**407,601**	**103,211**	**2,915,635**	**(31,996)**	**2,883,639**
Operating income (loss)	**$ 137,785**	**$ (31,724)**	**$ 975**	**$ 107,036**	**$ 2,236**	**$ 109,272**
Assets	**$1,815,778**	**$ 731,662**	**$ 157,652**	**$ 2,705,092**	**$ 741,764**	**$3,446,856**

The management expenses in Elimination of intersegment sales as of February 28, 2011 were ¥3,719 million ($45,509 thousand) and the assets used for management activities as of February 28, 2011 were ¥189,574 million ($2,320,083 thousand).

Segment information classified by geographic segment of the Company for the year ended February 28, 2010 is as follows:

For the year ended February 28, 2010	Millions of yen					
	Geographic segment				Elimination of intersegment sales	Consolidated total
	Japan	Europe	Other	Total		
Sales to outside customers	¥ 204,889	¥ 36,056	¥ 7,690	¥ 248,635	¥ —	¥ 248,635
Intersegment sales	1,434	345	97	1,876	(1,876)	—
Total	206,323	36,401	7,787	250,511	(1,876)	248,635
Costs and expenses	197,023	40,574	8,689	246,286	(2,035)	244,251
Operating income (loss)	¥ 9,300	¥ (4,173)	¥ (902)	¥ 4,225	¥ 159	¥ 4,384
Assets	¥ 152,818	¥ 66,241	¥ 13,812	¥ 232,871	¥ 59,698	¥ 292,569

The management expenses transferred to Elimination of intersegment sales as of February 28, 2010 were ¥ 3,703 million and the assets used for management activities as of February 28, 2010 were ¥186,048 million.

(3) Overseas Sales

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

Europe: United Kingdom, Italy, France and Germany

Other: U.S.A., China and South 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, 2011 is as follows:

For the year ended February 28, 2011	Millions of yen		
	Overseas sales		
	Europe	Other	Total
Overseas sales	**¥19,480**	**¥16,626**	**¥36,106**
Consolidated sales			**244,551**
Percentage of overseas sales against consolidated sales	**8.0%**	**6.8%**	**14.8%**

For the year ended February 28, 2011	Thousands of U.S. dollars		
	Overseas sales		
	Europe	Other	Total
Overseas sales	**$238,402**	**$203,473**	**$ 441,875**
Consolidated sales			**2,992,911**
Percentage of overseas sales against consolidated sales	**8.0%**	**6.8%**	**14.8%**

Segment information classified as overseas sales of the Company for the year ended February 28, 2010 is as follows:

For the year ended February 28, 2010	Millions of yen		
	Overseas sales		
	Europe	Other	Total
Overseas sales	¥24,220	¥16,725	¥ 40,945
Consolidated sales			248,635
Percentage of overseas sales against consolidated sales	9.7%	6.7%	16.5%

ERNST & YOUNG

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Fax: +81 3 3503 1197

Report of Independent Auditors

The Board of Directors
ONWARD HOLDINGS Co., Ltd.

We have audited the accompanying consolidated balance sheets of ONWARD HOLDINGS Co., Ltd. and consolidated subsidiaries as of February 28, 2011 and 2010, 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, 2011 and 2010, 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, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 (21).

Ernst & Young ShinNihon LLC

May 26, 2011

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.
9F Want Want Bldg.,
211 Shimen Yi Lu, Shanghai,
People's Republic of China
Tel: (86) 21-6472-3660

ONWARD FASHION TRADING (China) CO., LTD.
9F Want Want Bldg.,
211 Shimen Yi Lu, Shanghai,
People's Republic of China
Tel: (86) 21-6466-6466

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

ONWARD KASHIYAMA SINGAPORE PTE. CO., LTD.
1 Scotts Road, #23-12 Shaw Centre,
Singapore 228208, Republic of Singapore
Tel: (65) 6838-0690

ONWARD KASHIYAMA VIETNAM LTD.
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Dist. 1, Ho Chi Minh City, Vietnam
Tel: (84) 8-3911-8857

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.
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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

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IRIS S.p.A.
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30032 Venezia, Italy
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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.
ISLAND. 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.
BIEN CO., LTD.
EXCEL CO., LTD.
BOOKLET CORP.

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

As of September 1, 2011

CORPORATE DATA

(As of February 28, 2011)

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
11,130

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)
3,910 (As of the end of February 2011)

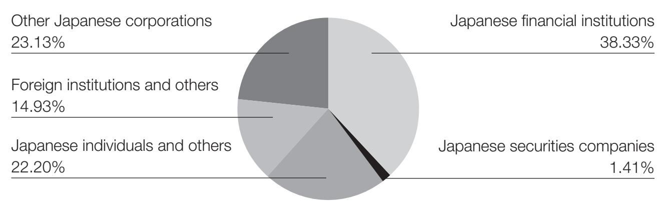
Major Shareholders

	Percentage of Total Shares Issued
Japan Trustee Services Bank, Ltd. (Trust account)	6.0%
The Master Trust Bank of Japan, Ltd. (Trust account)	5.9
Kashiyama Scholarship Foundation	5.5
Nippon Life Insurance Company	3.9
Isetan Company, Limited	3.1
The Dai-ichi Mutual Life Insurance Company	2.5
Japan Trustee Services Bank, Ltd. (Trust account nine)	2.2
MARUI GROUP CO., LTD.	2.0
Trust & Custody Services Bank, Ltd. (Securities investment trust account)	2.1
SUMITOMO MITSUI BANKING CORPORATION	1.8

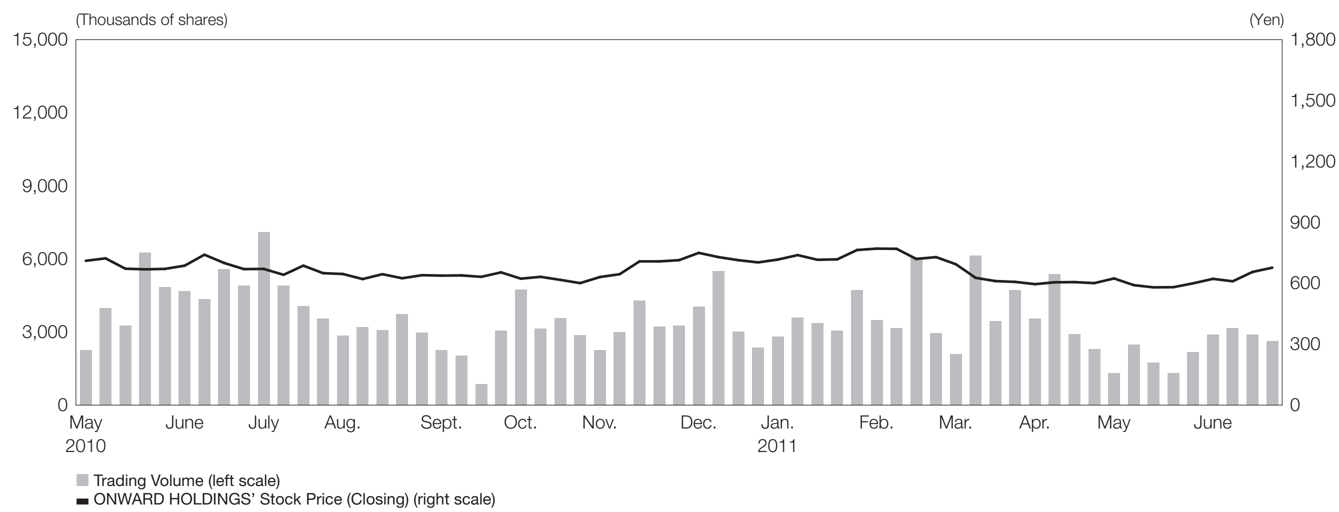
Note: The Company holds 16,238 treasury shares but has been excluded from the list of major shareholders.

Distribution of Ownership among Shareholders

(On a number of shares basis)



Stock Price Movement



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